

India News

Economy

- The planning commission has projected that the Indian economy would grow at 8.5% in FY08 (Business Standard).
- The Rupee traded around the 8-year high mark and strengthened marginally on Monday to close at 42.91.

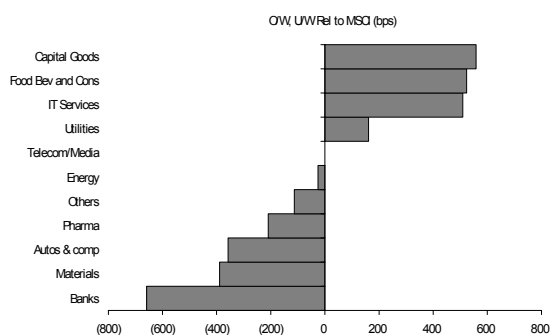
Industry

- National Mineral Development Corporation (NMDC) to spend US\$3.2bn to raise output, build iron and steel plants and invest in coal mines overseas. (Business Standard).

Companies

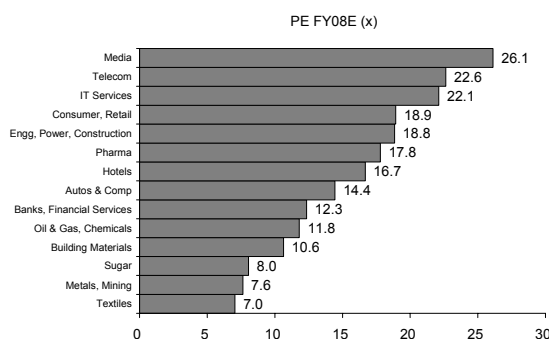
- Reliance plans Rs250bn crores mega pipeline grid covering main gas transport trunk lines (Business Line).
- BSNL added 2.6 million users in March, the highest by any telecom operator in the country (Business Standard)
- Bajaj Auto opens new plant in Uttarakhand, cuts prices of its 100 cc Platina model by Rs3000 (Business Line)
- Raymond launches suiting solutions for women (Business Standard)
- Ranbaxy to sign 10-year marketing deal with Jupiter Bioscience to tap the US\$6bn global peptide pharmaceutical market (Economic Times).

Key Overweights/ Underweights



Source: Citigroup Investment Research estimates

CIR Universe P/E FY08E (x)



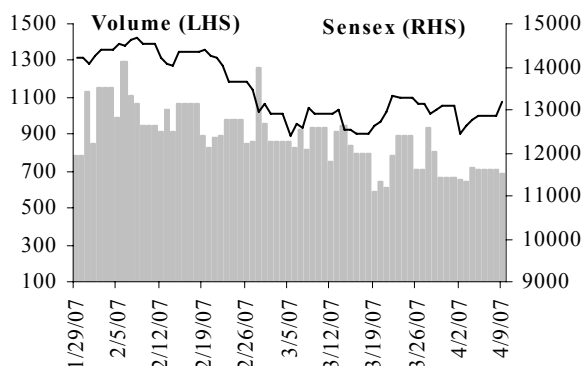
Source: Citigroup Investment Research estimates

Market Snapshot

Performance (%)	1-Day	1-Week	1-Month	3-Month	6-Month	12-Month	YTD	Mkt Volume	(Rs Mils.)
Absolute								BSE	30,930
BSE Sensex	2.50	5.80	2.27	(4.93)	6.57	13.70	(4.42)	NSE	62,870
CIR India Index	2.17	9.85	7.72	0.63	4.58	2.66	1.50	Top Volume*	(Rs Mils.)
Aluminum	0.65	3.12	3.92	(6.29)	(8.73)	(25.56)	(7.64)	IT C LTD	211.9
Auto	1.47	2.00	(5.77)	(19.23)	(18.31)	(18.33)	(17.52)	STEEL AUTHOR	272.2
Banks	2.98	7.21	0.83	(11.30)	1.43	11.66	(11.69)	REL PET	245.0
Capital Goods	2.81	8.95	11.14	6.00	12.38	9.27	5.90	INFRA DEVFIN	249.7
Cement	3.27	5.19	(3.17)	(28.94)	(23.68)	(14.18)	(30.66)	TATA STL	1334.8
Consumer	1.46	4.16	9.24	(6.80)	(12.28)	(23.00)	(7.29)	GUJARAT AMBUJA CEMENTS LTD.	149.0
Hotels	(0.46)	3.62	5.95	(7.48)	(1.07)	2.65	(7.39)	STERL BIOTEC	223.8
IT Services	2.05	5.95	(8.25)	(13.47)	3.12	7.77	(13.07)	IDBI LTD	105.2
Media	0.00	11.62	18.02	(4.86)	(9.66)	7.10	(8.66)	REL COM LTD	610.6
Oil & Gas	2.30	4.93	9.08	(4.95)	2.87	(7.21)	(1.44)	IDEA CELL	128.7
Petrochemical	1.94	5.37	4.86	6.92	18.50	63.03	8.40	Top Gainers*	Close (Rs)
Pharmaceutical	1.11	2.68	5.08	(4.44)	(5.37)	(18.88)	(2.52)	UTI BANK	500
Power	1.66	4.49	2.95	(6.24)	(0.22)	(14.87)	(6.13)	INFRA DEVFIN	89
Steel	3.91	11.64	13.79	25.59	26.34	26.22	22.72	KOTAK BANK	505
Telecom Equipment	2.34	1.93	5.40	(19.08)	(2.66)	2.79	(15.30)	PARSVNATH	268
Telecom	2.14	4.30	2.43	16.26	49.77	59.75	17.96	INDIA CEMENT	163
								TATA STL	493
								BANK OF BARODA-PARI PASS	225
								SOBHA DEV	792
								CESC LTD	395
Relative to BSE-30 Sensex								IT C LTD	155
CIR India Index	(0.34)	4.05	5.45	5.56	(1.99)	(11.05)	5.92	Top Losers*	Close (Rs)
Aluminum	(1.85)	(2.68)	1.65	(1.36)	(15.29)	(39.27)	(3.22)	ICI INDIA*	437
Auto	(1.03)	(3.80)	(8.04)	(14.31)	(24.87)	(32.04)	(13.10)	EIH LIMITED	94
Banks	0.48	1.41	(1.45)	(6.37)	(5.14)	(2.05)	(7.27)	NIRMA LTD.	158
Capital Goods	0.31	3.15	8.86	10.92	5.81	(4.44)	10.32	ADI BIR NUVO	1,031
Cement	0.77	(0.61)	(5.44)	(24.01)	(30.25)	(27.88)	(26.24)	DABUR INDIA LTD.	93
Consumer	(1.04)	(1.64)	6.97	(1.87)	(18.85)	(36.70)	(2.88)	AVENTIS PHAR	1,212
Hotels	(2.96)	(2.18)	3.68	(2.56)	(7.64)	(11.05)	(2.97)	PROCTOR GAMB	776
IT Services	(0.45)	0.15	(10.52)	(8.55)	(3.44)	(5.94)	(8.65)	STERL BIOTEC	148
Media	(2.50)	5.82	15.75	0.06	(16.22)	(6.61)	(4.24)	GUJ MIN DEVL	475
Oil & Gas	(0.20)	(0.87)	6.81	(0.02)	(3.70)	(20.91)	2.98	INDIAN BANK	90
Petrochemical	(0.57)	(0.43)	2.59	11.85	11.93	49.32	12.82		
Pharmaceutical	(1.39)	(3.12)	2.80	0.49	(11.94)	(32.59)	1.90	*BSE-Group A	
Power	(0.84)	(1.31)	0.68	(1.31)	(6.78)	(28.58)	(1.71)	Source: The Economic Times, www.bseindia.com.	
Steel	1.41	5.84	11.51	30.52	19.77	12.52	27.14		
Telecom Equipment	(0.16)	(3.87)	3.13	(14.16)	(9.23)	(10.92)	(10.89)		
Telecom	(0.37)	(1.50)	0.15	21.18	43.21	46.04	22.38		

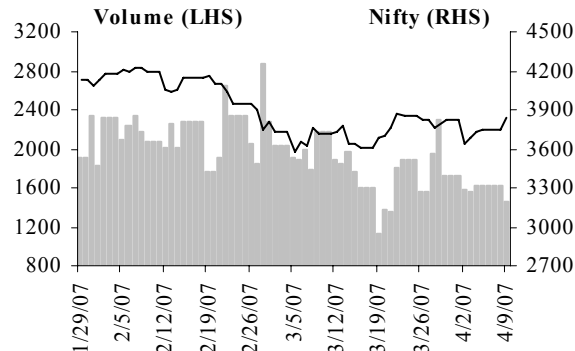
Source: Citigroup Investment Research estimates

BSE-30 – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

NIFTY – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

India Equity Strategy

Mar-07 Quarter Results Preview

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- **Last quarter of the year, lesser surprises** — Being the last quarter of the year for most of the market, Mar-07 quarter results should hold lesser surprises. The focus will clearly be on the year ahead, starting with guidance from IT services companies and a close watch on how companies view growth prospects in the face of higher interest rates, tighter liquidity and likely slower credit growth.
- **Sensex ex-oil profit growth expected at 26%** — While not high as the last couple of quarters, we expect ex-oil profit growth to still be strong at 26% for Sensex as well as Citigroup India Universe. FY07 is likely to end as the 5th consecutive year of 25-30% earnings growth in India. The quarter should also mark the end of this high-growth phase, as earnings growth in coming years is expected at around 15%.
- **Robust topline growth, steady margins** — Although top line growth will likely moderate from +30% seen in the last couple of quarters, it is steady expected to remain robust at 23-24%. EBITDA margins should be stable overall, albeit with wide variation across sectors. Impact of higher interest rates and tighter liquidity would be felt mainly in banks and autos.
- **Leaders & laggards** — Sectors to lead profit growth should be Cement, Hotels, IT Services, Pharma and Telecoms. Laggards should be Autos, Chemical, Oil & Gas, Power and Sugar sectors.

NIIT (NIIT.BO)

Buy: Pricing Power Returns; Raising Target Price

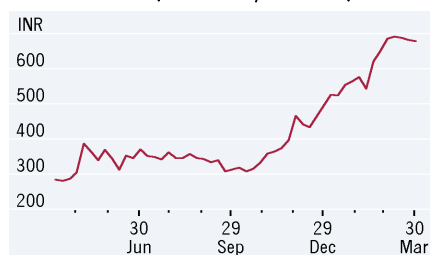
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Buy/Medium Risk	1M		
Price (09 Apr 07)	Rs706.25		
Target price	Rs870.00		
	<i>from Rs690.00</i>		
Expected share price return	23.2%		
Expected dividend yield	1.0%		
Expected total return	24.2%		
Market Cap	Rs13,952M		
	US\$327M		
	2006	2007E	2008E
EPS new(Rs)	19.29	24.22	43.75
EPS Growth(%)	10.1	25.5	80.6
P/E	36.6	29.2	16.1
EV/EBITDA	19.7	17.7	11.5
Consensus Data	21.40	26.06	36.05

Price Performance (RIC: NIIT.BO, BB: NIIT IN)



- Retail training upswing intact** — The upswing is being driven by the underlying trends in the IT industry: Indian IT companies are recruiting non-engineering resources for new service lines like testing, IMS and maintenance services; and non-IT engineers from tier 2 & 3 colleges are looking at short-term courses to improve their job prospects, driving career segment enrollment for NIIT.
- Pricing power returns** — With campus wages on an upswing, we think there is a case for another fee hike after a 20-25% rise in June 2006. *Our channel checks indicate that NIIT has already implemented an 8-15% hike in CATS (short term re-skilling) courses.* We expect a similar hike in GNIIT and AAE in May-Jun 07.
- Case for re-rating** — We have again raised our estimates for the domestic retail training business. We now expect an EBITDA CAGR of 45%+ over FY06-09 (one of the highest in our IT coverage universe); we believe a re-rating is imminent. We use 12x (up from 10x) as our target EV/EBITDA for the organic training business.
- Near-term correction cannot be ruled out** — While we remain positive on the medium-to-long term prospects for the business, the stock is exposed to the risk of some correction near-term because it has run up 125% in the past 6 months.
- Raising estimates and target price** — We are raising our estimates slightly for the retail training business while largely maintaining our other forecasts. Also, we incorporate new prices for NIIT Tech stake and value the organic learning business at 12x average FY08E-09E EBITDA. Our new sum-of-the-parts values NIIT at Rs870.

Reliance Communications (RLCM.BO)

Buy: Leverage to Growth Stays Despite Headwinds

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Buy/Medium Risk	1M		
Price (09 Apr 07)	Rs405.00		
Target price	Rs510.00		
	<i>from Rs570.00</i>		
Expected share price return	25.9%		
Expected dividend yield	0.5%		
Expected total return	26.4%		
Market Cap	Rs828,069M US\$19,400M		
	2006	2007E	2008E
EPS new(Rs)	2.36	14.96	21.95
EPS Growth(%)	na	534.0	46.8
P/E	171.7	27.1	18.5
EV/EBITDA	na	15.4	10.7
Consensus Data	na	14.63	22.02

Price Performance (RIC: RLCM.BO, BB: RCOM IN)



- Target adjusted to Rs510** — This is based on an EV/EBITDA of 9.7x FY09E, a 15% discount to Bharti, factoring in the challenges inherent in RCOM's proposed GSM plans, including spectrum-related delays. We believe that the current large valuation discount to Bharti (25-30% on EV/EBITDA) adequately factors in the shortcomings without building any potential positive triggers.
- GSM rollout delayed?** — GSM overlay plans appear to be slightly delayed for reasons not under the company's control, i.e. spectrum release and the allocation criterion. Further delays would increase the opportunity cost besides leading to lumpy GSM capex, when it happens. RCOM's current valuation discount to Bharti factors in these potential risks, in our view.
- Earnings adjusted for non-operational items** — We adjust our FY07E-09E earnings up to reflect forex gains and lower net debt. Our new estimates reflect EBITDA and earnings FY07-09 CAGRs of 37.4% and 39.0% respectively, based on conservative sub adds and margins. RCOM thus continues to benefit from wireless growth, but accompanied by higher risks.
- Recent de-activations more a clean-up than anything else** — RCOM has deactivated 15% of its subscribers post the re-verification. Being inactive subs, the disconnections would, however, be revenue and profit neutral. We expect RCOM to maintain reasonably healthy sub adds (1.2m in March).

Indian Wireless

Customer Verification: RCOM worst affected, others should do fine

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- **RCOM quantifies the impact of verification** — RCOM, in a release, stated that they completed the re-verification of only 85% of their sub base till the stipulated deadline of March 31, leading to de-activation of the remaining 15%. This translates to roughly 5m subs on the unadjusted gross sub base of about 33.6m
- **RCOM says 5m subs were inactive** — The de-activations did not contribute any revenues in 3QFY07, besides, there will not be any revenue write-offs as these subs were inactive for past few quarters. We therefore see RCOM using the current verification drive as an excuse to clean up its books. RCOM claims ARPUs will be up 12% as a result, acting as a further proof of the inactive subs. No further details on mix of inactive subs (scheme specific, post/pre mix, period of adds, etc.) were provided.
- **What does it change?** — Nothing much as far as revenue market share is concerned. RCOM's share of subs will however drop from 20.6% to 18.0% (besides the share of its past net adds being overstated), making Bharti a clear leader. Bharti's revenue market share of 25.4% as against subs share of 22.5% had acted as an indication of the true picture earlier.
- **What does it mean for the industry?** — We believe RCOM is an exception rather than an industry trend. Our discussions with other operators indicate that the un-verified customer base at the industry level is unlikely to exceed 6-7%. For example, Bharti had completed 90% verification by end-Feb and has been deactivating every month, thus considerably reducing the chances of any lumpy hit when the industry sub numbers for March are released later this week
- **What does it do to RCOM?** — While the de-activations will impact sentiment on the stock, they are unlikely to have any material impact on our estimates. RCOM's present valuation discount to Bharti (25-30% on EV/EBITDA) will however limit the damage. Meanwhile, RCOM added 1.2m subs during March in the normal course of business, an improvement over Feb's low of 0.8m.

Sasken Communication Technologies (SKCT.BO)

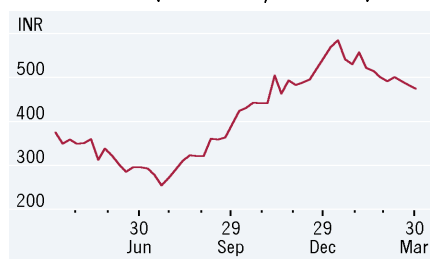
Buy: Lenovo Signed as First E-Series Customer

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Buy/Medium Risk	1M
Price (09 Apr 07)	Rs480.25
Target price	Rs653.00
Expected share price return	36.0%
Expected dividend yield	0.6%
Expected total return	36.6%
Market Cap	Rs13,687M US\$321M

	2006	2007E	2008E
EPS new(Rs)	8.09	17.29	31.23
EPS Growth(%)	-40.2	113.8	80.6
P/E	59.4	27.8	15.4
EV/EBITDA	26.7	16.7	10.6
Consensus Data	9.08	17.06	29.52

Price Performance (RIC: SKCT.BO, BB: SACT IN)



- **First E-Series customer** — Sasken Application Framework has been chosen by Lenovo as its Application Solution of choice for development of feature phones based on the OMAP-Vox platform from Texas Instruments.
- **Feature-rich product** — Sasken Application Framework offers an advanced solution for rich media phones with features such as video record and play, audio-video streaming, Bluetooth stereo headsets, touchpad with handwriting recognition, as well as messaging solutions and HTML browser.
- **Roadmap for E-Series** — In our past interactions, management indicated that it should take 6-9 months to go from "design in" to "design win" stage. We expect the first product on E-Series to be launched in 3Q FY08.
- **Product roadmap encouraging** — At end-3Q FY07, Sasken expected 7 design-wins in FY08. With Lenovo also potentially being launched in FY08, the product roadmap looks encouraging.
- **Reiterate Buy/Medium risk** — The stock trades at 15.4x FY08E EPS. Even if one values the product business at zero, the services business at ~10.5x FY08E EV/EBITDA is in line with other mid-cap stocks under our coverage. We value the product business at 3x FY08E revenues. With 70%+ EPS CAGR over FY06-FY09E, our Buy/Medium Risk rating is maintained.

India Technical Research Daily
Further Gains Likely

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- **Nifty** — The index opened on a firm note in the morning trade and witnessed an intra day rally; it closed around the days's high at 3844, up 92 points.
- **Bollinger Bands** — Post the decline from the high of 4245(8 February 2007) the bands have narrowed .The index had tested the lower end of the B.band around 3568 (7 March 2007).The upper end of the band is at 3897, a move which begins at one end of the band tends to go towards the other end of the band, thus Nifty is likely to rise towards 3897.Fig3.
- **Support \ Resistance** — The index had intra day support around 3796 high (9 March 2007). Next support at 20dma of 3743. Resistance on the upside are 3897 and 3902 (50dma) [dma=daily simple moving average].
- **Conclusion** — Nifty is likely to move towards 3902, intra day dips should find support around 3796.

Figure 1: India Technical Research — Index Snapshot

Indices	Last Close	Current Close	Daily Change(Points)
Sensex	12856	13178	+322
Nifty	3752	3844	+92
Nifty Futures: Current Month	3723	3826	+103

Source: Citigroup Investment Research

Figure 2: India Technical Research — Support and Resistance (Daily)

Indices	Support	Resistance
Sensex	13105-12990-12856	13371-13467-13522
Nifty	3796-3743-3709	3897-3902-3958
Nifty Futures: Current Month	3775-3730-3682	3875-3904-3964

Source: Citigroup Investment Research

Analyst Certification Appendix A-1

I, Ratnesh Kumar, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

NIIT (NIIT.BO)

Ratings and Target Price History - Fundamental Research

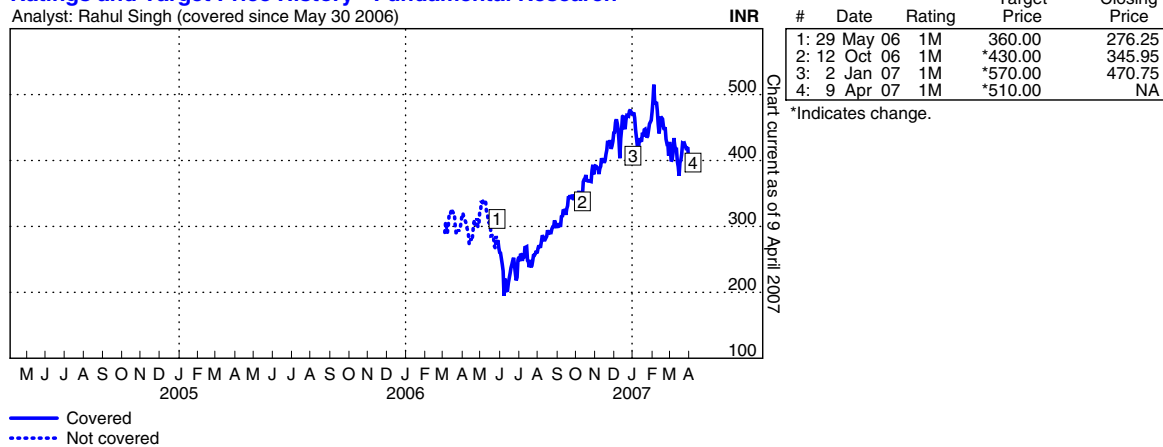
Analyst: Hitesh Shah (covered since November 29 2006)



Reliance Communications (RLCM.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since May 30 2006)



Sasken Communication Technologies (SKCT.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Surendra Goyal (covered since December 7 2006)



A member of Ratnesh Kumar's household holds a long position in the shares of Reliance Communications.

India Investment Daily

10 April 2007

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Data current as of 31 March 2007

	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (3215)	45%	40%	15%
<i>% of companies in each rating category that are investment banking clients</i>	45%	42%	32%
India -- Asia Pacific (130)	58%	14%	28%
<i>% of companies in each rating category that are investment banking clients</i>	42%	50%	42%

Guide to Fundamental Research Investment Ratings:

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Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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CBR risk ratings are approximately equivalent to the following matrix:

Low Risk -- Triple A to Low Double A

Low to Medium Risk -- High Single A through High Triple B

Medium to High Risk -- Mid Triple B through High Double B

High to Speculative Risk -- Mid Double B and Below

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