3Q FY07 Results Preview

Investment Strategy

Investment Strategy | India
04 January 2007

Strongest quarter helped by low base

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Strong earnings growth helped by low base

We expect earnings for the quarter ended Dec 2006 to jump nearly 40% yoy, the strongest quarter for FY07 (EPS growth is 37%) led partly by a low base for Dec 2005. Earnings for the quarter ended Dec 2005 were the lowest in 3 years led by a poor showing by Reliance, Ranbaxy and metal companies like Tisco and Hindalco.

Global commodities drive 25% of earnings growth

Reliance yoy earnings growth in spite of falling refining margins reflects a low base due to refining shutdown last year. Similarly, metals (Hindalco and Tisco) should show strong yoy earnings growth due to a base effect but flat to lower qoq. We expect these global commodity stocks to show lower earnings growth in FY08 driving our slower growth of 13.3% for the Sensex companies (vs 32.5% in FY07).

O/W cement, telecom, software, engineering set to grow strongly

- We expect our O/W sectors to perform strongly led by cement. Amongst software, TCS will likely report the strongest sequential growth.
- Autos (esp 2-wheelers) and consumer staples are laggards.

Top Pre-Result Buys: ACC, Bharti, TCS, BHEL, Maruti

Top Mid-Cap Buys: Ultratech, Panacea, IVRCL, Welspun, Nagarjuna Construction

Top Sells/Underperformers: Hero Honda, HLL, Patni, Wockhardt, Nalco

Table 1: Summary of result estimates

	BSE 30			MSCI		
	Dec-06	Dec-05	Growth %	Dec-06	Dec-05	Growth %
Sales Turnover	596,486	457,561	30.4%	555,870	442,084	25.7%
EBITDA	142,326	100,869	41.1%	99,244	69,491	42.8%
Other Income	26,138	21,495	21.6%	20,093	16,656	20.6%
Interest	9,004	7,731	16.5%	8,096	6,112	32.4%
Depreciation	5,101	4,875	4.6%	4,031	3,826	5.4%
Tax	25,923	19,003	36.4%	17,621	13,623	29.4%
Net Profit	89,570	62,166	44.1%	61,849	40,273	53.6%
Net Profit (incl. Fin Cos)	108,940	78,084	39.5%	75,682	51,148	48.0%

Source: Merrill Lynch Research

Table 2: Results summary for Q ended 31 Dec'06

	BSE	MSCI
All Companies:		
Sales Growth	29.9%	26.3%
Profit Growth	39.5%	48.0%
Excl. Financial Cos:		
Sales Growth	30.4%	25.7%
EBITDA Growth	41.1%	42.8%
Profit Growth	44.1%	53.6%
Excl. Oil Cos:		
Sales Growth	31.0%	30.3%
Profit Growth	42.9%	39.0%
Excl Reliance Comm. Ventures		
Sales Growth	29.9%	26.1%
Profit Growth	36.7%	44.6%

Source: Merrill Lynch Research

Table 3: Top leaders and laggards (yoy profit growth)

Leaders	YoY	Laggards	YoY
India Cement	17341%	Jet Airways	NA
Ultratrech	797%	Arvind Mills	-50%
Nicholas Piramal	484%	TVS Motors	-43%
Panacea Biotech	369%	Mphasis BFL	-25%
Ranbaxy Lab	289%	GAIL	-9%
Shree Cement	261%	Rico Auto	-9%
ACC	218%	MTNL	-7%
Dr Reddy's Lab	193%	Triveni Engineering	-5%
Gujarat Ambuja Cement	182%	Neyveli Lignite	-1%
Grasim Industries	158%	Wockhardt	-1%

Source: Merrill Lynch Research

Refer to important disclosures on page 23 to 24. Analyst Certification on page 21.

Cement and telecom show the strongest growth during the quarter. Metals and IT also grow strongly. Healthcare shows yoy jump in earnings led by low base. Energy growth is driven by BPCL and HPCL which had large losses last year. Autos (esp 2-wheelers) and consumer staples lag.

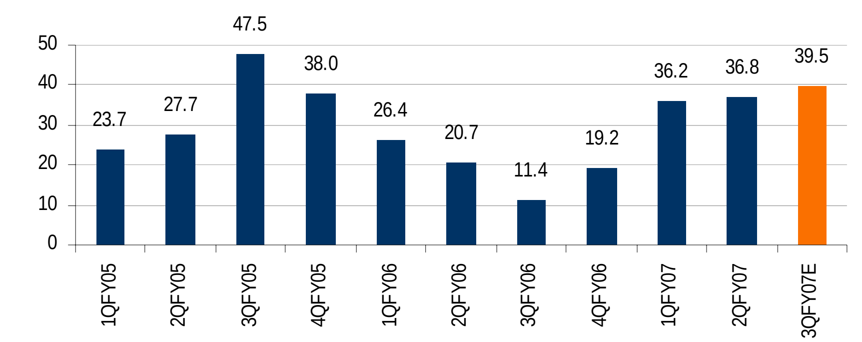
Table 4: Sector-wise growth forecast for December Q - Cement, telecom drive growth

Industry	Sector Weights	Sales % Growth	EBITDA % Growth	Net Profit % Growth
Consumer Discretionary - Autos	6.5%	27.3%	17.9%	18.0%
Consumer Discretionary - Media/Hotels	1.3%	11.0%	23.9%	31.3%
Consumer Staples	5.3%	17.1%	18.8%	15.6%
Energy	12.8%	17.1%	44.2%	74.1%
Financials	17.0%	36.4%	N.A.	27.2%
Healthcare	4.2%	55.7%	126.2%	89.9%
Industrials	5.5%	28.6%	23.2%	28.2%
IT	32.8%	40.6%	34.6%	44.1%
Cement	3.2%	42.2%	138.4%	199.4%
Materials- Others	2.7%	47.3%	50.4%	68.9%
Telecom	7.0%	22.0%	60.1%	109.6%
Utilities	1.7%	19.7%	-8.6%	-4.1%
Weighted Grand Total	100%	26.3%	42.8%	48.0%

Source: Merrill Lynch Research

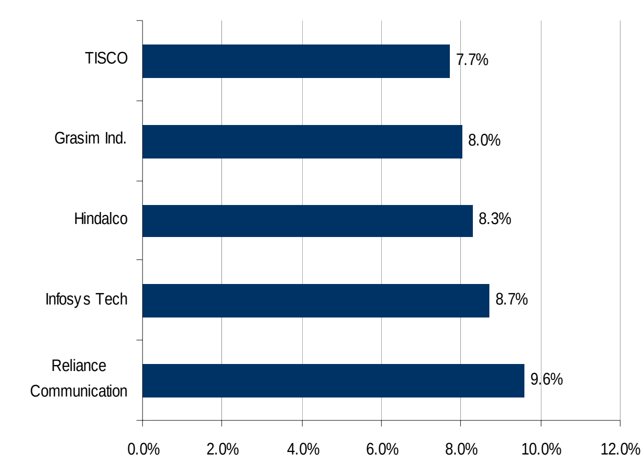
Earnings for the quarter are also helped by the low base of Dec 2005 quarter.

Chart 1: Sensex profit growth (%) – Base effect helps quarter growth



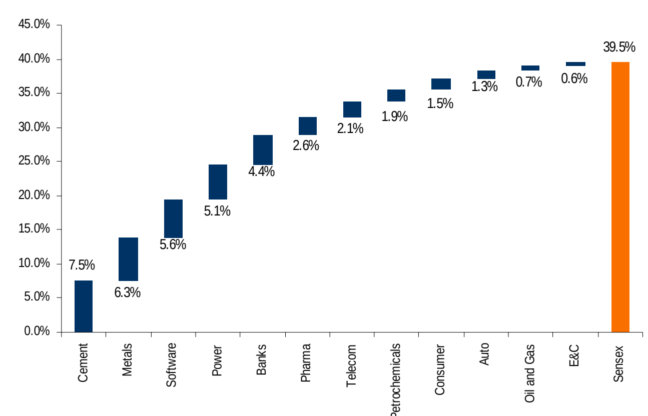
Source: Merrill Lynch Research

Chart 2: Top earnings contributors



Source: Merrill Lynch Research

Chart 3: Global commodities contribute significantly to earnings growth



Source: Merrill Lynch Research

Sector Summary

Sector	Pre-result Buys	Pre-result Sells	Comments
Automobile	Tata Motors, Maruti	TVS Motors, Hero Honda	• Two-wheelers - We expect both Bajaj Auto and Hero Honda to be hit by direct competitive pressures, despite strong top-line performance. We believe that YoY margins will be marked down substantially, although stronger QoQ sales will enable margins to stabilize over the quarter. • Commercial vehicles - We expect Ashok Leyland to post a stronger YoY performance on the back of rising sales and steady margins, as will M&M, on a strong performance in 3-wheelers and tractor segment. • Auto components - We expect Automotive Axles to register the strongest performance, aided by the domestic truck sector and exports, as well as the relatively weak performance last fiscal. Bharat Forge too is expected to continue with its renewed growth trajectory, on improved utilization.
Airline	--	--	• We expect Jet Airways to post a short term reversal in operating performance on strong seasonal demand in both the international and domestic business, as well as improvement in yields following a spate of surcharges this quarter. Also, the decline in fuel prices would contribute to cost savings.
Banking	SBI, ICICI Bank	--	• Government banks' net income set to grow 15-30% yoy on strong operating earnings growth (20-30% yoy), as credit demand continues to be strong and fee income rises. • Private banks' earnings would also continue to grow 30% yoy on strong volume growth and rising fee income. • SBI is likely to report one of the strongest adjusted pre tax earnings growth (around 33% yoy) as it has been the least affected by volatility in bond yields and call market rates owing to its excess SLR holding. • ICICI Bank's earning could surprise on the upside, on back of buoyant equity markets and the bank's pro-activeness in raising lending rates.
Cement	Ultratech Cement	--	• Sector profits will likely rise ~230% YoY and 25% QoQ. • The YoY rise will primarily reflect higher cement prices while the QoQ rise will be owing to a combination of modest price increases and seasonal recovery in volumes. • Average volumes are forecast to be up 10% both YoY and QoQ. Cement prices are estimated to be up 30% YoY and 3% QoQ.
Consumer	Nestle	HLL	• Consumer sector profit is expected to grow 17% in the Dec Q (lower than the 20-21% growth reported in the last two quarters) pulled down by Tata Tea and Colgate. • Dabur and Asian Paints will likely be fastest growing companies with profit growth of 30% and 22% respectively on strong volume led topline growth • Nestle should stand out as the company with most improved performance on a YoY basis. We expect profit to grow 18%, better than the 7% growth in the first 9 months of the year. • HLL's profit is expected to grow 16.5%, marginally lower than the 17.7% growth in Sept Q.
Energy	Reliance	Gail	• RIL's 3Q FY07 net profit is expected to rise 15% YoY on 1) Rise in petrochemical margins and double digit volume growth driven by capacity additions made in 2H FY06 and 1H FY07; 2) 23% YoY rise in crude throughput, which will help partly make up for lower refining margins. • R&M companies are likely to be in the red in 3Q despite subsidies being at the lowest level in seven quarters. Subsidies are still high enough to prevent R&M companies to be in the black without the benefit of oil bonds.
Healthcare	Panacea Biotech, Dr. Reddy's	Wockhardt	• Sector performance for the quarter to be strongest for the generic players, Ranbaxy (289% YoY PAT growth) and Reddy's (193% YoY PAT growth). • We expect average sales growth of 39.3% YoY, EBITDA growth of 78.6% and PAT growth of 66.1% for the ML healthcare universe.
Industrials	BHEL, Suzlon, NCC, IVRCL	--	• ML E&C universe, represented by BHEL, L&T, ABB, IVRCL and NJCC set to report sales growth of 30% YoY, EBITDA growth of 34% YoY and Recurring PAT growth of 37% YoY. • We expect double digit growth in order backlog for most companies despite focus on acquiring better priced orders.
Media	Zee Telefilms	--	• ML Media universe, represented by Zee & Balaji, is expected to report sales growth of 18.3% YoY but PAT growth of 109.4%YoY mainly led by Zee. • Zee's reported PAT is expected to rise 151% YoY on 1) 18.5% YoY growth in revenues to Rs4.5bn & 135.9% YoY growth in EBITDA albeit on lower base in 3QFY06 (Zee Sports had suffered losses from – India-Sri Lanka Test match series and the amortization of license fee for AIFF football rights; 2) new businesses' (like Zee Sports, DTH) losses to almost halve (YoY) in 3QFY07 as they approach breakeven.
Metals	SAIL	Nalco	• Expect sector aggregate profit to rise 72% YoY and decline 3% QoQ. • SAIL - We expect 108% YoY growth in reported profit led by 22% jump in avg. realizations YoY and 11% increase in sales volumes. Dec Q benefits from a very strong base effect as steel prices were near the bottom in this quarter in the previous year. • Nalco - Falling alumina prices will likely lead to a sedate Dec Q with profit growth of 35% as compared to 100% plus growth in earlier quarters. We expect a 11% decline in reported profits on a QoQ basis.

Sector	Pre-result Buys	Pre-result Sells	Comments
Software	TCS	Patni Computers	• We forecast another strong quarter with YoY growth of 41% in revenues and 45% in profits for the integrated IT services and BPO companies. • Despite almost 100bps margin erosion due to rupee appreciation, we expect about 40 bps EBITDA margin expansion for the sector overall, on scale economies, greater offshore mix, slight increase in pricing and absorption of wage hikes in previous quarter due the broadening of the employee mix. • We expect strong double-digit organic growth from TCS at 14% led by continued effort to shift work offshore (estimate 300-400bps shift over next 2-4 quarters), pricing led upside from new and existing customers, ramp of large clients like ABN Amro, Citibank and Pearl Group behind in H1 and investments in near shore delivery like Brazil (1,200 people) and China (under 600 people) beginning to improve in profitability.
Telecom	Bharti	--	• We forecast Bharti's 3Q FY07 net profit at Rs10.2bn, up 88% YoY & 10% QoQ. Strong topline (+61% YoY & +12% QoQ) and stable overall EBITDA margins (wireless & non-wireless) will be the growth driver.
Textile & Apparel	Welspun India	--	• Welspun India is likely to report a 35% YoY growth in profits on the back of fast ramp up in its new bed linen business and continued strong performance of terry towel business.
Utilities	NTPC	--	• We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL & JHPL to report sales growth of 13% YoY, EBITDA growth of 12.8% YoY and PAT growth of 13.6% YoY.

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Sector Highlights

Automobiles

Pre-Result Buys in Sector: Tata Motors, Maruti
Pre-Result Sells/Underperformers in Sector: TVS Motor, Hero Honda

- We expect the sector to exhibit a mixed performance, with four-wheelers and component companies doing better than the two wheeler counterparts. This is a repetition of the past few quarters, and an indication of more acute margin pressures in the two wheeler sector.

- Within commercial vehicles, we expect Ashok Leyland to post a stronger YoY performance on the back of rising sales and steady margins, as will M&M, on strong performance in 3-wheelers and tractor segment. Maruti and Tata Motors should continue to grow at a reasonable rate, with the latter beginning to be impacted by production problems.

  Reported profit growth for Tata Motors and M&M should be lower this quarter due to extraordinary gains for each of these companies last year.

- Within the two-wheeler space, we expect both Bajaj Auto and Hero Honda to be hit by direct competitive pressures, despite strong top-line performance. We believe that YoY margins will be marked down substantially, although stronger QoQ sales will enable margins to stabilize over the quarter. TVS Motor, we believe, will continue to be squeezed by the industry scenario, thereby registering a sharp decline in profits once again.

- Amongst the auto components companies under coverage, we expect Automotive Axles to register the strongest performance, aided by the domestic truck sector and exports, as well as the relatively weak performance last fiscal. Bharat Forge too is expected to continue with its renewed growth trajectory, on improved utilization. Rico Auto's relatively weak performance is reflective of moderate top-line growth and higher depreciation and interest expense.

Airlines

- We expect Jet Airways to post a short term reversal in operating performance. Much of this reflects strong seasonal demand in both the international and domestic business, as well as improvement in yields following a spate of surcharges during this quarter. Also, the decline in fuel prices would contribute to cost savings. Combined benefit will likely result in rise in EBITDAR margins to ~16% from 2% in 2QFY07. We expect the company to register profit of Rs330mn, which includes after tax gains from sale and lease back of one aircraft of Rs410mn.

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Banks and Financial Services

Pre-Result Buys in Sector: State Bank of India and ICICI Bank

Our pre-result picks are SBI and ICICI Bank. SBI is likely to report one of the strongest adjusted pre tax earnings growth (around 33% yoy) as it has been the least affected by volatility in bond yields and call market rates owing to its excess SLR holding. ICICI Bank's earnings could surprise on the upside, on back of buoyant equity markets and the bank's pro-activeness in raising lending rates.
In 3QFY07 we expect government banks' net income to grow 15-30% yoy on strong operating earnings growth (20-30% yoy), as credit demand continues to be strong and fee income rises. We have factored in rising NPL provisions especially as we expect investment hits to be negligible (bond yields have been flat v/s Sep-06 levels) in 3QFY07. Private banks' earnings could also continue to grow 30% yoy on strong volume growth and rising fee income.

Operating earnings are estimated to grow 20-30% yoy due to:

- Strong loan growth at around 29% yoy, running ahead of our expectations (MLe 26-27% yoy) despite rise in lending rates, on rising infrastructure spend, increasing demand for capex credit and sustained retail credit demand. For private banks loan growth is expected to run at +40% largely driven by retail credit.

- We however expect some margin pressure in 3QFY07 owing to rising deposit costs (lending rates have risen with lag effect) and re-pricing of high yielding investments. While deposits rates have risen by 200-250bps in past nine months, lending rates have increased only around 150-200bps with the last round of lending rate hikes coming in at end of 3QFY07, the full impact of which will come only in 4QFY07.

- Sustained fee income growth as government banks appear to see benefits of their technology platforms that they have been rolling out over the past year; we have seen the trend in 1HFY07 and expect the same to sustain in coming quarters. Fees for private banks could continue to grow 40-45% yoy driven by retail fees and rising income from distribution of third party products.

- Improvement in operating efficiency due to normalization of the base effect; private banks however might report easing of pressure on their operating ratio as they start to roll out branches (till 2QFY07 many branches were fully set up but were waiting for RBI approval to start functioning).

Bond yields have been fairly volatile during the quarter (v/s 1HFY07) and hence treasury gains would be a swing factor for earnings growth.

Net income for private banks like HDFC Bank, ICICI Bank and UTI Bank is estimated to grow around 30% yoy, however, could surprise on the upside due to the buoyant equity markets which could result in higher treasury gains and also higher fee income from distribution of third party products like mutual funds and unit liked insurance. Within private sector banks YES Bank is expected to report the strongest growth (around 86%yoy) again on a relatively lower base and rising fee income especially from its investment banking business.

Amongst the government banks, while SBI's reported pre-tax earnings are estimated to decline 21% yoy, adjusting for extraordinary items in 3QFY06 and

3QFY07, its pre-tax earnings could grow 33% yoy on strong top line growth and higher fee income. BOB, BOI and PNB net earnings are estimated to grow around 30% yoy, while for the other government banks earnings are likely to grow around 15-20%. OBC is likely to report the lowest earnings growth (around 9% yoy) owing to a relatively higher re-pricing risk on its investment portfolio.

Cement

Pre-Result Buy in the Sector: UltraTech

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- We expect the cement sector to deliver strong profits for the quarter ended Dec ’06. Sector profits will likely rise ~230% YoY and 25% QoQ. The YoY rise will primarily reflect higher cement prices while the QoQ rise will be owing to a combination of modest price increases and seasonal recovery in volumes.

- For the sector on an average, volumes are forecast to be up 10% both YoY and QoQ. Cement prices are estimated to be up 30% YoY and 3% QoQ. Cost pressures should broadly ease across the industry due to recovery in volumes and emergence from maintenance shutdowns in the previous quarter. EBITDA/ton across the majors is forecast to rise ~15% QoQ, on an average.

- We have Buy ratings on all the cement stocks under our coverage. From the standpoint of quarterly results, we highlight UltraTech. UltraTech’s profit growth (+68% QoQ) will likely outperform the industry, led by higher volume growth.

- Among the pure plays, ACC and Gujarat Ambuja will also deliver strong profit growth (+27-33% QoQ). For Gujarat Ambuja, the Dec-quarter results will likely incorporate the merger of Ambuja Eastern (ACEL); we have adjusted historical quarterly numbers to reflect retrospective impact of the merger. In the Dec quarter, Grasim will also benefit both from higher cement prices and higher VSF prices but overall profit growth (+21% QoQ) will likely be a tad lower than the pure plays.

- Owing to seasonal weakness (winter rains) in south India, we expect India Cements quarterly profits to drop QoQ. Over the medium term, however, our profit outlook on India Cements stays positive.

Consumers

Pre-Result Buy in Sector: Nestle
Pre-Result Sell/Underperformer in Sector: HLL

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- We expect aggregate consumer sector profit to grow 17% in the Dec Q. This is slightly lower than the 20-21% growth reported in the last two quarters and is pulled down by Tata Tea and Colgate. We forecast sector sales to grow 17% and EBITDA to grow 19% this Q.

- Nestle in Dec Q should stand out as the company with most improved performance on a YoY basis. We expect profit to grow 18%, better than the 7% growth in the first 9 months of the year. While forecast sales growth of 15% is largely in line with previous trends, contracting margin trend will likely be reversed as milk prices (key raw material) began rising in Dec Q last year.

- We expect fastest growing companies to be Dabur and Asian Paints with profit growth of 30% and 22% respectively. Both these companies are benefiting from strong volume led topline growth. In addition, we expect Dabur to benefit from healthy EBITDA margin expansion led by mix gains and selective price increases. In the case of Asian Paints, we expect the margin story to be played out in the coming quarters led by lower YoY crude oil linked raw materials.

- We forecast the slowest companies to be Colgate and Tata Tea with both forecast to report flat YoY profit. In the case of Colgate this is owing primarily to quarterly variations – most of the key costs in Dec Q last year were significantly lower than the full year trend and hence there is a favorable base comparison. In the case of Tata Tea however, our flat profit outlook is predicated on higher tea prices which we believe will lead to margin compression. We note we have not taken into account the Glaceau acquisition given lack of information. Post Glaceau, profit may in fact decline in Dec Q owing to sharp increase in interest cost.

- We expect HLL's profit to grow 16.5%, marginally lower than the 17.7% growth in Sept Q. We expect most of the key variables to be similar to the trends witnessed in Sept Q with sales growing 12.2% and EBITDA growing 16.4%. A possible surprise could be margins but given the very strong Dec Q last year and continuing stiff competitive pressures, we believe earnings surprise is unlikely.

- ITC will also likely report numbers in line with past trends. We expect profit to grow 19% led by net turnover growth of 22% and EBIT margin expansion of 40bp. We expect gross cigarette turnover to grow 13% and margin to expand 90bp. In the case of non-cigarettes, we look for turnover increase of 36% and EBIT increase of 54%.

Energy

Pre-Result Buy in Sector: Reliance
Pre-Result Sell/Underperformer in Sector: GAIL

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- **Oil prices:** Price of ONGC's marker crude Bonny Light has declined 14% in 3Q from 2Q levels of US$71/bbl to US$61/bbl. On a YoY basis, Bonny Light price in 3Q FY07 is 6% higher.

- **Refining margins:** Singapore refining margins based on Dubai crude have weakened 30% to US$5.7/bbl in 3Q from US$8.1/bbl in 2Q FY07. In 3Q FY06 Singapore refining margins stood at US$6.3/bbl and thus margins are US$0.6/bbl (9%) YoY lower in 3Q FY07.

- **Subsidies:** We expect under-recoveries (ie subsidies) in 3Q at Rs85bn to be 14% YoY lower due to a steep decline in auto fuel under-recoveries. In fact 3Q under-recoveries are the lowest in the last seven quarters.

- **Subsidy upstream companies bear in 3Q uncertain:** The extent of subsidy upstream oil companies like ONGC will bear in 3Q is uncertain. We have assumed that upstream companies will bear Rs37bn of subsidy in 3Q (ie 43% of subsidy). Subsidy they bear could be lower at Rs28bn (one-third) or higher than Rs37bn assumed by us.

Company-wise expectations for the quarter

Reliance Industries

We expect RIL's 3Q FY07 net profit to rise 15% YoY due to:

1. Rise in petrochemical margins and double digit volume growth driven by capacity additions made in 2H FY06 and 1H FY07.

2. 23% YoY rise in crude throughput, which will help make up for lower refining margins. RIL had a 40 day refinery shutdown in 3Q FY06. With no such shutdown in 3Q FY07 we expect crude throughput to be 8.2mmt vis-a-vis 6.7mmt in 3Q FY06. We have assumed RIL's refining margin in 3Q FY07 to be US$7.0/bbl vs. US$8.1/bbl (excluding sales tax of US$1/bbl) in 3Q FY06.

R&M companies

R&M companies are likely to be in the red in 3Q FY07 despite subsidies being at the lowest level in seven quarters. This is because subsidies are high enough to prevent R&M companies to be in the black without the benefit of oil bonds. Oil bonds of Rs141.5bn issued to R&M companies in October-December 2006 were already accounted by them in 1H as they were toward 1H under-recoveries.

As discussed the extent of subsidy upstream companies bear in 3Q is uncertain and could have a significant influence on their earnings.

FY07 and 4Q earnings outlook of R&M companies would depend on whether any oil bonds are issued in 4Q toward 2H under-recoveries. A decision on this is likely in February 2007. In our view the probability of issue of oil bonds in 2H has gone up due to recent decisions to cut gasoline and diesel prices. Enough oil bonds may be issued in 2H to ensure that R&M companies achieve earnings in 2H at least similar to that in 1H.

ONGC

We expect ONGC to achieve 9% YoY growth in net profit to Rs42.4bn in 3Q on:

1. 6% YoY rise in the price of marker crude oil Bonny light.

2. 7.5% YoY rise in crude oil sales volumes. Crude output and sales volume of ONGC was hit in 3Q FY06 by the accident at its production platform in Mumbai High in July 2005.

We have assumed that upstream oil companies bear Rs36.7bn of subsidy in 3Q with ONGC's share therein Rs29.2bn (3% YoY higher). We expect ONGC's subsidy hit to be YoY flat while GAIL's subsidy hit to almost double in 3Q. This is due to the fact that while ONGC's share in subsidy borne by upstream oil companies has declined that of GAIL has gone up in FY07. Also GAIL bears only subsidy on LPG and kerosene, which we expect to be YoY higher in 3Q FY07. ONGC also bears subsidy on auto fuels, which we expect to decline steeply (65% YoY).

GAIL

We expect GAIL's 3Q net profit to decline 9% YoY mainly due to 93% YoY jump in its subsidy hit to Rs4.0bn in 2Q FY07 from Rs2.1bn in 3Q FY06. GAIL's 3Q EBITDA could be YoY lower by just Rs1bn despite subsidy being higher by Rs2bn YoY due to jump in gas pipeline EBITDA. 1H FY06 related writebacks hit 3Q EBITDA from gas pipeline business in FY06. With no such writebacks in 3Q FY07 we expect bounce back in gas pipeline EBITDA.

There is no clarity on how much subsidy upstream oil companies may have to bear. GAIL's subsidy in 3Q could be lower at Rs3.1bn (48% YoY higher) if upstream oil companies have to bear only one-third of subsidy. GAIL's 3Q profit will be 1% YoY higher in that case.

Healthcare

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Pre-Result Buys in Sector: Panacea Biotech, Dr. Reddy's
Pre-Result Sell/Underperformer in Sector: Wockhardt

We expect sector performance for the quarter to be strongest for the generic players, Ranbaxy (289% YoY PAT growth) and Reddy's (193% YoY PAT growth). We expect average sales growth of 39.3% YoY, EBITDA growth of 78.6% and PAT growth of 66.1% for the ML healthcare universe.

We expect mid to high double digit domestic market growth (YoY basis) for most players during the quarter. This improvement is already being witnessed in the 17% industry growth for YTD'06 as reported by ORG.

Like in 2Q, this quarter too is expected to witness the major companies - Ranbaxy, Reddy's and Cipla - benefiting from the two generic blockbusters (Zocor, Proscar) launched during late 1Q.

Company-wise 3Q expectations

- **Ranbaxy Laboratories** will likely deliver 289% YoY growth in net profit (Rs1.94bn). We estimate 18% EBITDA margin in Q4 (vs. 4.6% in previous Q4), higher than the 17% margin in Q2. We have assumed a similar level of price pressure in US in Q4 as well. We estimate US revenues for the quarter to be US$110mn. Going forward investors would expect more clarity on (a) timing of kick-start of US ANDA approvals noting the recent FDA warning letter at Paonta Sahib site and (b) further impact of recent cost saving initiatives.

- **Dr. Reddy's Laboratories.** Our expectation of Rs1.84bn net profit in Q3 (193% growth YoY) reflects complete impact of (a) integration of Betapharm acquisition as well as Roche manufacturing facility and (b) US generic products, Allegra, Proscar, Zocor which we expect to contribute about US$100mn revenues. Our estimates for the current quarter do not include any significant money received from ICICI Ventures. Reddy's gross margin in the quarter is expected to be about 42% (in line with Q2). We expect both R&D and SG&A spend in Q3 to be higher than in Q2.

- **Cipla.** We expect Cipla to record modest 10% growth in 3Q net profit (YoY) on the back of 6% growth in revenues due to high base. In absolute terms, Cipla's 3Q profitability is expected to be in line with 2Q driven by supplies of Proscar API (finasteride) and Zoloft API (sertraline) to Ivax during the six month exclusivity period.

- **Sun Pharmaceuticals** will likely deliver 25% PAT growth for the quarter driven by (a) 24% growth in revenues (b) maintenance of high OPM due to limited competition in generic Ultracet and (c) income from FCCB proceeds.

- Our expectation of **Glenmark's** 150% PAT growth for the quarter on the back of 24% revenue growth (YoY) and does not reflect any R&D related milestones. During 3Q, Glenmark has realized Euro 25mn upfront money from outlicensing of the DPPIV NCE (GRC 8200) to Merck KGaA. Glenmark's higher 3Q profitability is on the back of strong margins from US generic launches and other exports.

- In the case of **Nicholas Piramal**, our expectation of 485% profit growth is largely on the back of very low base in previous Q3 as well as complete impact of the recent acquisitions – Morpeth facility of Pfizer and Avecia. Like Q2, we expect Q3 to reflect take-off in custom manufacturing revenues and normalization of Phensedyl (cough product) revenues in the domestic market.

- In the case of **Biocon** we expect Q3 net profit to grow 12% YoY while revenues are expected to grow 18% YoY. While EBITDA margin is likely to be maintained on YoY basis (29%), depreciation charge on account of commissioning of Biocon Park facility is expected to be high.

- For **Cadila** our expectation of 41% PAT growth (YoY basis) in Q3 is driven by revenue growth in all aspects of the business and well as higher EBITDA margin driven by US generics, loss reduction in French business and stabilization of Altana JV operations.

- **Panacea Biotec**. Our expectation of 369% net profit growth (YoY) in Q3 is on the back of 20% revenue growth. Sharp 3Q profit growth for panacea is driven by impact of price increase in polio vaccines and sharp reduction in tax rate due to commissioning of new facility.

- **Divi's Labs**. Our expectation of 27% net profit growth (YoY) in Q3 on the back of 35% revenue growth is largely due to (a) strong volumes due to commissioning of Rs1.3bn capex implemented in FY06 largely for generics (b) slightly lower EBITDA margin on a sequential basis (higher generics contribution) and (c) continuing lower tax rate given the EOU status for recent capex addition.

- For **Wockhardt** we expect net profit of Rs725mn, flat growth YoY despite robust 20% revenue growth. This is due to higher operational spend and higher depreciation from commencement of the bioteck facility. Further, we expect higher R&D spend in Q4.

Industrials

Pre-Result Buys in Sector: BHEL, Suzlon Energy, NCC & IVRCL

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- A 30%YoY top-line growth and a 37% growth in bottom-line of Indian Engineering & Construction (E&C) majors (excluding Suzlon) during Oct-Dec quarter should reinforce our bullish stance on the sector and re-assure the markets.

- We expect double digit growth in order backlog for most companies despite focus on acquiring better priced orders. The key issue to watch-out for in the E&C sector is likely improvement in execution & EBITDA margins as new priced orders come-in for execution & operating leverage kick-in.

- We expect the Indian E&C Sector, represented by BHEL, L&T, ABB, IVRCL and NJCC to report sales growth of 30%YoY, EBITDA growth of 34%YoY and Recurring PAT growth of 37%YoY.

- We expect L&T's strong growth in order inflow to be continued in the 3QFY07 as the company has booked series of big ticket orders in the recent past from domestic as well as export markets, a clear indication of the improving trend. Overall L&T should experience 17.6% Sales growth, 28.1% EBITDA growth and a 25.7% PAT growth.

- Meanwhile, ABB's strong 4Q2006 results should be driven by continued strong sales growth of 44%YoY led by strong order backlog. Improved labor productivity and stable O&M costs will result in 45.7%YoY earnings growth.
- BHEL remains our preferred pick in the sector as it fixed technology issues such as advance class gas turbines & super critical plants. This would not only complete its product offering but also drive order backlog beyond the current 2.4x FY07E sales. Also, the Indian Government focus on indigenizing super-critical technology through BHEL & likely implementation of ultra mega power projects at NTPC will aid in future order inflows. Overall BHEL should experience 33.7% Sales growth, 32.8% EBITDA growth and a 37.8%YoY PAT growth.
- Nagarjuna (NJCC) & IVRCL remain our preferred picks in the Mid-cap E&C space. Expect NJCC's PAT to grow 61.9%YoY in 3QFY07 led by 56% YoY growth in sales.
- We expect IVRCL to report 45.2% YoY growth in sales during 3QFY07 led by good growth in power & transmission as well as water business. We expect the improved pricing & operational efficiency to drive margin and 38%YoY growth in earnings. We expect a marginal gain on FCCB as rupee has appreciated by ~3% during 3QFY07.
- 3QFY07 is likely to be a big quarter for Suzlon's international business as developers rush to complete projects at year end. We estimate 18.4% rise in QoQ volume apart from 22% QoQ growth in sales at Hansen. Consequently, we estimate 22.4%, 43.9% and 55.2% growth in Suzlon's Sales, Ebitda and PAT respectively (on QoQ basis). We are unable to provide YoY numbers as company started providing quarterly consolidated numbers only from this financial year.

Media

Pre-Result Buy in Sector: Zee Telefilms

We expect strong PAT growth trend among media companies in 3QFY07 and continued improving outlook.

We expect the Indian Media Sector, represented by Zee & Balaji, to report sales growth of 18.3%YoY but PAT growth of 109.4%YoY mainly led by Zee.

- For **Zee**: We expect 3Q FY07 to mark a big quarter led by structural improvement in core broadcasting business ratings. Drivers of results would be 18.5%YoY growth in revenues to Rs4.5bn & 135.9%YoY growth in EBITDA albeit on lower base in 3QFY06 as 1) Zee Sports had suffered losses from – India-Sri Lanka Test match series (part of the series was washed out) and the amortization of license fee for AIFF football rights and 2) Zee was in the investment mode in content & distribution platforms
- We expect new businesses' (like Zee Sports, DTH) losses to almost halve (YoY) in 3QFY07 as they approach break-even. This should lead to 150.9%YoY rise in reported PAT. This rise in PAT is largely factored-in the stock price and hence, we do not see much impact on the stock. .

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- **Balaji** should show improvement with sales growth of 17% YoY, EBITDA growth of 41.4%YoY and recurring PAT growth of 30.2% led by improved operating matrix in terms of higher realization (Star Price hike effective 2Q FY07) & lower cost of production. However, YoY growth in EBITDA and PAT is not comparable as company has started providing managerial remuneration on quarterly basis v/s 4Q till last year.

Metals

Pre-Result Buy in Sector: SAIL

Pre-Result Sell/Underperformer in Sector: Nalco

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We expect metals companies to show impressive results in Dec Q on yoy basis but sequential growth is likely to be at best flat and in most companies lower. In aggregate on a YoY basis, we expect sector profit to rise 72% and QoQ basis to decline 3%. We forecast Hindalco and SAIL to be the fastest growing companies followed by Tata Steel and Nalco.

- **SAIL** – We expect 108% YoY growth in reported profit led by 22% jump in avg. realizations YoY and 11% increase in sales volumes. Dec Q benefits from a very strong base effect as steel prices were near the bottom in this quarter in the previous year. On a sequential basis we expect SAIL to report largely flat profits as steel prices have been marginally lower but compensated by small savings in imported coal costs.

- **Tata Steel** – We expect PAT growth of 42% YoY in Dec Q led by ~16% jump in sales volumes and a 5% increase in steel realizations due to favorable base effect. Again as in the case of SAIL sequential profit growth is unlikely to be exciting and may in fact decline a little owing to lower Other Income versus Sept Q.

- **Nalco** – Falling alumina prices will likely lead to a sedate Dec Q with profit growth of 35% as compared to 100% plus growth in earlier quarters. We expect a 11% decline in reported profits on a QoQ basis. Aluminum division will likely grow strongly with higher prices leading to 119% growth in EBIT but Alumina will disappoint with EBIT declining 38% led by by 66% fall in spot alumina prices.

- **Hindalco** – Dec Q will be yet another strong quarter for Hindalco on a YoY basis with profit growth of 115%. This is largely contributed by 300% YoY jump in Copper EBIT which suffered from severe production losses in Dec Q last year. Sequential trends will be unexciting – aluminum profits show a flattish trend with marginally higher Al realizations whereas Copper EBIT will show 12% decline due to lower TCRC and temporary shutdown of one of the production units.

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Software

Pre-Result Buy in Sector: TCS

Pre-Result Sell/Underperformer in Sector: Patni Computers

Seasonal weakness in volumes but likely positive discussions on outlook

We forecast another strong quarter with YoY growth of 41% in revenues and 45% in profits for the integrated IT services and BPO companies. However, given 3 fewer working days, and almost 3% appreciation of the Rupee vs USD, we expect moderate sequential revenue growth of 6.5% in revenue and 7.3% in PAT.

Anecdotally, the revenue momentum for next year remains strong and should be positive for sentiment. We believe vendors have not seen any indications from clients of uncertainty or softness in next year's IT offshoring plans. We expect pricing trends to be a key focus of earnings call discussions. We see only limited upside to FY07 guidance given the Rupee appreciation.

Looking for modest margin expansion despite Rupee appreciation

Despite almost 100bps margin erosion due to the Rupee appreciation, we expect about 40 bps EBITDA margin expansion for the sector overall, driven by scale economies, greater offshore mix, slight increase in pricing and absorption of wage hikes in previous quarter due the broadening of the employee mix. We expect Wipro and Satyam's margins to be impacted by wage hike and Restricted Stock Unit charge.

Companies with greater Pound and Euro exposure like Mastek (over 60%) and WNS (~50%) will benefit given that the Rupee has depreciated with respect to them. Patni and Cognizant have much lower exposure to European revenues of ~10%.

TCS & Mastek could see positive result triggers; Sasken to show inorganic led strong growth

We expect strong double-digit organic growth from TCS at 14% to be a stock catalyst. We expect TCS margins to expand led by continued effort to shift work offshore (estimate 300-400bps shift over next 2-4 quarters), pricing led upside from new and existing customers, ramp of large clients like ABN Amro, Citibank and Pearl Group behind in H1 and investments in near shore delivery like Brazil (1,200 people) and China (under 600 people) beginning to improve in profitability.

We expect **Mastek** to report an EBITDA growth of 13% on the back of about 120bps margin expansion as the wage hikes get absorbed this quarter. Also we expect positive order book additions and a tie-up with a large systems integrator in UK to be positive triggers for the stock.

Expect **Tech Mahindra** (TML) to report 11.3% QoQ growth in sale on back of recruitment during 2Q.

Expect **Sasken** to report 17% QoQ growth in sales, largely driven by full consolidation of Botnia revenues. Expect EBITDA margins to fall by 39bps to 18% due to consolidation and subdued growth in IT services business. Expect flattish performance in the product business. Update on E series win and new deal flows key to reratings.

Infotech Enterprises should report a flat quarter on the bottom line due to lesser other income this quarter, though the revenue should grow by about 6% sequentially. We however, expect deal closures in geo-spatial design solutions to be positive triggers for the stock in next few months.

Hexaware's 8.4% QoQ revenue growth is also aided by one month of Focus frames revenues.

MphasiS BFLs strong sequential bottom line growth is driven by absence of forex losses.

Cautious on Patni computers, expect in line results from Infosys, Satyam and Wipro

We expect a sequential decline of over 9% in **Patni** profits, as guided, due to seasonal 4Q weakness, higher exposure to manufacturing vertical (23%) and ramp-down in a telecom client and softness in a financial services client due to internal budget pressures. We believe absence of triggers in next couple of quarters could keep the stock dormant, until the wage hike announcements are made in April.

We expect modest growth of 6% PAT in **Infosys** due to fewer working days. However, we expect positive discussions on outlook.

Post a mix-led and utilization led very strong 3Q, we expect **EXL** to report a weak quarter given fewer working days, as also highlighted by them in their earnings call.

For **HCL** we are expecting EBITDA margins to expand by about 50bps as major portion of the wage hikes took place last quarter. Though we expect revenue to grow 8% sequentially, PAT should remain flat due to higher taxes and lower other income.

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Sugar

- The crushing season started on 1 Nov '06 for the industry. Sugar production for this season is estimated to be around 22mn tonnes with consumption estimated to be around 19mn tonnes. The sugar prices are thus expected to be under pressure on account of the higher supply in the market. Sugar prices for this quarter have marginally declined by 3% (Y-o-Y basis) to Rs.17.89/kg (data accumulated from NCDEX). Going ahead we expect the prices to remain under pressure.

- During the quarter, government declared the partial lifting of the export ban of sugar. All the companies under the ALS scheme who have pending export obligations will be able to export. This would help in reducing the excess flow of nearly 1mn tonnes of sugar.

- In Q3FY07, we expect Triveni's revenue to grow 10.7% on the back of the strong growth in the engineering division. However, the EBITDA margins are expected to decline on the back of the continuing margin pressure in its sugar division due to declining sugar prices. The profits for the quarter are thus expected to decline marginally by 4.7%.

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Telecom

Pre-Result Buy in Sector: Bharti

- We forecast Bharti's 3Q FY07 net profit at Rs10.2bn, up 88% YoY & 10% QoQ. Strong topline (+61% YoY & +12% QoQ) and stable overall EBITDA margins (wireless & non-wireless) will be the key growth driver. In Bharti's key wireless business, we expect EBITDA margin to stay stable at ~36.9% despite an estimated 3% QoQ fall in ARPU.

- For Reliance Communication (RCom) we forecast 3Q FY07 net profit at Rs7.65bn, up 147% YoY and 7%. The marginally weaker QoQ profit growth versus Bharti reflects lower wireless subscriber additions and consequent marginally lower topline growth. In the mobility business, we expect RCom's ARPU and margins to broadly mirror the trend forecast for Bharti.

- MTNL's 3Q FY07 earnings are forecast at Rs1.2bn, down 7% YoY and flat QoQ. While net profit will likely continue to be supported by other income, we expect revenue pressures to continue due to fixed-to-mobile substitution. Consequent to the revenue pressures, EBITDA is forecast to fall 23% YoY and 3% QoQ.

- For VSNL we forecast net profit at Rs1bn, up 9% YoY and 23% QoQ. The strong QoQ growth will be primarily led by continued strong volume growth in VSNL's data business and no fresh pricing cuts post those announced in Sep '06.

Textiles & Apparel

Pre-Result Buy in Sector: Welspun India

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- We expect Welspun India to report the strongest performance for the quarter among the textile companies under our coverage universe with a 35% YoY growth in profits. It should be noted that for Raymond and Arvind Mills in particular the quarterly reported performance may not be true representative of the overall company performance as they report only standalone numbers. While for Raymond the consolidated numbers could be significantly higher due to inclusion of profits of retailing subsidiaries & JVs (including that of denim), for Arvind it might be slightly lower after inclusion of losses from the brands business. We expect Himatsingka Seide and Gokaldas to report a moderate growth in profits of about 8-12% YoY.

- **Raymond** has transferred its denim business to the JV Company (with UCO NV) and hence its reported standalone numbers for this quarter would only include worsted fabric and files & tools businesses. However on a like-to-like basis (i.e., including the denim business) profits are likely to rise 21% YoY on the back of strong performance by the worsted fabric business.

- **Arvind Mills** is likely to report a 50% YoY decline in recurring profits mainly on account of the continued denim downturn. However, we expect the performance to be better than the previous two quarters backed up strong performance by the garments division.

- **Welspun India** is likely to report a 35% YoY growth in profits on the back of fast ramp up in its new bed linen business and continued strong performance of terry towel business.

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Utilities

Pre-Result Buy in Sector: NTPC

In the Utility sector, markets should be more focused on increase in generation at NTPC on improving coal supplies and progress on future plans such as expansion in generation capacity, update on open access in distribution and AT&C loss reduction in New Delhi JVs of Reliance and Tata Power.

We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL & JHPL, to report sales growth of 13%YoY, EBITDA growth of 12.8%YoY and PAT growth of 13.6% YoY.

The primary reason for the growth would be volume growth (NTPC), improved efficiency (NTPC) and change in depreciation policy (Neyveli Lignite & JHPL).

- We expect NTPC's 3QFY07 to address investor concerns of fuel shortages impacting company's production as company is likely to report double digit YoY growth in generation. Fuel cost savings also remain on-track in 3Q but the sales from its high margin spot market may slow due to commissioning of Tala hydro project leading to improved grid frequency in north India.
- On recurring basis, we expect 14.3%YoY growth in NTPC's 3QFY07 PAT. However, we note that the reported PAT growth would be muted as there was an extraordinary income from the receipt of bonds from Bihar and Jharkhand states in 3QFY06.
- We expect a 22.9%YoY growth in sales for Reliance Energy led by growth in Utility & E&C revenues. We expect recurring PAT to increase by 16%YoY, mainly driven by investment income.
- We expect Tata Power to witness recurring PAT growth of 13.1%YoY on an almost flat topline. However, we note that the reported profits of the company would dip 52.5%YoY as there was an exceptional income of Rs1.32bn in 3QFY06 arising out of profit from the sale of Tata Power Broadband and Alaknanda Hydro Power Co.
- Change in depreciation should provide support to Neyveli & JHPL results. Among the other IPPs, Neyveli Lignite is likely to report PAT at -1.1%YoY on EBITDA decline of 14.4%YoY while JHPL is likely to report Rs39mn PAT (against loss of Rs14mn in 3QFY06), as they lowered the rate of depreciation in-line with tariff v/s Companies Act rate earlier.
- NTPC & Reliance Energy remain our preferred picks in the sector based on expansion in its generating capacity and distribution franchise, and reduction in T&D losses at its Delhi JVs (Reliance).

Table 5: Results Forecast For The Quarter Ended 31 December, 2006

	ML	Q-R-Q	Price	Sales		% change		EBITDA		% change		Net Profit		% change	
(Rs mn)	Symbol	Rating	2-Jan-07	30-Dec-05	30-Dec-06	YoY	QoQ	30-Dec-05	30-Dec-06	YoY	QoQ	30-Dec-05	30-Dec-06	YoY	QoQ
Automobile															
Ashok Leyland	XDBVF	C-3-7	46.25	12,024	17,827	48.3%	6.4%	1,160	1,515	30.6%	12.2%	558	894	60.2%	-8.4%
Automotive Axles	XATOF	C-1-7	633.7	1,009	1,496	48.3%	10.2%	183	275	50.3%	6.9%	98	142	44.9%	6.5%
Bajaj Auto Ltd	BJJAF	C-2-7	2738.8	20,009	25,557	27.7%	4.9%	3,581	3,885	8.5%	6.4%	2,875	3,115	8.3%	-5.0%
Bharat Forge	XRRGF	C-1-7	366.6	3,994	4,785	19.8%	6.2%	986	1,244	26.1%	5.7%	533	662	24.3%	6.5%
Eicher Motors	XEICF	C-3-7	372.4	3,900	4,640	19.0%	1.7%	174	283	62.4%	7.5%	144	163	13.7%	15.0%
Hero Honda	XHROF	C-3-7	784.2	23,148	26,561	14.7%	19.1%	3,781	3,586	-5.2%	26.5%	2,618	2,681	2.4%	24.1%
Mahindra & Mahindra	MAHHF	C-2-7	956.1	21,867	27,141	24.1%	10.8%	2,636	3,189	21.0%	-3.1%	1,839	2,365	28.6%	-6.4%
Maruti Udyog	MUDGF	C-1-7	969.3	31,142	37,614	20.8%	10.0%	4,659	5,398	15.9%	13.5%	3,390	4,085	20.5%	11.2%
Rico Auto	RCATF	C-2-7	62.5	1,694	1,948	15.0%	4.7%	194	214	10.4%	14.7%	69	63	-9.3%	-39.7%
Tata Motors	TENJF	C-2-7	929.9	50,746	68,885	35.7%	4.8%	6,617	8,576	29.6%	17.0%	3,633	4,478	23.3%	5.9%
TVS Motors	XFKMF	C-2-7	85.2	8,714	9,345	7.2%	-13.3%	607	477	-21.5%	-14.9%	311	176	-43.3%	-29.1%
Cement															
ACC	ADCLF	C-1-7	1092.4	10,721	15,787	47.3%	13.4%	1,574	4,793	204.6%	29.1%	941	2,994	218.1%	33.0%
India Cement	INIAF	C-1-9	239.0	4,119	4,962	20.5%	-3.9%	468	1,584	238.7%	-8.2%	6	977	17341.2%	-16.7%
Grasim Industries	GRSJF	C-1-7	2834.7	25,032	34,120	36.3%	7.2%	4,750	10,478	120.6%	24.5%	1,953	5,045	158.3%	20.6%
Gujarat Ambuja Cements Ltd	XBRIF	C-1-7	144.2	9,180	13,578	47.9%	17.8%	2,394	5,071	111.8%	28.3%	1,330	3,751	182.0%	26.5%
Shree Cement	SREEF	C-1-7	1482.0	1,443	3,811	164.1%	20.6%	432	1,766	308.9%	23.8%	280	1,011	261.5%	29.9%
Ultratrech Cemco	XDJNF	C-1-7	1131.1	7,829	12,023	53.6%	19.7%	1,104	3,807	245.0%	49.6%	239	2,141	797.4%	68.0%
Consumer															
Asian Paints	XAPNF	C-1-7	740.9	8,182	9,409	15.0%	-5.7%	1,094	1,267	15.9%	-5.6%	627	764	21.9%	-6.2%
Colgate Palmolive (India) Ltd	CPIYF	C-1-7	392.1	2,857	3,314	16.0%	3.6%	714	714	0.0%	27.9%	583	582	-0.1%	15.2%
Dabur India Ltd	DBUIF	C-1-7	147.2	5,374	6,288	17.0%	11.5%	827	1,056	27.7%	8.5%	649	843	29.9%	7.2%
Hindustan Lever Ltd	HINLF	C-3-7	216.5	29,743	33,377	12.2%	8.9%	4,818	5,607	16.4%	39.2%	4,312	5,024	16.5%	31.2%
ITC	ITCTF	C-1-7	176.9	25,560	31,134	21.8%	7.8%	8,783	10,430	18.7%	7.2%	5,823	6,943	19.2%	2.2%
Nestle	XNTEF	C-1-7	1148.8	6,228	7,183	15.3%	-0.6%	1,181	1,422	20.5%	-0.2%	742	878	18.3%	5.8%
Tata Tea	TTAIF		717.1	8,117	9,886	21.8%	1.5%	1,416	1,820	28.5%	1.0%	723	720	-0.5%	-43.4%
Healthcare															
Biocon Ltd	BCLTF	C-1-7	377.6	1,990	2,570	29.1%	3.2%	590	694	17.6%	5.1%	440	494	12.3%	9.8%
Cadila Healthcare	CDLHF	C-1-7	357.4	3,869	4,540	17.3%	-7.2%	650	885	36.2%	-12.8%	408	575	41.0%	-18.4%
Cipla	XCLAF	C-1-7	251.6	8,849	9,409	6.3%	2.8%	2,334	2,574	10.3%	4.4%	1,753	1,936	10.4%	7.4%
Divi's Laboratories	XXQPF	C-1-7	3068.4	1,101	1,487	35.0%	-10.0%	333	416	25.2%	-7.7%	189	240	27.2%	-19.6%
Dr Reddy's Laboratories Ltd	DRRDF	C-1-7	806.0	5,902	15,798	167.7%	-21.2%	334	2,689	705.1%	-30.6%	628	1,839	192.8%	-34.3%
Glenmark Pharmaceuticals	XVQWF	C-1-7	604.4	2,097	2,610	24.5%	2.1%	304	626	105.9%	4.2%	173	433	150.3%	7.7%
GSK Pharma	GXOLF	C-1-7	1160.8	3,234	3,398	5.1%	-14.9%	663	985	48.7%	-23.2%	512	718	40.1%	-27.5%
Nicholas Piramal India Ltd	XNIGF	C-2-7	263.1	4,026	6,500	61.4%	-0.7%	476	1,053	121.1%	-7.6%	97	568	484.5%	-11.1%
Panacea Biotech	XPEAF	C-1-7	391.6	1,100	1,327	20.6%	-23.9%	194	418	116.0%	-27.8%	52	244	369.3%	-47.7%
Ranbaxy Laboratories Ltd	XANBF	C-2-7	398.4	14,055	18,132	29.0%	10.5%	654	3,182	386.5%	18.0%	499	1,940	288.6%	19.8%
Sun Pharma	SPCEF	C-3-7	985.0	4,489	5,566	24.0%	-1.3%	1,799	1,942	8.0%	-8.0%	1,464	1,822	24.5%	-2.3%
Wockhardt Ltd	XDUVF	C-2-7	353.1	3,659	4,420	20.8%	1.0%	851	928	9.1%	-4.4%	730	725	-0.7%	-2.0%
Industrials/ Construction															
ABB	ABVFF	C-1-7	3714.1	9,857	14,194	44.0%	32.6%	1,392	1,961	40.9%	77.3%	946	1,378	45.7%	67.8%
Bharat Heavy Electricals Limited	BHRVF	C-1-7	2298.5	33,267	44,480	33.7%	33.1%	6,029	8,006	32.8%	75.5%	4,232	5,832	37.8%	62.0%
Larsen & Toubro	LTOUF	C-1-7	1459.0	36,910	43,390	17.6%	15.9%	3,038	3,890	28.1%	17.3%	1,872	2,353	25.7%	28.6%
Nagarjuna Construction	NGRJF	C-1-7	219.7	4,724	7,370	56.0%	13.1%	457	696	52.4%	12.7%	268	434	61.9%	10.2%
IVRCL Infrastructure	IIFRF	C-1-7	398.3	4,083	5,928	45.2%	62.7%	344	528	53.5%	67.4%	222	306	38.0%	88.1%
Suzlon	SZEYF	C-1-7	1299.6	N.A.	25,539	NA	22.4%	N.A.	5,181	NA	43.9%	N.A.	3,654	NA	55.2%
Software															
ExlService Holdings (USD mn)	EXLS	C-3-7	21.0	20	36	79.4%	0.4%	3	7	137.6%	1.6%	2	3	46.1%	-19.2%
HCL Technologies	HCLTF	C-2-7	637.6	10,542	14,886	41.2%	7.9%	2,376	3,300	38.9%	10.5%	1,943	2,566	32.1%	2.6%
Hexaware Tech	XFTCF	C-1-7	195.1	1,740	2,438	40.1%	8.4%	263	396	50.7%	9.9%	248	373	50.6%	7.5%
Infosys Technologies Ltd	INFYF	C-1-7	2272.5	25,320	36,769	45.2%	6.5%	8,610	11,920	38.4%	7.5%	6,490	9,855	51.8%	6.1%

Table 5: Results Forecast For The Quarter Ended 31 December, 2006

	ML	Q-R-Q	Price	Sales		% change		EBITDA		% change		Net Profit		% change	
(Rs mn)	Symbol	Rating	2-Jan-07	30-Dec-05	30-Dec-06	YoY	QoQ	30-Dec-05	30-Dec-06	YoY	QoQ	30-Dec-05	30-Dec-06	YoY	QoQ
Infotech India	IFKEF	C-1-7	331.9	941	1,397	48.4%	6.4%	178	275	54.6%	-3.0%	133	197	47.9%	-2.8%
Mastek	MSKDF	C-1-7	381.9	1,714	2,062	20.3%	5.2%	284	359	26.4%	12.9%	162	229	41.7%	8.2%
Mphasis BFL	MPSSF	C-2-7	303.5	2,425	3,109	28.2%	6.5%	562	512	-9.0%	5.5%	408	306	-25.2%	30.7%
Patni Computers Services	PATIF	C-1-7	417.4	5,516	6,995	26.8%	0.3%	991	1,261	27.3%	-6.8%	655	926	41.4%	-9.6%
Sasken Communication	SKNCF	C-1-7	537.9	759	1,373	80.7%	16.8%	121	252	108.3%	14.4%	69	129	85.8%	8.5%
Satyam Computers	SAYPF	C-1-7	508.4	12,653	16,800	32.8%	4.9%	3,146	3,862	22.8%	6.5%	2,697	3,351	24.2%	4.8%
TCS	TACSF	C-1-7	1248.6	34,526	47,947	38.9%	7.0%	9,773	13,610	39.3%	10.7%	7,505	11,288	50.4%	13.9%
Tech Mahindra	TMHAF	C-1-7	1670.6	3,326	7,762	133.4%	11.3%	860	1,835	113.3%	11.6%	751	1,584	110.9%	10.7%
Wipro	WIPRF	C-2-7	611.5	27,652	37,714	36.4%	6.0%	6,905	8,843	28.1%	6.8%	5,435	7,260	33.6%	3.7%
WNS (USD mn)	WNS	C-2-7	31.1	38	56	44.7%	5.0%	8	11	27.7%	6.1%	6	7	23.4%	21.4%
Media/Hotels															
Balaji Telefilms	BLJIF	C-1-7	126.4	700	819	17.0%	0.5%	199	282	41.4%	-7.5%	144	187	30.2%	-7.8%
Zee Telefilms	XZETF	C-1-7	287.4	3,777	4,475	18.5%	-3.5%	365	860	135.9%	154.8%	274	687	150.9%	114.7%
Metals															
Hindalco	HDEIF	C-2-7	177.9	28,737	49,960	73.9%	7.8%	5,830	10,653	82.7%	8.0%	2,976	6,393	114.8%	-4.6%
NALCO	NAUDF	C-3-7	213.1	13,249	15,126	14.2%	4.9%	6,645	8,202	23.4%	-6.3%	3,930	5,299	34.8%	-10.9%
SAIL	SLAUF	C-1-7	91.1	63,345	85,500	35.0%	0.1%	13,726	24,106	75.6%	3.3%	6,846	14,217	107.7%	0.7%
TISCO	TAELF	C-2-7	478.4	36,808	44,186	20.0%	5.6%	13,909	18,091	30.1%	6.1%	7,537	10,707	42.1%	-2.8%
Oil & Gas															
BPCL	XBPCF	C-2-7	334.7	188,534	210,027	11.4%	-20.8%	-9,104	-1,672	NA	NA	-10,242	-2,019	NA	NA
GAIL	GAILF	C-2-7	35.3	44,455	52,901	19.0%	21.4%	9,111	8,245	-9.5%	40.0%	6,432	5,833	-9.3%	30.1%
HPCL	XHTPF	C-1-7	278.2	182,610	207,627	13.7%	-14.8%	-8,796	-1,724	NA	-NA	-10,778	-2,190	NA	NA
Indian Oil Corporation Ltd	IOCOF	C-2-7	447.7	442,936	498,746	12.6%	-13.7%	1,608	-1,673	NA	NA	-58	-4,809	NA	NA
ONGC	ONGCF	C-2-7	876.1	124,761	139,136	11.5%	-1.1%	73,611	78,840	7.1%	12.0%	38,878	42,262	8.7%	1.3%
Reliance Industries	XRELF	C-1-7	1281.7	181,680	223,466	23.0%	-21.5%	29,760	38,235	28.5%	-16.2%	17,760	20,432	15.0%	-24.6%
Telecom															
Bharti Televenture	BHTIF	C-1-9	633.0	30,256	48,683	60.9%	11.7%	11,200	19,138	70.9%	12.4%	5,453	10,228	87.6%	9.5%
MTNL	XMTNF	C-3-7	146.8	12,772	11,855	-7.2%	-2.9%	2,428	1,873	-22.9%	-2.9%	1,270	1,185	-6.7%	-2.1%
Reliance Communication	RLCMF	C-1-7	470.8	29,910	39,161	30.9%	11.1%	8,480	15,064	77.6%	11.4%	3,100	7,649	NA	6.6%
VSNL	VSLSF	C-2-8	444.0	9,775	10,138	3.7%	5.0%	2,051	2,200	7.3%	11.1%	939	1,024	9.1%	23.4%
Textile/Apparels															
Arvind Mills	ARVZF	C-3-7	52.3	3,902	4,102	5.1%	4.3%	1,014	923	-9.0%	7.5%	330	165	-50.0%	62.8%
Gokaldas	GKLDF	C-2-7	643.3	2,193	2,522	15.0%	-10.2%	240	303	25.9%	-4.3%	157	177	12.4%	-24.5%
Himatsingka	HMKAF	C-2-7	126.0	408	425	4.2%	-9.6%	145	145	-0.6%	-9.1%	133	144	8.4%	-11.1%
Raymond	XRAMF	C-1-7	410.3	3,453	4,358	26.2%	2.1%	589	745	26.5%	1.9%	330	400	21.2%	-28.0%
Welspun	WPNIF	C-1-9	89.7	1,495	3,027	102.5%	9.5%	331	452	36.3%	6.9%	115	155	35.2%	1.8%
Utilities															
GIPL	GUJIF	C-2-7	64.0	1,945	2,033	4.5%	18.1%	768	736	-4.2%	31.4%	297	342	15.1%	38.7%
JP Hydro	XJSHF	C-3-7	30.2	570	518	-9.1%	-54.5%	451	419	-7.1%	-59.6%	-14	39	NA	-93.4%
Neyveli Lignite	NEYVF	C-2-7	57.2	5,700	5,112	-10.3%	-15.9%	2,240	1,917	-14.4%	-10.5%	1,460	1,444	-1.1%	-11.9%
NTPC	NTHPF	C-1-7	138.1	67,689	78,797	16.4%	16.9%	18,091	21,669	19.8%	22.5%	15,431	17,641	14.3%	23.6%
Reliance Energy	RCTDF	C-1-7	523.4	9,884	12,150	22.9%	-13.7%	1,793	1,722	-4.0%	-3.0%	1,646	1,910	16.0%	2.7%
Tata Power	XTAWF	C-2-7	564.7	12,314	12,250	-0.5%	2.0%	1,968	2,083	5.8%	-16.5%	957	1,082	13.1%	-35.7%
Others															
Jet Airways	JTAIF	C-3-7	635.5	14,782	19,286	30.5%	19.4%	3,615	3,050	-15.6%	815.8%	609	-82	NA	NA
Triveni Engineering	TVIEF	C-1-7	55.6	2,931	3,244	10.7%	12.5%	414	442	6.6%	-16.4%	239	228	-4.7%	-25.7%

Source: Merrill Lynch Research

Table 6: Results Forecast For The Quarter Ended 31 December, 2006

	ML	Q-R-Q	Price	Net Interest Income				Pre Provision Profits				Net Income			
	Symbol	Rating	2-Jan-07	Dec-05	Dec-06	YoY	QoQ	Dec-05	Dec-06	YoY	QoQ	Dec-05	Dec-06	YoY	QoQ
Financials															
Bank of Baroda	BKBAF	C-2-7	242.2	8,155	9,165	12.4%	2.9%	4,775	6,016	26.0%	-2.3%	2,022	2,604	28.8%	-9.7%
Bank of India	XDIIF	C-1-7	208.2	6,566	9,028	37.5%	6.3%	3,747	4,955	32.2%	3.4%	1,431	1,858	29.9%	-12.4%
Canara Bank	CNRKF	C-2-7	277.3	9,582	10,800	12.7%	10.1%	6,992	7,843	12.2%	27.5%	3,563	4,376	22.8%	21.0%
Corporation Bank	XCRRF	C-3-7	351.7	3,285	3,536	7.6%	11.7%	2,415	2,628	8.8%	11.5%	1,151	1,334	15.9%	5.0%
Federal Bank	XFDRF	C-1-7	222.4	1,494	1,880	25.8%	12.2%	1,126	1,473	30.8%	6.0%	716	833	16.3%	19.9%
HDFC Bank	HDDCF	C-1-7	1068.7	6,706	9,065	35.2%	7.2%	5,176	7,137	37.9%	7.5%	2,244	2,919	30.1%	11.0%
HDFC Ltd.	HGDFF	C-1-7	1620.0	4,122	4,995	21.2%	-6.3%	3,571	4,348	21.8%	-8.5%	2,845	3,430	20.6%	-6.8%
IDFC Ltd.	IFDFF	C-2-7	78.4	1,132	1,908	68.6%	0.3%	1,040	1,702	63.6%	-3.1%	894	1,162	30.0%	-17.8%
ICICI Bank	ICIJF	C-1-7	896.9	11,667	18,643	59.8%	18.2%	11,945	17,818	49.2%	10.5%	6,401	8,190	28.0%	8.5%
Indiabulls	XPZMF	C-1-7	305.3	1,644	3,244	97.4%	20.0%	1,153	1,758	52.4%	20.0%	717	1,218	69.9%	28.1%
Oriental Bank of Commerce	ORBCF	C-1-7	228.1	3,950	4,334	9.7%	5.0%	2,988	3,127	4.7%	-0.5%	2,047	2,230	9.0%	-28.2%
Punjab National Bank	PUJBF	C-1-7	511.0	12,074	14,391	19.2%	5.6%	5,483	8,570	56.3%	-11.2%	3,704	4,812	29.9%	-4.7%
State Bank of India	SBINF	C-1-7	1254.1	42,199	42,839	1.5%	9.9%	25,997	26,003	0.0%	5.2%	11,152	12,413	11.3%	4.8%
Union Bank	UBOIF	C-1-7	122.4	6,394	7,008	9.6%	11.7%	4,283	4,736	10.6%	10.6%	2,291	2,671	16.6%	37.6%
UTI Bank	UTBKF	C-1-7	467.5	2,874	4,088	42.2%	11.9%	2,562	3,082	20.3%	12.3%	1,317	1,708	29.7%	20.3%
Vijaya Bank	VJYAF	C-3-7	47.1	2,591	2,782	7.4%	7.1%	1,710	1,877	9.8%	6.3%	598	742	24.1%	-27.5%
Yes Bank	YESBF	C-1-7	141.1	269	615	128.4%	50.0%	262	453	73.3%	29.8%	145	270	86.3%	25.7%

Source: Merrill Lynch Research

Analyst Certification

We, Jyotivardhan Jaipuria, Vandana Luthra, Rajeev Varma, Reena Verma Bhasin, CFA, Bharat Parekh, Mitali Ghosh, S. Arun, Visalakshi Chandramouli, Manish Sarawagi, Achala Kanitkar and Vidyadhar Ginde, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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