ENAM

Sensex: 20687

India Strategy

Don't get off the Liquidity-ride

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Investment Summary

- **Liquidity (global+local) to remain buoyant. Ecoscape CY08: ~9% growth driven by investments, + Agri surprise. Rate cut 25 bps+ in 2H CY08. Inflation containment ~ 5%. Budget surprise on tax rates**
- **Concerns incl any steep mkt rise spooking investors/ Govt, F&O overhang vulnerability, Valuation concerns in pockets, global factors & political fallout of sharp INR rise**
- **In a Liquidity-driven 08, with Mega-stocks having gluttoned, the 2nd rung likely to absorb more of incremental liquidity:**
  - Of the **top 7 stocks** (~25% of BSE 500 mcap) only ONGC/ Bharti have near-term upside. Hence, liquidity to concentrate on the next 25% (**16 stocks**), of which banking sector (**ICICI Bk, HDFC, HDFC Bk**) best poised
  - Of the **next 56**, only the top few such as **Tata Steel & AB Nuvo** can absorb much liquidity
- **Scalar Core portfolio for Globally benchmarked Long term funds: Use Basket approach as ultimate dominator unknown:**
  - Demographics: **Insurance & Asset mgt** plays
  - Climbing the Demographic pyramid: **Media/ Retail/ Realty**, eg Groups such as Bharti/ Reliance (Mukesh & ADAG)
  - Infra: **Area devt & Power/ Gas**: Eg basket of Adani/ GMR/ GVK/ L&T/ REL etc.
  - Globalization: **Resources**
  - **Suppliers** to all above Growth areas eg **engg, logistics**
- **Visible growth Absolute return 1 yr time-frame:**
  - Sectors which could positively surprise: **Cement** EPS**, Telecom** tower valn unlocking
- **Contra bets:**
  - **IT**: Huge cash reserves & challenging sector dynamics could prompt strategic moves
  - **Auto**: Strategic tie-ups enabling India becoming a global hub
  - **Agri**: Agri-revival a strong possibility this year, + regulatory changes in fertiliser policy
  - **Pharma** (MNC & midcap): Laggard valuations

CY08 Demand for Funds: $20-30bn

Prop unwinding	F&O Unwinding	Issuances CY07: $11bn
5	**5 - 10**	**20+: Bunching?**

Insurance CY07: $10bn	MF/ Retail CY07$6bn	FII CY07:$12bn
14	**10+**	**10 – 20**

Supply of Funds: 30-40

- **F&O: Over extended?**
  - **Total F&O of USD30.7bn**
  - **Stock futures**: ~USD20bn
  - **Index futures**: ~USD5.8bn
  - **Options**: ~USD4.9bn

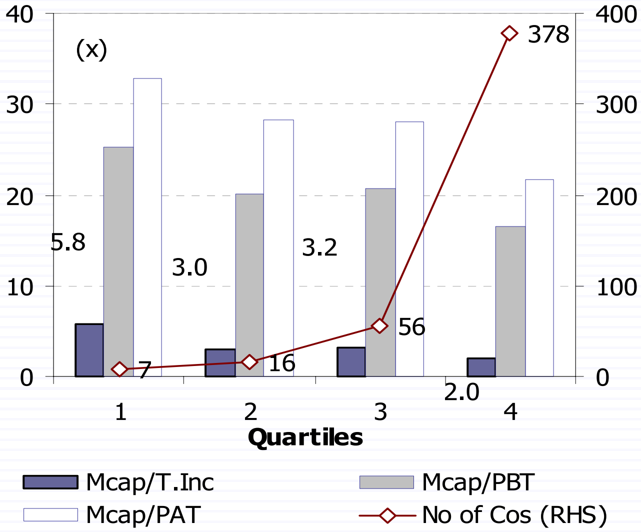
Sensex Valuation at :20687

	P/E (x)	EPS (INR)	EPS Gwth (%)
FY07	28.9	715	33%
FY08E	24.3	852	19%
FY09E	20.2	1,022	20%
FY10E	17.4	1,186	16%

Source: ENAM Research; Note : as on 04-01-2008

Who can absorb incremental liquidity?

BSE 500 breakup



Source: CLINE

Top Cos by Mkt Cap

Company	MCap ($ bn)	% of Total Mcap	P/E (x)
Reliance Inds.	107	7%	33.0
O N G C	67	4%	15.8
NTPC	52	3%	24.3
Bharti Airtel	48	3%	34.8
DLF Ltd	47	3%	128.5
Reliance Communication	39	3%	49.6
MMTC	41	3%	-
ICICI Bank	34	2%	38.6
St Bk of India	32	2%	22.6
B H E L	32	2%	44.7
Larsen & Toubro	31	2%	69.0
S A I L	30	2%	16.9
TCS	27	2%	25.6
Infosys Tech.	26	2%	24.8
Indian Oil	24	2%	9.7
H D F C	20	1%	42.2
Wipro	20	1%	26.2
Unitech	20	1%	58.7
ITC	20	1%	25.7
Sterlite Inds.	19	1%	86.4
Tata Steel	17	1%	14.9
Reliance Capital	16	1%	72.6
HDFC Bank	16	1%	45.4

Source: Capitaline; Note : as on 31-12-207

Top Buys & Sells: $1 bn+ mktcap

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Top Buys

Company Name	Price (INR)	Mkt Cap (USD mn)	FDEPS (Rs) FY09E	PE (x) FY09E	Target Price (Rs)	Potential Upside/ Downside (%)
Bharti Airtel Ltd	948	45,763	44	21	1,156	22
Sterlite Industries India Ltd	1,060	19,086	93	11	1,412	33
Hindustan Zinc Ltd	821	8,819	117	7	1,023	25
Siemens India Ltd	1,958	8,395	56	35	2,600	33
Satyam Computer Services Ltd	422	7,188	30	14	518	23
Hindalco Industries Ltd	220	6,864	23	10	286	30
Punj Lloyd Ltd	578	4,426	17	34	700	21
Container Corp Of India	1,873	3,095	138	14	2,350	25
Cummins India Ltd	406	2,043	22	19	585	44
Lupin Ltd	613	1,279	22	28	765	25
Shree Cement Ltd	1,358	1,203	125	11	1,871	38

Top Sells

Company Name	Price (INR)	Mkt Cap (USD mn)	FDEPS (Rs) FY09E	PE (x) FY09E	Target Price (Rs)	Potential Upside/ Downside (%)
DLF Ltd	1,113	48,230	761	1	761	(32)
Unitech Ltd	521	21,463	385	1	385	(26)
Petronet LNG Ltd	117	2,235	6	20	81	(31)
Jet Airways India Ltd	995	2,185	(14)	(71)	750	(25)
Gammon India Ltd	781	1,721	44	13	616	(21)

For Realty FDEPS = NAV, PE = P / NAV & Target price is based on SOTP, Unitech FDEPS = SOTP

Source: ENAM estimates, Bloomberg; Criteria, GMON FY09E PE adjusted for VOI

Note: Price as on January 04, 2008

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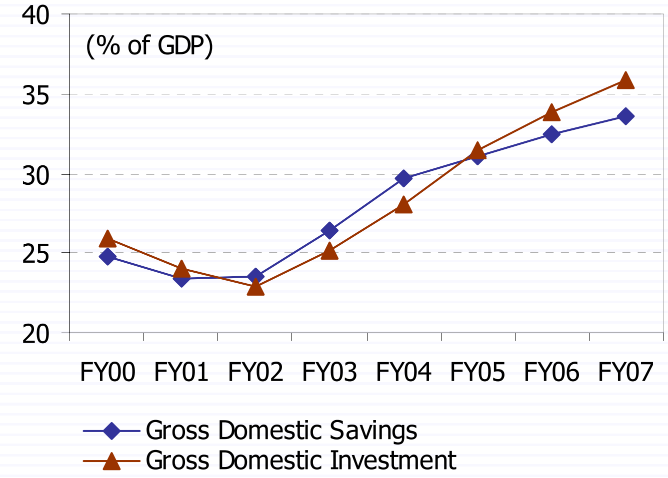
Ecoscape

High economic growth sustainable

- **Can growth trajectory sustain in spite of US slowdown & higher domestic interest rates?**
  - 1% slowdown in US may impact growth by 10-20 bps, the least among other EMs, given India's domestic consumption & low export dependence
- **~9%GDP growth sustainable for next couple of years, as India's potential growth rate is rising & growth cushions :**
- **Silent, incremental reforms hint at Agricultural revival**
  - Grain output to rise to 216 mn tonne
  - Agri credit doubled in 3 yrs
  - Increased outlays, insurance & extension services
  - Coverage of all (600+) districts under NREGS will strengthen demand
- **Investments to spur growth**
  - Investments have risen > 10 percentage points in the last 5 years & are largely insensitive to ST interest rates
  - Huge need- based demand
  - Capacity utilization 90% plus in key sectors
- **Consumption – Cushion available**
  - Lagged impact of higher interest rates hurting only in areas ie Cons durables – 2 wheelers, Realty, etc – targetted by RBI specifically
  - ~40% of household consumption on primary articles – not very int rate sensitive
  - Favourable demographics, rising incomes and rise in retail credit to cushion
- **Inflation to be contained ~ 5% due to impact of monetary & fiscal measures & higher agri output despite high oil prices**

Structural shift in Savings & Investment



Source: RBI

Domestic rates likely to soften in 2008

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- **Interest rates peaked, but quantitative measures to continue as liquidity mgt continues to be a challenge:**

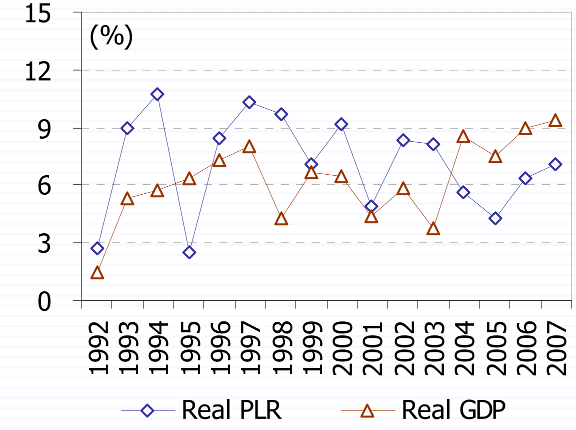
- **What is stopping RBI from cutting rates?**
  - Higher monetary expansion, due to RBI intervention, poses risk to inflation: M3 stands at~23% vs target of 17-17.5%
    - Accretion to Fx reserves has risen by avg $6bn p.m - $12bn rise in September & $12.5bn in Oct
  - High global oil & food prices

- **RBI may lower rates from H2CY08 onwards as:**
  - Rising int rate differential wrt US is attracting higher inflows – a never ending vicious cycle
  - Industrial growth getting volatile due to rising interest rates
  - SLR bond deficit at ~$15bn - may prompt a cut in SLR in 2HFY08
  - Capital A/c is 4x of current a/c due to rising inflows

- **Will this delay in cutting rates hurt growth?**
  - Unlikely, as interest rates still 'Neutral' and conducive for investments
  - Capex decisions are more linked to corporate cash flows, gearing and business cycles rather than just interest rates
  - Individuals/ corporates still relatively underleveraged

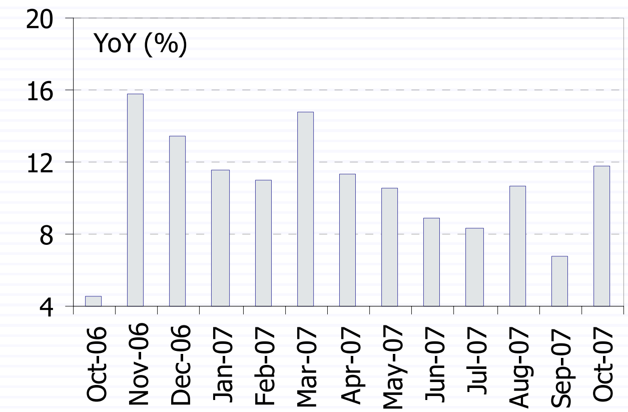
- **INR: Exchange rate policy becoming politically becoming unpalatable esp in a pre-electionary scenario, thus slowing the rate of INR appreciation in FY09**
  - The 36 country basket REER, which accounts for ~2/3rd of India's foreign trade, shows that the INR has not appreciated significantly vs USD

..Real interest rates still conducive



Source: Bloomberg

IIP growth: Rising volatility



Source: Bloomberg

Liquidity

Global liquidity slosh to continue

- **US: No debate on whether the US will slow, just the range and extent**
  - The Fed has been lagging the market and hence will cut intt rates further
  - Recession unlikely, as long as corporate sector growth and employment continue to hold up in a falling interest rate scenario
  - **US slowdown = lower interest rates globally = depreciating USD**
- **Euro area:** Euro strength hurting & will be first to feel US growth pinch, thus **easing of monetary policies** likely
- **Japan:** 2nd consecutive quarter of lower growth prompting recessionary fear; hence **unlikely to raise rates**
- **Sovereign wealth funds emerging as a new liquidity source – *'the new Rothschild's"*** (assets of $2.5 trn) eg have infused ~$30 bn into US financial behemoths

Leadership shifting away from US

Countries	1 Mth Return	3 Mth Return	6 mth Return	YTD
Brazil	2	9	28	73
S.Korea	(2)	(5)	7	31
Indonesia	1	13	23	46
Malayasia	5	11	11	41
Russia	3	12	22	15
India*	5	18	43	71
Dow Jones	(1)	(5)	(1)	6
S&P 500	(1)	(4)	(2)	4

**Note: YTD - Y/E Mar ,as of 31-12-07*

Fed being helped by RoW to flood the financial pool, to disguise those pissing in it

Burgeoning domestic liquidity…

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- **Domestic flows now > FII:**
  - Insurance flows into equities: $ 14 bn
  - Dom MFs: of $ 11 bn
    - $ 6 bn raised so far under NFOs
  - Profitable PSUs: Allowed to invest in equities now, most of this can potentially come in last qtr: ~$1.5-2 bn
  - Potential of under invested locals: Financial assets into equity ~12% (incl insurance, for which, assumed ½ into equity)
- **Becoming less vulnerable to FII inflows:**
  - Total FII investment value ~$200bn < Fx Reserves of $273bn

Savings composition

	($ bn)
Total GDP	**1,006**
Gross Domestic Savings	**326**
Total Financial savings :	**185**
- Bank deposits	103
- Equity/MF	12
- Insurance	28
- Provident & pension funds	17

Funds Flow for mkt

	($ bn)
Sources of funds	
Domestic Savings*	30
FII investments	12
TOTAL	**42**
Use of funds	
Domestic eqty issuances	25
Secondary mkt	17
TOTAL	**42**

** Incl direct equity, MFs, Ins. flows*

Insurance flows into equity

	FY08
Expected Insurance flows	**56**
share of pvt ins cos (30%)	17
of which: invst in equity (@50%)	8
share of public sector cos (70%)	39
of which: in equity (@ 25%)	10
Total	**18**
less: commissions @20%	4
Net total	**14**

Source: RBI, ENAM Research

..pitted against a huge issuance pipeline

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Proposed mega offerings of $ 20 bn+ slated for 2008 !!!

	US$ bn
Energy	5
PSUs including Banks	5
Real Estate	4
Pvt Banks & Financial Services	1
Others	5

Source: Prime Database; ENAM Research

Bunching in Q1 CY08 the issue !

Sectoral growth and valuations

Auto

➲ Two-wheelers

- Volumes to be muted on account of tight availability of finance
- With margins in the Entry level having reduced significantly, manufacturers have had to shift their focus back to the Executive segment, which accounts for ~50% of total volumes
  - Shift in market share within the Executive segment important factor to watch out for in the coming months

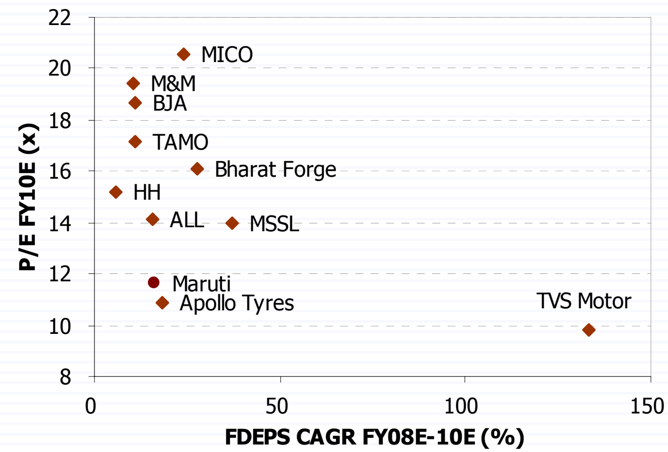
➲ Passenger vehicles

- YTD FY08 growth continues to remain strong. New models/ variant launches to maintain the volume momentum

➲ Commercial vehicles

- M&HCV segment continues to witness subdued growth due to increase in lending rates and tight availability of finance. We expect H2FY08 to register better growth vs. H1FY08
- LCV segment continues to register strong double digit growth. We expect momentum to continue

Relative valuation



Source: ENAM Research

Banking

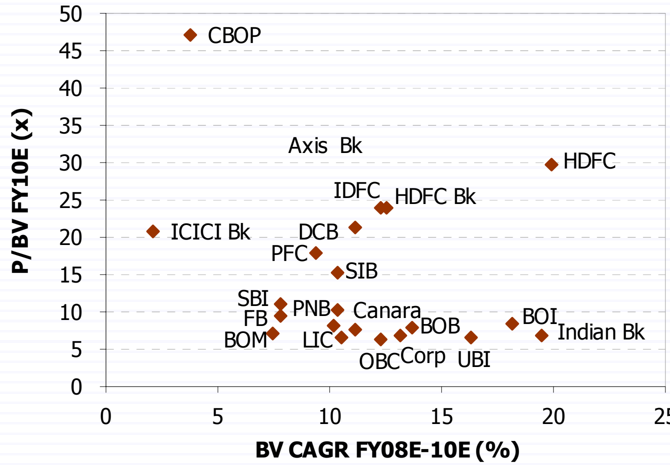
- **Margins likely to have bottomed out**
  - NIMs for PSBs are likely to have bottomed out as upward re-pricing of deposits is most likely over
  - Private sector banks likely to report stable margins aided by higher CASA
  - Banks which were aggressive in aggregating deposits at high costs are likely to take the hit for another quarter
  - Q3 witnessed high growth in Advance tax payments by some of the top banks (SBI's tax payment was up 26% over Dec-06, ICICI Bank 97% and HDFC Bank 65%)

- **Credit growth of SCBs at 22% YoY (till mid Dec) indicates some moderation**

- **Asset quality likely to remain stable**
  - NPA position likely to stabilize and improve on account of expected softening of interest rates during the first half of 2008

- **PSBs to raise capital**
  - SBI is all set to go for a Rs.170 bn rights issue in Q4
  - BOI also likely to raise Rs.14-15 bn through QIP. However, the issue will be open only to PSEs and MFs.
  - Other major lenders eg PNB, BoB, Union Bank, however chose to raise capital via subordinated debt issue

Relative valuation



Source: ENAM Research

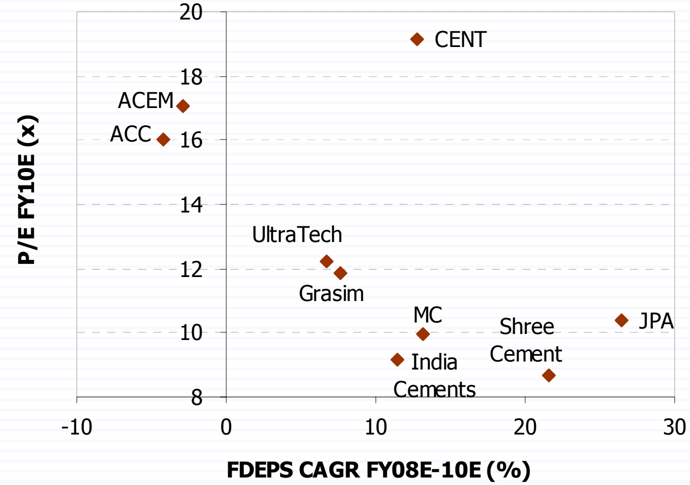
Cement

- **Demand growth to surprise on the upside**
  - During the first eight months of FY08, cement demand grew by ~10% YoY, given the capacity constraints
  - We expect demand to grow at least ~12% p.a., on the back of higher demand multiplier as sustainable GDP growth at 8-9% (as opposed to ~6% pa growth during 90s)

- **Supply outlook**
  - We expect 3-6 months delay in greenfield capacity additions due to (a) Regulatory constraints (b) Tighter order back log (c) Labour material shortage etc
  - Incremental supply over next 3 years to be absorbed by:
    - Strong demand
    - Historically low inventory levels
    - Lower the blending and
    - Higher maintenance/shutdown days
  - Capital cost of setting up a cement plant is rising sharply and now 50% more expensive at USD 125 per ton
    - Sustainable long term EBITDA should be atl east USD 25 per ton @15% ROCE (2x historical industry EBITDA)

- **Earning drivers**
  - Early volume growth will be the key earning driver for the next 2-3 years

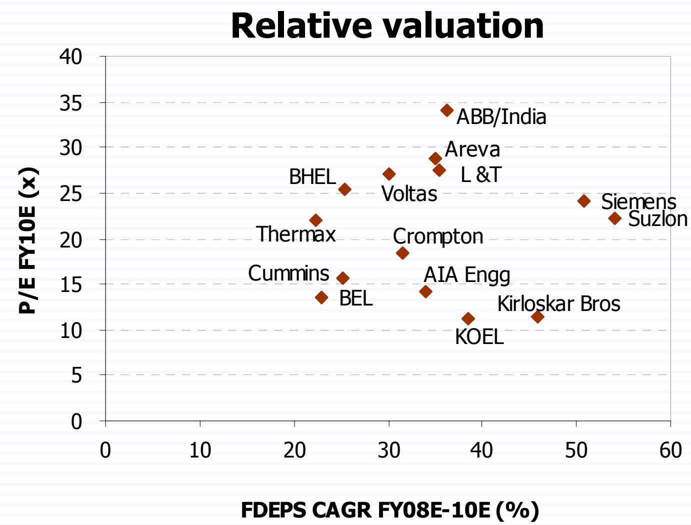
Relative valuation

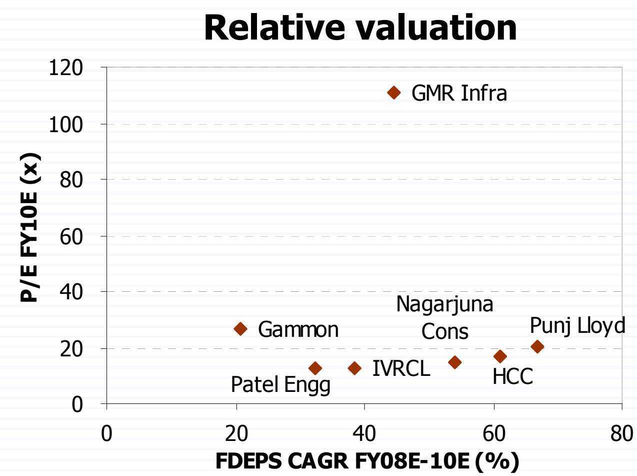


Source: ENAM Research

Engg/ Infra

- **Strong macro tailwinds to drive topline growth of 25%+ CAGR over 2007-12E**
  - Domestic industrial capex of ~USD110bn and infra outlay at USD 490bn over 2007-12E
  - Middle East/GCC nations outlay estimated at USD330bn over 2006-10E
- **Visibility enhanced for power capex**
  - ~70% of 11th plan projects being awarded in the 1st year of the plan period itself
  - USD 10bn+ equity raising plans of private utilities
- **Rising entry barriers + favorable demand supply situation to drive margin expansion**
  - Increasing ticket sizes + Higher net worth requirement to incrementally benefit larger players





Source: ENAM Research

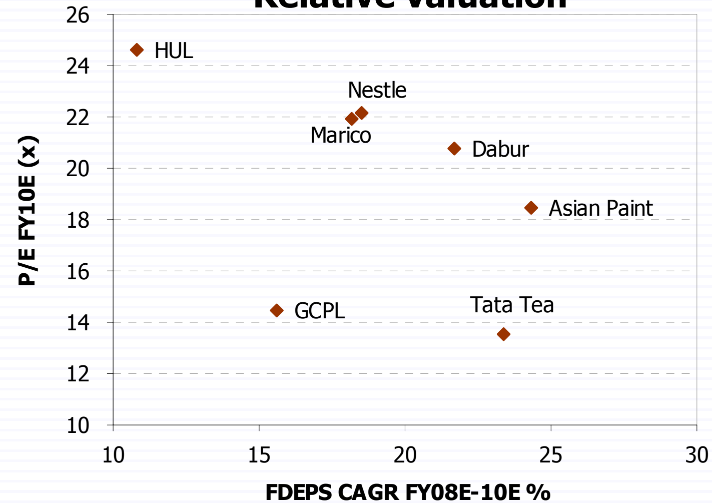
FMCG

- **Strong real internal growth for under penetrated & niche categories**
  - Led by innovations & renovations and brand up trading
  - Companies with strong real internal growth to outperform industry peers

- **Price hikes to offset inflationary pressures**
  - Commodity prices continue to spiral upwards
  - Key measures taken to mitigate cost pressures – Price hikes, lower A&SP spend and control over operating overheads
  - Cos with volume growth have also benefited from operating leverage
  - Players in niche and under penetrated categories with a growing consumption base will have greater pricing power to expand gross margin

- **Consumer sentiment: A key enabler**
  - With expectations of a softening in FY09, we expect higher disposable income led growth in the consumption space

Relative valuation



Source: ENAM Research

IT

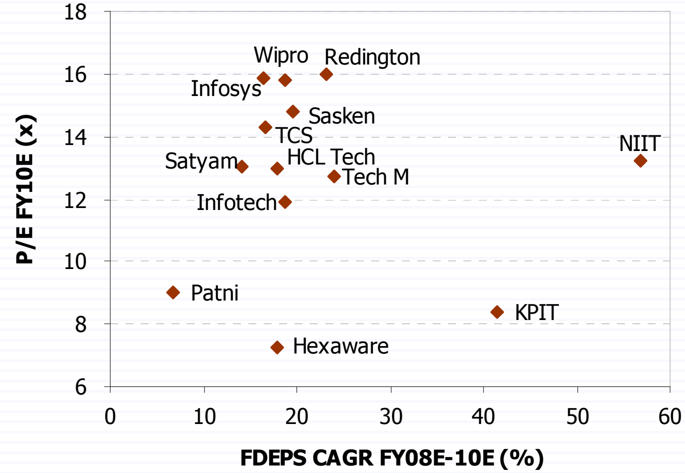
➲ Concerns on topline overrule buoyancy in demand

- Concerns over US economic growth and CY08 IT budgets shifts investor focus from PAT growth to topline growth
- INR appreciation and removal of Tax incentives from 1st April 2009, moderate sectoral CAGR PAT growth to 13-18% (v/s > 23-25% earlier). Higher tax outgo to involve structural change
- Demand remains strong; execution continues to be the key differentiator
- Supply challenges dominate - increase in attrition rates and wage inflation
- Recruitment & Training engines to differentiate PAT performance

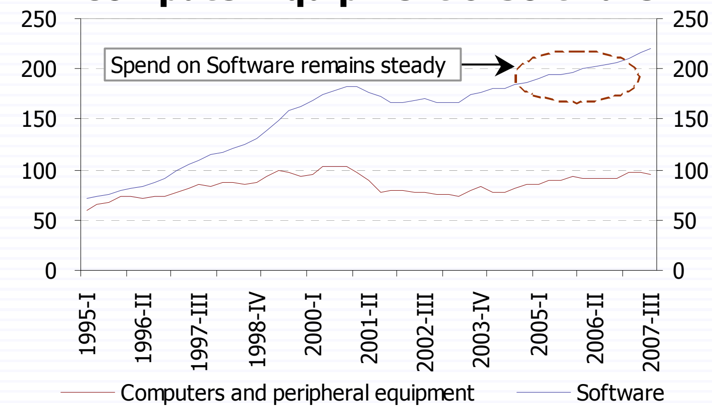
➲ Demand environment remains robust

- Rise in market share in large deal wins by Indian cos and higher client mining. Blended volume growth at >30% for large caps
- Blended pricing uptake of 3-5% in new client signings/ renewals amidst concerns on US slowdown
- Higher growth observed in non-US geographies esp Europe
- Divergent growth strategies to influence PAT growth:
  - Pursuit of offshore centric business offerings
  - Domain and Business consulting to determine growth in downstream activity

Relative valuation



US: Private Fixed Investment on Computer Equipment & Software



Source: ENAM Research; BEA

Media

➲ Longer term opportunity – Real & Enticing

- TV advertisement revenues expected to grow from ~Rs.61bn to ~Rs.108bn by CY 2010
- TV subscription revenues expected to grow from ~Rs.100bn to ~Rs.306bn in CY 2010
- Addressability to bring an additional ~43 mn homes in the digital net by FY 2012

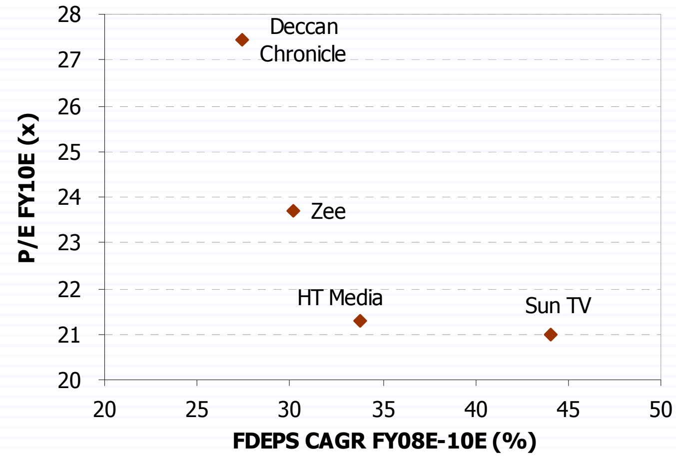
➲ Digitization: Increasing addressability

- Conditional Access System (CAS): Implementation of CAS is expected to increase addressability. Rollout in additional cities to bring in large number of subscribers into the digital net
- Direct-To-Home (DTH): DTH subscribers in India is expected to grow at 72% CAGR to 17.4mn by FY 2011, translating into a USD1.6bn industry

➲ Benefit to all stakeholders

- Broadcasters: To benefit the most from digitization with TV subscription revenues expected to grow at a CAGR of ~30% from USD 2.2bn currently to USD 10.7bn in CY 2012.
- MSOs: Mandated revenue sharing to lead to a multi-fold increase in revenues for MSOs

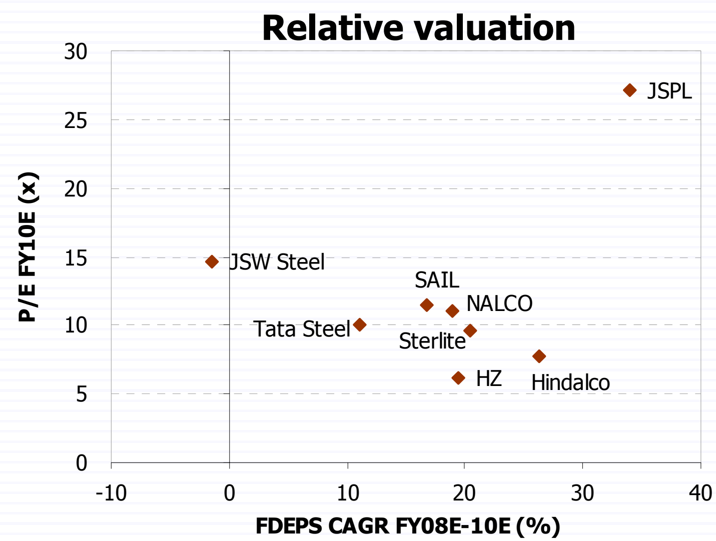
Relative valuation



Source: ENAM Research

Metals

- **Aluminium:**
  - Pricing outlook remains robust on the back of (i) raw material cost pressures of bauxite, alumina and power; (ii) capital cost of supply rising steeply and robust demand from China is expected to easily offset lower growth of America and Europe
  - Indian cos with captive resources are best placed
- **Steel:**
  - Pricing to harden due to significant cost pressures of iron ore and coking coal and robust demand outlook
  - Long term (15-24 months): Strong volume growth (30%+) to drive earnings and valuations upwards. Cos with backward integration are better placed
- **Zinc:**
  - Pricing weakness to stabilize as supply from China is expected to recede further
  - Long term demand outlook remains favorable on rising demand and tightening supply



Source: ENAM Research

Oil & Gas

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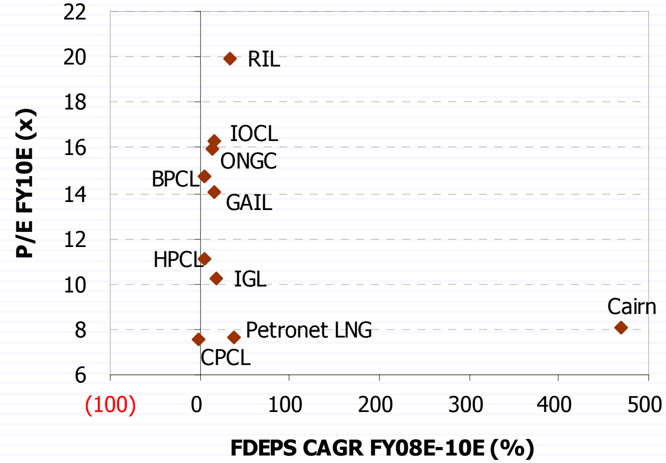
- Crude at record highs hurting OMCs, could prompt regulatory change and lead to positive announcements. However, discounting for a marginal fuel price hike, earnings for OMCs still remain leveraged to – (1) oil bonds issued by govt and (2) sharing by upstream cos
- Huge capex plans by OMCs (IOCL, BPCL, HPCL) in next 4-5 years defines the role of GOI. GOI needs to issue adequate oil bonds in order to maintain strong operating cash flows required for capex
- Oil India IPO to bring much awaited clarity on the subsidy sharing front
- Outlook for pure refiners (RIL, CPCL, RPL, MRPL) remains strong with GRMs continuing to remain robust on the back of capacity constraints
- Firm crude prices going ahead will be a positive for E&P cos like Cairn and RIL and will reduce pressure on ONGC's earnings on account of subsidy sharing

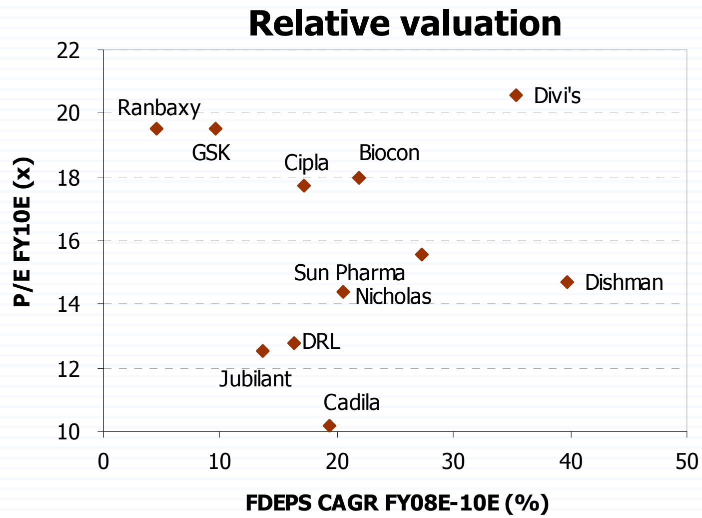
Relative valuation



Source: ENAM Research

Pharma

- We expect focus on generic markets e.g. Latam, CIS & Japan to increase to reduce the impact of pricing pressure in the US & EU
- Cos with specialty/ niche product portfolios (derma, cephs, injectables, and oncology) and a focus on branded generics may weather pricing pressures better
- Biosimilars – Indian cos may initially test the waters in non-regulated markets before venturing into EU and US. Margins are likely to be high for cos who concentrate on complicated products such as leukotrines/ Mabs rather than insulins
- Focus on cost cutting will continue, in view of the dual challenges of generic pricing pressure and the rising rupee
- Outsourcing to gain momentum, with CRAMS companies also shifting work to India in addition to innovators
- NCE R&D de-merger - More cos are likely to follow suit
- Bulk Deals
  - Listing of Nicholas Piramal Research Centre (NPRC) (expected in April'08) having assets of Rs 1896 mn & equity cap of Rs 255 mn, implying a BV of Rs 74.3/share
  - Ranbaxy – Listing of its NCE entity, details not indicated yet
- We expect the sector to underperform; with the exception of select few cos



Source: ENAM Research

Power Utilities

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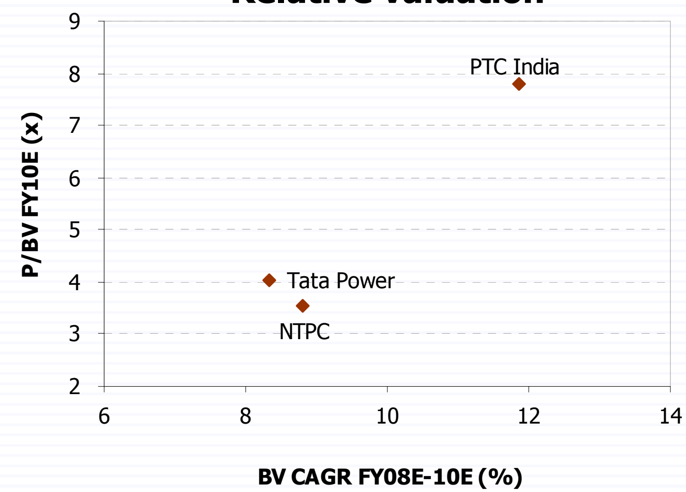
- **Post 2 decades of liberalization, pvt sector investments in power are seeing light of day**
  - Sustainable ROEs of 20-24% in a regulated regime
  - Improving payment record of State Electricity Boards
  - Merchant (open mkt) sales allowed, thereby an opportunity to earn higher than regulated returns
- **Pvt gencos and a bevy of new aspirants outlining significant capex plans**
  - 10-20 fold expansion from existing capacities.
  - Funding for capex is no longer a constraint
  - Govt. sops by way of fiscal incentives and duty free import of capital goods
- **Earnings surprises/risk could from the planned merchant capacities**
- **key challenges**
  - Timely execution
  - Reforms in Power distribution segment
  - Fuel linkages
- **Valuations of utilities are building in growth premium, but not execution risk**

Relative valuation



Source: ENAM Research

Real Estate

➲ **Long term opportunity is intact**

- Indian realty market is expected to grow at 33% CAGR over the next 5 years to USD 50bn, driven largely by increasing affordability, rapid expansion of IT/ITES industry, increasing organized retail, favorable demographics and improving regulatory framework

➲ **However, current valuations are based on blue sky scenarios**

- Valuations are based on 10-15x scale up from current execution levels and aggressive selling price assumptions. Imminent delays in project execution and subdued demand resulting in stagnating capital values can hit NAVs
- Slowdown in IT/ITES due to rising INR, dampened affordability due to capital values that have risen rapidly and high interest/ mortgage rates, could affect realty demand making valuation assumptions seem aggressive

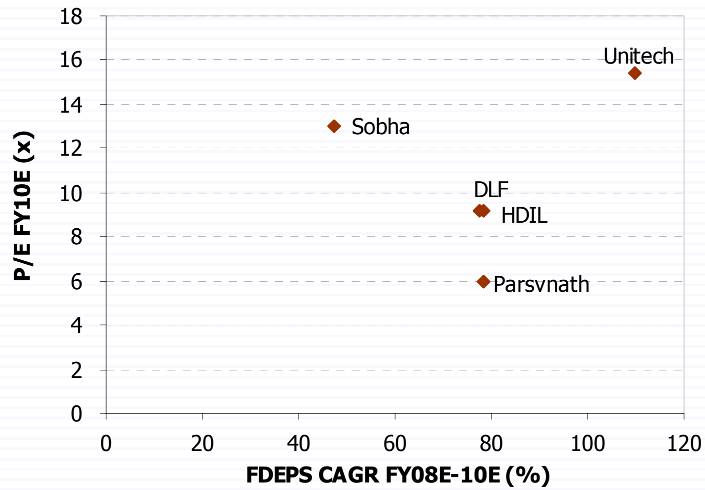
➲ **Valuation approaches will evolve**

- Earnings multiple approach is some time away, given the uncertainty of execution visibility and monetization of land gains
- Sum Of Parts (SOTP) is our preferred valuation technique, which includes market value of land, multiple on conversion margin for sold properties and rent capitalization for leased assets
- NAV is the alternative valuation approach

➲ **Key parameters to monitor**

- Demand supply scenario in micro markets (4 metro's, Bangalore, Hyderabad and major Tier II cities)
- Timely launch and completion of project, which in turn is affected by skilled resource availability and real estate oversupply
- Listing of REITs at lower cap rates (sub 9%) unlocking value

Relative valuation



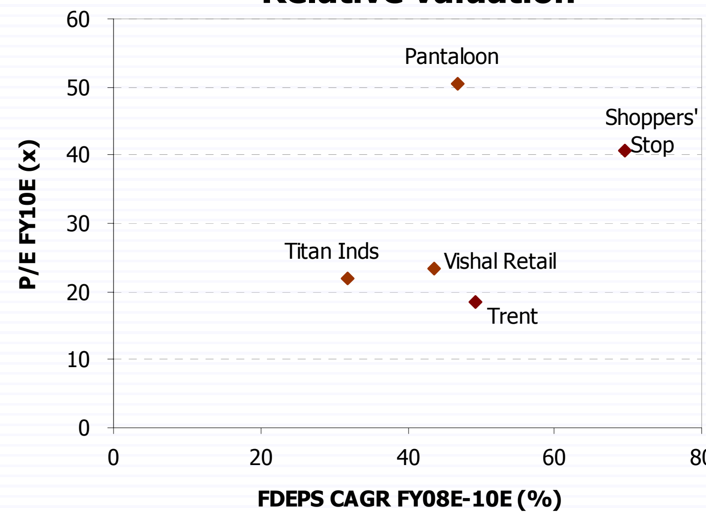
Source: ENAM Research

Retail

ENAM

- **India is the most attractive retail destination, but execution remain the key**
  - Deferments by developers has impacted roll out plans for a a few players
- **Stiff competition, high rentals, employee retention costs to curtail margins in the interim**
  - Higher mark downs driven by competitive forces will exert pressure on gross margin
  - High rentals due to current shortage in real estate supply driven by delayed execution (developers); a rising employee cost scenario due a shortage of skilled manpower and high attrition rates will add further pressure on operating margin
  - Same store sales growth continues to decline in value retailing segment
  - Expect margin profile to deteriorate for most players
- **Valuations to be driven by growth**
  - Companies which demonstrate high execution capabilities with appropriate diversification across formats will command premium valuation

Relative valuation



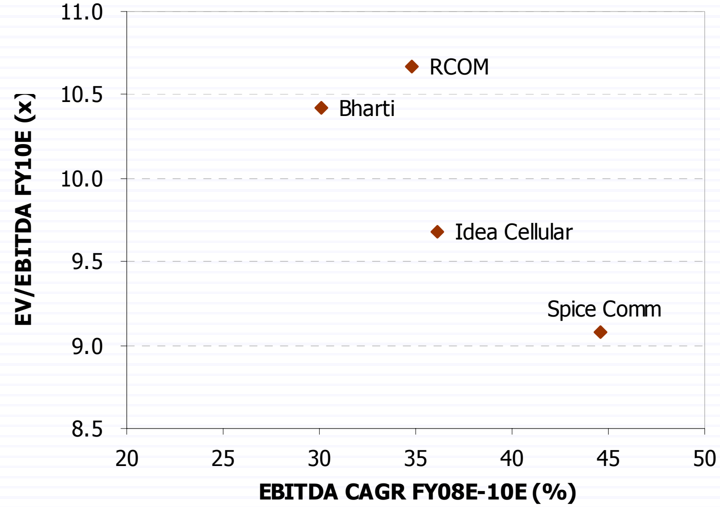
Source: ENAM Research

Telecom

- **Spectrum ownership to be integral to sector valuations**
  - Spectrum allocation : Likely introduction of cost-based Spectrum Pricing ?
    - Continuing uncertainty on spectrum allocation and likely changes in spectrum pricing may impact EBITDA performance and capex
    - Likelihood of spectrum pricing based on cost by the Govt. Expert committee report within few months. May involve higher levy. Affordability considerations to play a key role in determining the extent of incremental levy
    - DoT's acceptance of norms on subscriber linked criteria for further spectrum vis-à-vis TEC's recommendation is +ive for GSM players. Higher subscriber-linked criteria to lead to higher capex, esp for Idea
  - Tower industry
    - Consolidation in the industry
    - Positive implications from value unlocking in tower businesses
  - 3G launch
    - Initial spectrum allocation of 10 MHz> TRAI recommendation, reserve price of ~Rs 28 bn for license fee for a pan-India roll-out could impact the cost-benefit dynamics. 3G rollouts, not a pan-India proposition
    - Auction of spectrum may lead to overbidding by players
  - Number portability
    - To raise spending & to accelerate tariff declines in the initial quarters

- **Wireless subscriber additions remain robust**
  - Wireless subscriber additions for Nov'07 at ~8.3mn, highest ever, remain buoyant on back of promotional campaigns
  - Rising disposable incomes and likely increase in long distance MoUs leave significant room for revenue growth
  - Complete phase-off of ADC regime from 1 April 2009 to further increase addressable market

Relative valuation



Source: ENAM Research

Database

Database

ENAM

Company Name	Price (Rs.)	Mkt. Cap (US$ m)	FDEPS (Rs.) CY07E/ FY08E	FDEPS (Rs.) CY08E/ FY09E	FDEPS (Rs.) CY09E/ FY10E	P/E (x) CY07E/ FY08E	P/E (x) CY08E/ FY09E	P/E (x) CY09E/ FY10E	RoE (%) CY07E/ FY08E	RoE (%) CY08E/ FY09E	RoE (%) CY09E/ FY10E
			ENAM estimates								
AUTO											
Tata Motors Ltd	784	7,688	42	45	43	12	12	13	20	19	19
Maruti Suzuki India Ltd	965	7,086	52	60	76	16	14	11	24	22	21
Bajaj Auto Ltd	2,586	6,653	54	65	97	14	12	8	19	20	19
Mahindra & Mahindra Ltd	823	5,144	34	36	37	14	13	13	23	22	21
Motor Industries Co Ltd	5,123	4,175	162	193	249	32	27	21	23	22	23
Hero Honda Motors Ltd	701	3,558	31	35	35	19	17	17	31	29	25
Bharat Forge Ltd	369	2,090	13	18	22	27	21	17	20	23	24
Ashok Leyland Ltd	54	1,827	3	3	4	20	17	15	19	20	21
Motherson Sumi Systems Ltd	112	1,007	4	6	8	26	19	14	42	42	47
Apollo Tyres Ltd	57	674	4	4	5	16	15	12	16	18	22
TVS Motor Co Ltd	71	427	1	5	7	52	15	10	4	14	18
BANKING			**BV (Rs.)**			**P/BV (X)**					
ICICI Bank Ltd	1,285	35,783	395	416	442	2.4	2.0	1.7	12	11	13
State Bank of India Ltd	2,391	31,996	811	934	1,081	2.8	2.3	2.0	18	18	19
Housing Development Finance Corp	3,111	22,237	362	412	520	6.9	5.1	3.3	27	23	23
HDFC Bank Ltd	1,697	15,268	324	366	420	5.2	4.6	4.0	16	15	18
Axis Bank Ltd	1,056	9,601	234	261	297	4.5	4.0	3.6	16	15	17
Power Finance Corp Ltd	271	7,895	87	96	107	3.1	2.8	2.5	14	16	17
Infrastructure Development Finance Co Ltd	229	7,527	43	48	54	5.3	4.8	4.2	18	16	19
Punjab National Bank Ltd	699	5,605	321	379	450	2.2	1.8	1.6	18	18	19
Bank of India	380	4,712	129	160	193	2.9	2.4	2.0	26	25	24
Bank of Baroda	482	4,461	265	303	347	1.8	1.6	1.4	15	16	18
Canara Bank	400	4,166	211	245	283	1.9	1.6	1.4	19	19	19
Centurion Bank of Punjab Ltd	70	3,315	11	12	13	6.4	5.9	5.4	9	9	11
Union Bank Of India	229	2,940	103	125	152	2.2	1.8	1.5	22	23	23
Indian Bank	213	2,327	96	116	140	2.2	1.8	1.5	25	24	24
Oriental Bank Of Commerce	310	1,972	246	281	321	1.3	1.1	1.0	15	16	16
Shriram Transport Finance Co Ltd	395	1,919	81	97	125	4.9	4.1	3.2	25	25	26
Corp Bank	453	1,652	291	331	381	1.6	1.4	1.2	16	16	18
Federal Bank Ltd	345	1,501	228	253	269	1.5	1.4	1.3	14	12	14
Bank Of Maharashtra	92	1,010	40	45	52	2.3	2.0	1.8	20	21	23
LIC Housing Finance	378	816	185	217	259	2.0	1.7	1.5	21	21	21
Development Credit Bank Ltd	153	676	34	38	45	4.5	4.0	3.4	11	14	18
South Indian Bank Ltd	250	575	122	139	157	2.0	1.8	1.6	14	14	16

Database

Company Name	Price (Rs.)	Mkt. Cap (US$ m)	FDEPS (Rs.) CY07E/FY08E	FDEPS (Rs.) CY08E/FY09E	FDEPS (Rs.) CY09E/FY10E	P/E (x) CY07E/FY08E	P/E (x) CY08E/FY09E	P/E (x) CY09E/FY10E	RoE (%) CY07E/FY08E	RoE (%) CY08E/FY09E	RoE (%) CY09E/FY10E
			ENAM estimates								
CEMENT											
Jaiprakash Associates Ltd	485	14,271	26	33	41	19	15	12	13	12	13
Grasim Industries Ltd	3,595	8,381	266	302	309	14	12	12	28	24	19
Ambuja Cements Ltd	144	5,561	9	9	9	15	15	17	31	25	19
ACC Ltd	1,001	4,776	70	69	64	14	14	16	35	27	21
Ultra Tech Cement Ltd	978	3,097	73	81	83	13	12	12	41	33	25
Century Textile & Industries Ltd	1,233	2,918	48	52	61	26	24	20	37	31	29
India Cements Ltd	296	2,111	27	29	33	11	10	9	37	27	24
Madras Cements Ltd	4,319	1,326	354	403	453	12	11	10	50	38	31
Shree Cement Ltd	1,358	1,203	106	125	157	13	11	9	59	44	39
Birla Corp Ltd	330	646	52	56	56	6	6	6	48	35	27
Binani Cement Ltd	116	601	9	11	12	13	11	10	43	35	30
ENERGY											
NTPC Ltd	272	56,979	10	10	11	28	26	25	15	15	14
Tata Power Co Ltd	1,627	8,959	30	39	52	54	42	31	10	11	14
PTC India Ltd	192	732	2	3	5	78	55	36	13	17	24
ENGINEERING											
Bharat Heavy Electricals Ltd	2,546	31,690	65	85	102	39	30	25	35	36	34
Larsen & Toubro Ltd	4,244	31,423	83	112	152	47	35	26	28	30	31
Suzlon Energy Ltd	2,032	15,468	37	65	87	55	31	23	18	19	21
Siemens India Ltd	1,958	8,395	35	56	79	57	35	25	38	42	42
ABB Ltd/India	1,509	8,129	24	33	44	63	46	34	36	36	35
Bharat Electronics Ltd	2,049	4,168	103	131	155	20	16	13	29	30	29
Crompton Greaves Ltd	397	3,705	12	16	22	32	24	18	39	37	35
Areva T&D India Ltd	2,516	2,552	46	55	84	55	46	30	47	38	41
Thermax Ltd	842	2,552	25	31	37	34	27	23	42	39	35
Voltas Ltd	255	2,146	5	7	9	47	38	28	36	34	36
Cummins India Ltd	406	2,043	17	22	27	24	19	15	29	30	29
Kirloskar Brothers Ltd	481	1,293	20	29	36	24	16	14	28	33	31
Kirloskar Oil Engines	177	874	8	11	15	14	10	8	18	23	27
AIA Engineering Ltd	1,669	798	70	110	149	24	15	11	23	29	29
FMCG											
Hindustan Unilever LTD	231	12,988	8	9	9	30	27	25	62	70	78
Nestle India Ltd	1,460	3,580	47	56	66	31	26	22	101	92	85
Asian Paints Ltd	1,126	2,747	39	49	61	29	23	18	41	41	41
Dabur India Ltd	121	2,665	4	5	6	31	25	21	64	60	56
Tata Tea Ltd	1,001	1,574	49	66	74	21	15	14	9	9	10
Marico Ltd	79	1,230	3	3	4	31	25	22	66	56	47
Godrej Consumer Products Ltd	138	796	7	8	10	19	17	14	106	88	77

Database

Company Name	Price (Rs.)	Mkt. Cap (US$ m)	ENAM estimates								
			FDEPS (Rs.)			P/E (x)			RoE (%)		
			CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E	CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E	CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E
INFRASTRUCTURE											
GMR Infrastructure Ltd	253	11,697	1	2	2	237	109	113	7	13	11
Punj Lloyd Ltd	578	4,426	10	17	27	56	32	20	16	19	24
IVRCL Infrastructures & Projects Ltd	569	1,916	15	23	29	25	17	13	17	21	22
Nagarjuna Construction Co	365	2,121	8	13	16	36	24	19	15	17	18
Hindustan Construction Co	255	1,661	3	6	9	45	25	17	10	16	20
Gammon India Ltd	781	1,721	13	16	19	44	36	31	12	13	14
Patel Engineering Ltd	1,021	1,549	17	24	30	24	18	14	14	16	18
IT SERVICES											
Tata Consultancy Services Ltd	1,005	25,012	52	63	70	19	16	14	47	42	36
Infosys Technologies Ltd	1,695	24,632	79	98	107	22	17	16	34	33	28
Wipro Ltd	497	18,452	22	29	32	22	17	16	28	29	25
Satyam Computer Services Ltd	422	7,188	25	30	32	17	14	13	26	25	22
HCL Technologies Ltd	314	5,307	17	22	24	18	14	13	24	27	25
Tech Mahindra Ltd	1,120	3,457	57	76	88	20	15	13	59	50	41
Patni Computer Systems Ltd	320	1,131	31	32	36	10	10	9	18	16	16
Redington India Ltd	425	841	18	22	27	24	19	16	20	22	23
NIIT Ltd	146	612	4	8	11	33	18	13	22	32	36
Infotech Enterprises Ltd	294	389	18	23	25	17	13	12	22	20	18
Hexaware Technologies Ltd	85	310	8	9	12	10	9	7	14	15	16
Sasken Communications Technologies Ltd	349	253	16	20	24	21	17	15	11	12	13
KPIT Cummins Infosystems Ltd	127	246	8	11	15	17	12	8	24	22	21
Aztecsoft Ltd	91	103	7	9	9	14	10	10	16	18	17
MEDIA											
Sun TV Network Ltd	420	4,207	9	14	19	45	30	22	35	36	35
Zee Entertainment Enterprises Ltd	316	3,488	8	11	14	39	28	23	11	13	14
Deccan Chronicle Holdings Ltd	260	1,619	11	13	18	24	20	15	29	27	28
HT Media Ltd	250	1,491	7	9	12	37	27	21	19	22	25
Jagran Prakashan Pvt Ltd	786	1,204	20	26	40	39	30	20	23	26	33
New Delhi Television Ltd	501	796	1	3	5	525	145	91	3	10	14
METALS											
Steel Authority Of India Ltd	274	28,795	18	23	25	15	12	11	37	35	29
Sterlite Industries India Ltd	1,060	19,086	74	93	107	14	11	10	38	46	50
Tata Steel Ltd	930	17,284	75	88	93	12	11	10	23	24	21
Jindal Steel & Power Ltd	16,475	12,900	315	519	566	52	32	29	31	37	30
Hindustan Zinc Ltd	821	8,819	93	117	132	9	7	6	42	37	31
National Aluminium Co Ltd	519	8,500	31	36	44	17	14	12	24	23	23
Hindalco Industries Ltd	220	6,864	17	23	28	13	10	8	15	15	16
JSW Steel Ltd	1,335	5,568	93	101	90	14	13	15	27	21	16

Database

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			FDEPS (Rs.)			P/E (x)			RoE (%)		
			CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E	CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E	CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E
OIL & GAS											
Reliance Industries Ltd	2,986	110,372	90	119	162	33	25	18	16	18	19
Oil & Natural Gas Corp Ltd	1,344	73,089	97	92	125	14	15	11	21	18	15
Indian Oil Corp Ltd	782	23,713	49	48	67	16	16	12	13	11	10
Cairn India Ltd	261	11,815	1	12	48	179	21	6	5	33	56
GAIL India Ltd	539	11,594	28	32	38	19	17	14	20	20	21
Bharat Petroleum Corp Ltd	536	4,927	43	39	48	12	14	11	12	10	8
Hindustan Petroleum Corp Ltd	395	3,406	41	41	46	10	10	9	12	11	9
Petronet LNG Ltd	117	2,235	5	6	10	22	20	11	24	23	49
Chennai Petroleum Corp Ltd	428	1,621	57	53	56	8	8	8	24	19	18
Indraprastha Gas Ltd	173	617	12	14	17	14	12	10	31	31	31
PHARMACEUTICALS											
Sun Pharmaceutical Industries Ltd	1,108	5,636	44	55	71	25	20	16	29	29	29
Cipla Ltd/India	213	4,204	9	10	12	24	20	18	20	20	20
Ranbaxy Laboratories Ltd	426	4,037	20	19	22	21	22	20	28	23	23
Dr Reddys Laboratories Ltd	729	3,114	42	47	57	17	16	13	16	15	16
Divi's Laboratories Ltd	1,891	3,104	50	69	92	38	28	21	48	44	41
GlaxoSmithKline Pharmaceuticals Ltd	1,035	2,230	44	48	53	23	21	20	28	27	27
Nicholas Piramal India Ltd	350	1,858	17	21	24	21	17	14	30	31	30
Biocon Ltd	607	1,544	23	28	34	27	22	18	17	16	17
Jubilant Organosys Ltd	366	1,338	23	24	29	16	15	13	18	16	17
Lupin Ltd	613	1,279	36	43	51	17	14	12	21	21	21
Cadila Healthcare Ltd	309	986	21	25	30	15	12	10	25	24	24
Dishman Pharmaceuticals & Chemicals Ltd	411	810	14	22	28	29	19	15	17	21	26
REAL ESTATE			**NAV (Rs)**	**P/NAV (x)**		**SOTP (Rs)**	**P/ SOTP (x)**		**P/E (x)**		
DLF Ltd	1,113	48,230	761	1.46		696	1.60		29	18	9
Unitech Ltd	521	21,463	300+	-		385	1.35		68	29	15
Housing Development & Infrastructure Ltd	1,140	6,210	1089	1.05		965	1.18		29	19	9
Peninsula Land Ltd	160	1,138	165	0.97		156	1.02		19	6	3
IVR Prime Urban Developers Ltd	435	709	546	0.80		637	0.68		13	8	5
Parsvnath Developers Ltd	529	2,485	540	0.98		495	1.07		21	11	7
Sobha Developers Ltd	957	1,774	1047	0.91		-	-		32	18	12

Database

Company Name	Price (Rs.)	Mkt. Cap (US$ m)	ENAM estimates FDEPS (Rs.) CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E	P/E (x) CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E	RoE (%) CY07E/ FY08E	CY08E/ FY09E	CY09E/ FY10E
RETAIL											
Pantaloon Retail India Ltd	833	3,194	8	12	16	109	69	51	9	9	10
Titan Industries Ltd	1,534	1,732	40	54	70	38	29	22	45	42	39
Vishal Retail Ltd	925	527	19	30	40	48	31	23	22	22	23
Shoppers' Stop Ltd	580	514	5	8	14	117	69	41	6	9	15
Trent Ltd	704	349	17	25	38	41	28	19	7	8	12
TELECOM											
Bharti Airtel Ltd	948	45,763	34	44	56	28	21	17	38	34	31
Reliance Communications Ltd	760	33,361	24	31	39	32	25	19	20	20	20
Idea Cellular Ltd	135	5,945	4	5	7	35	25	21	25	27	25
Spice Communications Ltd	64	2,794	(0.5)	(0.2)	0.9			73		15	(70)
TRANSPORTATION											
Container Corp Of India	1,873	3,095	115	138	171	16	14	11	26	26	26
Jet Airways India Ltd	995	2,185	(46)	(14)	1	(22)	(71)	795	(16)	(4)	0
Gateway Distriparks Ltd	168	493	7	8	11	25	20	15	11	13	16
Allcargo Global Logistics Ltd	935	482	39	50	67	24	19	14	18	20	22

Source: Company, ENAM estimates, Bloomberg; Note: For Banking: FDEPS= Book Value (adj for cost of inv), PE=P (adj. for value of inv) /BV (adj. For cost of inv);
Note: HDFC, SBI, ICICI & Rel Cap valuations are calculated after including the value of investments; For Realty data is for FY09
Note: MUL, Bajaj, TAMO, Hero Honda & MM =core Eps & are calculated after incuding value of investment, Apollo nos ar standalone
Note: KOEL and L&T, PE calculated after excluding VOI
Note: Infra cos except GMR, PE calculated after excluding VOI; Nagarjuna Construction FY09E revised downwards by 8% due to anticipated delays in execution
Note : Spice becomes profitable at the Net Level from CY09 onwards
Note: Price as on January 04, 2008

Macro Trends

ENAM

ECONOMIC

Nov-07	Current	% chg 1M	% chg 3M	% chg 6M	% chg 12M
Industrial Production Index - Oct					
General	262	0.6	2.5	(0.6)	11.8
Manufacturing	279	(0.5)	2.3	(0.5)	13.3
Mining	167	8.6	6.6	(0.5)	3.7
Electricity	221	5.4	2.4	(1.9)	4.2
Inflation Index					
WPI - Dec	216	0.2	0.5	1.7	3.6
CPI - Oct	134	0.8	1.5	4.7	5.5
Balance of payments (USD bn)					
Exports - Nov	12.4	(6.6)	(2.1)	1.5	26.8
Imports - Nov	19.8	(4.6)	1.3	3.1	29.3
Forex Reserves (Actuals) - Dec	275.6	273.5	247.8	225.4	177.3
INR/USD (Actuals) - Dec	39.4	39.6	39.8	40.7	44.3
Banking Trends (INRbn) - Dec					
Bank Credit	21,218	1.5	4.8	10.8	20.1
Bank Deposits	29,420	(0.4)	2.7	8.8	23.2
Non-food credit	20,522	0.0	3.2	9.5	18.8
Credit/Deposit ratio (actuals)	71.4	70.8	70.4	72.2	72.2
Money Supply (M3) % actuals -Nov	23.0	22.5	20.8	19.8	19.4

Interest Rates

Dec-07	Current	Actuals 1M	Actuals 3M	Actuals 6M	Actuals 12M
10Y Bond Yield (%)	7.8	7.9	7.9	7.9	7.6
Reverse REPO (%)	6.0	6.0	6.0	6.0	6.0

SECTORAL

Nov-07	Current	% chg 1M	% chg 3M	% chg 6M	% chg 12M
Auto ('000) - Nov					
Passenger Car Sales	127	2.4	12.7	27.5	14.4
CV-Sales	21	7.4	32.4	50.8	24.4
2-W Sales	724	15.6	49.0	37.0	(1.0)
Cement					
Cement Desp (m tonnes) - Nov	13	8.1	2.5	(1.4)	8.8
Telecom					
Cellular subscribers outstanding (mn) - Nov	225	3.9	12.5	30.2	62.9
Actual net additions (mn) - Nov	8.3	8.1	8.3	6.8	6.7
Crude - Nov					
Bonny Light Crude Oil Spot Price ($/bbl)	91	(2.5)	11.3	28.9	39.7
GRM - Sweet - Nov	0.7	1.4	(1.3)	4.1	0.2
GRM - Sour - Nov	3.3	4.6	2.8	5.5	0.7
Commodities - Nov					
Zinc (LME) - $metric ton	2,586	(7.9)	(17.0)	(30.1)	(41.8)
Copper (LME) - $metric ton	6,961	(10.0)	(7.6)	(6.8)	(1.2)
Aluminium (MB) - $metric ton	2,448	(1.8)	(1.6)	(11.0)	(9.9)
Alumina (MB) - $metric ton	340	0.0	0.0	(5.6)	51.1
Hot Rolled Coil (MB) $metric ton	595	1.3	6.3	5.3	17.8
Billet - $metric ton - Dec	553	7.3	9.4	11.6	38.1
Gold (Rs/ 10gm)	10,235	3.0	14.9	17.4	11.2
Polyethelyene (Rs/Kg) - Oct	66	(2.9)	(2.8)	3.3	(4.9)
Polypropylene (Rs/Kg) - Oct	66	(4.1)	(4.1)	2.0	(5.6)
Polyester Optic Fibre (Rs/Kg) - Oct	72	(0.6)	3.2	11.7	(4.5)
Polyester Staple Fibre (Rs/Kg) - Oct	68	0.0	3.8	3.1	(10.9)
Others					
Tourist arrivals (nos) - Oct	440,715	35.2	16.8	32.0	11.9
Total comm traffic at ports ('000 tonnes) - Nov07	44,816	0.7	12.0	4.1	9.0

Thank You