

Equity	% Chg			
	24-Jan	1-day	1-mth	3-mth
India				
Sensex	17,222	(2.1)	(13.3)	(8.3)
Nifty	5,033	(3.3)	(15.9)	(9.6)
Global/Regional markets				
Dow Jones	12,379	0.9	(8.6)	(9.5)
Nasdaq	2,361	1.9	(13.0)	(14.2)
FTSE	5,876	4.8	(9.3)	(10.7)
Nikkei	13,460	2.8	(13.5)	(17.3)
Hang Seng	24,728	5.0	(12.1)	(17.2)

Value traded (Rs bn)	BSE	NSE
Cash	63.8	172.0
Derivatives	2.6	394.4
Total	66.4	566.4

Net inflows (Rs bn)	Recent trends (days)			
	23-Jan	-7d	-15d	-30d
FII	(25.0)	(127.8)	(106.4)	(81.9)
MF	11.8	21.3	31.5	61.1

Forex / Crude	% Chg			
	24-Jan	1-day	1-mth	3-mth
Rs/US\$	39.5	0.0	(0.1)	0.2
Euro/US\$	1.5	0.1	2.5	3.1
Crude(\$/bbl)	89.8	0.4	(4.6)	(0.7)

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
Top gainers			
Bosch Chassis	435.7	363.1	20.0
Bongaigaon Refin	64.0	59.3	7.8
3i Infotech	129.5	120.2	7.7
Top losers			
Swan Mills	96.2	111.8	(14.0)
Prithvi Infor	210.2	241.9	(13.1)
Triveni Engg	119.4	135.9	(12.2)

In focus

HT Media – Results Update

New launches constrain margin growth **CMP: Rs 195 Target: Rs 247 HOLD**

Bharat Forge – Results Update

Stable performance despite tough times **CMP: Rs 300 Target: Rs 404 BUY**

News track

- ❖ PBA Infrastructure has bagged contracts for road construction and maintenance as well as reconstruction of drainage systems worth Rs 1.5bn from the Municipal Corporations of Greater Mumbai and Pimpri Chinchwad in Maharashtra. (ET)
- ❖ Bhel has won its first 600MW contract worth Rs 24.7bn from the Tamil Nadu Electricity Board at Chennai thermal power station in Tamil Nadu. (BS)
- ❖ IOC is likely to get a subsidy of Rs 39.8bn from upstream oil companies like ONGC, Oil India and GAIL. (BL)
- ❖ Pyramid Saimira is planning a special economic zone (SEZ) for the entertainment industry at an investment of Rs 2bn. (BS)
- ❖ United Breweries plans to acquire three more distilleries and enter into third party contracts with six more distilleries to increase volumes to 100mn cases. (BL)
- ❖ US patent officials have rejected all four patents on Gilead's AIDS drug Viread. Cipla had a pre-grant opposition to the patent. (BL)
- ❖ TCS has bagged an over US\$ 40mn transformational engagement from New India Assurance for implementing its core insurance platform across the latter's 1,100 branch network in the country. (BL)
- ❖ M&M is in negotiations to take over the Euro 200mn Belgian automotive gear maker VCST. The deal is likely to be worth around Euro 275mn including Euro 125mn in debt. (ET)

Source: BL: Business Line, BS: Business Standard, ET: Economic Times, FE: Financial Express

Volume shockers

(No of shares)	24-Jan	2-mth avg	Chg (x)	Company	Del (%)	Tot. vol	Cons days
Tele Data Info	1,352,701	82,215	16.5	Television Eighteen	89.9	198,092	3
HT Media	708,631	52,881	13.4	Aban Offshore	79.7	166,866	(1)
KSB Pumps	84,474	6,850	12.3	ABB India	72.7	495,490	(1)

Delivery toppers

HT Media



Results Update

CMP: Rs 195

Target: Rs 247 ↓

HOLD

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BSE code:	532662
NSE code:	HTMEDIA

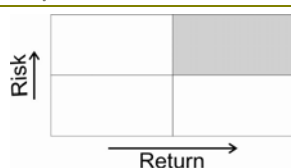
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	45.7/1.2
Outstanding equity shares (mn)	234.2
52-week high/low (Rs)	266/164
2-month average daily volume	35,314

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	10,392.9	12,006.3	14,077.8
Growth (%)	26.2	15.5	17.3
Adj net inc (Rs mn)	1,153.2	1,386.5	1,851.2
Growth (%)	91.7	20.2	33.5
FDEPS (Rs)	4.9	5.9	7.9
Growth (%)	91.7	20.2	33.5
P/E (x)	39.6	32.9	24.7
ROE (%)	16.2	17.0	19.1

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	68.7	68.7
FII's	19.0	18.8
Banks & FI's	8.4	8.3
Public	3.9	4.2

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
HT Media	195	(21.9)	(5.0)	(16.1)
Sensex	17,222	(13.3)	(8.3)	9.7

Company website	www.hindustantimes.com
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New launches constrain margin growth

HT Media's (HTML) Q3FY08 revenues are only slightly below expectations, but the bottomline has fallen significantly short of our projections. The shortfall on the PAT front is due to a lower-than-expected EBITDA margin during the quarter coupled with a reduction in other income. The company recorded an EBITDA margin of 18.5% as against 20.7% estimated, as the quarter witnessed higher advertising and sales expenses on new launches. All the same, the performance has bettered Q2FY08 numbers and we expect the trend to continue into the fourth quarter as well.

Advertising rates are expected to grow at 10-15% over the next one to two years, but lower growth in circulation would mute revenue growth. We expect the company to log a 16% revenue CAGR over FY07-FY10. The growth drivers for HTML would be its new forays into portals, radio broadcasting and English newspapers along with the roll-out of new Hindi editions. The company is currently in a consolidation phase wherein it is investing in new business opportunities and making efforts to improve the visibility of its Hindi language newspaper segment. These investments would yield returns gradually as the share of revenues from newer businesses like the internet and radio ramps up.

We have marginally reduced our estimates for FY08 and FY09 to factor in the below-expected quarterly results. We thus lower our target price from Rs 265 to Rs 247, wherein the core business is valued at Rs 237 and the radio segment at Rs 10. We maintain our Hold recommendation on the stock.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	3,194.0	3,316.3	(3.7)
EBITDA	592.2	686.5	(13.7)
Adj net income	368.6	502.4	(26.6)
FDEPS (Rs)	1.6	2.1	(26.6)

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Net sales	3,194.0	2,752.1	16.1	2,810.2	13.7
Expenditure	2,601.8	2,261.3	15.1	2,325.1	11.9
EBITDA	592.2	490.8	20.7	485.1	22.1
EBITDA margin (%)	18.5	17.8	-	17.3	-
Depreciation	113.6	97.6	16.4	109.6	3.6
Interest	44.5	36.2	22.9	43.8	1.6
Other income	87.3	148.9	(41.4)	84.5	3.3
PBT	521.4	505.9	3.1	416.2	25.3
Tax	152.8	170.2	(10.2)	96.8	57.9
PAT	368.6	335.7	9.8	319.4	15.4
FDEPS	1.6	1.4	9.8	1.4	15.4

Source: Company, Religare Research

Result highlights

Revenues up 16% YoY with ad revenues growing at 18%

HTML has posted a sales growth of 16% YoY for Q3FY08, lower than our estimate of 20% growth. Ad revenues increased 18% for the quarter due to festive season-related ad spend across all segments. The company also organised several events during the quarter (an AR Rehman concert, a leadership conference, I Love Delhi), which contributed to revenues. The Hindi language newspaper segment contributed 23% to total revenues and 15% to total ad revenues for the quarter.

Sharp rise in ad & promotional costs constrain EBITDA margin to 18.5%

The EBITDA margin for Q3FY08 expanded 70bps YoY to 18.5%, but this was 220bps lower than our estimate of 20.7%. Margin growth was constrained by a 78% YoY rise in ad and sales promotion spend due to the launch of *Mint* in Bangalore, higher spend in new English language newspaper markets like Mumbai, and new Hindi launches in the northern markets.

Large scale events organised by the company during Q3FY08 also pushed up ad and sales expenses. Raw material costs increased marginally by 5% YoY while employee costs rose 12% for Q3FY08. Higher newsprint consumption due to increased circulation to 3.3mn copies was offset by a reduction in newsprint prices and favourable foreign currency movement during the quarter.

Investments in Mint increased 128% YoY

HTML has incurred Rs 106mn towards the marketing and launch of its English business paper, *Mint*, during Q3FY08 – an increase of 128% YoY. *Mint* has already become the second largest business daily in the cities of Delhi, Mumbai and Bangalore where it has a circulation of ~120,000 copies.

The company launched *Mint* in Bangalore in November where it has crossed a daily circulation of ~15,000 copies. It now plans to roll out the business daily in Kolkata in the next two to three months. Going ahead, the company aims to transform *Mint* into a national business paper through its nationwide network.

Impact of Mint investments on EBITDA

Particulars	Q3FY08	Q3FY07	% Change
EBITDA (incl Mint)	679.5	639.7	6.2
Investment in Mint	106.0	46.4	128.4
EBITDA excl Mint	785.5	686.1	14.5
EBITDA margin excl Mint (%)	24.6	24.9	-

Source: Company, Religare Research

Strengthening position in Hindi segment

HTML will focus on raising its market share for 'Hindustan', which is currently the third largest read Hindi daily in Bihar, Jharkhand, Uttar Pradesh and Delhi. The company's Hindi newspaper circulation stands at 2.1mn currently, with rising market shares in UP, Delhi and Jharkhand. Ad revenues for this segment grew at 30% YoY and are expected to increase at 25% going forward.

HTML is one of the top two players in UP and plans to expand its footprint in other key cities in the near future. It is further looking to de-merge its Hindi business in the next two months and would be investing Rs 1.5bn–1.8bn in this segment.

Bangalore launch of Mint, higher ad spend in new markets restrict margin growth

Plans to invest Rs 1.5bn–1.8bn in the Hindi newspaper segment

Plans to bid for more radio licenses

The company has already invested Rs 750mn for its four radio licenses. Its radio station, *Fever*, has gained the number two position in Delhi. In Mumbai, infrastructure issues related to signal strength have proved to be a bottleneck. The management expects to move up the ranks in Mumbai and Bangalore in the next three to six months, and will bid for three to four radio licenses in the next round of bidding at an investment of Rs 1.1bn.

Foray into job portal through tie-up with foreign player

During Q3FY08, HTML entered the social networking space by acquiring Desimartini.com through its wholly owned subsidiary Firefly-e-ventures. The company now plans to foray into job portals in March or April via a tie-up with a foreign player with the required expertise. HTML is further looking to set up portals in the matrimonial and real estate space.

Valuation

Downward revision of estimates for FY08 and FY09

We have reduced our net sales estimates for FY08 and FY09 by 1.5% and 2.6% respectively considering the lower-than-expected ad revenue growth during the last nine months. Further, we have lowered our net income estimates by 10.2% and 10.9% for these two years respectively to build in a marginal increase in depreciation and interest, and lower other income.

Revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Net sales	12,191.0	12,006.3	(1.5)	14,448.9	14,077.8	(2.6)
Adj net income	1,544.7	1,386.5	(10.2)	2,076.6	1,851.2	(10.9)
FDEPS (Rs)	6.6	5.9	(10.6)	8.9	7.9	(11.2)

Source: Religare Research

We are also introducing our numbers for FY10. We expect the company to log lower revenue growth of 16.4% for the fiscal vis-à-vis the 17.3% growth projected for FY09. This is because a majority of HTML's revenues come from matured markets which are experiencing lower growth rates of 7–8%. The company is also in the process of establishing its footprint in the English business segment and adding new editions in the Hindi segment. These initiatives would require significant investments, while yielding returns only at a later stage. Over FY07-FY10, we project a revenue CAGR of 16% for the company with an earnings CAGR of 26% led by higher EBITDA margins.

Target reduced to Rs 247; Maintain Hold

Following the downward revision of estimates, we have lowered our target price for the stock from Rs 265 to Rs 247. Our target includes a DCF-based core business valuation of Rs 237 and a value of Rs 10 for the radio subsidiary based on 9x FY10E EV/EBITDA. The core business DCF valuation is based on a WACC of 12.8%, cost of equity of 14.3%, debt-equity ratio of 0.2x and beta of 0.9.

At Rs 247, HTML would trade at 25x P/E and 14.8x EV/EBITDA on FY10E. In view of the subdued sales growth and HTML's higher risk-reward ratio, we believe other print media players like Jagran Prakashan and Deccan Chronicle offer better investment avenues. We thus maintain our Hold recommendation on the stock.

Earnings estimates for FY08 and FY09 cut by 10.6% and 11.2% respectively

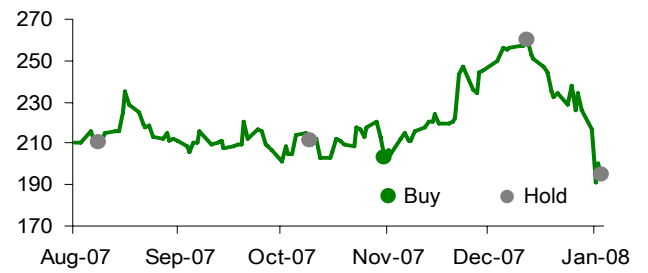
Unfavourable risk-reward ratio; Maintain Hold

Recommendation history

Date	Event	Reco price	Tgt price	Reco
30-Aug-07	Initiating Coverage	211	232	Hold
31-Oct-07	Results Update	211	232	Hold
22-Nov-07	Company Update	203	232	Buy
7-Jan-08	Quarterly Preview	260	265	Hold
25-Jan-08	Results Update	195	247	Hold

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	10,392.9	12,006.3	14,077.8	16,381.8
Growth (%)	26.2	15.5	17.3	16.4
EBITDA	1,904.5	2,249.9	2,868.0	3,558.9
Growth (%)	60.9	18.1	27.5	24.1
Depreciation	397.1	449.0	455.0	475.0
EBIT	1,507.4	1,800.9	2,413.0	3,083.9
Growth (%)	88.7	19.5	34.0	27.8
Interest	142.5	175.0	180.0	180.0
Other income	402.8	370.0	420.0	450.0
EBT	1,767.7	1,995.9	2,653.0	3,353.9
Income taxes	614.5	609.4	801.8	1,040.9
Effective tax rate (%)	34.8	30.5	30.2	31.0
Adjusted net income	1,153.2	1,386.5	1,851.2	2,313.0
Growth (%)	91.7	20.2	33.5	24.9
Extra-ordinary items	2.6	0.0	0.0	0.0
Reported net income	1,150.6	1,386.5	1,851.2	2,313.0
Growth (%)	208.7	20.5	33.5	24.9
Shares outstanding (mn)	234.2	234.2	234.2	234.2
Basic EPS (Rs) (adj)	4.9	5.9	7.9	9.9
FDEPS (Rs) (adj)	4.9	5.9	7.9	9.9
DPS (Rs)	0.4	0.4	0.5	0.5

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	1,150.6	1,386.5	1,851.2	2,313.0
Depreciation	397.1	449.0	455.0	475.0
Other adjustments, net	35.7	39.9	53.1	67.1
Changes in working capital	565.5	(47.0)	(180.0)	(202.8)
Cash flow from operations	2,148.9	1,828.5	2,179.3	2,652.2
Capital expenditure	(350.4)	(600.0)	(600.0)	(600.0)
Change in investments	(3,085.8)	(500.0)	(500.0)	(500.0)
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(3,436.2)	(1,100.0)	(1,100.0)	(1,100.0)
Free cash flow	(1,287.3)	728.5	1,079.3	1,552.2
Issue of equity	(200.0)	-	-	-
Issue/repay debt	(45.7)	-	-	-
Dividends paid	(82.2)	(107.7)	(134.7)	(134.7)
Other financing cash flow	-	-	-	-
Cash flow from financing	(327.9)	(107.7)	(134.7)	(134.7)
Change in cash & cash eq	2,677.5	1,062.3	1,683.0	2,627.5
Opening cash & cash eq	(1,615.2)	620.7	944.6	1,417.6
Closing cash & cash eq	1,062.3	1,683.0	2,627.5	4,045.1

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	1,062.3	1,683.0	2,627.5	4,045.1
Accounts receivable	1,464.7	1,667.5	1,955.3	2,275.2
Inventories	1,019.0	1,167.3	1,368.7	1,592.7
Others current assets	270.9	333.5	430.2	546.1
Current assets	3,816.9	4,851.3	6,381.6	8,459.1
Long-term investments	3,729.8	4,229.8	4,729.8	5,229.8
Net fixed assets	3,611.4	3,792.5	3,937.5	4,062.5
CWIP	130.1	100.0	100.0	100.0
Intangible assets	346.1	316.1	286.1	256.1
Other assets	217	217	217	217
Total assets	11,851.7	13,507.1	15,652.5	18,324.9
Accounts payable	1,811.4	2,101.1	2,424.5	2,821.3
Others	206.2	253.2	305.5	335.7
Current liabilities	2,017.6	2,354.2	2,730.0	3,157.0
Debt funds	1,650.0	1,650.0	1,650.0	1,650.0
Other liabilities	345.8	385.7	438.8	505.8
Equity capital	468.5	468.5	468.5	468.5
Reserves	7,369.9	8,648.7	10,365.3	12,543.6
Shareholder's funds	7,838.4	9,117.2	10,833.7	13,012.0
Total liabilities	11,851.7	13,507.1	15,652.5	18,324.9
BVPS (Rs)	33.5	38.9	46.3	55.6

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	18.3	18.7	20.4	21.7
EBIT margin (%)	14.5	15.0	17.1	18.8
Net profit margin (%)	11.1	11.5	13.1	14.1
FDEPS growth (%)	91.7	20.2	33.5	24.9
Receivables (days)	50.7	50.0	50.0	50.0
Inventory (days)	35.3	35.0	35.0	35.0
Payables (days)	62.7	63.0	62.0	62.0
Current ratio (x)	1.9	2.1	2.3	2.7
Quick ratio (x)	1.4	1.6	1.8	2.2
Interest coverage ratio (x)	10.6	10.3	13.4	17.1
Debt / equity (x)	0.2	0.2	0.2	0.1
ROE (%)	16.2	17.0	19.1	19.9
ROA (%)	11.5	12.3	13.9	14.7
ROCE (%)	14.3	15.4	17.5	18.4
EV/Sales (x)	4.1	3.5	2.9	2.3
EV/EBITDA (x)	22.5	18.5	14.0	10.8
P/E (x)	39.6	32.9	24.7	19.7
P/BV (x)	6.1	5.2	4.3	3.6

Source: Company, Religare Research

Bharat Forge

Results Update

CMP: Rs 300

Target: Rs 404

BUY

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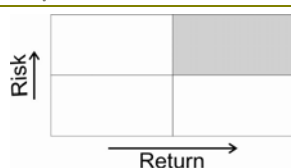
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	66.8/1.7
Outstanding equity shares (mn)	222.8
52-week high/low (Rs)	390/254
6-month average daily volume	766,779

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	41,783	46,008	51,307
Growth (%)	38.4	10.1	11.5
Adj net inc (Rs mn)	2,906	3,227	3,997
Growth (%)	16.0	11.0	23.9
FDEPS (Rs)	13.0	13.3	16.5
Growth (%)	18.8	11.3	23.9
P/E (x)	23.1	20.7	16.7
ROE (%)	21.1	20.1	21.3

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	40.6	40.2
FIs	15.2	16.9
Banks & FIs	15.7	14.9
Public	28.5	28.0

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bharat Forge	300	(13.5)	(6.9)	1.3
Sensex	17,594	(11.4)	(5.0)	11.4
BSE Auto	4,675	(16.3)	(13.5)	(8.8)

Company website	www.bharatforge.com
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Stable performance despite tough times

Bharat Forge's (BFL) consolidated net revenue was below our expectations as a result of the sharper slowdown in US commercial vehicle (CV) production than anticipated. However, the company was able to marginally improve its EBITDA margin due to a favourable product mix.

We expect BFL's domestic business to strengthen in Q4FY08 and beyond as domestic automotive production has picked up pace. The CV market in the US is also likely to recover in the second half of 2008. In order to de-risk its business model, the company is ramping up its non-automotive business at a capex of Rs 3.5bn over FY08 and FY09. It is also setting up two forged die plants at Baramati and Pune which are expected to start commercial production by Q1FY10. Further, BFL is foraying into the capital goods sector and is exploring the possibility of forming a joint venture with National Thermal Power Corporation (NTPC) for this purpose.

The stock is currently trading at 16.7x FY09E fully diluted earnings, which we believe is attractive. We maintain our target price at Rs 404, which signifies a potential upside of 35% from the current levels.

Actual vs estimated performance

(Rs mn)	Q3FY08A	Q3FY08E	Variance
Net sales	10,800.0	12,471.1	(13.4)
EBITDA	1,750.0	1,993.7	(12.2)
EBITDA margin (%)	16.2	16.0	20bps
Adj net income	709.6	815.5	(13.0)
FDEPS (Rs)	3.2	3.7	(13.0)

Source: Company, Religare Research

Consolidated Q3FY08 results

(Rs mn)	Q3FY08A	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Net sales	10,800.0	9,877.6	9.3	10,451.7	3.3
EBITDA	1,750.0	1,590.6	10.0	1,775.5	(1.4)
EBITDA margin (%)	16.2	16.1	10bps	17.0	(80bps)
Depreciation	545.2	449.7	21.2	542.8	0.4
Interest	324.5	232.7	39.4	300.0	8.2
Other income	194.4	193.0	0.7	260.7	(25.4)
PAT	709.6	725.7	(2.2)	791.4	(10.3)
PAT margin (%)	6.6	7.3	(70bps)	7.6	(100bps)
FDEPS (Rs)	3.2	3.3	(2.2)	3.6	(10.3)
Cash EPS (Rs)	5.6	5.3	6.8	6.0	(5.9)
Core EPS (Rs)	4.1	4.1	(1.6)	4.7	(14.1)

Source: Company, Religare Research

Result highlights

Outperforms domestic automotive industry growth

Standalone domestic revenue growth continues to pick up pace

BFL has reported a 16.2% YoY growth in domestic revenue to Rs 3.3bn during Q3FY08. The growth is on account of the introduction of new products as well as an increase in market share. BFL has outperformed the domestic automotive industry during the quarter by expanding automotive segment volumes at 18.4% YoY as compared to the industry growth of 16% YoY.

Standalone performance

Particulars (Rs mn)	Q3FY08	Q3FY07	% Chg
Domestic revenue	3,269.0	2,813.0	16.2
Export revenue	2,298.0	1,958.0	17.4
Total sales revenue	5,567.0	4,771.0	16.7
EBITDA	1,363.8	1,239	10.1
EBITDA margin (%)	24.5	26.0	(150bps)
EBITDA (adjusted for forex gain/loss)	1,363.0	1,155.0	18.0
Adjusted EBITDA margin (%)	24.5	24.2	30bps

Source: Company

Exports up 17% YoY despite slowdown in the US auto market

Exports register strong performance

BFL (standalone) has posted a 17.4% YoY increase in export revenue to Rs 2.3bn, despite difficult market conditions in the US paired with rupee appreciation. US M&HCV (medium and heavy CV) production declined substantially in Q3FY08, resulting in lower exports to this market. The decline in the US market was marginally offset by growth experienced in Europe's automotive market, at 4.1% YoY, in Q3FY08.

Automotive production in US and Europe for Q3FY08

Particulars	Q3FY08	Q3FY07	% Chg
US automotive production			
Passenger cars	968,371	1,033,668	(6.3)
M&HCV	57,978	104,701	(44.6)
LCV	1,546,317	1,478,307	4.6
Total auto market	2,572,666	2,616,676	(1.7)
European automotive production			
Passenger cars	2,577,570	2,515,447	2.5
M&HCV	146,225	118,209	23.7
LCV	461,632	426,613	8.2
Total auto market	3,185,427	3,060,269	4.1

Source: Wards Auto

Consolidated net revenue muted at 9.3% YoY

BFL's consolidated net revenue posted a subdued growth of 9.3% YoY to Rs 10.8bn due to a sharper slowdown in US CV production than anticipated. While we expected a slowdown of 25%, CV production in the US declined by 45% YoY. The company's net revenues further contracted due to appreciation of the Indian rupee vis-à-vis the US dollar by 4%.

Ex-forex losses, the standalone EBITDA margin has expanded 30bps YoY

EBITDA margin improves; PAT declines

Consolidated EBITDA increased 10% YoY to Rs 1.8bn, which resulted in an EBITDA margin of 16.2%, a gain of 10bps YoY. The EBITDA margin experienced improvement due to a favourable product mix. Excluding forex losses, the margin expanded 60bps YoY. Consolidated net profit declined by 2% YoY in Q3FY08, while standalone net profit declined by 8% YoY.

Future outlook

Non-automotive expansion programme running on schedule

BFL's capacity expansion programme to set up a 60,000-tonne heavy forging capacity at Pune and a 4,000-tonne open die press at Mundwa is progressing as per schedule. The set up of a 30,000-tonne closed die forging capacity and an 80MT counter blow hammer unit at Baramati is also on schedule. BFL is expected to begin commercial production from these expanded capacities by the end of Q4FY09 and Q1FY10 respectively.

Capacity ramp-up programme (excluding China operations)

Segment	FY07	FY08E	FY09E
Forging capacity (MT)	240,000	240,000	330,000
Heavy duty crankshaft (nos)	650,000	650,000	650,000
Front axle assembly and components (nos)	753,100	753,100	753,100

Source: Company, Religare Research

Expected to begin commercial production from expanded capacities by Q1FY10

The company is incurring a capex of Rs 3.5bn towards building capacities for its non-automotive business. Consequently, we expect the contribution from this business to increase to 17% of consolidated revenues from the current 10%. BFL is expected to focus on niche, but high growth product segments like oil and gas equipment, wind turbines, marine engines, construction and mining equipment and aerospace-related products.

In the automotive segment, the company is not expected to set up fresh capacities but instead will focus on de-bottlenecking its existing operations to enhance production volumes. We expect BFL to spend Rs 700mn–800mn per annum towards this over the next three years. Further, the capacity ramp-up at its Chinese facility is also progressing smoothly. On completion in FY09, the total installed capacity in China will stand at 135,000tpa.

Chinese automotive production Q3FY08

Particulars	Q3FY08	Q3FY07	% Chg
Pass. cars	1,760,989	1,422,249	23.8
CV	610,791	544,490	12.2
Total market	2,371,780	1,966,739	21.0

Source: Wards CAAM

Chinese operations to breakeven by end-FY08

The Chinese automotive industry is experiencing strong growth following the lull it experienced in FY07. The capacity ramp up together with effective utilisation is expected to make BFL's Chinese venture profitable by the end of FY08. (BFL has not consolidated the Chinese operations in its quarterly results as yet.)

Proactive measures to boost profitability

The continuous rupee appreciation vis-à-vis the dollar has eroded BFL's profitability. The management is working to counter this impact with a combination of measures such as cost reduction programmes, price corrections and productivity improvement.

Robust revenue visibility

BFL's revenue is expected to improve on the back of growth in the domestic and Chinese markets. Further growth would accrue to the company through its operations in Europe. The CV segment is expected to witness strong demand in eastern Europe for the next two to three years. Also, the current production slowdown in the US CV market is likely to ease off in H2CY09. We expect BFL's consolidated revenues to grow at a CAGR of 11.8% over FY07-FY10.

Margins to improve with enhanced capacity utilisation

The company's consolidated EBITDA margin is expected to improve as a result of increasing capacity utilisation. An additional boost will come from the enhanced production capacity for its higher-margin non-automotive business. We expect operating profit to log a CAGR of 16% over FY07-FY10 with an 180bps improvement in the EBITDA margin to 17.3% in FY10 from 15.5% in FY07.

Consolidated revenues to grow at 12% CAGR over FY07-FY10

Revenue estimates reduced to factor in US slowdown; margin estimates raised

PAT margin to experience growth

Apart from the growth that will accrue to net income from higher revenues and improved EBITDA margins, BFL will also experience expansion in its consolidated PAT margin due to lower interest expenses. We expect net income to clock a 22% CAGR from FY07-FY10 with a 200bps expansion in the net margin to 9% in FY10 from 7% in FY07.

Revision of estimates

We have reduced our revenue estimates for FY08 and FY09 due to the sharper-than-anticipated slowdown in the US CV market (which is expected to continue till H1FY09) and our expectations of continued rupee appreciation in FY09. We have subsequently revised our EBITDA estimates marginally downwards as well.

However, our EBITDA margin estimates have been raised by 60bps and 50bps to 15.7% and 16.2% for FY08 and FY09 respectively to factor in enhanced capacity utilisation going forward. Adjusted net income has been revised downwards due to expectations of a higher effective tax rate. Consequently, our revised FDEPS estimates now stand at Rs 13.3 and Rs 16.5 for FY08 and FY09 respectively.

Revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Revenue	48,077.2	46,007.7	(4.3)	54,694.0	51,306.7	(6.2)
EBITDA	7,244.0	7,229.2	(0.2)	8,560.5	8,291.7	(3.1)
EBITDA margin (%)	15.1	15.7	60bps	15.7	16.2	50bps
Adj net income	3,283.5	3,226.7	(1.7)	4,009.8	3,997.3	(0.3)
FDEPS (Rs)	14.7	13.3	(9.2)	17.9	16.5	(7.7)

Source: Religare research

DCF assumptions

Particulars	Assumptions
Beta	1.0
Risk free rate (%)	8.0
Market risk premium (%)	7.0
Cost of equity (%)	15.0
Cost of debt (%)	7.1
Cost of capital (%)	12.9
Terminal growth rate (%)	3.0

Source: Religare Research

Valuation

Maintain target price at Rs 404

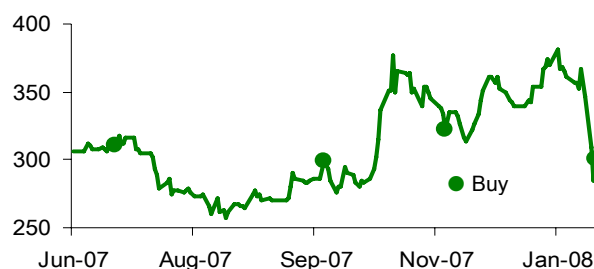
Our DCF valuation for BFL yields a fair value of Rs 404 based on a weighted average cost of capital (WACC) of 12.9%, beta of 1 and a terminal growth of 3%. The company is currently trading at a P/E multiple of 16.7x and EV/EBITDA of 8.5x on FY09E. We believe valuations are attractive at current levels and reiterate our Buy call. At our target price of Rs 404 the stock would trade at 18.6x FY10E EPS.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
10-Jul-07	Quarterly Preview	310	404	Buy
5-Oct-07	Quarterly Preview	298	404	Buy
23-Nov-07	Company Update	322	404	Buy
23-Jan-08	Results Update	300	404	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	41,783.0	46,007.7	51,306.7	58,442.8
Growth (%)	38.4	10.1	11.5	13.9
EBITDA	6,463.6	7,229.2	8,291.7	10,101.4
Growth (%)	23.6	11.8	14.7	21.8
Depreciation	1,881.1	2,274.3	2,512.8	2,644.8
EBIT	4,582.5	4,954.8	5,778.9	7,456.6
Growth (%)	16.1	8.1	16.6	29.0
Interest	1,067.0	1,272.0	1,090.9	1,009.8
Other income	969.2	1,164.2	1,317.4	1,436.4
EBT	4,484.7	4,847.0	6,005.4	7,883.2
Income taxes	1,528.6	1,620.3	2,008.1	2,636.6
Effective tax rate (%)	34.1	33.4	33.4	33.4
Adjusted net income	2,905.9	3,226.7	3,997.3	5,246.5
Growth (%)	16.0	11.0	23.9	31.3
Extra-ordinary items	50.2	-	-	-
Reported net income	2,956.1	3,226.7	3,997.3	5,246.5
Growth (%)	16.0	11.0	23.9	31.3
Shares outstanding (mn)	222.8	222.8	222.8	222.8
Basic EPS (Rs) (adj)	13.0	14.5	17.9	23.5
FDEPS (Rs) (adj)	13.0	13.3	16.5	21.7
DPS (Rs)	3.5	3.5	4.0	4.0

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	2,956.1	3,226.7	3,997.3	5,246.5
Depreciation	1,881.1	2,274.3	2,512.8	2,644.8
Other adjustments, net	501.2	-	-	-
Changes in working capital	(1,567.3)	713.6	(2,139.6)	2,280.8
Cash flow from operations	3,771.1	6,214.7	4,370.5	10,172.1
Capital expenditure	(6,853.3)	(2,000.0)	(1,500.0)	(800.0)
Change in investments	462.2	(51.8)	(53.1)	(54.5)
Other investing inc/(exp)	1,917.6	-	-	-
Cash flow from investing	(4,473.5)	(2,051.8)	(1,553.1)	(854.5)
Free cash flow	(702.4)	4,162.8	2,817.4	9,317.7
Issue of equity	-	(99.7)	-	-
Issue/repay debt	6,302.9	(715.8)	(1,030.8)	(807.5)
Dividends paid	(769.8)	(779.9)	(891.3)	(891.3)
Other financing cash flow	(1,373.7)	-	-	-
Cash flow from financing	4,159.4	(1,595.5)	(1,922.1)	(1,698.8)
Change in cash & cash eq	3,457.1	2,567.4	895.3	7,618.9
Opening cash & cash eq	5,932.3	9,389.3	11,956.7	12,852.0
Closing cash & cash eq	9,389.3	11,956.7	12,852.0	20,470.8

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	9,389.3	11,956.7	12,852.0	20,470.8
Accounts receivable	6,567.4	5,240.5	8,651.5	6,790.3
Inventories	6,142.1	5,994.3	8,218.7	7,544.0
Others current assets	5,587.3	6,035.3	6,602.2	7,432.8
Current assets	27,686.1	29,226.8	36,324.4	42,237.9
Long-term investments	2,073.2	2,125.0	2,178.1	2,232.6
Net fixed assets	15,911.5	15,137.2	13,624.4	11,479.5
CWIP	3,537.3	4,037.3	4,537.3	4,837.3
Deferred tax assets, net	(1,106.7)	(1,106.7)	(1,106.7)	(1,106.7)
Other assets	-	-	-	-
Total assets	48,101.3	49,419.5	55,557.4	59,680.6
Accounts payable	8,609.0	8,676.2	11,784.8	11,150.1
Others	2,637.8	2,852.5	3,129.7	3,506.6
Current liabilities	11,246.7	11,528.7	14,914.5	14,656.6
Debt funds	17,895.9	17,180.1	16,149.3	15,341.8
Other liabilities	4,060.7	3,465.7	4,142.6	4,975.9
Equity capital	445.7	445.7	445.7	445.7
Reserves	14,452.3	16,799.4	19,905.4	24,260.6
Shareholder's funds	14,898.0	17,245.0	20,351.0	24,706.2
Total liabilities	48,101.3	49,419.5	55,557.4	59,680.6
BVPS (Rs)	66.9	77.4	91.3	110.9

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	15.5	15.7	16.2	17.3
EBIT margin (%)	11.0	10.8	11.3	12.8
Net profit margin (%)	7.0	7.0	7.8	9.0
FDEPS growth (%)	18.8	11.3	23.9	31.3
Receivables (days)	46.8	46.8	49.4	48.2
Inventory (days)	99.7	101.4	106.0	104.2
Payables (days)	136.7	144.5	152.6	151.6
Current ratio (x)	2.5	2.5	2.4	2.9
Quick ratio (x)	1.9	2.0	1.9	2.4
Interest coverage ratio (x)	4.3	3.9	5.3	7.4
Debt / equity (x)	1.2	1.0	0.8	0.6
ROE (%)	21.1	20.1	21.3	23.3
ROA (%)	16.0	14.6	16.2	19.3
ROCE (%)	25.0	22.3	26.0	31.7
EV/Sales (x)	1.8	1.6	1.4	1.1
EV/EBITDA (x)	11.7	10.0	8.5	6.1
P/E (x)	23.1	20.7	16.7	12.7
P/BV (x)	4.5	3.9	3.3	2.7

Source: Company, Religare Research

Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
19-Dec-07	PVR	Company Update	313	391	BUY
24-Dec-07	Vishal Retail	Company Update	777	1,018	BUY
24-Dec-07	Mercator Lines	Initiating Coverage	115	177	BUY
24-Dec-07	K P R Mill	Initiating Coverage	165	212	BUY
26-Dec-07	Tata Metaliks	Initiating Coverage	163	234	BUY
27-Dec-07	Apar Industries	Initiating Coverage	347	458	BUY
27-Dec-07	REI Agro	Initiating Coverage	728	1,007	BUY
28-Dec-07	Gulf Oil Corp	Initiating Coverage	291	477	BUY
31-Dec-07	Bank of India	Company Update	365	400	HOLD
1-Jan-08	Indoco Remedies	Company Update	313	383	BUY
1-Jan-08	Gremach Infrastructure Equipments	Initiating Coverage	360	529	BUY
2-Jan-08	Venus Remedies	Company Update	565	708	BUY
3-Jan-08	Ganesh Housing Corp	Initiating Coverage	751	1,201	BUY
4-Jan-08	Tulip IT	Company Update	1,118	1,015	HOLD
4-Jan-08	Indian Bank	Initiating Coverage	212	257	BUY
4-Jan-08	Indian Overseas Bank	Initiating Coverage	201	241	BUY
4-Jan-08	Allahabad Bank	Initiating Coverage	138	167	BUY
8-Jan-08	Information Technology	Quarterly Preview	NA	NA	NA
9-Jan-08	Mahindra & Mahindra	Company Update	830	940	BUY
10-Jan-08	Axis Bank	Results Update	1,095	1,272	BUY
10-Jan-08	Prism Cement	Results Update	67	91	BUY
10-Jan-08	Bank of India	Company Update	400	457	BUY
11-Jan-08	South Indian Bank	Results Update	237	271	BUY
14-Jan-08	Infosys Technologies	Results Update	1,580	1,935	HOLD
14-Jan-08	Reliance Power	IPO Note	405 - 450	NA	SUBSCRIBE
14-Jan-08	Future Capital Holdings	IPO Note	700 - 765	NA	SUBSCRIBE
15-Jan-08	Elecon Engineering	Initiating Coverage	306	424	BUY
16-Jan-08	Indian Bank	Results Update	219	257	BUY
17-Jan-08	Apollo Tyres	Results Update	54	70	BUY
17-Jan-08	Tata Consultancy Services	Results Update	945	1,095	HOLD
17-Jan-08	J K Lakshmi Cement	Results Update	171	324	BUY
18-Jan-08	Shri Lakshmi Cotsyn	Results Update	151	300	BUY
21-Jan-08	Wipro	Results Update	461	455	SELL
21-Jan-08	Biocon	Results Update	539	654	BUY
21-Jan-08	Nicholas Piramal India	Results Update	331	369	HOLD
21-Jan-08	KPIT Cummins Infosystems	Results Update	115	107	SELL
22-Jan-08	Hindustan Construction Company	Results Update	196	333	BUY
22-Jan-08	Sasken Communication Tech	Results Update	276	235	SELL
23-Jan-08	ICICI Bank	Results Update	1,125	1,478	BUY
23-Jan-08	HDFC Bank	Results Update	1,470	1,879	BUY
23-Jan-08	EMCO	Results Update	1,194	1,631	BUY
24-Jan-08	Bank of India	Results Update	390	457	BUY
24-Jan-08	Binani Cement	Results Update	91	148	BUY
24-Jan-08	Bharat Forge	Results Update	300	404	BUY
25-Jan-08	HT Media	Results Update	195	247	HOLD

Market trends

BSE sectoral indices

	% Chg				Constituent performance
	24-Jan	1-day	1-mth	3-mth	
Automobiles	4,567	(2.3)	(18.3)	(17.0)	
Banks	10,583	(1.4)	(4.7)	6.6	
Capital Goods	16,382	(4.9)	(14.8)	(5.4)	
Comm. & Tech.	3,226	(0.7)	(18.6)	(18.6)	
Consumer Durables	4,995	(3.6)	(18.7)	(4.0)	
FMCG	2,062	(1.8)	(7.0)	(3.4)	
Healthcare	3,497	(3.6)	(18.6)	(8.8)	
IT	3,588	(1.2)	(21.7)	(21.7)	
Metal	14,221	(5.7)	(24.4)	(13.4)	
Oil & Gas	10,498	(3.2)	(17.2)	(2.8)	
Mid-caps	7,538	(3.2)	(18.2)	(2.7)	
Small-caps	10,014	(3.9)	(16.4)	6.9	

Number of companies: 

Emerging markets

Country	% Chg				
	24-Jan	1-day	1-mth	3-mth	6-mth
Brazil	57,463	6.0	(8.9)	(7.8)	2.6
Shanghai	4,730	0.3	(9.1)	(15.0)	9.4
Hong Kong	24,728	5.0	(12.1)	(17.2)	5.8
India	17,222	(2.1)	(13.3)	(8.3)	9.7
South Korea	1,686	1.4	(12.1)	(14.7)	(15.9)
Taiwan	7,700	2.4	(5.7)	(19.5)	(20.9)

FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	(619.7)	(1,780.3)	(2,662.8)	(2,662.8)
South Korea	(421.8)	(2,390.8)	(8,350.7)	(8,350.7)
Taiwan	54.2	(764.7)	(1,808.3)	(1,808.3)
Thailand	(2,213.6)	(358.8)	(1,296.4)	(1,296.4)

Events calendar

Quarterly results

January 25, 2008	26	27
Dr. Reddy's Laboratories GIPCL Ashok Leyland ICRA TVS Motor Century Textiles & Industries Zee News	Century Enka Roman Tarmat Shreyas Shipping & Logistics SKP Securities	Mangalam Cement Videsh Sanchar Nigam Mudra Lifestyle Mangalam Cement
28	29	30
Hindustan Motors, KPR Mills, Surana Industries, Sujana Towers, Apar Industries, Jindal Steel & Power, Deccan Chronicle Holdings, Shringar Cinemas, Venus Remedies, Adhunik Metaliks, Divi's Laboratories, HPCL, Shopper's Stop	Tata Power, Asian Paints, Essar Oil, Dabur India, Eicher Motors, Maruti Suzuki, Subex Azure, Pyramid Saimira, Torrent Power, Mundra Port, Triveni Engg & Industries, Deccan Cements, Suzlon Energy, Maruti Suzuki India, Yes Bank,	Bajaj Auto City Union Bank Hanung Toys And Textiles Karuturi Networks Power Grid NTPC
31	February 1	2
ACC Ganesh Housing Corporation IVRCL Infrastructures & Projects MRF Nagarjuna Construction Co Finolex Cables	-	-

Trade data

Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Akruti City	Citigroup Global Markets Mauritius	B	415,000	1,225.0
Fedders Llyo	Citigroup Global Markets Mauritius	B	596,000	102.0
Fedders Llyo	Goldman Sachs Investments Mauritius	S	596,129	102.0
GKW	Citigroup Global Markets Mauritius	S	600,000	84.6
KEI Industries	Merrill Lynch Capital Markets Espana	B	386,000	93.5
Malar Hospit	Chettinad Financial Management Services	S	232,000	27.4
Micro Inks	HDFC Mutual Fund Ac Hdfc Mid Cap Opportunities Fund	B	309,292	305.0
Micro Inks	HSBC Global Investment Fund Bric Free Style	S	309,342	305.0
Rajesh Exports	JM Financial Mutual Fund	B	250,000	700.0
Rajesh Exports	JM Financial Mutual Fund	B	250,000	700.0
Sharyan Reso	Swiss Finance Corp	S	73,229	278.0

Source: BSE

Disclosures under insider trading regulations

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Dwarikesh Sugar Industries	HSBC Global Inv Funds Bric Freestyle&Pac	S	276,956	1.8	200,000	1.3
Essar Shipping	Essar Shipping And Logistics	B	57,168,253	13.4	61,799,991	14.5
Essar Shipping	Asia Pacific Markets	S	57,168,253	13.4	-	-
Garnet International	Maxwell Management Services &Pac	B	24,000	0.5	2,343,661	49.6
Gateway Distriparks	Prism International	B	800,000	0.7	18,401,251	15.9
Gateway Distriparks	R Kumar	B	5,000	-	60,000	0.1
Geometric	Sridhar Nagarajan	B	190	-	2,080	-
Geometric	Vinay Kulkarni	B	2,940	-	73,910	-
Gujarat Lease Financing	Gujarat Industrial Invest Corpn	S	100	-	2,447,228	9.0
Hexaware Technologies	Sonata Investments	B	1,716,006	1.2	8,550,000	6.0
JK Paper	Jade Dragon (Mauritius)	B	7,700,000	9.9	7,700,000	9.9
Joindre Capital Services	Meena Jain	S	2,500	-	5,000	-
K S Oils	Ramesh Chand Garg	B	474,307	-	26,647,612	8.5
Kilburn Office Automation	Industrial Development Bank Of India	S	151,242	2.2	-	-
Kushagra Software	K Sudhir Babu	B	1,940,000	14.5	1,940,000	14.5
McDowell Holdings	Ruane Cunniff & Goldfard Inc	B	37,043	0.3	1,273,120	10.5
Network 18 Media & Investments	R D S Bawa	B	2,500	-	-	-
Orient Paper & Industries	Icici Prudential Mutual Fund	S	153,500	0.8	1,091,122	5.7
Punj Lloyd	Pawan Kumar Gupta	B	20,000	-	20,800	-
Punj Lloyd	Dinesh Thairani	B	1,150	-	1,150	-
S Kumars Nationwide	Chamundeshwari Mercantile	B	400,000	0.2	3,182,500	1.6
S Kumars Nationwide	Tulja Enterprises	B	400,000	0.2	3,182,500	1.6
Sybyl Industries	Vichitra Travels (P)	S	231,500	2.3	865,244	8.6

Source: BSE

RELIGARE RESEARCH

Fundamental Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

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