investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Balaji Tele	9-July-07	231	**248**	303
HUL	24-Nov-05	172	**202**	280
ICICI Bank	23-Dec-03	284	**857**	1,173
JP Associates	30-Dec-03	125	**914**	1,061
Madras Cement	17-Nov-05	1,498	**3,514**	3,700

ITC

Apple Green

Stock Update

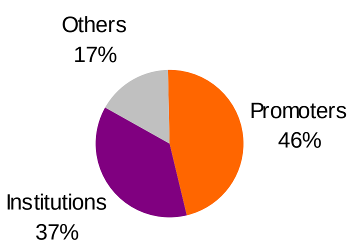
Expansion plans on the board

Buy; CMP: Rs168

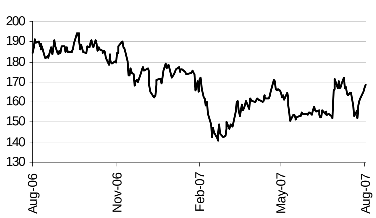
Company details

Price target:	Rs200
Market cap:	Rs63,390 cr
52 week high/low:	Rs196/140
NSE volume: (No of shares)	61.3 lakh
BSE code:	500875
NSE code:	ITC
Sharekhan code:	ITC
Free float: (No of shares)	203.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.6	2.7	-0.7	-5.3
Relative to Sensex	-0.7	-1.5	-14.7	-27.1

Key points

- ITC has purchased five acres of land in Hyderabad for its hotel project. The cost of acquisition of land was Rs127.5 crore. The plan for the hotel rooms has not yet been finalised but the management has indicated that depending on the plan the number of rooms could vary from 300-500.
- The paperboards and specialty papers division of ITC has decided to invest Rs35 crore by the year-end to increase the capacity at its Bolaram facility. Post expansion, the capacity of the facility would go up to 42,000 tonne a year from the present 18,000 tonne a year.
- At the current market price of Rs168, the stock is attractively quoting at 20x its FY2008E earnings per share (EPS) and 12.6x FY2008E enterprise value (EV)/ earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on ITC with a target price of Rs200.

Expansion plans in hotel segment

ITC has purchased five acres of land in Hyderabad for its hotel project. The cost of acquisition of land was Rs127.5 crore. The plan for the hotel rooms has not yet been finalised but the management has indicated that depending on the plan the number of rooms could vary from 300-500. The company is already coming up with projects at Bangalore and Chennai. The construction of the new super-deluxe luxury hotel coming up at Bangalore is progressing as per the plan. A substantial progress has also been made in developing new project plans and obtaining the requisite approvals for the new property at Chennai.

Location	Rooms	Expected by
Bangalore	280	Dec 2008
Chennai	550+100*	2010

* Service Apartments

With most of the properties working at peak occupancies, we expect the revenues of ITC to be driven by higher average room rate (ARR) and stellar performance by the food and beverage (F&B) segment.

Earnings table

Particulars	FY2006	FY2007	FY2008E	FY2009E
Net profit (Rs crore)	2,280.4	2,699.8	2,998.3	3,629.2
Shares in issue (crore)	375.5	376.2	376.2	376.2
EPS (Rs)	6.1	7.2	8.0	9.6
% y-o-y chg	*4.0*	*18.2*	*11.1*	*21.0*
PER (x)	26.1	22.1	19.9	16.4
Book value (Rs)	24.1	27.7	32.1	38.1
P/BV (x)	6.6	5.7	4.9	4.2
EV/EBIDTA (x)	16.9	14.3	12.6	10.3
EV/Sales (x)	5.7	4.6	3.8	3.2
RoCE (%)	33.2	34.9	33.5	35.5
RoNW (%)	26.4	27.7	26.6	27.5

Paperboards and specialty papers

The paperboards and specialty papers division of ITC has decided to invest Rs35 crore by the year-end to increase the capacity at its Bolaram facility. The Bolaram facility manufactures environmentally friendly elemental chlorine free packaging material to produce paper cups. Post expansion, the capacity of the facility would go up to 42,000 tonne a year from the present 18,000 tonne a year.

The facility reported a turnover of Rs100 crore for FY 2007. ITC made an initial investment of Rs35 crore on this facility. The current investment in the Bolaram facility will enhance packaging capabilities, which would support the growing requirement of the fast moving consumer goods (FMCG) sector.

ITC is the market leader in the domestic paperboard market with a market share of over 30% in value terms. Moreover, it is the only player in the premium value added paperboard segment. In the speciality paper category, the company is a major player in the cigarette tissue segment with a market share of 77%.

Valuation and view

We have always liked the way ITC has channelised the strong cash flows generated from its cigarette business into its other businesses of FMCG products, hotels, paperboards and now e-Choupals. However, the fear of value added tax (VAT) may have a dampening effect on the stock. But the same is likely to be a short-term aberration and one should look at the stock with a long-term perspective.

At the current market price of Rs168, the stock is attractively quoting at 20x its FY2008E EPS and 12.6x FY2008E EV/EBIDTA. We maintain our Buy recommendation on ITC with a target price of Rs200.

The author doesn't hold any investment in any of the companies mentioned in the article.

Nicholas Piramal India

Apple Green

Stock Update

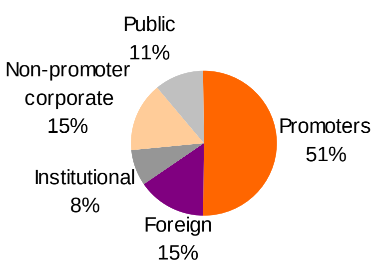
Demerger of discovery R&D to unlock value

Buy; CMP: Rs253

Company details

Price target:	Rs326
Market cap:	Rs5,291 cr
52 week high/low:	Rs321/195
NSE volume: (No of shares)	65,842
BSE code:	500302
NSE code:	NICHOLASPIR
Sharekhan code:	NICHPI
Free float: (No of shares)	10.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	-5.1	16.1	19.4
Relative to Sensex	-0.5	-8.9	-0.2	-8.1

Key points

- Nicholas Piramal India Ltd (NPIL) is planning to restructure its research and development (R&D) division by spinning off its new chemical entity (NCE) research unit into a separate entity. The company is holding a board meeting on August 31, 2007 to consider the proposal.
- NPIL currently spends around 5-6% of its turnover on discovery R&D. With a focus on the therapeutic segments of oncology, diabetes, inflammation and infectious diseases, NPIL has a pipeline of one new NCE and two phytopharmaceutical products in the clinics. Additionally, five of its NCEs and one phytopharmaceutical product is scheduled to enter the clinics in 2007, which would make it one of the largest clinical development pipelines among the Indian players.
- We have attempted to value the demerged discovery R&D entity of NPIL in line with Sun Pharma Advanced Research Company (SPARC-which is the demerged innovative R&D unit of Sun Pharmaceuticals). We estimate the value of the demerged R&D company at Rs2,369.1 crore, which translates into a value of Rs113.4 per share.
- Assuming that the demerger is effective from April 1, 2007, the same would provide some relief to the base business in terms of the reduction in R&D expenses and the associated loss of the tax shield. We estimate that the demerger would result in Rs55.3 crore and Rs67.9 crore of incremental net profit for the base business, which adds an additional Rs2.6 and Rs3.2 to the earnings per share (EPS) of FY2008E and FY2009E respectively.

NPIL is planning to restructure its research and development (R&D) division by spinning off its new chemical entity (NCE) research unit into a separate entity. The company is holding a board meeting on August 31, 2007 to consider the proposal.

Earnings table (consolidated)

Particulars	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net sales (Rs cr)	1308.2	1582.5	2420.2	2866.9	3248.1
PAT (Rs cr)	84.4	127.5	232.6	282.4	342.1
Shares in issue (cr)	19.0	20.9	20.9	20.9	20.9
EPS (Rs)	4.3	6.0	11.0	13.4	16.3
PER (x)	58.9	42.4	22.9	19.7	16.3
EV	5162.3	5507.0	5879.5	5827.0	5698.6
EV/Ebidta (x)	30.5	27.9	17.7	13.4	11.2
Book value (Rs/share)	29.0	48.5	52.0	60.6	70.3
P/BV (x)	8.7	5.2	4.9	4.4	3.8
Mcap/sales	3.7	3.3	2.2	1.8	1.6
RoCE (%)	15.3	12.0	16.6	17.6	19.3
RoNW (%)	15.3	12.6	21.4	22.3	23.3

NPIL currently spends around 5-6% of its turnover on discovery R&D. With a focus on the therapeutic segments of oncology, diabetes, inflammation and infectious diseases, NPIL has a pipeline of one new NCE and two phytopharmaceutical products in the clinics. Additionally, five of its NCEs and one phytopharmaceutical product is scheduled to enter the clinics in 2007, which would make it one of the largest clinical development pipelines among the Indian players. The company's total pipeline has an aggregate revenue potential of $30.9 billion, which is estimated to grow to $48.5 billion by 2008. NPIL also has in place a modern, state-of-the-art R&D facility with around 350 scientists.

NPIL's lead compound P276, an oncology molecule is currently in Phase IIB clinical trials, which are due to finish by the end of FY2008. The product is currently undergoing clinical trials in Canada. NPIL is working with Harvard Medical School for undertaking the Phase I/II studies for multiple myeloma, which increases the confidence on the potential of the molecule. NPIL is targeting an orphan drug status for this molecule, which can significantly cut short the approval time as well as enable clinical trials on a much limited scale. This will make the entire clinical development programme extremely cost effective and enhance NPIL's flexibility in seeking outsourcing options.

A key feature of NPIL's R&D programme is its strategy of focusing on incremental innovations in addition to discovering novel drugs. As part of this strategy, NPIL is working on developing safer versions (with lower side-effects) of popular drugs like Aspirin, Dioflenec and central nervous system (CNS) drugs using a proprietary technology. Another aspect of Nicholas' R&D program is its focus on developing phytopharmaceutical compounds by actively tapping its enormous library of natural products comprising 35,000 microbial strains and 5,600 plants from natural habitats.

NPIL's discovery R&D pipeline

Therapeutic area	Compound	Target	Stage of development
Oncology	P276	CDK-4 inhibitor	Phase I/II
Oncology	P1446	CDK-4 inhibitor	Preclinical
Oncology	KM80	Gleevac resistant cancer	Preclinical
Oncology	Pxxx	Hypoxia-induced factor	Preclinical
Oncology	Microbial leads	General	Preclinical
Inflammation	P979	TNF alpha inhibitor	Preclinical
Inflammation	Back-ups	TNF alpha inhibitor	Preclinical
Inflammation	PP-05	TNF alpha inhibitor	Phase II complete
Inflammation	P-1539	Safe NSAIDS	Preclinical
Inflammation	P2026	Safe NSAIDS	Preclinical
Diabetes	Pyyy	non-PPAR	Preclinical
Infectios diseases	PP-04	antifungal	in Phase II
Infectios diseases	PM 181104	Drug resistant bacteria	Preclinical

Valuation of the demerged entity

The demerger of the discovery R&D division into a separate company is expected to unlock the embedded value of NPIL's discovery R&D program and de-risk the base business from the uncertainties and risks related to discovery R&D.

We have attempted to value the demerged discovery R&D entity of NPIL in line with SPARC, the innovative R&D unit of Sun Pharmaceuticals.

For valuing NPIL's discovery R&D unit, we have taken the cumulative R&D expenditure since FY2002 (the year it started innovative research) and have assumed that 50-65% of its total R&D expenditure has been spent on discovery R&D. We have valued the demerged entity at Rs2,369.1 crore by giving a multiple of 6.2 of its cumulative innovative R&D spending. We have arrived at the multiple of 6.2x in line with SPARC, which currently commands a valuation of 6.2x of its cumulative innovative R&D spending. It is important to note that the value of assets transferred has not been included in this valuation as the same has not been disclosed by the company yet.

Since we do not know the scheme of the demerger as to how many shares will be issued in the new demerged company, we have assumed the demerger ratio to be 1:1, which means that NPIL will issue one new share in discovery R&D for every share held in NPIL. Thus, we have arrived at the figure of 20.9 crore outstanding shares in the demerged company. Therefore, the estimated value of the demerged R&D company at Rs2,369.1 crore translates into a value of Rs113.4 per share.

Valuation of SPARC (demerged innovative arm of Sun Pharma)

Cumulative innovative R&D spend since FY2000 (4 NCEs, 5 NDDS)	Rs251.2 crore
Value of Sun Pharma's demerged unit (as on Aug 29, 2007)	Rs1569.1 crore
(Value of demerged unit)/(cumulative R&D spend) ratio	6.2 x

Valuation of NPIL's demerged discovery R&D unit

Cumulative discovery R&D spend since FY2002 (6 NCEs and 2 phytopharma compounds)	Rs379.4 crore
Value of demerged unit (maintaining same ratio of value/cumulative R&D spend as SPARC)	Rs2369.1 crore
Assumed no of shares of demerged entity (same as that of NPIL)	20.9 crore
Value per share of the demerged entity	**Rs113.4**

Impact of the demerger on the base business

NPIL currently spends around 6-7% of its turnover on R&D, of which around 65% is spent on discovery R&D. Assuming that the demerger is effective from April 1, 2007, the same would provide some relief to the base business in terms of the reduction in R&D expenses and the associated loss of the tax shield. Hence, the demerger, as displayed under, would result in Rs55.3 crore and Rs67.9 crore of incremental net profit for the base business, which adds an additional Rs2.6 and Rs3.2 to the EPS of FY2008E and FY2009E respectively.

Impact of the demerger on the earnings of the base business

	FY2008E	FY2009E
Reduction in R&D spend	111.8	137.2
Increase in taxes due to reduced R&D spend	56.5	69.3
Net impact on the bottomline	55.3	67.9
Incremental EPS addition due to demerger	2.6	3.2

The author doesn't hold any investment in any of the companies mentioned in the article.

Automobiles

Sector Update

Don't throw caution to the winds yet

Key points

- The automobile sector has been underperforming the market since the last six months on account of low demand due to higher interest rates, low availability of finance, the monsoons and the higher base of last year. The medium and heavy commercial vehicle (M&HCV) and the motorcycle segments have been the worst affected, while the passenger car segment has outperformed the industry on the back of a number of new launches.
- Even though most of the companies are expecting a revival during the forthcoming festive season, the slowdown in the first four months of FY2008 has been higher than anticipated. The revival is also expected to be delayed in view of the late festive season this year. Hence we continue to remain cautious on the industry and need to keenly monitor the next two months.
- Our channel checks indicate mixed outlook. The commercial vehicle (CV) segment is witnessing some pick up in demand. The two-wheeler industry is also witnessing a bit of revival, but lack of any powerful new launch and tight funding may continue to de-grow the industry for the next three-four months. The passenger car segment is witnessing a double-digit growth, but increasing inventory levels and competition are forcing the players to offer huge discounts.
- We have given our estimates for Q2FY2008. For our large cap auto universe we expect the sales to be down by 10.6%, whereas profit after tax (PAT) is expected to decline by 28.1%. The performance in Q2FY2008 could show significant quarter on quarter (q-o-q) and year on year (y-o-y) decline in profits and the reported profits could also be impacted due to foreign exchange (forex) loss arising out of weakening of the rupee.
- In view of the above-mentioned factors, we are revising our estimates on these companies. We are reducing our volumes as well as earnings estimates for Tata Motors by 0.5% (due to better performance of subsidiaries), Ashok Leyland by 10.9%, Maruti Suzuki by 2.5% and Bajaj Auto by 5.7%. **Maruti Suzuki is our top pick in the sector.**

Introduction

The auto sector has been underperforming the market for the past six months on account of lower demand, tightening of finance availability, rising interest rates and seasonal effects. This slowdown in the off take has led to inventory build ups and has forced the companies to offer discounts. The slowdown has also caused some of the original equipment manufacturers (OEMs) and component companies to postpone their expansion plans. In addition, many OEMs, such as Tata Motors, Bajaj Auto, TVS Motor Company, Force Motors and Hyundai Motors, have undertaken production cuts of approximately 20-25% due to the lower demand and higher inventory. Though most of the companies are expecting a revival during the forthcoming festive season, we remain cautious on the industry and believe it is important to observe their sales numbers for the next two-three months and also the inventory created in the system. We expect the industry to consolidate in FY2008 and report negative to single-digit growth rate for the full year. We recently re-assessed the developments in the automobile sector to ascertain whether any improvement is being witnessed. We present our findings and observations below.

Two-wheelers

The sales volumes in the two-wheeler industry remained depressed in the past six to seven months due to a lower demand, inventory clearances and seasonal factors. The two-wheeler sales dipped by 9.2% in the period of April-

Valuation table

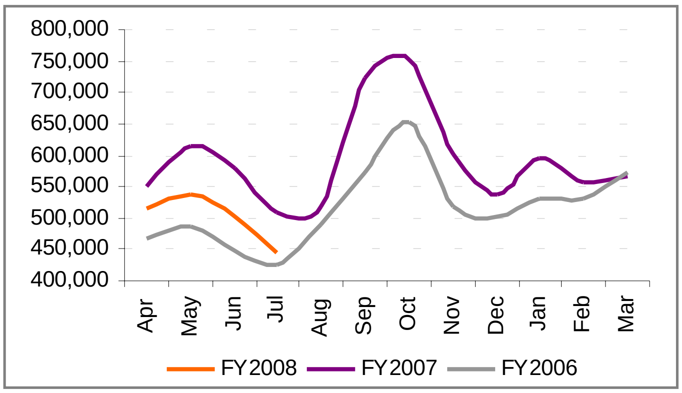
	EPS		PER		EV/EBIDTA		Reco
	FY2008E	FY2009E	FY2008E	FY2009E	FY2008E	FY2009E	
Bajaj Auto	106.8	121.6	21.7	19.1	15.4	12.3	Hold
Maruti Suzuki	63.0	71.9	13.2	11.6	8.1	6.8	Buy
M&M*	61.8	69.7	10.6	9.4	6.8	5.9	Buy
Tata Motors*	54.3	64.9	12.4	10.4	6.2	5.2	Buy
Ashok Leyland	3.0	3.9	12.4	9.7	7.8	6.2	Hold

* Consolidated

July 2007 with the domestic motorcycle sales decreasing by a whopping 15.1% at 1,753,772 units. On the back of impressive new launches, the scooter segment saw a growth of 17.2% during the same period. Consequently, the two-wheeler companies have undertaken production cuts, while the market leader Hero Honda has delayed the launch of its new plant at Uttarakhand. Though the inventory levels are down from 45 days to 25 days, they are still higher than normal.

Based on our conversations with a few dealers, the two-wheeler industry may witness some sort of a revival with the advent of festivals like *Ganesh Chaturthi* and *Janmasthmi*. The chart below indicates that the sales normally revive from August-September onwards. However in the current year we expect any revival happening only from October onwards.

Motorcycle sales numbers

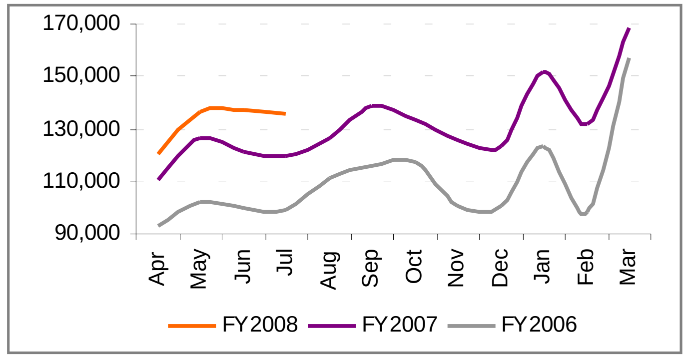


The manufacturers are expected to come out with their yearly discount *Mela* sometime in October to further boost its festive sales. The industry has not seen any powerful new launches in the recent times and most companies have been busy launching product extensions till now. Bajaj Auto's new bike, expected to be launched in early September with its recently claimed promises, may give a fresh lease of life to the company's volumes. TVS Motors aims to create excitement with nine new launches in various segments by March 2008, through which it hopes to regain volumes. The industry sales volumes may continue to be depressed for the next three-four months and some revival is expected only after that period.

Passenger cars

The performance of the passenger car segment has been better as compared with the other segments of the automobile industry. Maruti Suzuki has outperformed the industry segment with growth backed by new product launches. Since April-June 2007, where the passenger car industry has seen a domestic growth of 12.3% yoy, the leader Maruti Suzuki has recorded a domestic volume growth of 17.7% yoy. The chart below indicates that so far in FY2008 there has been a very nominal decline in car sales in the months of June and July.

Passenger vechicle sales numbers



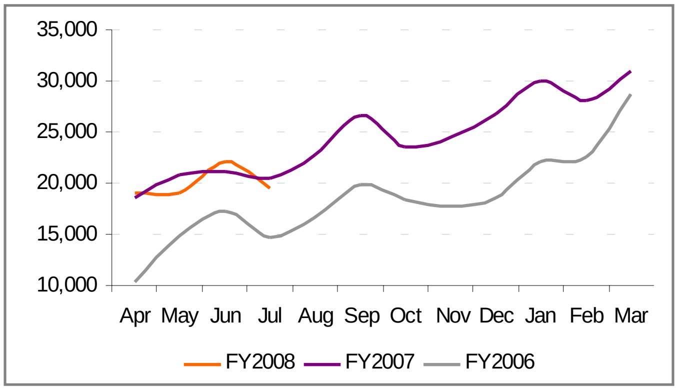
On the other hand, Tata Motors has witnessed a year-till-date decline of 4% in the passenger car segment due to the lack of new product launches and intensifying competition.

Faced with increasing inventory (up from 30 days to 45 days) and increasing competition, all the companies in this segment are offering discounts ranging from 5% to 15% to garner volumes. Maruti Suzuki has further raised and extended its special discount scheme open across its products (except *Swift Diesel* and *Sx4*) till August 30. Going forward, though we expect Maruti Suzuki's sales to remain strong, competition might compel it to continue with the discount schemes even in the festive season. The planned launches of the upgraded *Honda City* as well as the long waiting period for the high-end version of *Sx4* might cap Maruti Suzuki's growth in the coming months. Tata Motors' underperformance in the segment is likely to continue despite heavy discounts being offered by the company to clear off its high inventory.

CVs

The commercial vehicle (CV) industry is witnessing some pick-up happening on the dealer front with improvement in orders for the higher vehicles. The high base of last year, rising interest rates, low availability of finance and the monsoons have been the major factors affecting the growth of the sector in the past few months. The light commercial vehicle (LCV) sub-segment, however, continues to outperform the CV industry segment, recording a y-o-y growth of 15% in the period of April-July 2007 against a y-o-y decline of 4.4% recorded by the M&HCV segment in the same period. The sales of the M&HCV goods segment fell by 11%. More specifically, the 12-16 tonne category has been the hardest hit, while the growth in the tipper and tractor-trailer segments continued in the first four months of the current fiscal.

M&HCV sales numbers



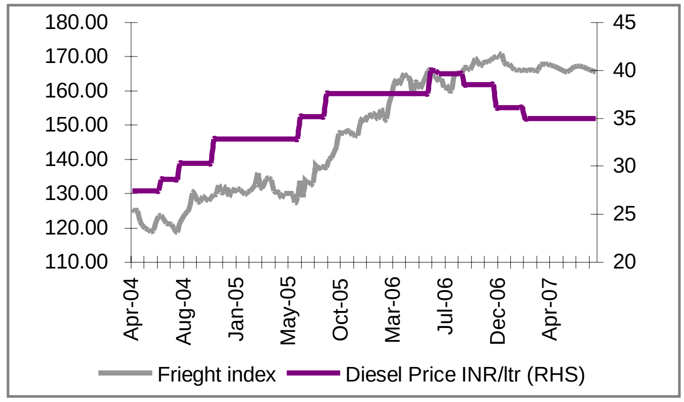
The lower sales have led to a sharp increase in the inventory levels for the manufacturers. To clear up the inventory, the major players have been offering heavy discounts in the range of 5-8%. Tata Motors has been more aggressive in its effort to control inventory levels and has been offering higher discounts and taking production cuts. Ashok Leyland has not taken any production cuts and has taken a conscious decision to increase its inventory levels in anticipation of a strong growth in the second half of the fiscal.

The above chart indicates that sales normally decline in June and July (last year was an exception due to the Supreme Court's ban on overloading of trucks). Our talks with dealers suggest some movement is taking place in the tipper trailers and heavier vehicles used in the construction and cement industries. The actual delivery of these vehicles will happen from September onwards. On the other hand, the normal 16-tonne vehicles are not selling at all and dealers are struggling to sell dispatches of the last two months. Considering the high inventory in the system, it will take a while for the dispatches from the companies to return to normal levels. As against our earlier estimate of 9% growth in the CV industry, we now estimate the industry to mark a growth of 6.9% in FY2008, fuelled by a 15% growth in the LCV segment, while the M&HCV segment is expected to remain flat.

Freight rates

Truck rentals continued to remain soft during the period due to lower availability of freight in the monsoons. However, the truck operators still remain profitable, as the freight rates have not come down in tandem with the drop in the diesel prices earlier during the year.

Freight rates



Funding eased out, interest rates down

In the last few months the interest rates have softened by 100-150 basis points. Subvention by manufacturers continued to push sale volumes. The financiers also appear to have come back and started pushing their loan disbursals aggressively. Based on our channel checks, the interest rates in cars have come down by about 150 basis points to about 12-12.5% while the interest rates in CVs have come down by about 200 basis points close to 10% from its peak.

Weakening of rupee may impact reported profits

An appreciation of about 7% in the rupee agains the dollar in the last quarter led to forex gains for companies such as Tata Motors and Mahindra and Mahindra (M&M). Since then the rupee has corrected a little from its high of Rs40.24 on July 24, 2007 to Rs41.13 per dollar currently. The major rise in the rupee has been caused by the strong foreign fund inflows into the country, through both the external commercial borrowing (ECB) route and the foreign direction investment route. However, due to the restrictions on the ECB borrowings imposed by the Reserve Bank of India and the political tension over the "123 nuclear deal" we might see a slowdown in the inflows in the coming times. Further, the ongoing US sub prime mortgage crisis and the subsequent failure of several hedge funds might lead to a greater sell off by foreign investors in the coming times. For example, August witnessed an outflow of $2.2 billion against an inflow of $5.8 billion in July. Considering all this, we believe that there are chances of the rupee weakening further in the coming times, which may lead to forex losses for the same companies (Tata Motors and M&M).

Q2 expectations

On the back of slower volumes, we expect Q2 results to remain subdued for the automobile companies. We expect our large cap auto universe to report a 10.6% drop in sales and a 28.1% drop in earnings. The two-wheeler and CV companies would be worst affected, while M&M's negative growth would look steep due to high base of the same quarter last year. The only company expected to report positive growth in Q2 is Maruti Suzuki (which is expected to report a 17.1% yoy growth in Q2).

Q2FY2008 expectations (Rs crore)

	Net sales			Profit after tax		
	Q2 FY08E	Q2 FY07	% chg	Q2 FY08E	Q2 FY07	% chg
Ashok Leyland	1,487.3	1,675.7	-11.2	52.9	77.7	-31.9
Bajaj Auto	20,459.9	24,359.7	-16.0	2,342.3	3,314.5	-29.3
Maruti Udyog	4,169.6	3,419.2	21.9	430.4	367.4	17.1
M&M	2,432.8	2,490.5	-2.3	156.4	245.4	-36.3
Tata Motors	5,879.8	6,571.8	-10.5	246.5	486.9	-49.4
Auto universe	**34,429.5**	**38,516.9**	**-10.6**	**3,228.6**	**4,491.9**	**-28.1**

Change in estimates

In view of the higher than expected slowdown in the year till date, the delay in revival due to higher inventory in the system and the consequent impact on profitability, we are revising our estimates for the companies. We are reducing our sales volume estimate for Maruti, due to slightly lower than expected off take of *Zen Estilo*, despite a strong performance of other models. Bajaj's numbers have been reduced a bit due to a greater slowdown and a loss of market share in the three-wheeler segment. We expect the revival to be a little more delayed in the case of CV industry as well, and expect a positive growth in volumes only in the last quarter of the fiscal. Consequently, we are revising downwards our volume estimates for Tata Motors by 4.8% and Ashok Leyland by 4.7%. As a result, our earnings estimates for Tata Motors have been lowered by 0.5% (due to better performance of its subsidiaries) and for Ashok Leyland by 10.9%.

Change in estimates

	Volumes			EPS		
	Old FY08	New FY08	% Chg	Old FY08	New FY08	% Chg
Bajaj Auto	2,687,886	2,456,203	-8.6	113.2	106.8	-5.7
Maruti Suzuki	803,575	780,385	-2.9	64.6	63.0	-2.5
M&M	202,508	202,191	-0.2	61.8	61.8	0.0
Tata Motors	610,678	581,601	-4.8	54.5	54.3	-0.5
Ashok Leyland	87,279	83,199	-4.7	3.4	3.0	-10.9

Valuations

The slowdown has hit the automobile stocks hard in the recent times with the auto index recording a drop of 16% in the last six months. Almost all the industry players are expecting a revival in the second half of the fiscal. Though we do expect a revival in sales, the next two months need to be keenly monitored. Considering the current valuations of the automobile companies, we feel that the front-line automobile stocks are available at very attractive valuations, however the performance in the second quarter could show significant q-o-q and y-o-y decline in profits. In case of any delay in revival further earnings downgrade will be done. On reasonable valuations coupled with growth and performance, **Maruti Suzuki is our top pick in the sector.**

Valuation table

	EPS		PER		EV/EBIDTA	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Bajaj Auto	106.8	121.6	21.7	19.1	15.4	12.3
Maruti Suzuki	63.0	71.9	13.2	11.6	8.1	6.8
M&M*	61.8	69.7	10.6	9.4	6.8	5.9
Tata Motors*	54.3	64.9	12.4	10.4	6.2	5.2
Ashok Leyland	3.0	3.9	12.4	9.7	7.8	6.2

* Consolidated

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India