Investment Strategy

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Earnings surprises unlikely except for forex gains

Merrill Lynch

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Slowing earnings led by topline

We expect earnings to grow at 18.3% for the Sensex companies (EPS growth will be lower by around 3%) which while healthy is the lowest in past 7 quarters. This will be driven by slowing sales (up 15.3%), slowest in the past 7 quarters and a fall in EBIDTA margin for the non-financial Sensex companies. Slowing sales will be driven by rising interest rates and a high base effect. We have excluded gains of HDFC on sale of their internet business (profit growth is 101.6% including this).

Surprises unlikely except for forex gains

We think earnings are unlikely to provide a positive surprise for the market. Our Sensex EPS has been practically flat since the start of FY08 unlike the sharp upgrades seen over past 3 years. However, reported net profit surprise could be driven by forex gains, similar to that in 1QFY08. However, as in Q1 we do not expect the market to be excited about rise in reported profit due to translation gains on forex loans.

Growth led by cement, financials, telecom, industrials

Sectors that show a strong growth in earnings are cement, financials, telecom and industrials. These sectors show an increase in margins. Laggards are autos, pharma, energy and aluminium. Margins are likely to fall in sectors like IT, autos and pharma apart from the PSU refining companies.

Top Potential Result Outperformers: Bharti, BHEL, Grasim, Suzlon, Bank of Baroda, Zee

Top Potential Result Underperformer: Hindalco, Cipla, Bharat Forge, M&M, Canara Bank

Table 1: Summary of result estimates

	BSE 30			MSCI		
	Jun-07	Jun-06	Growth %	Jun-07	Jun-06	Growth %
Sales Turnover	670,601	585,223	14.6%	935,617	843,574	10.9%
EBITDA	146,505	128,876	13.7%	137,987	141,991	-2.8%
Other Income	19,025	13,709	38.8%	20,588	17,419	18.2%
Depreciation	24,648	22,801	8.1%	25,770	24,841	3.7%
Interest	4,796	4,754	0.9%	6,546	5,646	15.9%
Tax	30,092	23,805	26.4%	31,007	28,130	10.2%
Net Profit	101,020	85,976	17.5%	89,732	94,868	-5.4%
Net Profit (incl. Fin Cos)	123,324	104,272	18.3%	107,566	109,249	-1.5%

Source: Merrill Lynch Research

Table 2: Result Summary for Q ended 30 Sept'07

	BSE	MSCI
All Companies:		
Sales Growth	15.3%	11.6%
Profit Growth	18.3%	-1.5%
Excl. Financial Cos:		
Sales Growth	14.6%	10.9%
EBITDA Growth	13.7%	-2.8%
Profit Growth	17.5%	-5.4%
Excl. Oil Cos:		
Sales Growth	15.7%	13.9%
Profit Growth	18.7%	17.4%
Excl Reliance Comm. Ventures		
Sales Growth	15.0%	11.3%
Profit Growth	16.9%	-3.3%

Source: Merrill Lynch Research

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

Leader	YoY(%)	Laggards	YoY(%)
Zee Telefilms	182%	BPCL	-177%
Idea Cellular	166%	HPCL	-176%
Mphasis BFL	166%	Indian Oil Corporation Ltd	-148%
Educomp Solutions Ltd	139%	TVS Motors	-85%
India Cement	122%	Sasken	-61%
Divi's Laboratories	121%	Subex	-47%
Sun TV	106%	Dr Reddy's Laboratories Ltd	-40%
Matrix Laboratories	90%	WNS (Holdings) Limited	-40%
Reliance Energy	83%	NALCO	-33%
Firstsource Solutions	83%	Sify	-32%

Source: Merrill Lynch Research

Refer to important disclosures on page 31 to 34. Analyst Certification on page 29. Price Objective Basis/Risk on page 20.

Telecom, industrials, financials and cement will lead the earnings growth

Autos, pharma and energy likely to disappoint

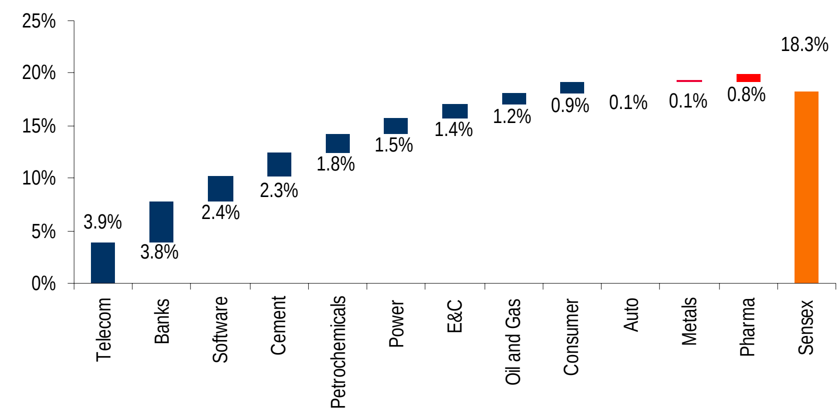
Table 4: Sector-wise growth forecast for September Q

Industry	Sector Weights	Sales % Growth	EBITDA % Growth	Net Profit % Growth
Cement	4.5%	21.4%	44.8%	53.6%
Consumer Discretionary - Autos	5.8%	4.4%	-6.1%	-2.5%
Consumer Discretionary - Media	1.6%	-6.9%	305.2%	182.1%
Consumer Staples	6.8%	15.7%	15.8%	11.1%
Energy	21.2%	9.4%	-29.2%	-40.4%
Financials	20.1%	28.2%	N.A.	24.0%
Healthcare	3.5%	-11.8%	-18.8%	-10.8%
Industrials	12.5%	26.0%	48.9%	41.7%
IT	11.4%	22.2%	10.2%	17.5%
Materials- Metals	3.6%	5.4%	-1.3%	-7.4%
Real Estate	1.1%	NA	NA	NA
Telecom	4.5%	19.9%	42.9%	62.7%
Utilities	3.6%	12.3%	45.8%	44.0%
Weighted Grand Total	100%	11.6%	-2.8%	-1.5%

Source: Merrill Lynch Research

Banks and Telecom are expected to contribute significantly to Sensex earnings growth

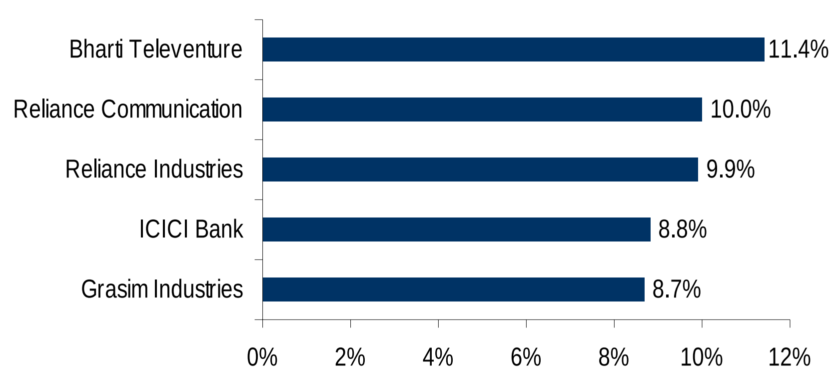
Chart 1: Sector contribution to Sensex profit growth



Source: Merrill Lynch Research

Bharti and RCom are expected to be the biggest contributors to Sensex growth

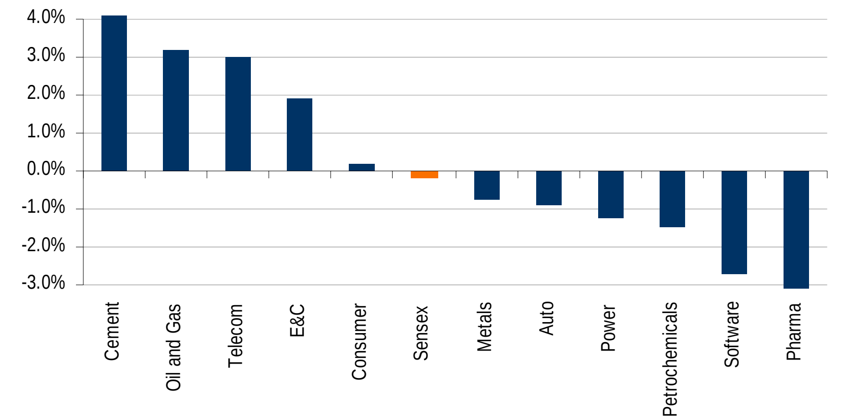
Chart 2: Top earnings contributors



Source: Merrill Lynch Research

EBITDA margins are likely to fall in Pharma, Software, Petrochemicals and Power

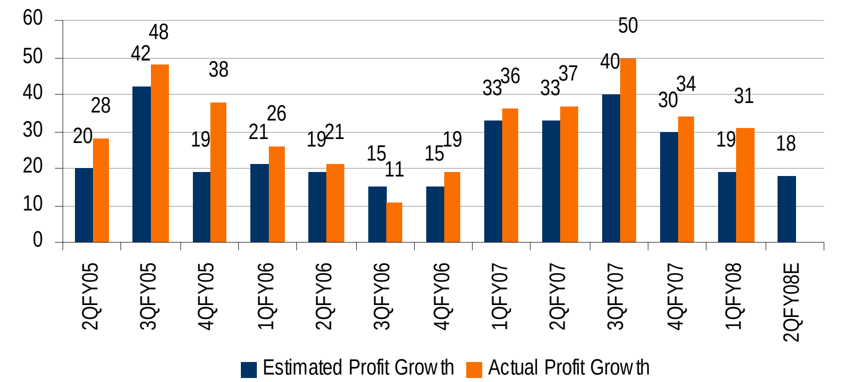
Chart 3: Expected YoY change in EBITDA margin(%)



Source: Merrill Lynch Research

Sensex profit growth is expected to slow to 18% - lowest in last 7 quarters

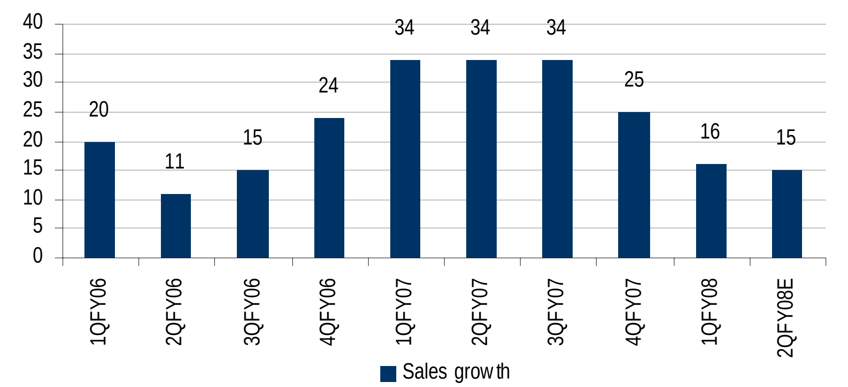
Chart 4: Sensex Profit Growth (%)



Source: Merrill Lynch Research

Profit slowdown is led by slowing sales as rising interest rates and high base effect start feeding into the numbers

Chart 5: Sensex Sales Growth (%)



Source: Merrill Lynch Research

Sector	Potential Result Outperformer	Potential Result Underperformer	ML Comments
Automobile	Maruti	M&M, Bharat Forge	• We expect another quarter of disappointing results, barring Maruti Suzuki amongst large caps. • Commercial vehicle majors will continue to register YoY profit declines, on the back of muted margins. • Two-wheeler companies are expected to show uniformly weak results due to sluggish volumes.
Banking	ICICI Bank	PNB, OBC, Canara Bank	• We expect private sector banks to show strong growth in earnings at +25% led principally by stronger loan growth and sustained buoyancy in fee revenues. • Govt banks, in contrast, could report relatively weaker earnings owing to a more modest fee growth at +15-18% and higher credit costs.
Cement	India Cement, Grasim	ACC	• We expect cement sector profits to remain strong in 2Q FY08E. Despite seasonal weakness in volumes, sector profits are forecast to be up ~56% YoY. • YoY profit growth will be led by ~10% growth in volumes & ~400bps improvement in EBITDA margins. We expect India Cements will likely post the strongest profit growth (+122% YoY & 42% QoQ) primarily reflected in sharp cement price increases in south India over the last few months.
Consumer	Nestle, Asian Paints	HUL, ITC	• We expect aggregate consumer (ex retail) profit to grow 12.2% in the Sept Q. This is a slow-down from the 19% growth in the June Q and is owing primarily to HUL and ITC. • We forecast aggregate sales growth of 16% and EBITDA growth of also16%, marginally lower than the growth rate of June Q.
Energy	-	PNB, OBC, Canara Bank	• Reliance- We expect RIL's 2Q FY08 net profit to rise by 12% YoY to Rs34bn. We estimate refining EBIT to rise 26% YoY to Rs19bn driven by 35% rise in margins. We expect crude throughput to be marginally lower YoY at 8mmt. Petrochemical EBIT may also be marginally lower YoY at Rs23bn due to a decline in integrated margins of some of its key products • R&M companies- R&M companies are likely to report losses in 2Q FY08E if oil bonds are not issued.
Healthcare	Ranbaxy,	Cipla, Dr. Reddy	• Ranbaxy- We expect Ranbaxy to deliver robust 24% YoY growth in net profit (Rs2bn) driven by generic pravastatin exclusivity and forex gains in tune of Rs700mn in the current quarter. • Cipla- Margin pressure will continue for Cipla as the company is witnessing a change in product mix impacting the margin profile significantly. For Cipla, our expectation of a steep 26% YoY PAT decline is on the back of a moderate revenue growth (13% YoY) but sharp drop in EBITDA margin to 18.5%
Industrials	BHEL, L&T, Suzlon,	-	• We expect the Indian E&C sector to register a 33% YoY sales growth and 28% profit growth. We expect L&T to experience a slower quarter in order intake but strong topline growth combined with 86%YoY EBITDA growth will lead to bottom-line growth at 68%YoY. • 2QFY08 is likely to be big quarter for Suzlon's international business as orders get executed. We estimate 107% rise in YoY overall volume led by low international base.
Media	Zee TV	-	• We expect a strong 2QFY08 for the media companies but caution investors that YoY growth in not comparable for both ZEEL & Sun TV due to corporate action - merger (Sun) & de-merger (Zee).
Metals	Steel stocks	Aluminum stocks	• We expect metals sector profit to decline 2.4% led by flat sales and EBITDA decline of 7.3%. Poor profit outlook is due to lower base metal prices & Rupee appreciation. Though we forecast steel will deliver strong growth as steel prices have been stable to marginally higher.
Real Estate	DLF, APIL	-	• DLF – We expect net profit growth of 9% QoQ from Rs15.2bn in 1Q FY08 to Rs16.6bn in 2Q FY08. We expect the company to maintain EBITDA margins of 72%. • Ansal Properties- We expect net profit at Rs346mn, an increase of 57% YoY and 6% QoQ in 2QFY08. We expect stable QoQ EBITDA margin of 28%.
Retail	-	-	• We expect aggregate retail sector profit to grow 21% led by sales growth of 87%, EBITDA growth of 69% and sharp rise in interest costs. Aggressive new store openings especially in the case of Pantaloon are driving topline growth. However, margins are under pressure led by lower efficiencies in new stores and higher salaries, rent and interest costs.
Software	Satyam	-	• In-line quarter; Modest guidance upgrade could disappoint. • In-line strong revenue growth, modest profit growth. • Strong results: Satyam, MphasiS; Weak: Firstsource, HCL.
Telecom	Bharti,	MTNL	• Bharti- We forecast Bharti's 2Q FY08E net profit at Rs15.5bn, up 67% YoY and 3% QoQ. Consolidated EBITDA margin is forecast at 41.4%. • Reliance Communication- For RCom we forecast 2Q FY08E net profit at Rs12.6bn, up 79% YoY and 3% QoQ. Consolidated EBITDA margin is forecast to remain stable QoQ at ~42.2%.
Textile & Apparel	-	Raymond, Arvind Mills	• We expect the 1Q results to be disappointing for textile companies with most companies likely to report a decline in profits on a YOY basis. • While sales growth is likely to be decent, companies are likely to witness severe margin pressure on the back of rising raw material costs and stronger Re.
Utilities	-	-	• We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL to report sales growth of 15%YoY, EBITDA growth of 14%YoY and PAT growth of 24% YoY. Growth would be driven by volume growth, improved efficiency (NTPC) and change in depreciation policy

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Sector Highlights

Automobiles

Potential Result Outperformers: Maruti

Potential Result Underperformers: Bharat Forge, M&M

- We expect another quarter of disappointing results, barring Maruti Suzuki amongst large caps. This is a reflection of sales trends, rather than margins. The profit impact will be somewhat cushioned by forex gains on dollar denominated liabilities. We believe that two wheelers could surprise positively on margins, although volume performance continues to be worse than four-wheelers.

- Maruti is expected to be the one strong performer, driven by strong top-line and steady margins (although margins are expected to lower QoQ due to price-led incentives and high input costs). Yen impact is expected to be marginal.

- Another passenger vehicle maker, M&M however is expected to register a sharp profit decline, despite strong volume performance, mainly due to shift away from the more profitable tractor business.

- Commercial vehicle majors should continue to register YoY profit declines, on the back of muted margins, and despite forex gains (estimated at Rs700mn for Tata Motors and Rs70mn for Ashok Leyland). Eicher Motors, however, is expected to beat this trend on strong volume performance.

- Two-wheeler companies are expected to show uniformly weak results due to sluggish volumes. We however expect margins to hold up, and indeed expand QoQ, on the back of exports benefits, improved realizations and control on discounts. TVS Motor, despite forex gains will remain the weakest performer.

- Auto components companies will likely continue to register weak operating performance, and Bharat Forge profit decline is after an estimated Rs100mn in forex related gains. Rico Auto's profits will be impacted by top-line contraction, despite stable margins.

Airlines

Potential Result Underperformers: Jet Airways

- We expect Jet Airways' to register quarterly loss of Rs 1.76bn, similar to last year, which is largely due to high fixed costs impacting profitability of its international operations. International revenues, however, will be stronger given our expectations of improved seat factors over last year. Domestic profitability will be an improvement over comparable period, driven by stronger yields and steady seat factors. Our estimates exclude forex gain of Rs400mn, being treated as an extraordinary item.

Container Transportation

- Gateway Distriparks is expected to report a strong quarter, though YoY and QoQ comparisons may not be valid due to acquisitions during the period. EBITDA growth of 18% would be lower than top line growth at 59% due to margins compression coming from new acquisitions. PAT is expected to rise by 9% QoQ but fall 4% as lower other income and higher depreciation take the charge.

- Concor is expected to report moderate performance with 8% EBITDA growth. Margins are expected to fall by 230bps YoY due to high base of last year and bulk volume discounts initiated this year. Other income would be higher due to cash reserves of more than Rs10bn at the end of FY07, resulting in 13% PAT growth.

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Banks and Financial Services

Potential Result Outperformers: ICICI Bank
Potential Result Underperformers: PNB, OBC, Canara Bank

- The banks' 1QFY08 results are likely to be a mixed bag with private sector banks still showing strong growth in earnings at +25% led principally by stronger loan growth and sustained buoyancy in fee revenues.
- Government bank earnings, in contrast, could cover the entire spectrum owing to the volatility in provisions (investments provisions being much less; while credit costs for a few could rise very sharply). At the lower end we expect OBC which could, in our view, report a 9-10% contraction in earnings owing to high credit costs. At the other end, we are likely to have banks like Bank of India report almost a 35% growth in earnings owing to improved fee revenues and lower opex.
- Top line growth (net interest income) should, however, be fairly buoyant across most banks as they benefit from the uptick in loan yields and relatively lower rise in interest costs (yoy). Canara Bank could be the key disappointment, expected to turn in top line growth of <6-7%. For private banks, growth likely to be at +25% -+40% (Axis Bk).
- The key aspects to watch for would be the extent of the AS-15 provisions for government banks and the uptick in credit costs for private banks. We are penciling in an uptick in the NPL cycle and are building in a +30% growth in credit costs in our earnings. The mitigating factor (on the positive side) is the fall in benchmark G-sec yields (down ~25bps QoQ). This could allow banks to reverse provisions, and provide the "extra" boost to earnings not captured in our estimates.
- Banks that could disappoint include PNB, Canara and OBC. Any reaction in PNB's stock (on results) would, in our view be a strong Buying opportunity as we expect the subsequent quarters to be very strong.
- Private banks would continue to report +25-30% growth in earnings led by Axis Bank at 32% followed by HDFC Bk at 30% and ICICI Bank at only 22% owing to a mark-to-market hit on CDS exposure. The bank which could surprise on the upside may be ICICI Bank if is able to manage its margins better than expected.

Cement

Potential Result Outperformers: India Cements, Grasim
Potential Result Underperformers: ACC

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Result Expectations – Key Highlights

- We expect cement sector profits to remain strong in 2Q FY08E (Jul-Sep '07). Despite seasonal weakness in volumes, sector profits are forecast to be up ~56% YoY and flat QoQ.
- The YoY profit growth will be led by ~10% growth in volumes & nearly 400bps YoY improvement in EBITDA margins. In 2Q FY08E, realizations are estimated to be up ~14% YoY reflecting continued tight supply-demand balance in the industry. Cost increases were likely lower at ~7% YoY.
- On a QoQ basis, 2Q FY08E profits will likely stay flat despite approximately 8% QoQ drop in volumes. Profits will be primarily supported by higher cement prices, up ~3% QoQ. Costs are forecast to rise ~2% QoQ led by higher coal prices; companies that witnessed shutdowns may witness steeper cost increase.
- Among the upcoming quarterly results, we expect India Cements that will likely post the strongest profit growth (+122% YoY & 42% QoQ) in our coverage universe. India Cements' profit growth will primarily reflect sharp cement price increases in south India over the last few months. We also like Grasim where improving VSF margins will add to firm cement profits. ACC's profit growth may underperform the sector due to likely lower volume growth versus peers.

Consumers

Potential Result Outperformers: Nestle, Asian Paints
Potential Result Underperformers: HUL, ITC

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We expect aggregate consumer (ex retail) profit to grow 12.2% in the Sept Q. This is a slow-down from the 19% growth in the June Q and owes primarily to HUL and ITC. We forecast aggregate sales growth of 16% and EBITDA growth of also16%. This is marginally lower than the growth rate of June Q.

- HUL – We forecast Sept profit growth of 14% led by sales growth of 13% and EBITDA growth of 15%. Profit growth is lower than the 24% witnessed in June since this quarter will likely bear the full brunt of increased advertising for new launch of premium skin care and re-launch of Fair & Lovely. In addition, we also expect soaps margins to be hit by the sharp price rise in palm oil prices.
- ITC – We forecast Sept profit growth of 15% led by sales growth of 17% and EBITDA growth of also 17%. Profit growth is lower than the 20% witnessed in June Q primarily because of flat taxes versus lower tax rate in June Q. We expect cigarette volumes to decline 4-5% in Sept Q, slightly higher than the 3% decline in June.
- Asian Paints – We expect A Paints to be among the two fastest growing companies in Sept Q. We forecast profit growth of 25% led by sales growth

of 18% and EBITDA growth of 23%. This is led by healthy volume growth in the domestic market, easing raw material costs as a result of appreciating Rupee and improved profitability in international operations.

- Nestle – We expect Nestle to be the second fastest growing company this Q with profit growth of 22% led by sales growth of 21% and EBITDA growth of 16%. We expect margins to fall owing to higher agri commodity prices such as milk, wheat and vegetable oils.
- Colgate – We expected recurring profit to decline 7% owing to unfavorable comps – Sept Q last year had the benefit of extraordinarily high margins. Reported profit growth would however be a high 103% as there were a significant amount of extraordinary costs last year.
- Tata Tea – We forecast profit drop of 20% in Sept Q owing to interest costs from acquisition related debt. We believe these costs are largely transient as cash proceeds from the Glaceau sale will likely be used for some debt reduction. We would hence focus more on the EBITDA growth which we forecast is 12% in this Q.

Energy

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- **Oil prices:** ONGC's marker crude Bonny Light is up 9% YoY and 8% QoQ. Oil pricescrossed the US$80/bbl threshold in this quarter. Key drivers for oil prices from current levels include the ongoing hurricane season (that may adversely impact Gulf of Mexico oil production) and colder than normal winter
- **Refining margins:** 2Q to date Singapore refining margins based on Dubai crude were flat on a YoY basis at US$8.13/bbl. However on a sequential basis, margins were down 27%. 2Q to date Merrill Lynch Indian benchmark margins based on Dubai crude were up 19% YoY and down 21% QoQ.
- **Subsidies:** We expect under-recoveries (i.e. subsidies) in 2Q at Rs138bn to be 21% YoY lower led by decline in under-recoveries on LPG/ kerosene and auto fuels. LPG/ kerosene under-recoveries are down 18% YoY while auto fuel under-recoveries are down 25% YoY.
- **Subsidy upstream companies bear in 2Q uncertain:** The extent of subsidy upstream oil companies like ONGC will bear in 2Q is still uncertain. We have assumed that upstream companies will bear Rs46bn of subsidy in 2Q (i.e. one-third of subsidy).

Company-wise expectations for the quarter

Reliance Industries

RIL is expected to report its first ever merged quarterly result in 2Q FY08 including the erstwhile IPCL. Our 2Q FY08E earnings estimates for RIL therefore reflect the impact of the merger.

We expect RIL's 2Q FY08 net profit to rise by 12% YoY to Rs34bn. We estimate refining EBIT to rise 26% YoY to Rs19bn driven by 35% rise in margins. We expect crude throughput to be marginally lower YoY at 8mmt. Petrochemical EBIT may also be marginally lower YoY at Rs23bn due to a decline in integrated margins of some of its key products.

R&M companies

R&M companies are likely to report losses in 2Q FY08E pending clarity on oil bonds. Till date there has been no official communiqué to the R&M companies from the oil ministry on the amount of oil bonds that the government may issue to them in 2Q.

However, in the event oil bonds are issued and are accounted for in 2Q, R&M companies may report profits in 2Q. As per press reports, the government may issue Rs120bn worth oil bonds to R&M companies by mid-October. We have tried to estimate the profit/ loss of R&M companies under both the scenarios viz. loss if no oil bonds are accounted in 2Q; and profit if oil bonds are accounted in 2Q.

Based on our existing estimates (assuming NIL oil bonds), HPCL may report loss of Rs9.3bn (Rs27/share) in 2Q. BPCL may report a higher loss (standalone) of Rs9.7bn while IOC may report a loss (standalone) of Rs15bn. On a consolidated basis, BPCL may report a loss of Rs9.2bn (Rs25/share) while IOC may report a loss of Rs12.8bn (Rs11/share).

If Rs120bn of oil bonds are indeed issued, HPCL may well end up with a net profit of Rs10.6bn. BPCL may end up with consolidated profit of Rs11.5bn (standalone profit – Rs11bn) while the corresponding profit for IOC would be Rs37bn (standalone profit – Rs35bn).

ONGC

We expect ONGC to achieve YoY growth of 12% in net profit to Rs47bn. This is despite 24% YoY reduction in ONGC's subsidy burden to Rs38bn (assuming upstream share at one-third).

ONGC would be mainly hit by rupee appreciation in the quarter. We expect ONGC's net realization to decline 6% YoY this quarter due to rupee appreciation. On the operational front, we expect ONGC's oil volumes to be up 2% YoY to 6.1mmt. We expect gas volumes to be up 13% YoY to 5.16mmt mainly on a lower base last year i.e. 2Q FY07. Last year's gas sales volumes were depressed due to floods in Gujarat.

GAIL

We expect GAIL's 2Q net profit to be up 44% YoY to Rs6.5bn. The robust growth in net profit is mainly on a lower base last year. GAIL's 2Q FY07 net profit was adversely impacted by floods in Gujarat.

We estimate GAIL's 2Q gas transmission EBIT to be up 18% YoY led mainly by 12% YoY increase in gas transmission volumes to 79mmscmd. Petchem EBIT may nearly double YoY to Rs3.9bn led by volume growth and higher product prices. LPG EBIT may be up 37% YoY to Rs4.9bn.

Gas utilities

GSPL

We expect GSPL to report 13% YoY growth in its 2Q FY08E profit to Rs252mn. We estimate GSPL's EBITDA to rise 39% YoY to Rs916mn led by 43% YoY rise in volumes to 18mmscmd. Depreciation may rise 73% YoY to Rs398mn on account of depreciation on newly commissioned pipelines. Interest cost may also rise 89% YoY to Rs190mn.

Petronet LNG

Petronet LNG may report a robust 63% YoY growth in 2Q net profit to Rs1075mn. Key drivers for this growth are:

- 11% YoY increase in volumes driven by higher spot cargoes of LNG
- 25% YoY increase in regasification charges, which is mainly a result of higher regasification charges earned on spot LNG.

Gujarat Gas

We estimate Gujarat Gas' 3Q CY07 net profit to increase 27% YoY Rs271mn. This would be mainly driven by 48% YoY increase in margins. We expect Gujarat Gas' average volumes in 3Q to be around 3.3mmscmd.

Indraprastha Gas (IGL)

We estimate IGL's 2Q net profit at Rs408mn, up 17% YoY. This would be mainly driven by 12% YoY increase in volumes to 131mscm. Other income may rise 74% YoY to Rs40mn.

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Healthcare

Potential Result Outperformers: Ranbaxy
Potential Result Underperformers: Cipla, Dr. Reddy's

Mixed 2Q expectations

We expect 2Q to witness mixed set of results for the pharmaceutical sector (our coverage stocks) with robust earnings expected from Ranbaxy, Biocon and Glenmark and average performance from Sun Pharma and Cadila. High base will result in a YoY decline for Dr Reddy's whereas Cipla will continue to face pressures on margin front. Excluding Dr Reddy's (due to higher base last year), we expect average sales growth of 18% YoY, EBITDA growth of 16% YoY and PAT growth of 18% YoY for our coverage universe.

Rupee appreciation to affect topline

With the appreciation of rupee continuing in 2Q, companies with maximum exposure to US revenues would be impacted severely. However, the effect would be mitigated on account of dollar cost and foreign debt which would eventually lead to a positive impact for Sun Pharma, Ranbaxy, while DRL, Matrix and Cipla would be hit negatively.

Ranbaxy – Benefits from forex gains

We expect Ranbaxy to deliver robust 24% YoY growth in net profit (Rs2bn) driven by generic pravastatin exclusivity and forex gains in current quarter. We estimate nearly Rs700mn forex gains during the quarter on account of FCCBs and forex loans. EBITDA margin is expected to be maintained as in 2Q.

Dr. Reddy's – higher base effect to result in YoY decline

Impact of a high base as well due to exclusivities/authorized generic revenues in 2QFY07 is likely to be felt with a YoY decline in revenues. Await visibility on Betapharm growth prospects and impact of product transfers to India site.

Cipla – uncertain margin outlook continues

Margin pressure is likely to continue for Cipla as the company is witnessing a change in product mix impacting the margin profile significantly. For Cipla, our expectation of a steep 26% YoY PAT decline is on the back of a moderate revenue growth (13% YoY) but sharp drop in EBITDA margin to 18.5%

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Industrials

Potential Result Outperformers: BHEL, L&T & Suzlon

- A 33%YoY top-line growth and a 28%YoY growth in bottom-line of Indian Engineering & Construction (E&C) majors during July-Sept quarter should clearly 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 ex-Suzlon.
- We expect the Indian E&C Sector, represented by BHEL, L&T, Suzlon, ABB, JPA, IVRCL and NJCC to report sales growth of 33%YoY, EBITDA growth of 33%YoY and Recurring PAT growth of 28%YoY.
- **L&T**: We expect L&T's growth in order inflow to be muted in the 2QFY08 as the company focuses on improving execution and expect strong sales growth at 32%YoY. We expect margin expansion as L&T focuses on improved efficiency & better priced orders. Overall, L&T should experience a slower quarter in order intake, but strong topline growth at 32%YoY, combined with expanding margins (86%YoY EBITDA growth) leading to the bottom-line growth at 68%YoY.
- Meanwhile, **ABB's** strong 3QCY07 results should be driven by continued strong sales growth of 42%YoY led by strong order backlog. Improved labor productivity and declining O&M costs would result in 52%YoY EBITDA growth and 36%YoY growth in earnings.
- **BHEL** remains our preferred pick on robust order intake (88%YoY) and backlog (46%YoY) for FY07. We like BHEL 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 3.5x FY07 sales. Labour cost rise would be the key number to look for in 2Q. Overall BHEL should experience 24% sales growth, 24% EBITDA growth and a 26%YoY PAT growth.
- **Suzlon**: 2QFY08 is likely to be big quarter for Suzlon's international business as orders get executed. We estimate 44%YoY rise in overall volumes led by low international base. Further the consolidation of Hansen would drive YoY growth. We expect margin pressures to ease but note that YoY comparison may be mis-leading due to change in sales mix & front-loading of global development costs. On a QoQ basis, we expect operating leverage to kick-in, led by a 77% increase in volumes which should help boost EBITDA margins to 12.3%. We estimate 55%, 11% and 1% growth in Suzlon's Sales, EBITDA and PAT respectively (on YoY basis).
- **IVRC & Nagarjuna (NJCC)** remain our preferred picks in the Mid-cap E&C space. Expect NJCC's EBITDA to grow 34%YoY in 2QFY08 led by 27%YoY growth in sales. However, we estimate a 1.5%YoY decline in its net profits as the company will be paying full tax in 2QFY08 on account of the non-availability of the 80-IA tax benefit, vs 14.9% in 2Q last year and therefore note that YoY growth in PAT is not comparable.
- We expect IVRCL to report 41%YoY growth in sales during 2QFY08 led by good growth in power & transmission as well as the water business. We expect the improved pricing & operational efficiency to drive margin and 47%YoY growth in EBITDA leading to 54%YoY growth in recurring profits.

Media

Pre-Result Buy in Sector: Zee TV

We expect a strong 2QFY08 for the media companies but caution investors that YoY growth in not comparable for both ZEEL & Sun TV due to corporate action - merger (Sun) & de-merger (Zee).

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- **Zee Entertainment Enterprises(ZEEL)**: 2QFY08 for the demerged entity ZEEL (from the erstwhile Zee Telefilms) is not comparable on YoY basis. We expect ZEEL's 2QFY08 to record strong topline of Rs4.3bn despite the cricket series' on competing channels during the quarter. Drivers of the strong topline would be the monetization of the advertisement rate hike announced last year followed by another rate hike announced during the quarter. We expect EBITDA of Rs1.37bn translating into margin expansion to 31.7% given its start-up investments are approaching break-even and lower content cost as compared to 2QFY07. This should lead to Rs905mn of Recurring PAT which, we believe, is largely factored-in the stock price and hence, we do not see much impact on the stock.

- **Sun TV's** 2QFY08 is not comparable to 2Q last year on account of the merger of Gemini and Udaya with Sun TV in this financial year. We expect strong topline of Rs2.15bn for Sun TV driven by strong advertisement revenues, Sun TV (its flagship channel) turning pay in Dec'06 and the contribution from Gemini and Udaya. We expect the company to post an EBITDA of Rs1.6bn and Recurring PAT of Rs987mn for 2QFY08.

- We expect **BalajiTelefilms** results to be a mixed bag – while there is impact on core business due to cut in 2 of its flagship programs from 5 days to 4 days/week, film business should compensate. MLe sales growth of 4%YoY led by a) decline in the revenues from television programming business and b) overflows from its successful movie co-production *"Shootout at Lokhandwala"* released in May'07. We expect EBITDA growth of 5%YoY led by lower cost of production and Recurring PAT growth of 5%YoY.

- We expect **SIFY** to witness strong 20%YoY growth in its topline led by its consumer businesses of cyber cafes and cable TV led broadband. However, we believe its margins would remain under pressure and the provisions for doubtful debts would continue in 2QFY08. Consequently, we expect EBITDA to decline by 16%YoY and Recurring profits to decline by 32%YoY.

Metals

Potential Result Outperformers: Steel Stocks
Potential Result Underperformers: Aluminum Stocks

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We expect aggregate metals sector profit to decline 2.4% in the Sept Q. This will be led by virtually flat sales and EBITDA decline of 7.3%. Poor profit outlook is owing to lower base metal prices and Rupee appreciation. Steel, on the other hand, we forecast will deliver strong growth as steel prices have been stable to marginally higher.

- SAIL – We expect Sept to be a good quarter with profit growth of 29% to Rs18.3bn. This will be led by Y-o-Y volume growth of 5% and average realization increase of 10%.

- Sterlite – We forecast profit to fall 14% to Rs10.4bn. This is owing to stronger Rupee affecting realizations in zinc and aluminum and sharp decline in Copper TCRC.

- Hindalco – We forecast profit to fall 21% to Rs5.3bn led by copper EBIT collapsing 72% owing to weaker TCRC. We also forecast aluminum EBIT to decline 13% owing to stronger Rupee affecting domestic realizations.

- Nalco – We forecast profit to fall 33% to Rs4bn. This is led primarily by Alumina EBIT collapsing 62% owing to sharp fall in alumina prices.

Real Estate

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Potential Result Outperformers: DLF, APIL

DLF – We expect net profit growth of 9% QoQ from Rs15.2bn in 1Q FY08 to Rs16.6bn in 2Q FY08. Since DLF was listed in June 08, the 1Q FY07 are not available. The growth is expected to be driven by volume growth in residential sales and the commercial sales. We expect the company to maintain EBITDA margins of 72%.

Ansal Properties- We expect net profit at Rs346mn, an increase of 57% YoY and 6% QoQ in 2Q FY08. The growth is expected to be driven by the plot sales in Lucknow and plots and residential apartment sales in Panipat and Sonepat. We expect an EBITDA margin of 28%~ stable QoQ but higher YoY (25% in 2Q FY07).

Retail

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We expect aggregate retail sector profit to grow 21% led by sales growth of 87%, EBITDA growth of 69% and sharp rise in interest costs. Aggressive new store openings especially in the case of Pantaloon are driving topline growth. However, margins are under pressure led by lower efficiencies in new stores and higher salaries, rent and interest costs.

Pantaloon – we forecast profit to grow 24% to Rs205mn. Though sales have doubled, we forecast EBIDTA margin to contract 80bp and believe downside risk is high.

Shoppers Stop – we forecast profit to grow 15% to Rs92mn. We are forecasting flat margins but believe there is high downside risk owing to rising cost pressures and likely lower new store productivity.

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Software

Potential Result Outperformers: Satyam

In-line qrt; Modest guidance upgrade could disappoint

Expect Sep 07 to be an in-line quarter, with strong sequential revenue growth but unexciting profit growth given annual wage hikes in many companies and lower forex hedging gains. Moreover, given current economic uncertainty, we believe it is unrealistic to expect Infy/Say to tweak up annual USD revenue guidance by more than 1-3%. Over 2% INR/USD appreciation since last quarter poses risk to EPS. We see limited downside on beaten down valuations, but see few triggers.

In-line strong rev growth, modest profit growth

We forecast strong 7-9% qoq USD rev growth, largely in line with expectation,given seasonal 2Q strength. We also expect TCS and Infosys will likely show 9 to11% qoq EBIT growth post the wage hike last quarter. However, given lowerINR/USD appreciation during the quarter, we forecast lower forex hedge incomeled modest 5-6% qoq recurring PAT growth. Reported PAT growth for TCS andInfy will likely be flattish given tax write-back in the previous quarter.

Strong results: Satyam, MphasiS; Weak: Firstsource, HCL

Satyam could positively surprise on revenues and while we expect flattish qoqprofits on its annual wage hike quarter, we expect the company to beat its -5%qoq profit guidance. **MphasiS** could surprise with 21% qoq PAT jump led byrevenue and lower forex losses. **Firstsource**: we expect a 23% qoq decline inPAT due to wage hike in non-delivery staff and higher taxes. **HCL Tech:** weexpect 27% qoq decline due to its annual wage hike and lower hedging gains.

Results apart, preferred picks TCS and Subex

While we do not expect results to be a trigger for TCS, it continues to be our toplarge cap pick given beaten down valuations, strong revenue momentum andmargin levers in fixed price/offshore. Subex is our mid-cap top pick on beatendown valuations, FY09e PE of 9x and strong revenue momentum

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Telecom

Potential Result Outperformers: Bharti
Potential Result Underperformers: MTNL

Result Expectations – Key Highlights

- **Bharti Airtel:** We forecast Bharti's 2Q FY08E net profit at Rs15.5bn, up 67% YoY and 3% QoQ. Topline and EBITDA growth will likely be similar at ~10% QoQ and consolidated EBITDA margin is forecast to remain stable QoQ at ~41.4%. The company's wireless sub base is forecast to grow ~14% QoQ & wireless ARPU is forecast to drop by 4-5% QoQ capturing full impact of the lifetime plans introduced in 1Q FY08; we think it may be early to see full impact of recent tariff hikes. Wireless EBITDA margin will likely remain stable while margin in the long-distance biz may remain a tad weak QoQ due to continued pressure on carriage charges.

- **Reliance Communication**: For Reliance Communication (RCom) we forecast 2Q FY08E net profit at Rs12.6bn, up 79% YoY and 3% QoQ. RCom's wireless sub base is forecast to grow 14% QoQ, as for Bharti, but overall topline growth at

~8% QoQ may be a tad lower than Bharti's. Consolidated EBITDA margin is forecast to remain stable QoQ at ~42.2%. Despite forecast 4-5% ARPU drop, wireless margins are expected to hold firm.

- **Idea Cellular**: We forecast Idea's 2Q FY08E net profit at Rs2.9bn, up 166% YoY and 7% QoQ. Topline is estimated to grow ~9% QoQ, versus forecast 16% growth in wireless sub base. Lower proportion of one-time revenues from lifetime plans may drag ARPU by ~5-6% QoQ. EBITDA will likely grow ~9% QoQ, in line with revenues; EBITDA margin is forecast to stay stable at ~34.7%.

- **MTNL:** MTNL's 2Q FY08E profit is forecast at Rs1.2bn, up 11-12% both YoY and QoQ. EBITDA is forecast to stay flat QoQ owing to likely flat top-line performance. On a YoY basis, however, EBITDA is expected to be up 41% due to cost savings. QoQ profit growth will primarily reflect higher other income, following cash receipt of income-tax refunds. On a YoY basis, lower other income is expected to drag profit growth.

- **VSNL**: We forecast VSNL's standalone 2Q FY08E net profit at Rs1.1bn, up 28% YoY and flat QoQ. The YoY growth reflects likely improvement in both revenues & EBITDA margin across business segments. On a QoQ basis, we expect profit growth to be dragged by likely continued pressure on voice margins. Our estimates continue to factor the retail biz as the demerger is pending statutory approvals.

Textiles & Apparel

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Pre-Result underperformers: Raymond, Arvind Mills

We expect the 2Q results to be disappointing for the textile sector. All companies under our coverage universe are likely to report a decline in profits on a YoY basis. While sales growth is likely to be decent, companies are likely to witness severe margin pressure on the back of rising raw material costs (both cotton & wool prices up significantly) and stronger Re.

- **Arvind Mills** is likely to report a 19% YoY drop in recurring profits on a low base. Continued lower denim sales and slower garment export growth on the back of a strong Re are likely to keep the performance subdued.

- **Welspun India** and **Gokaldas** have more than 90% of sales as exports and hence will get negatively impacted by stronger Re resulting in a profit decline. However, volume growth in Welspun is likely to remain strong at close to 30%, while Gokaldas may witness a slowdown in volumes to low double digits.

- **Himatsingka's** new bed linen business is in gestation phase and hence the profits are likely to remain subdued. However, we expect margins to improve on a QoQ basis.

- **Raymond's** consolidated performance will continue to get impacted by losses incurred by the denim JV**.** Further, higher wool prices will impact the margins of the core worsted fabric business.

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Utilities

In the Utility sector, markets would be more focused on increase in generation at NTPC on improving coal supplies helping utilization 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 and JHPL to report sales growth of 15%YoY, EBITDA growth of 14%YoY and PAT growth of 24%YoY.

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

- We expect **NTPC's** 2QFY08 to address investor concerns of how higher its utilization can go as company is likely to 8%YoY growth in generation. Fuel cost savings also remain on-track in 2Q but the sales from its high margin spot market may slow due to commissioning of Tala hydro project leading to improved grid frequency in northern India.
- On recurring basis, we expect 18%YoY growth in NTPC's 2QFY08 PAT. However, we note that the reported PAT growth may be lower at 14%YoY as there was a net extraordinary income mostly from the prior period adjustments in 2QFY07.
- We expect a 26%YoY growth in sales for Reliance Energy led by growth in E&C revenues. We expect recurring PAT to increase by 83%YoY, mainly driven by investment income.
- We expect Tata Power to witness recurring PAT growth of 15%YoY mainly on tax breaks from wind parks being set-up by Suzlon & Enercon.
- Change in depreciation should provide support to Neyveli & JHPL results. Among the other IPPs, Neyveli Lignite is likely to report PAT growth at 18%YoY on EBITDA growth of 24%YoY; while JHPL is likely to report PAT growth at 17%YoY on EBITDA decline of 20%YoY; 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). Maintain Sell on JHPL, as the stock remains expensive on valuations and Neutral on Tata Power, Neyveli & GIPCL.

Table 5: Result forecast for the quarter ended September 30'07

	ML	Q-R-Q	Price	Sales		% change		EBITDA		% change		Net Profit		% change	
(Rs mn)	Symbol	Rating	5-Oct-07	30-Sep-06	30-Sep-07	YoY	QoQ	30-Sep-06	30-Sep-07	YoY	QoQ	30-Sep-06	30-Sep-07	YoY	QoQ
Automobile															
Ashok Leyland	XDBVF	C-3-7	44.4	16,757	16,690	-0.4%	3.0%	1,350	1,377	2.0%	-10.9%	976	840	-14.0%	-7.3%
Automotive Axles	XATOF	C-1-7	488.4	1,358	1,513	11.4%	2.6%	257	262	2.1%	21.3%	133	141	6.0%	17.6%
Bajaj Auto Ltd	BJJAF	C-1-7	2579.6	24,360	22,482	-7.7%	6.6%	3,652	3,350	-8.3%	21.7%	3,279	3,060	-6.7%	35.1%
Bharat Forge	XUUVF	C-3-7	293.9	4,507	5,131	13.8%	3.3%	1,177	1,093	-7.1%	8.0%	622	533	-14.3%	-17.7%
Eicher Motors	XEICF	C-3-7	499.2	4,565	5,212	14.2%	12.2%	263	318	20.7%	21.0%	142	174	22.4%	55.9%
Hero Honda	HRHDF	C-2-7	721.1	22,300	23,071	3.5%	-5.8%	2,835	2,571	-9.3%	-2.4%	2,160	1,981	-8.3%	4.3%
Mahindra & Mahindra	MAHHF	C-2-7	758.5	24,501	26,878	9.7%	2.9%	3,292	3,077	-6.5%	11.1%	2,526	2,297	-9.1%	19.4%
Maruti Udyog	MUDGF	C-1-7	1041.3	34,192	44,676	30.7%	13.7%	4,756	6,165	29.6%	7.3%	3,674	4,589	24.9%	-8.2%
Rico Auto	XINAF	C-1-7	36.1	1,860	1,895	1.9%	5.2%	187	227	21.7%	4.0%	104	89	-14.0%	236.6%
Tata Motors	TENJF	C-2-7	798.6	65,718	65,429	-0.4%	8.0%	7,329	6,347	-13.4%	16.2%	4,418	4,329	-2.0%	-6.9%
TVS Motors	XFKMF	C-3-7	66.2	10,779	7,815	-27.5%	-0.2%	560	215	-61.6%	12.3%	248	38	-84.5%	50.3%
Airlines															
Jet Airways	JTAIF	C-2-8	941.6	16,150	19,056	18.0%	5.5%	333	1,781	434.8%	-27.6%	-1,781	-1,758	-1.3%	302.1%
Cement															
ACC	ADCLF	C-2-7	1214.4	13,916	17,376	24.9%	-7.0%	3,714	5,185	39.6%	-4.8%	2,253	3,483	54.6%	-6.2%
India Cement	INIAF	C-2-9	291.0	5,164	7,778	50.6%	10.9%	1,726	3,162	83.3%	19.7%	1,173	2,602	121.7%	41.8%
Grasim Industries	GRSJF	C-1-7	3591.6	31,838	38,802	21.9%	-4.5%	8,413	12,433	47.8%	-1.9%	4,183	6,386	52.7%	-4.6%
Shree Cement	SREEF	C-2-7	1540.0	3,160	4,544	43.8%	6.7%	1,427	1,962	37.5%	7.6%	778	1,254	61.2%	7.3%
Ultratrech Cemco	XDJNF	C-2-7	1093.2	10,045	11,357	13.1%	-16.8%	2,545	3,526	38.5%	-18.7%	1,274	1,997	56.7%	-23.0%
Consumer															
Asian Paints	XAPNF	C-1-7	983.6	9,981	11,792	18.1%	22.8%	1,342	1,647	22.7%	21.6%	815	1,022	25.4%	23.1%
Colgate Palmolive (India) Ltd	CPIYF	C-1-7	426.0	3,200	3,616	13.0%	3.0%	558	540	-3.2%	-11.2%	505	471	-6.7%	-23.0%
Dabur India Ltd	DBUIF	C-1-7	109.3	5,641	6,550	16.1%	14.7%	973	1,143	17.4%	44.2%	792	924	16.6%	48.8%
Hindustan Unilever Ltd	HINLF	C-3-7	223.1	30,660	34,743	13.3%	-0.2%	4,029	4,628	14.9%	-9.6%	3,830	4,371	14.1%	-7.4%
ITC	ITCTF	C-2-7	184.8	28,876	33,775	17.0%	1.6%	9,727	11,352	16.7%	0.7%	6,796	7,812	14.9%	-0.2%
Nestle	XNTEF	C-3-7	1257.1	7,227	8,739	20.9%	4.2%	1,425	1,652	15.9%	1.1%	830	1,011	21.8%	5.6%
Tata Tea	TTAIF	C-3-7	842.5	9,740	11,225	15.2%	10.2%	1,801	2,024	12.4%	21.5%	1,214	969	-20.2%	130.2%
Healthcare															
Biocon Ltd	BCLTF	C-1-7	515.7	2,490	2,868	15.2%	5.8%	660	817	23.8%	7.5%	450	562	24.8%	6.0%
Cadila Healthcare	CDLHF	C-1-7	304.3	4,673	5,811	24.4%	1.6%	1,015	1,220	20.2%	9.7%	705	782	11.0%	5.9%
Cipla	XCLAF	C-3-7	189.1	8,961	10,121	12.9%	12.2%	2,466	1,871	-24.1%	4.4%	1,803	1,328	-26.3%	10.9%
Divi's Laboratories	XXQPF	C-3-7	1349.4	1,652	2,256	36.5%	-2.0%	451	846	87.6%	-1.3%	299	662	121.5%	2.1%
Dr Reddy's Laboratories Ltd	DRYBF	C-1-7	653.8	20,039	12,570	-37.3%	4.6%	3,873	1,988	-48.7%	-3.8%	2,798	1,674	-40.2%	-8.3%
Glenmark Pharmaceuticals	XVQWF	C-2-7	415.7	2,557	3,588	40.3%	2.5%	601	1,046	74.1%	2.1%	402	694	72.6%	21.4%
GSK Pharma	GXOLF	C-1-7	1079.3	3,992	4,180	4.7%	5.7%	1,283	1,254	-2.2%	2.5%	991	939	-5.2%	-2.6%
Matrix Laboratories	MXLBF	C-2-7	239.1	3,799	4,545	19.6%	0.2%	410	636	55.0%	4.6%	159	301	89.8%	12.1%
Nicholas Piramal India Ltd	XNIGF	C-2-7	276.2	6,369	7,515	18.0%	23.6%	961	1,240	29.0%	47.5%	537	789	46.9%	79.3%
Panacea Biotech	XPEAF	C-1-7	425.0	1,743	2,086	19.7%	-10.6%	579	647	11.7%	-8.1%	465	491	5.5%	3.9%
Ranbaxy Laboratories Ltd	XIZZF	C-1-7	442.3	16,087	16,440	2.2%	-2.5%	2,697	2,630	-2.5%	-1.3%	1,619	2,000	23.6%	-24.1%
Sun Pharma	SPCEF	C-1-7	947.1	5,362	6,303	17.5%	0.4%	2,110	2,604	23.4%	-5.5%	1,928	2,324	20.5%	-4.4%
Wockhardt Ltd	XDUVF	C-2-7	415.8	4,377	7,785	77.9%	23.5%	971	1,635	68.4%	7.4%	740	1,090	47.3%	6.5%
Industrials/ Construction															
ABB	ABVFF	C-1-7	1364.6	10,706	15,202	42.0%	8.5%	1,106	1,679	51.9%	2.5%	821	1,115	35.8%	2.7%
Bharat Heavy Electricals Limited	BHRVF	C-1-7	2091.7	33,412	41,360	23.8%	27.9%	4,563	5,644	23.7%	63.3%	3,600	4,537	26.0%	45.5%
Larsen & Toubro	LTOUF	C-1-7	2896.3	37,421	49,406	32.0%	9.6%	2,442	4,540	85.9%	7.0%	1,830	3,074	68.0%	6.5%
Nagarjuna Construction	NGRJF	C-1-7	268.3	6,517	8,276	27.0%	8.6%	618	827	33.9%	4.2%	393	387	-1.5%	7.5%
IVRCL Infrastructure	IIFRF	C-1-7	440.8	3,644	5,140	41.0%	-24.1%	315	463	47.0%	-20.6%	163	250	53.8%	-31.9%
Suzlon	SZEYF	C-1-7	1639.2	20,870	32,451	55.5%	66.9%	3,600	4,000	11.1%	186.2%	2,354	2,378	1.0%	1159.0%
Software															

Table 5: Result forecast for the quarter ended September 30'07

	ML	Q-R-Q	Price	Sales		% change		EBITDA		% change		Net Profit		% change	
(Rs mn)	Symbol	Rating	5-Oct-07	30-Sep-06	30-Sep-07	YoY	QoQ	30-Sep-06	30-Sep-07	YoY	QoQ	30-Sep-06	30-Sep-07	YoY	QoQ
Educomp Solutions Ltd	EUSOF	C-1-7	2887.4	197	422	114.2%	53.5%	93	237	155.9%	77.2%	51	121	139.3%	102.4%
Firstsource Solutions	FSSOF	C-1-7	77.3	1,794	2,804	56.3%	3.9%	368	557	51.5%	0.9%	188	343	82.6%	-22.6%
HCL Technologies	HCLTF	C-2-7	305.2	13,794	17,174	24.5%	6.5%	2,987	3,439	15.1%	-1.0%	2,501	3,534	41.3%	-27.4%
Hexaware Tech	XFTCF	C-1-7	121.3	2,250	2,672	18.8%	2.1%	361	331	-8.1%	3.4%	347	274	-21.1%	4.8%
Infosys Technologies Ltd	INFYF	C-1-7	1995.1	34,510	40,649	17.8%	7.7%	11,090	11,998	8.2%	10.7%	9,290	10,976	18.1%	6.8%
Infotech India	IFKFF	C-2-7	266.4	1,313	1,572	19.8%	5.7%	284	284	0.3%	7.6%	203	189	-6.9%	45.4%
Mastek	MSKDF	C-3-7	314.7	1,959	2,050	4.6%	13.5%	318	286	-10.1%	8.0%	212	230	8.5%	-2.7%
Mphasis BFL	MPSSF	C-1-7	281.4	2,919	5,675	94.4%	6.8%	485	1,009	108.0%	3.3%	234	622	166.0%	21.2%
Patni Computers Services	PATIF	C-2-7	459.5	6,971	6,783	-2.7%	2.3%	1,353	1,304	-3.6%	-12.5%	1,024	995	-2.9%	-26.2%
Rolta	RLTAF	C-1-7	581.7	1,546	2,137	38.2%	5.2%	608	818	34.5%	2.3%	373	516	38.3%	5.6%
Sasken Communication	SKNCF	C-2-7	331.8	1,175	1,339	13.9%	4.3%	220	131	-40.5%	32.3%	119	46	-61.0%	-27.3%
Satyam Computers	SAYPF	C-1-7	450.5	16,019	19,882	24.1%	8.6%	3,625	4,032	11.2%	-1.7%	3,198	3,800	18.8%	0.5%
TCS	TACSF	C-1-7	1078.7	44,822	55,997	24.9%	7.6%	12,294	14,501	17.9%	9.3%	9,915	12,157	22.6%	4.8%
Tech Mahindra	TMHAF	C-1-7	1304.3	6,977	9,156	31.2%	4.5%	1,770	1,883	6.4%	-2.6%	1,431	1,651	15.4%	-2.8%
Wipro	WIPRF	C-2-7	461.3	35,576	47,778	34.3%	12.8%	8,283	9,129	10.2%	11.0%	7,002	7,207	2.9%	-16.1%
WNS (USD mn)	WNS	C-3-7	22.7	53	71	34.4%	2.0%	10	8	-18.8%	-28.2%	6	4	-39.8%	-57.0%
Media															
Balaji Telefilms	BLJIF	C-2-7	277.0	815	845	3.7%	13.4%	305	320	5.0%	8.6%	203	213	4.6%	15.3%
Sify (US$mn)	SIFY	C-2-9	8.7	30	36	19.6%	4.0%	4	3	-16.1%	78.9%	1	1	-32.4%	-178.7%
Sun TV	SUTVF	C-1-7	326.3	945	2,150	127.6%	6.3%	715	1,624	127.1%	6.2%	480	987	105.9%	6.1%
Zee Telefilms	XZETF	C-1-7	341.0	4,638	4,320	-6.9%	10.3%	338	1,371	305.2%	14.6%	321	905	182.1%	17.4%
Metals															
Hindalco	HNDFF	C-3-7	175.7	46,342	45,566	-1.7%	-3.7%	9,864	8,304	-15.8%	-6.1%	6,703	5,294	-21.0%	-12.2%
NALCO	NAUDF	C-3-7	286.6	14,416	14,998	4.0%	28.7%	8,751	5,479	-37.4%	-11.1%	5,950	3,997	-32.8%	-10.5%
SAIL	SLAUF	C-1-7	206.9	85,391	98,348	15.2%	22.3%	23,333	29,139	24.9%	22.3%	14,117	18,226	29.1%	19.5%
TISCO	TAELF	RSTR**	864.8	41,800	51,300	22.7%	22.4%	17,000	20,500	20.6%	20.6%	11,000	12,400	12.7%	1.6%
Oil & Gas															
BPCL	XBPCF	C-2-7	373.5	265,174	278,433	5.0%	16.6%	17,138	-8,383	-148.9%	-506.9%	12,585	-9,658	-176.7%	-601.2%
Cairn India	XCANF	B-1-7	179.0	0	2,451	NA	0.7%	0	1,790	NA	-5.5%	0	619	NA	-10.5%
GAIL	GAILF	C-2-7	58.5	43,583	45,762	5.0%	7.8%	5,891	10,471	77.7%	0.8%	4,484	6,460	44.1%	-5.7%
Gujarat Gas Company Ltd	GJGCF	C-3-8	314.6	2,345	2,925	24.8%	3.2%	335	461	37.8%	-32.4%	214	271	26.7%	-35.5%
Gujarat State Petronet Ltd	GJRSF	C-1-7	62.2	758	1,043	37.6%	8.9%	658	916	39.2%	9.8%	224	252	12.6%	41.0%
HPCL	XHTPF	C-1-7	269.8	243,675	258,295	6.0%	18.0%	16,462	-8,012	-148.7%	523.3%	12,220	-9,255	-175.7%	964.7%
Indian Oil Corporation Ltd	IOCOF	C-2-7	496.1	577,665	635,431	10.0%	20.2%	40,359	-9,990	-124.8%	-170.4%	30,503	-14,502	-147.5%	-199.0%
Indraprastha Gas Ltd	IAGSF	C-3-7	143.6	1,542	1,690	9.6%	4.5%	645	732	13.4%	6.6%	348	408	17.2%	6.1%
ONGC	ONGCF	C-2-7	986.0	140,686	150,102	6.7%	9.7%	70,398	79,917	13.5%	0.9%	41,740	47,327	13.4%	2.7%
Petronet LNG Ltd	POLNF	C-3-7	81.2	13,751	15,585	13.3%	0.5%	1,447	2,060	42.3%	0.6%	661	1,075	62.8%	-0.5%
Reliance Industries	XRELF	B-1-7	2422.6	315,220	362,503	15.0%	29.2%	52,020	54,507	4.8%	5.3%	30,600	34,372	12.3%	5.3%
Retail															
Pantaloon Retail	PFIAF	C-3-7	557.4	6,034	12,505	107.2%	22.6%	415	760	83.1%	33.8%	165	205	24.2%	192.9%
Shoppers Stop	SHPSF	C-3-7	495.5	2,172	2,869	32.1%	23.9%	162	214	32.1%	55.1%	80	92	15.0%	360.0%
Telecom															
Bharti Televenture	BHTIF	C-1-9	961.2	43,571	64,804	48.7%	9.8%	17,023	26,819	57.5%	9.6%	9,338	15,554	66.6%	2.9%
Idea Cellular	IDEAF	C-1-9	132.4	10,096	16,066	59.1%	8.8%	3,548	5,570	57.0%	8.6%	1,102	2,935	166.4%	6.5%
MTNL	XMTNF	C-3-7	158.7	12,190	11,998	-1.6%	0.3%	1,877	2,648	41.1%	1.2%	1,099	1,234	12.3%	11.2%
Reliance Communication	RLCMF	C-1-7	634.5	35,260	46,608	32.2%	8.3%	13,525	19,690	45.6%	8.5%	7,173	12,608	75.8%	3.4%
VSNL	VSLSF	C-2-8	450.7	9,660	10,320	6.8%	2.4%	1,980	2,394	20.9%	2.9%	830	1,059	27.6%	2.4%
Textile/Apparels															
Arvind Mills	ARVZF	C-3-7	65.3	3,932	5,200	32.2%	1.9%	859	832	-3.1%	15.3%	101	82	-19.2%	-515.7%
Gokaldas	GKLDF	C-2-7	246.2	2,810	3,147	12.0%	20.2%	316	315	-0.4%	50.5%	208	200	-4.0%	89.5%

Table 5: Result forecast for the quarter ended September 30'07

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 5-Oct-07	Sales 30-Sep-06	Sales 30-Sep-07	% change YoY	% change QoQ	EBITDA 30-Sep-06	EBITDA 30-Sep-07	% change YoY	% change QoQ	Net Profit 30-Sep-06	Net Profit 30-Sep-07	% change YoY	% change QoQ
Himatsingka	HMKFF	C-2-7	97.4	470	493	5.0%	24.6%	159	123	-22.4%	41.4%	162	124	-23.4%	35.8%
Raymond	XRAMF	C-3-7	346.3	0	6,729	NA	46.0%	0	673	NA	191.3%	0	280	NA	1766.1%
Welspun	WPNIF	C-1-9	69.1	2,764	3,041	10.0%	14.9%	423	426	0.7%	-22.1%	153	136	-11.1%	-21.3%
Utilities															
GIPL	GUJIF	C-2-7	95.5	1,721	1,935	12.4%	-10.1%	560	613	9.4%	-13.2%	247	297	20.5%	-21.3%
JP Hydro	XJSHF	C-3-7	77.1	1,138	938	-17.6%	-0.2%	1,037	832	-19.8%	-5.9%	588	690	17.3%	37.0%
Neyveli Lignite	NEYVF	C-2-7	115.8	6,079	7,050	16.0%	-9.3%	2,143	2,660	24.1%	-31.0%	1,639	1,933	17.9%	-31.3%
NTPC	NTHPF	C-1-7	226.4	67,418	75,648	12.2%	-10.6%	17,688	20,356	15.1%	-17.7%	14,271	16,792	17.7%	-4.9%
Reliance Energy	RCTDF	C-1-7	1477.9	14,076	17,749	26.1%	9.3%	1,775	1,858	4.7%	54.5%	1,860	3,410	83.3%	17.8%
Tata Power	XTAWF	C-2-7	993.0	12,008	14,215	18.4%	-6.0%	2,495	2,940	17.8%	11.4%	1,682	1,934	15.0%	19.0%

Source: Merrill Lynch Research

Table 6: Result forecast for the quarter ended September 30'07

	ML Symbol	Q-R-Q Rating	Price 5-Oct-07	Net Interest Income Sep-06	Net Interest Income Sep-07	%Change YoY	%Change QoQ	Pre Provision Profits Sep-06	Pre Provision Profits Sep-07	%Change YoY	%Change QoQ	Net Income Sep-06	Net Income Sep-07	%Change YoY	%Change QoQ
Financials															
Bank of Baroda	BKBAF	C-1-7	335.8	8,908	10,526	18.2%	9.8%	6,157	7,073	14.9%	9.8%	2,884	3,600	24.8%	8.8%
Bank of India	XDIIF	C-1-7	275.5	8,494	10,070	18.6%	6.3%	4,791	6,881	43.6%	1.5%	2,122	2,869	35.2%	-9.0%
Canara Bank	CNRKF	C-2-7	277.1	9,811	10,312	5.1%	15.3%	6,152	7,374	19.9%	20.5%	3,618	3,958	9.4%	64.5%
Corporation Bank	XCRRF	C-3-7	386.0	3,167	3,955	24.9%	6.3%	2,357	2,959	25.6%	7.4%	1,270	1,581	24.5%	-10.7%
Federal Bank	XFDRF	C-1-7	383.4	1,675	2,077	24.0%	7.7%	1,390	1,965	41.3%	4.3%	695	911	31.1%	36.0%
HDFC Bank	XHDFF	C-1-7	1404.2	8,456	10,934	29.3%	4.9%	6,642	8,497	27.9%	8.4%	2,629	3,428	30.4%	6.7%
HDFC Ltd.	HGDFF	C-1-7	2494.7	5,331	6,602	23.8%	13.5%	4,751	5,931	24.8%	16.6%	3,680	4,509	22.5%	21.0%
ICICI Bank	ICIJF	C-1-7	1061.4	15,770	19,887	26.1%	19.6%	16,119	19,045	18.2%	29.3%	7,550	9,221	22.1%	27.3%
Oriental Bank of Commerce	ORBCF	C-1-7	235.2	4,128	4,827	16.9%	8.9%	3,141	3,765	19.9%	15.8%	3,108	2,822	-9.2%	40.8%
Punjab National Bank	PUJBF	C-1-7	535.3	13,628	15,450	13.4%	12.1%	9,648	10,733	11.2%	15.0%	5,050	5,700	12.9%	34.1%
State Bank of India	SBINF	C-1-7	1900.4	38,987	47,702	22.4%	6.1%	24,726	28,835	16.6%	22.1%	11,845	13,959	17.9%	-2.1%
Union Bank	UBOIF	C-1-7	167.2	6,275	7,815	24.5%	1.3%	4,283	5,364	25.2%	2.1%	1,942	2,388	23.0%	6.1%
UTI Bank	UTBKF	C-1-7	752.0	3,652	5,251	43.8%	17.5%	2,745	3,696	34.6%	0.4%	1,420	1,873	31.9%	7.0%
Vijaya Bank	VJYAF	C-1-7	66.4	2,598	3,008	15.8%	14.1%	1,766	2,176	23.2%	27.0%	1,023	1,280	25.1%	15.0%

Source: Merrill Lynch Research

Table 7: Result forecast for the quarter ended September 30'07 (including exceptional)

	ML Symbol	Q-R-Q Rating	Price 5-Oct-07	Net Interest Income 30-Sep-06	Net Interest Income 30-Sep-07	%Change YoY	%Change QoQ	Pre Provision Profits 30-Sep-06	Pre Provision Profits 30-Sep-07	%Change YoY	%Change QoQ	Net Income 30-Sep-06	Net Income 30-Sep-07	%Change YoY	%Change QoQ	Remarks
Financials																
HDFC Ltd.	HGDFF	C-1-7	2494.7	5,331	6,602	23.8%	13.5%	4571	10381	118.5%	104.1%	3680	7420	101.6%	99%	Pre-Tax gain on sale of Intelenet stake of Rs4.45bn

Source: Merrill Lynch Research

Price objective basis & risk

ABB (ABVFF)

Our upgraded PO of Rs1,300 is based on 1-yr forward PER of 30x at PEG of 0.7x (Sensex PEG - 1.2x) & in-line with its current multiples. PO upgrade is driven by 1) earnings upgrade, 2) roll-over of target earnings and re-rating 30x vs 28x. Trading at 30x CY08E PER, ABB stock is not cheap, but we believe our target valuation is justified given its MNC parentage, technology and outsourcing opportunity leading to sustained earnings CAGR of 44% over CY06-09E and expanding RoE (38.6% by CY08E v/s 32% in CY06).

Risks: Competition & delay in power sector reforms/capex

APIL (ANSFF)

We recommend a BUY with PO of Rs425/share based on our RNAV of Rs425/share.

NAV calculation: APIL has 170mn sq ft of land, of which (APIL share) 154mn sq ft. The benefits of the remaining 26mn sq ft of space will be given to joint venture partners and/or collaborators, as per the agreement by project. Based on the above methodology, we have arrived at a NAV of APIL's land bank at Rs43,482mn, using a discount rate of 14%.

Key assumptions:

- Current market price.
- No inflation in sales or in cost.
- Discount rate of 14%.
- Development period of 7-8 years.
- Our RNAV does not include the value of the Hi Tech City, since only 150-200 acres of the proposed 2,500 acres have been purchased.
- We assume the government dues are passed on to customers (normal practice), and thus, do not include the dues in our valuation.

Our recommendation is based on strong earnings growth (earnings CAGR of 144% during FY06-09E) and the potential upside to our RNAV (Rs127/share) from the development of the HiTechCity at Greater Noida which has not been factored in to our valuation. Risks: Property prices have stabilized and, in some areas, declined by 5-10% due to oversupply and rising interest rates. However, the factors that influenced the rise in the property prices still remain strong (strong economy leading to higher salaries, job creation, nuclear families etc). Therefore, property prices could decline in the short term, but we are confident that prices will bounce back in the long term.

BHEL:

BHEL: BHRVF; C-1-7): Our Price Objective of Rs2,500 is based on 1-year forward PER of 25x – at peak PE in the last cycle (94-97) & 21% discount to its current multiples. BHEL currently trades at 22.6x FY09E

PER vs BSE Sensex at 18.7x. However, we believe, that premium valuation is justified given BHEL's superior market position, earnings growth (34% for BHEL vs market at 16%) and RoE (31% v/s market 22%). Regionally, BHEL trades at 22.6x FY09E v/s Asian comps at 19.5x. However, we believe, that premium valuation for BHEL is justified given its superior RoE (31% vs regional average at 19%) and consistency & its sustainability of growth.

Risks to our price objective areChinese & Korean competition and project execution

Bharti (BHTIF; C-1-9; Rs903)

Our price target of Rs1155/sh for Bharti is based on sum-of-parts. We value Bharti's core telecom business at ~Rs1030/sh & add a further Rs125/sh towards external tenants on its towerCo. Our core valuation places Bharti at ~13x FY09E EV/EBITDA, at the upper end of its historical trading range of 10-13x EV/E. We think the stock will continue to trade close to its upper range pending any major changes in competitive landscape. Our towerCo valuation is based on DCF.

Risks stem from 1) unexpected growth slowdown in the Indian wireless market, 2) unforeseen financial burden from likely 3G auctions, 3) unexpected pressure on RoE due to overseas expansion plans, and 4) unexpected failure to execute in the tower-sharing business.

Dr Reddy's Lab (DRYBF)

Our PO is Rs850/sh. We value DRL on a comparative P/E valuation of 17x on FY09E EPS (which is in line with the company's historical average P/E).

Risks to PO: a) Risk of further regulatory and pricing pressures in Germany, b) challenge to gain size in US generic space, c) higher-than-expected US generic pricing pressure, d) acquisition and e) domestic market challenges.

Grasim (GRSJF/GRSJY)

Our price target of Rs4450/sh for Grasim is based on sum-of-parts for FY08E.

Table 8: Grasim: sum-of-parts valuation

	FY08E-EPS (Rs)	FY08E-P/E (x)	S-o-P Value (Rs/sh)
VSF	84	14	1178
Sponge Iron	4	8	34
Cement	191	16	3011
Earnings Valuation of Grasim	279		4222
Stake in Idea Cellular (10% discount to target value)			228
Target Share Price Of Grasim			4450

Source: ML research estimates

Key risks are: 1) possible government intervention in cement pricing, 2) unexpected slowdown in VSF demand or irrational VSF pricing by China post expiry of CY07-quotas.

Gateway Distriparks (GYDPF)

Reiterate Buy with a PO of 175, which is based on 20x FY09E, in-line with historical trading range. We believe the multiples would be maintained given the strong 24% EPS CAGR over FY08-10E rising sharply from 8% CAGR during FY06-08E.

Risks are intense competition from other private operators in container rail transport, surplus capacity in the industry, delay or cost overrun in expansionof facilities etc.

ICICI Bank (ICIJF)

We believe the stock, trading at 1.4x FY08E adj. book (after deducting value of subsidiaries; 1.1x FY09 adj. book) could trade at 1.8-2.0x adj. book one year forward (FY09E), given the improved visibility of earnings we are likely to see in coming quarters, estimated earnings growth of +35% in FY09E, and rising value of its subsidiaries. Moreover, FIPB approval for selling stake in its finco is added catalyst. Hence, adding the value of its subsidiaries at Rs383/share, we arrive at our PO of Rs1225.Our PO on the ADR is US$56.

Either a sharp rise in NPL's or interest rates impacting growth adversely are risks to our PO.

Idea Cellular (IDEAF)

Our PO of Rs152 is based on sum-of-parts. We capture the widely dispersed maturity of Idea's operations by benchmarking Idea's existing operations to Bharti on FY09E-EV/E while Idea's new circles are valued using DCF. Our base case assumes good execution & places Idea at a narrow 10% discount versus our target valuation for Bharti. We think a 10% discount is reasonable based on the trading pattern of market leaders versus laggards in the GEM wireless universe.

Risks stem from 1) unforeseen slowdown of subscriber growth in the Indian wireless market; 2) unexpected pressures on Idea's balance sheet; 3) higher-than-peers profit sensitivity to ARPU.

IVRCL Infrastructure (IIFRF)

Our PO of Rs500 is based on 5% discount to our SOTP valuation. We have valued IVRCL's core construction business at 15x 1-yr forward earnings – a 35% discount to E&C majors. We have valued its Infrastructure SPVs and real estate subsidiary at DCF for its effective stake.

Table 9: IVRCL - Sum of Parts

Parts	Basis	Rs/share
IVRCL Construction business	15x 1-yr forward earnings - 35% discount to majors	311
Hind-dorr-Oliver Equity Stake	Current Market value @ 52.8% stake	17
IVR-Prime	15% discount to NPV @ 62.3% stake	153
Jalandhar -Amritsar	DCF - 100% stake	7
Chennai Desalination Plant	DCF - 75% stake	13
Kumarapalayam–Chengapally Project	DCF - 100% stake	11
Salem - Kumarapalayam Project	DCF - 100% stake	17
Total Value		528
Less Net Debt (FY08E)		3
Total		525

Source: ML Research Estimates

Risks: Unrelated acquisition in Oil & Gas space, Government capex, raw material costs, competition, traffic/interest rate risk in toll/annuity projects and project execution risk.

Maruti Suzuki India Ltd. (MUDGF)

Our PO of Rs 1,240 is based on sum of parts value of

1. Core vehicles business at 15x FY09E EPS,a 10% growth premium to auto peers
2. Engine unit at 2x EV/sales, in line with independent engine suppliers

Risks: model launches and pricing action by competition, high interest rates, and rising fuel and steel prices.

NTPC Ltd (NTHPF)

Our PO of Rs180 is based on 10% discount to our DCF valuation (assuming a WACC of 11% and a terminal growth rate of 2%) led by higher capacity, utilization rates & efficiency gains on the back of increased fuel security

Table 10: NTPC - Sensitivity to DCF Valuation

		Terminal Growth Rate				
WACC	203	1.0%	1.5%	2%	2.5%	3.0%
	9.5%	241	252	265	279	296
	10.0%	221	231	241	253	267
	10.5%	204	212	221	231	243
	11.0%	188	195	203	212	222
	11.5%	174	180	187	195	203
	12.0%	162	167	173	179	187
	12.5%	151	155	160	166	172

Source: Merrill Lynch Research

Risks to Price Objective

- Gas supply to existing / new plants till 2008
- Upstream Oil Investments
- Power reforms
- Entry into nuclear power.

ONGC (ONGCF)

Our DCF based 12-month price objective of Rs1231/share incorporates the DCF of 2P reserves and resources, exploration upside at 10% of 2P reserves and resources, net cash and market value of investments. For the purposes of DCF, we have assumed a discount rate of 14%. We have assumed a long-term oil price forecast of US$60/bbl (Brent).

Table 11: Valuation of ONGC

	mmboe	USD/boe	USDm	Rs/share
2P reserves	8,231	5.7	47,308	907
2P reserves and resources in RJ-ON-90/1	266	4.4	1,166	22
Resources in KG-DWN-98/2	129	3.0	387	7
Resources	343	4.3	1,486	28
	8,969	5.6	50,346	965
Exploration upside (10% of 2P reserves and resources)	897	5.6	5,035	97
Valuation of E&P assets	9,866	5.6	55,380	1,062
Add:				
Net cash			4,652	89
Value of investments			4,184	80
			64,217	1,231
Number of shares (mn)			2,139	

Source: DGH, DSP Merrill Lynch

Risks:

- **Standard oil and gas industry operating risks:** These include i) Exploration, development and production risks; ii) Oil price; iii) Currency risk; iv) Reserve estimation
- **Lower than expected gas price rise:** Any increase in gas prices lower than our expectations may adversely hit our valuation of ONGC
- **Sovereign risk:** Changes in the government and/or policies may have a direct impact on the company's business, cashflow and profit

ORBC (ORBCF)

We are cutting our PO to Rs280 on OBC by 8% in sync with our 12-14% cut in FY08-09 earnings estimates to factor in the sustained weakness in core earnings. Overall earnings growth forecast at only 12% CAGR through FY09. We are, however, maintaining our Buy given the low valuations (0.9x FY09E book with 15% ROE) and the fact that it is one of the few banks that is providing for AS-15 giving it some buffer to its earnings. Sharp rise in bond yields is key risk to PO.

Reliance Energy (RCTDF)

Our 12-month PO of Rs730 is based on its sum-of-parts valuation. At Rs730, the stock implies a P/E of 17.7x and an EV/EBITDA of 13.6x (FY09E). Risks: Ability to source quality power/viable gas supply and discontinuity/delay of power sector reforms.

Reliance Communication (RLCMF; C-1-7; Rs559)

Our PO of Rs690/sh on Reliance Communication is driven by 1) ~Rs605/sh for RCom's core telecom biz, implying an EV/EBITDA of ~13x FY09E, broadly on par with our target valuation for Bharti's core telecom biz at Rs1030/sh; 2) ~Rs70/sh value ascribed to external tenants on RCom's tower subsidiary (RTIL) & 3) ~Rs15/sh towards the land for which RCom recently received SEZ approval.

Key risks stem from: 1) unexpected failure to execute in the tower-sharing business; 2) unexpected growth slowdown in the Indian wireless market, 3) unforeseen financial burden from likely 3G auctions.

Satyam (SAYPF)

Our PO of Rs575 is based on a PER of 19x FY09E representing a 17% discount to Infy's target PE, lower than its 3-yr PE discount of 25 to 30%, to reflect narrowing earnings growth differential, though Infy continues to show superior margins and RoE.

Risks are steeper than expected INR/USD appreciation, any slowdown in the US impacting our assumption of bill rate hikes, high conc. in enterprise solutions and risk of higher than expected employee attrition.

Subex Azure Ltd (SBXSF)

We set our price objective of Subex at Rs725, which is equivalent to 16x FY09E – lower than its current multiple of 19x FY08E and is supported by our DCF value of Rs736. Our GDR PO of US$17.6 is in line with the local PO of Rs725 considering that GDR and local shares have historically traded at par.

Risks are its single vertical focus, ie, telecoms, high reliance on non-annuity revenue streams (license) and rupee appreciation.

Table 12: Subex: DCF assumptions

No. of years	10
PV of Terminal value	18170
Value Of Equity (Rs mn)	33932
Terminal Growth rate	6.00
WACC	16%
Shares (mn)	49.1
Price per share	691
Cash per share	45.0
Total value	736
CMP	505
% appreciation	42%

Source: Merrill Lynch estimates

Steel Authority (SLAUF)

Our PO of Rs182 is based on DCF. Over the next 10 years we assume steel prices to increase 0.5% CAGR and costs to rise 3% CAGR. We also build in the Rs450bn of planned capex for doubling steel volumes. Lastly, we use WACC of 11%. At our PO of Rs182, SAIL would trade at P/E of 10.7xFY08E and 9.8xFY09E. This would imply an 8% discount to regional peers in FY09E.

Key risks are sharp fall in steel prices and steep cost increases.

Sun TV LTD (SUTVF)

Our PO of Rs1625 for Sun TV is based on SOTP based valuation. We have valued its TV broadcasting business at 27x FY09E, a 22% & 27% discount to its current multiple & Indian media peers respectively. We believe that Sun deserves a premium given its market dominance and RoCE. Radio subsidiaries are valued @10% discount to their DCF.
Risks: Political links of promoters, expansion in lower margin radio, rise in competition led by Star Vijay, Raj TV programming costs.

Sun TV - Sum-of-the-parts valuation

Parts	Rationale	Value (Rs mn)	Value (Rs/share)
Sun TV – Broadcasting business	At 27x FY09E EPS - 22% discount to its current multiple & 27% discount to ndian peers	151,985	1,542
Radio - South Asia FM & Kal Radio	10% discount to DCF - 94.9% equity stake in South Asia FM and 89% in Kal Radio	8,332	85
Total Equity value		160,317	1,627

Source: Merrill Lynch Research

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Suzlon Energy (SZEYF)

Our PO of Rs1,550 is based on 22x 1-year forward earnings, which we believe is conservative considering it is 31% discount to its current multiples, 9% discount to DCF and 29% discount to its peers despite Suzlon's superior growth and return profile. We have also reduced our target PER multiple to 22x vs 23x earlier to factor in near term disappointment in earnings.

Risks: Headwind for wind turbine business & execution risk in the wake of component shortages. Also, we note that the deal with Areva is not a put/call forward sale structure and hence if REpower stock shoots up in the future then Suzlon may have to pay a higher price for acquiring Areva's stake.

Tata Consultancy (TACSF)

Our PO of Rs1,480 is set at 22x FY09E PE, a 5% discount to Infy's target PE, in line with its current FY08 multiple and an historical average PE discount of ~8% to Infosys, since listing.

Risks stem from Rupee appreciation vs the USD, slowdown in the US economy and employee attrition.

Asian Paints (XAPNF)

Our price objective of Rs1050 is based on target PEG of 1.1x in FY09E. This is slightly lower than the peer group average of 1.2x and prices in the slightly higher exposure to commodity cycles relative to peers. At our PO of Rs1050, Asian Paints would trade at 22.9x FY09E, which is broadly in line with its current FY08E multiple. We believe valuation should sustain given strong paint demand, Asian Paints' leadership position, strong brands and quality management. Risks to our PO are slower demand, stiffer competition and higher than expected raw material cost increases.

Hindustan Petro. (XHTPF)

Our PO is based on PE and also includes the value of HPCL's 17% stake in MRPL. TargetPE used to calculate PO is 8.2x. It is based on average historical relative PE of 60% applied to target BSE-30 PE of 13.7x. PO is calculated by applying target PE to HPCL's FY08E EPS in four scenarios. One of the scenarios is normalized EPS (Rs61.9) to which only 5% weight is assigned. Other scenarios are EPS at various Brent prices to which equal weights are assigned. In one scenario where PE based fair value works out below book value, fair value is taken at 0.8x P/BV.

Risks are 1) government not issuing enough oil bonds to keep HPCL in the black 2) Government officially reverting back to a cost plus based regulated pricing mechanism 3) Upstream oil companies contributing less than expected subsidy 4) Decline in regional refining margins

Ranbaxy Lab (XIZZF)

We recommend a Buy with a PO of Rs492/share implying potential upside of 11.5%. Our recommendation is driven by a forecast robust 27% EPS CAGR (CY06-08E) given higher visibility in scale-up of international operations and US products/R&D milestone upsides. Our PO includes Rs30/sh for Lipitor's early entry into the US.

Risks to our PO: Regulatory delays in product launches, litigation risks, higher than expected US generic pricing pressure, prolonged FDA manufacturing issues and EU healthcare reform pressure.

Reliance Inds (XRELF)

RIL's price objective on a sum of parts basis works out to Rs2,750/share. The value of the core refining and petrochemical business has been calculated on DCF. Value of its investment in Reliance Petroleum is calculated on DCF value of RPL and applying it to RIL's holding in RPL. We have a scenario based valuation approach for valuing RIL's stake in RPL with equal weightage being given to each of the four scenarios assumed. RIL's oil and gas reserves and resources are also valued on a DCF basis. RIL's Retail business is also calculated on a DCF basis.

RIL's sum of parts valuation

INR/share	Valuation measure used	Valuation		
Business/Investment		USDbn	Rs-bn	Rs/share
Petrochemicals	DCF	16.6	705	514
Refining & Marketing	DCF	15.0	637	464
Value of investment in RPL (Rs115/share)	DCF	9.1	387	282
Exploration & production	DCF	44.8	1,903	1,387
Retail	DCF	3.3	140	102
Sum of parts valuation		88.8	3,632	2,750
No of shares (excluding treasury shares)				1,372

Source: DSP Merrill Lynch

Risks

Significant weakening in refining and petrochemical margins even below our expectation is a risk to our price objective. Such a decline in margins is more likely to be triggered by negative surprises on demand rather than supply. As discussed, our refining margin forecasts assume almost all possible refinery projects coming up. Large disappointments on the E&P front could be another risk to our price objective. We have valued even resources and exploration upside. Failure in the retail business would also be another risk to our valuation.

Sterlite Industry (XTNDF)

Our PO of Rs808 is based on DCF. We take two scenarios and assign probabilities to them. In our first scenario, we take zinc stake increased to 94.4% and we get a DCF of Rs855/share and we assign it a 70% probability. In our second scenario we assume there is no increase in zinc stake and we get a DCF of Rs697/share. We assign this a 30% chance. Our blended DCF works out to Rs808. At our PO, we estimate Sterlite would trade at a P/E of 11.5x FY08E and 11.1x FY09E, which is lower than the valuations of its global peers. Risks are lower than forecast metal prices and higher costs.

DLF Limited (XVDUF)

Our PO of Rs743 is based on 20% premium to FY08E RNAV of Rs619. The positive view is also supported by likely strong earnings growth of 94%CAGR over next 3 years led by a 6.6x jump in volumes and a strong management and brand name.

RNAV calculation

	Rs mn
NAV from sale assets	715,199
NAV from leased assets	269,632
NAV (Land Bank)	984,830
Add: Value of LOR JV (PE@18x FY08E)	19,840
: Value of Hotel Hilton JV (at cost)	20,000
NAV	1,024,670
Less: Net debt	(30,928)
RNAV	1,055,598
Shares outstanding (mn)	1,705
RNAV/share	619
Premium	20%
RNAV/share	743

Source: Merrill Lynch research estimates

Risks are a) Some of the land bank is not fully transferred to company; b) Sale of assets to DLF Assets Ltd., a group company, can raise possible concerns on conflicts of interest. c) Falling real estate prices could hit profitability—we estimate a 1% drop in prices reduces profits by about 2%. d) Execution risks in view of large projects and spread of geographies/verticals could hurt profitability.

Zee Entertainment (XZETF)

Our PO of Rs400is based on 30x 1-yr forward PE. While this PER may look rich, we highlight that it is reasonable given–it is 14% discount to its current multiples (to factor-in slower earnings beyond FY09E) & 4% discount to Indian media sector average. At our PO, ZEEL would trade at 2-year PEG of 0.8x vs Indian market PEG of 1.2x, which is below its historical averages.

Risks: Competition from Star & New channels from NDTV, lack of penetration of CAS system, continued cap of cable tariffs by TRAI and slowdown in penetration of Zee Turner/Dish TV.

Analyst Certification

We, Jyotivardhan Jaipuria, Vandana Luthra, Rajeev Varma, Reena Verma Bhasin, CFA, Bharat Parekh, Mitali Ghosh, S. Arun, Visalakshi Chandramouli 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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Merrill Lynch has entered into an agreement with Reliant Energy, Inc. whereby Merrill Lynch has agreed to act as a credit sleeve provider for Reliant's retail electricity business ("Reliant Retail"), which was announced on September 24, 2006.

Important Disclosures

Investment Rating Distribution: Autos Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	45	44.55%	Buy	7	18.92%
Neutral	43	42.57%	Neutral	6	17.14%
Sell	13	12.87%	Sell	1	8.33%

Investment Rating Distribution: Banks Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	130	45.94%	Buy	55	52.88%
Neutral	121	42.76%	Neutral	60	57.14%
Sell	32	11.31%	Sell	19	63.33%

Investment Rating Distribution: Building Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	62	57.94%	Buy	9	16.36%
Neutral	42	39.25%	Neutral	8	20.00%
Sell	3	2.80%	Sell	1	33.33%

Investment Rating Distribution: Chemicals Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	54	61.36%	Buy	7	14.29%
Neutral	27	30.68%	Neutral	9	39.13%
Sell	7	7.95%	Sell	0	0.00%

Investment Rating Distribution: Consumer Products Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	26	41.94%	Buy	7	28.00%
Neutral	31	50.00%	Neutral	7	25.00%
Sell	5	8.06%	Sell	0	0.00%

Investment Rating Distribution: Electrical Equipment Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	28	53.85%	Buy	7	29.17%
Neutral	17	32.69%	Neutral	4	25.00%
Sell	7	13.46%	Sell	1	20.00%

Investment Rating Distribution: Energy Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	130	50.19%	Buy	43	39.45%
Neutral	110	42.47%	Neutral	27	28.13%
Sell	19	7.34%	Sell	3	16.67%

Investment Rating Distribution: Engineering & Construction Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	21	77.78%	Buy	5	29.41%
Neutral	6	22.22%	Neutral	2	33.33%
Sell	0	0.00%	Sell	0	0.00%

Investment Rating Distribution: Financial Services Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	108	38.85%	Buy	45	44.55%
Neutral	156	56.12%	Neutral	67	45.27%
Sell	14	5.04%	Sell	4	28.57%

Investment Rating Distribution: Food Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	30	40.00%	Buy	6	22.22%
Neutral	38	50.67%	Neutral	7	21.88%
Sell	7	9.33%	Sell	1	14.29%

Investment Rating Distribution: Health Care Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	105	46.67%	Buy	27	27.55%
Neutral	109	48.44%	Neutral	31	29.81%
Sell	11	4.89%	Sell	2	20.00%

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	61.17%	Buy	7	12.28%
Neutral	33	32.04%	Neutral	6	26.09%
Sell	7	6.80%	Sell	0	0.00%

Investment Rating Distribution: Media & Entertainment Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	45.77%	Buy	22	38.60%
Neutral	67	47.18%	Neutral	12	19.05%
Sell	10	7.04%	Sell	1	10.00%

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	52.17%	Buy	15	30.00%
Neutral	44	38.26%	Neutral	14	35.90%
Sell	11	9.57%	Sell	1	14.29%

Investment Rating Distribution: Real Estate/Property Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	48	40.34%	Buy	11	25.58%
Neutral	56	47.06%	Neutral	8	14.81%
Sell	15	12.61%	Sell	2	15.38%

Investment Rating Distribution: Retailing Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	74	45.12%	Buy	15	21.43%
Neutral	77	46.95%	Neutral	14	20.00%
Sell	13	7.93%	Sell	3	25.00%

Investment Rating Distribution: Steel Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	31	65.96%	Buy	3	12.00%
Neutral	15	31.91%	Neutral	3	21.43%
Sell	1	2.13%	Sell	0	0.00%

Investment Rating Distribution: Technology Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	102	40.00%	Buy	19	21.11%
Neutral	134	52.55%	Neutral	23	18.70%
Sell	19	7.45%	Sell	1	5.88%

Investment Rating Distribution: Telecommunications Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	46.49%	Buy	19	26.76%
Neutral	81	43.78%	Neutral	18	26.09%
Sell	18	9.73%	Sell	4	30.77%

Investment Rating Distribution: Textiles/Apparel Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	9	37.50%	Buy	2	25.00%
Neutral	9	37.50%	Neutral	3	33.33%
Sell	6	25.00%	Sell	1	16.67%

Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	88	56.41%	Buy	26	30.95%
Neutral	46	29.49%	Neutral	7	16.28%
Sell	22	14.10%	Sell	1	4.76%

Investment Rating Distribution: Utilities Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	44.71%	Buy	22	34.38%
Neutral	77	45.29%	Neutral	29	42.65%
Sell	17	10.00%	Sell	3	18.75%

Investment Rating Distribution: Global Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1701	47.03%	Buy	437	29.15%
Neutral	1611	44.54%	Neutral	425	29.11%
Sell	305	8.43%	Sell	58	21.09%

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