Most-/Least Preferred | India
15 December 2008

Most-/least-preferred: December 2008

Merrill Lynch

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We update our most- and least-preferred stock list, consistent with our fundamental 0-12-month opinions but intended to appeal to investors with a shorter-term time horizon with potential short-term price catalyst.

Our latest stock list

We replace RPL with Wipro in our least-preferred list given the bleak results for Indian IT with volumes and US$ revenues likely to decline for the first time ever.

Most preferred

United Spirits: (1) Strong earnings growth of 26% YoY in 1H09. (2) Improving margin outlook from 3Q onwards on falling input costs. (3) Market concerns on debt are overplayed, valuations look attractive post recent correction.

Hero Honda: (1) Has gained 300bp market share in the domestic bikes segment. (2) We expect a strong earnings growth of 17% over the next two years.

SBI: (1) Investment provisions write-back in 3QFY09 could drive stock price. (2) The rate cycle reversal will help SBI.

Least preferred

Maruti Suzuki: (1) Sales slowing due to loss in market share and stiff competition. (2) Competitive pricing and weak currency may hurt profits.

Nalco: (1) Aluminum prices remain weak and spot alumina prices are falling. (2) Earnings would peak in September quarter and plunge in FY10, in our view.

Wipro: (1) Bleak demand scenario with cuts in IT spending, forced Christmas breaks and cross currency headwinds. (2) Management churn post-restructuring in May 2008 could strain business growth next year. (3) Higher revenue vulnerability given exposure to technology/retail in addition to banking and lower operating levers.

Performance of our M/L indices

Since inception, our MLP Market Neutral list has yielded a return of 48% (YTD 40%), outperforming the benchmark MSCI-India return of -36.9% (YTD -55.8%).

Table 1: Most-/least preferred stocks

Company	Bloomberg	Rating	Price (Rs)
Most preferred			
United Spirits	UNSP IN Equity	C-1-7	930
Hero Honda	HH IN Equity	C-1-7	792
SBI	SBIN IN Equity	C-1-7	1199
Least Preferred			
Maruti Suzuki	MSIL IN Equity	C-3-7	511
Nalco	NACL IN Equity	C-3-7	196
Wipro	WPRO IN Equity	C-3-7	250

Source: Merrill Lynch Research

Table 2: Additions/Deletions

Least preferred	
Additions	Deletions
Wipro	RPL

Source: Merrill Lynch Research

Table 3: Performance of our indices

	1 month	3-month	12-month
Most preferred index			
	2.2%	-26.3%	-39.9%
Least preferred index			
	-8.1%	-41.8%	-56.9%
Most-/least-preferred market neutral			
	10.6%	20.7%	32.5%
MSCI benchmark			
	-9.6%	-37.1%	-55.8%

Source: Merrill Lynch Research

Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities and that such action may be limited by recently adopted rules prohibiting or restricting "short selling" in many jurisdictions. Investors are urged to seek advice prior to executing any short idea contained in this report.

Refer to important disclosures on page 19 to 20. Analyst Certification on Page 17. Price Objective Basis/Risk on page 16.

This list is consistent with our fundamental 0-12-month opinions, but is intended to appeal to investors with a shorter-term time horizon. The list consists of six stocks (three most-/least-preferred) from our India coverage universe. We intend to review this list monthly. The full rationale and investment thesis for our recommendation on each stock is contained in the most recent report on the company (see report links alongside each company write-up), which we suggest reading.

Rationale for our latest stock picks

Our view is that the market is going to be range-bound with a downward drift. We prefer to be defensive on our MPL and have selected Hero Honda (two-wheeler auto) and United Spirits (consumers). Our choice of SBI is consistent with the rate cycle reversal in India.

We have included Maruti in our LPL as we expect the auto sector to be under pressure from rising input costs and to achieve only low, single-digit earnings CAGR (except Hero Honda). Our choice of Nalco is due to the falling spot alumina prices and aluminum prices. We choose Wipro for our least-preferred list as we expect January's results season for technology companies to be bleak, with possible declines in sequential volumes and US$ revenues for the first time. Wipro appears relatively more exposed from a vertical mix and limited operating levers standpoint as well as recent management restructuring.

Table 4: Key investment statistics

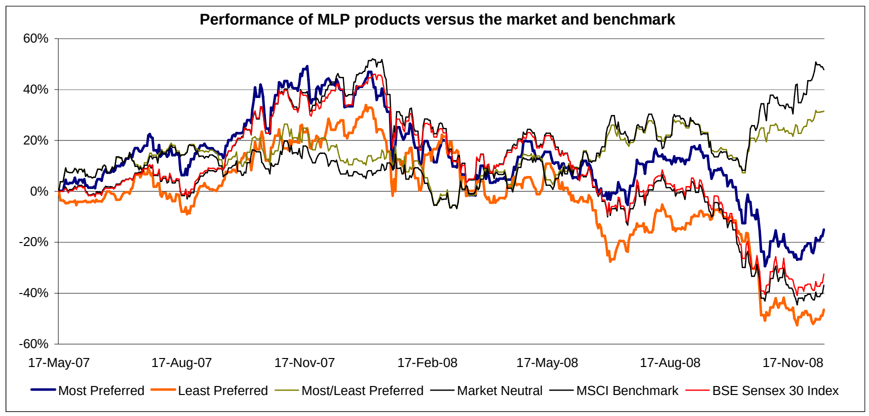
	Most preferred			Least preferred		
Stock	Hero Honda	United Spirits	SBI	NALCO	Wipro	Maruti
ML Ticker	HRHDF	UDSRF	SBINF	NAUDF	WIPRF	MUDGF
Bloomberg	HH IN Equity	UNSP IN Equity	SBIN IN Equity	NACL IN Equity	WPRO IN Equity	MSIL IN Equity
Entry price (Rs)	660	830	1,179	378	250	744
Market price (Rs)	792	930	1,199	196	250	511
Investment Rating	1 - Buy	1 - Buy	1 - Buy	3 - Underperform	3 - Underperform	3 - Underperform
QRQ	C-1-7	C-1-7	C-1-7	C-3-7	C-3-7	C-3-7
52W High	898	2,160	2,429	566	552	1,099
52W Low	550	606	966	105	180	433
Price Objective	902	1,350	1,650	153	260	500
Mkt cap (Rs bn)	158	93	761	126	365	148
Volatility	C	C	C	C	C	C
MSCI India weighting	1.2%	0.6%	1.4%	N/A	1.3%	0.7%
Operational/valuation						
P/E (x)						
-CY08/FY09E	13.0	20.0	9.8	7.7	9.4	10.3
-CY09/FY10E	11.0	16.9	8.2	10.4	9.0	9.8
EV/EBITDA (x)						
-CY08/FY09E	9.7	11.4		4.7	6.5	4.5
-CY09/FY10E	8.6	10.4		5.9	5.7	3.9
P/B (x) - CY08/FY09E	5.1	3.3	1.4	1.3	2.5	1.5
EBITDA margin (%)						
-CY08/FY09E	13.4	17.7		40.7	19.8	10.6
-CY09/FY10E	13.9	16.9		32.4	19.4	10.8
ROCE (%) - CY08/FY09E	32.8	8.8		16.5	26.8	11.9
ROE (%) - CY08/FY09E	40.0	17.7	14.9	17.4	29.3	15.6
Net D/E (%) - CY08/FY09E	(6.8)	219.6		(32.2)	(20.2)	10.5
Dividend yield (%)						
-CY08/FY09E	5.1	0.3	2.1	3.1	2.7	1.0
-CY09/FY10E	5.1	0.4	2.5	3.1	2.9	1.1
5-yr sustainable growth (%)						
EPS	15	20	15	10	20	7.5

Source: Merrill Lynch Research

Performance summary

YTD, our MLP Market Neutral list has yielded a return of 40% (1 month: 11%) compared to the benchmark MSCI-India return of -57% (1 month: -9.6%). The rise in performance is due to the rise in our most-preferred stock prices and a fall in Maruti's stock price. Our MLP list has outperformed both MSCI-India and BSE Sensex indices. For calculation methodology and performance measurement, please see the Appendix.

Chart 1: Performance of MLP products versus the market and benchmark (since inception)



Source: Merrill Lynch Research

Table 5: As of close of 10 Dec 2008

Performance Period	Start Date	End date	MPL	LPL	MLP L/S	MLP MN	Sensex	MSCI India
1 Month	10-Nov-08	10-Dec-08	2.2%	-8.1%	10.3%	10.6%	-8.4%	-9.6%
3 Months	10-Sep-08	10-Dec-08	-26.3%	-41.8%	15.5%	20.7%	-34.2%	-37.1%
Year To Date	31-Dec-07	10-Dec-08	-40.1%	-59.2%	19.1%	39.8%	-52.4%	-57.0%
12 Months	10-Dec-07	10-Dec-08	-39.9%	-56.9%	17.0%	32.5%	-51.6%	-55.8%
2007	17-May-07	31-Dec-07	42.0%	31.1%	10.9%	5.7%	41.9%	47.0%
Since Inception	17-May-07	10-Dec-08	-15.0%	-46.5%	31.5%	47.8%	-32.5%	-36.9%

Note: Since last publication on 17 Nov 2008 until the close on 10 Dec 2008, 3 members out of 3 members of the MPL increased in value. Over the same period, 2 members of the LPL out of the 3 members decreased in value.

Note: The performance included for the MLP Long/Short List and the MLP Market Neutral List assumes that the original investment was made on inception of the lists on 17 May 2007. Performance numbers in this table reflect performance shown in Chart 1. Transaction costs, borrowing costs and collateral costs are not included in these performances and can have a material impact on performance in certain markets.

These performance results are model in nature and do not reflect actual transactions. A complete performance record is available upon request. In addition, no assurance can be given about future performance results.

Source: Merrill Lynch

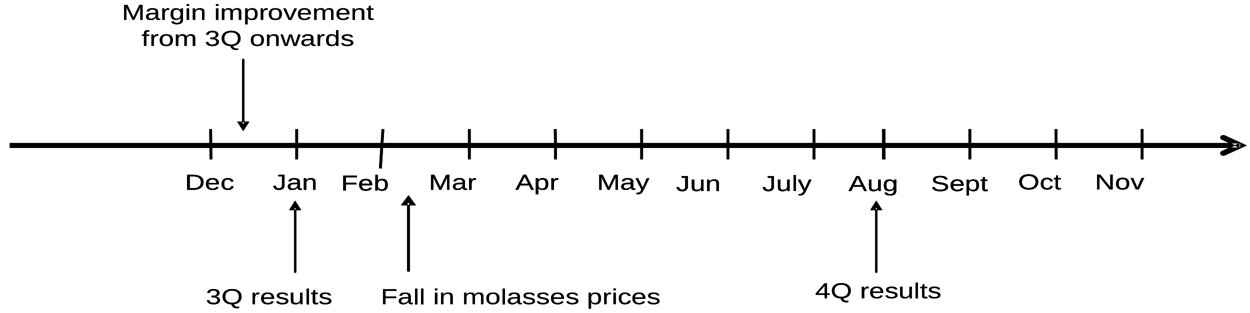
Table 6: Attribution analysis — Performance attribution of most-preferred and least-preferred stocks to MLP lists (since the previous publication)

Most Preferred List	ML Rating 12/10/2008	Ccy	Entry Price 11/17/2008	Last Price 12/10/2008	Contribution	Performance
Hero Honda Motors Ltd.	C-1-7	INR	719.95	795.55	2.66	
State Bank of India	C-1-7	INR	1167.9	1189.1	0.46	
United Spirits Limited	C-1-7	INR	779.15	959.15	5.86	
Most Preferred List			76.04	85.01	8.98	11.81%
Least Preferred List						
Maruti Suzuki India Ltd	C-3-7	INR	547.85	515.8	-1.24	
Reliance Petroleum Ltd.	C-3-7	INR	79.8	77.2	-0.60	
National Aluminum Company Limited	C-3-7	INR	184.25	196.5	0.99	
Least Preferred List			54.36	53.51	-0.85	-1.56%
Total: MLP Long/Short Performance			21.68	31.50	9.82	13.37%
Total: MLP Market Neutral Performance			130.41	147.83	17.43	13.37%

Source: Merrill Lynch Research

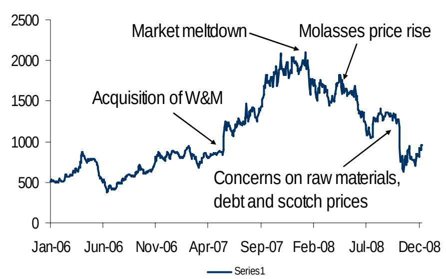
Catalysts and risks: Most preferred United Spirits (UNSP)

Figure 1: Event timeline (12-month rolling calendar)



Source: Merrill Lynch

Figure 2: Share price chart and key events



Source: Bloomberg, Company, Merrill Lynch Research

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Please read our latest report for details on the merits of our investment theme for this company.

United Spirits Ltd., 21 October 2008

Catalysts

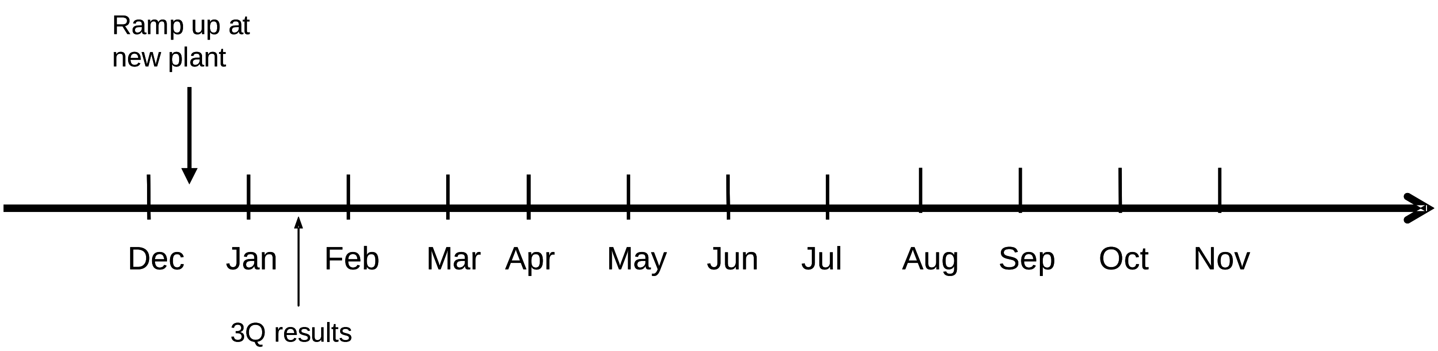
- **Strong earnings growth:** UNSP continues to deliver strong earnings growth with net profit at 26% YoY for 1HFY09, led by robust sales growth of 26% with volume growth of 17%. We forecast an EPS CAGR of 18% over FY08-10E based on strong top-line growth.
- **Improving margin outlook from 3Q onwards:** In terms of raw material cost increase, we believe the worst is behind us as prices of molasses should come down from November onwards when the sugar crushing season begins. We also expect bottling costs to drop on lower crude oil and soda ash prices. Recent price increase in key states, such as Andhra Pradesh and Maharashtra, should help too.
- **Growth for W&M remains strong:** W&M posted sales of £65mn with growth of 33% YoY in 1H09. EBITDA came in at £15mn with a robust 83% growth as margins expanded by 650bp. This was the result of hardening international scotch prices. W&M's sales growth will be supported by its long-term contract with Diageo that accounts for about 50-60% of its EBITDA.
- **Market concerns over debt are overplayed:** Market concerns over rising interest costs, the impact of rupee depreciation and cashflows for repayment are unjustified in our view given (1) over 40% of UNSP's debt is at fixed cost, (2) the impact of rupee depreciation is limited as loans are underpinned by significant foreign currency assets, and (3) loan repayment in FY10 is small at ~US$93mn with a total repayment term completed in the next 5-7 years.
- **Price correction is a buying opportunity:** UNSP has corrected by ~28% over the past three months. The stock currently trades at 20x FY09E and 17x FY10E. Excluding the value of treasury stocks (based on our assumption of Rs1,300/share), it is trading at 16x FY09E and 14x FY10E. These valuations look attractive for UNSP with an expected EPS CAGR of 18% over FY08-10E and stable cashflows. Also, UNSP is an excellent defensive play with strong brands and market leadership in a business with strong growth drivers.

Risks

- Higher-than-expected raw material cost inflation.
- Lower-than-expected sales growth in the domestic market.
- Demand slowdown and weakening of prices for scotch in the global markets.

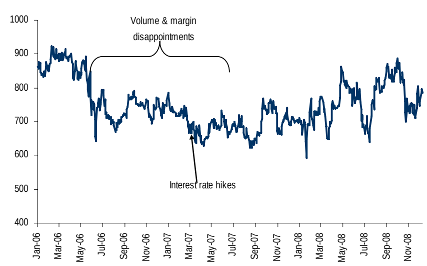
Hero Honda

Figure 3: Event timeline (12-month rolling calendar)



Source: Merrill Lynch

Figure 4: Share price chart and key events



Source: Bloomberg, Merrill Lynch Research

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Please read our latest report for details on the merits of our investment theme for this company.
Hero Honda, 21 October 2008

Catalysts

- **Market share gains to continue:** Hero Honda has gained 300bp market share in the domestic bikes segment in FY09, outperforming the industry by ~10%. We expect Hero Honda to further enhance this due to its focus on the rural markets.

- **Attractive valuations:** Valuations seem to us attractive given our expectations for stronger business prospects and earnings growth of 17% over the next two years. This is far ahead of the sector, where we expect low, single-digit earnings CAGR.

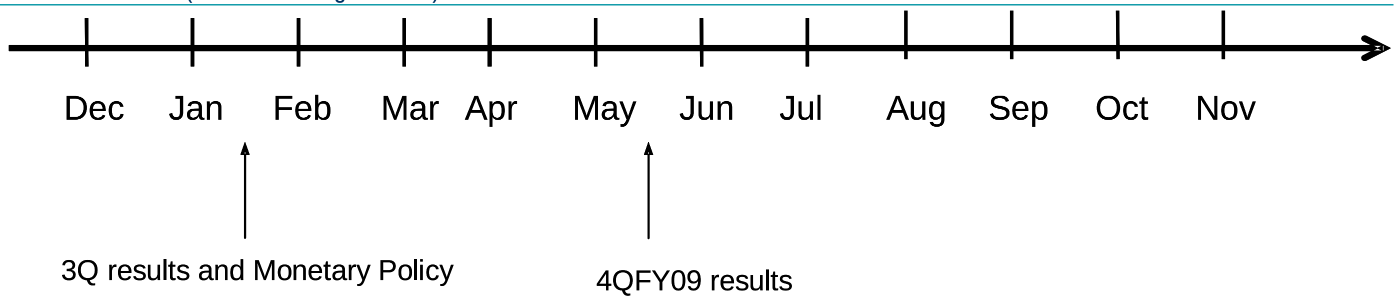
Risks

- **Slowing economy:** The deteriorating macro-economic environment and lack of financing are likely to negatively impact the sector. However, we believe the company will meet our full-year estimate on volume following its recent product launches and low inventory position.

- **New competing products:** Bajaj is talking about low-cost bikes and several other models in 2HFY09. Tata will also make a soft launch of the Nano, its low-cost car. But the impact of these will be marginal on Hero Honda given its relatively stronger franchise, in our view.

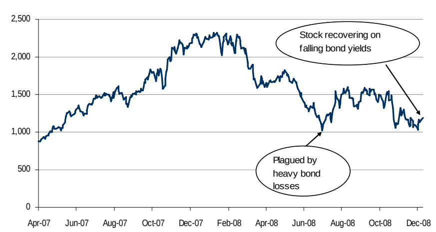
State Bank of India (SBIN)

Figure 5: Event timeline (12-month rolling calendar)



Source: Merrill Lynch

Chart 2: SBI share price movement



Source: Merrill Lynch Research

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Please read our latest report for details on the merits of our investment theme for this company: State Bank of India, 28 October 2008

Catalysts

- **Investment provisions write-back in 3QFY09 could drive stock price:** In 1QFY09, SBI booked investment provisions on its AFS book of Rs16.5bn, of which the bank wrote back 30% in 2QFY09 due to favorable movement in bond yields. With bond yields having fallen below the end-March 2008 levels, we expect the bank to completely write back the balance of provisions in 3QFY09, which should significantly boost earnings for the quarter.
- **Rate cycle reversal:** Interest rate cycle reversal has begun with the RBI having cut CRR by 350bp and SLR by 100bp. We expect further CRR and SLR cuts in 4QFY09. SBI is highly leveraged to the reversal in rate cycle, with CRR/SLR cuts by FY10 alone adding 3-4% to its earnings.
- **Earnings visibility very strong:** We expect SBI's profit CAGR at +17% but PPP CAGR of +20% over FY08-10E on core business growth. This is to reflect higher top line spurred by volume growth and higher fees as we believe market share erosion is likely to be reversed going forward when network expansion and technology upgrades enable SBI to improve its core income. The bank could also benefit from investment write-backs, which we have factored in only partially in FY09.
- **Asset quality manageable:** While we expect an uptick in SME NPLs in the next 4-6 months, we believe SBI's asset quality will likely be manageable given its improved risk management system. Moreover, we are factoring in gross NPLs to rise from 2.5% to 4.0% by FY10 in our forecast earnings.
- **Risk-return positive:** The risk-return is positive for SBI trading at 0.8-0.9x FY10E book, with ROEs of 15-16%. We, however, believe the bank, trading at 1.0x FY09 book, can trade up to 1.5x standalone book given earnings growth of +20% CAGR in FY08-10E, ROE of 16% and manageable asset quality, as well as dominant deposit and customer franchise. Adding Rs542/share for the subs, we get our PO of Rs1,650.

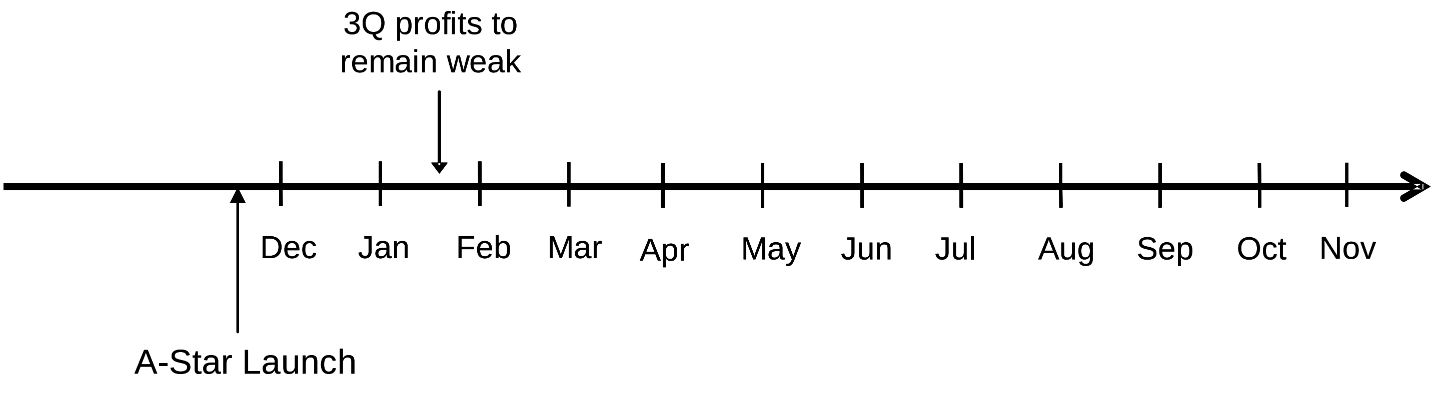
Risks

- Significant slowdown in growth coupled with low interest rate environment could hurt top line. Slowdown could also hurt growth prospects of SBI subs, which in turn could drive down the subs value.
- Exposure to SMEs at +20% could hurt earnings growth; currently SME NPLs are in the region of 3.8-4.0% (FY08).

Catalysts and risks: Least preferred

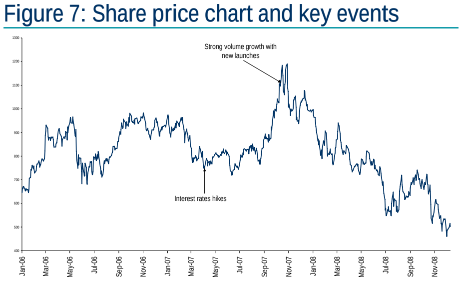
Maruti Suzuki

Figure 6: Event timeline (12-month rolling calendar)



Source: Merrill Lynch

Figure 7: Share price chart and key events



Source: Bloomberg, Merrill Lynch Research

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Please read our latest report for details on the merits of our investment theme for this company.
Maruti Suzuki India Ltd., 19 November 2008

Catalysts

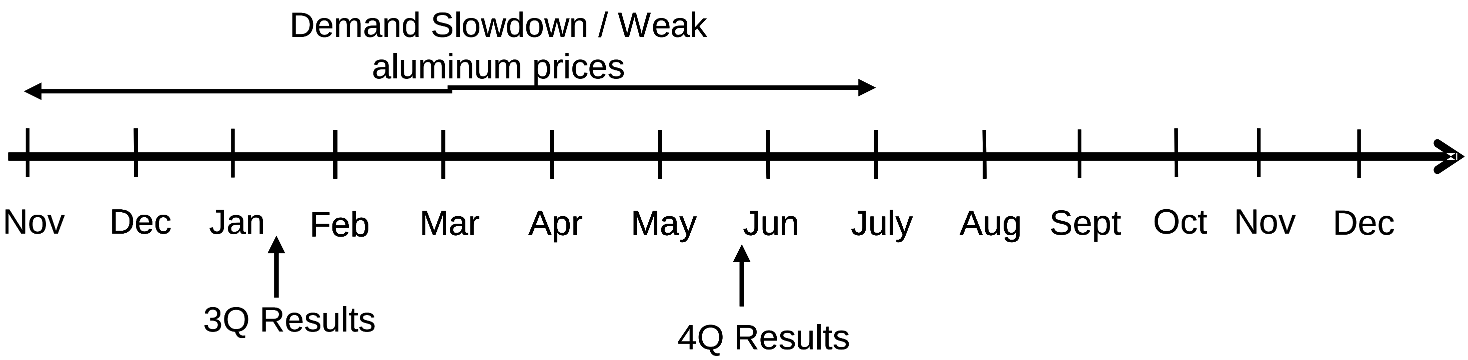
- **Sharp deceleration in growth:** We forecast slowing sales on the back of market share loss. This will be reflected in lower demand for some of its ageing models such as Alto and the Swift platform, which will likely face competitive launches from players such as Hyundai, Honda and Tata Motors.
- **Competitive pricing and currency to impact profits:** We expect margins to remain muted due to increasing competitive pressures, as well as the adverse movement of Japanese yen to US$.
- **Interim results to disappoint:** We expect 3QFY08 results to be weak and operating performance could continue to disappoint.

Risks

- **Sharp correction in stock price:** The stock YTD has declined by about 48%, albeit in line with the broader market and auto index. This has brought valuation multiples down to 10.5x FY09E EPS and 4.3x FY09E EV/EBITDA, in line with the sector.
- **New model launch:** The launch of its new A-star model earlier this month caused some excitement. However, the upside from this model has already been built into our forecasts, and will unlikely alter the medium-term concerns over demand.

Nalco

Figure 8: Event timeline (12-month rolling calendar)



Source: Merrill Lynch

Chart 3: Share price chart and key events

Source: Bloomberg, Merrill Lynch

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Please read our latest report for details on the merits of our investment theme for this company.
National Aluminum Co. Ltd., 5 December 2008

Catalysts

- **Downside risk to earnings led by lower commodity prices:** Our base-case EPS is Rs25.5 in FY09E and Rs18.8 in FY10E. This assumes aluminum price of US$2,395/t in FY09E and US$1,951/t in FY10E and spot alumina price of US$372/t in FY09E and US$250/t in FY10E. However, aluminum prices have plummeted and pose a significant downside risk to our assumptions. At the current price of US$1,466/t, we estimate FY10E will be 65% lower than our base case.

- **Aluminum outlook appears dismal in the near term:** Aluminum prices have fallen by 34% since September, far ahead of the rupee depreciation of 9%. High metal surplus, demand slowdown and growing fears of recession imply that near-term catalysts for price rebounds are scarce. We now expect a price of US$1,951/t in 2H FY09 and FY10E and US$2,067/t in FY11E.

- **Valuation rich on spot basis:** Over the past 10 years, Nalco has traded at an average one-year forward P/E of 8x. On our base-case estimates, it currently trades at P/E of 6x FY10E. However, on spot aluminum prices, it is trading at 29.5x. The stock would continue to underperform on weak aluminum prices and post sharp earnings disappointment, in our view.

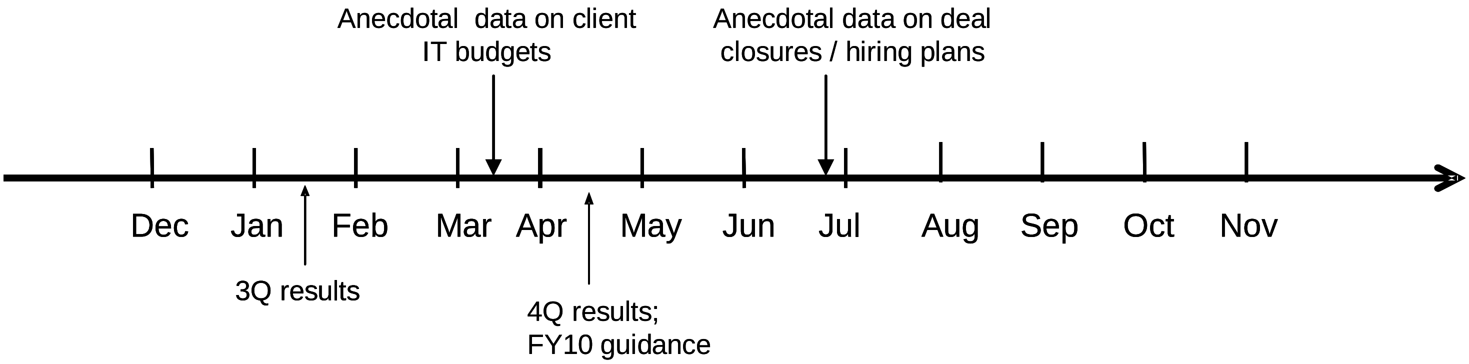
Risks

- **Higher-than-expected aluminum prices:** If the demand-and-supply scenario improves for aluminum and prices increase sharply over current spot prices, then there could be upside risks to our earnings estimates.

- **Higher-than-expected alumina prices:** If the decline in alumina spot prices should reverse, there could be upside risks to our earnings estimates.

Wipro Ltd.

Figure 9: Event timeline (12-month rolling calendar)



Source: Merrill Lynch

Chart 4: Share price chart and key events

Source: Bloomberg, Merrill Lynch

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Please read our latest report for details on the merits of our investment theme for this company.
India Computer Services, 6 November 2008

Catalysts

- **Bleak December quarter results season:** Project cuts due to vendor consolidation and cutback in discretionary spending will dampen volumes in the December quarter. In light of the weakening European currencies, we forecast a QoQ decline in US$ revenues.
- **Downside risk to earnings:** Wipro derives 60-65% of revenues from the currently impacted verticals of financials, telecom OEM and technology, as well as retail. Its exposure is higher than peers at 40-50% revenues. Some clients at risk in our view include CSFB, Nokia Siemens, Alcatel Lucent and Nortel. We also believe that it has relatively limited operating levers, such as variable compensation of merely 15%, and one of the highest utilization levels of 77% including trainees.
- **Recent management restructuring could add to challenges:** In May 2008, Wipro underwent an organizational restructuring that saw several high-level executives leaving the company and this could strain revenue growth.
- **Debt/hedging:** The External Commercial Borrowing of US$350mn to finance the Infocrossing acquisition has raised its risk profile even though in Indian GAAP the mark-to-market is in the balance sheet. Given ~70% of the hedges are in forwards, it can restrict upside from a weaker rupee.

Risks

- **Large deal wins:** The company had highlighted a robust large deal pipeline and any acceleration in closure could provide upside to our earnings.
- **Appreciation in the rupee:** Given that Wipro is relatively more hedged, an appreciation in the rupee would benefit it more than its peers.

Table 7: India Coverage Universe

ML Code	Company	Rating	Price (Rs)
ABSHF	ABG Shipyard	C-1-7	93.2
ABVFF	ABB	C-3-7	452.6
ADCLF	Assoc. Cement	C-3-7	489.5
ADYAF	Aditya Birla Nu	C-2-7	549.6
AMBUF	Ambuja Cements	C-3-7	62.7
ANSFF	APIL	C-3-7	29.1
ARVZF	Arvind Ltd	C-3-7	15.8
BCLTF	BIOCON LTD	C-1-7	101.6
BHHEF	Bharat Heavy	C-1-7	1374.2
BHTIF	Bharti	C-1-9	742.4
BJJAF	Bajaj Hldgs and Inv.	C-2-7	238.5
BJJHF	Bajaj Hindusthan	C-3-7	46.3
BKBAF	Bank of Baroda	C-2-7	251.7
BLJIF	Balaji Tele	C-3-7	71.8
BMPRF	Balrampur Chini	C-3-7	36.4
BORYF	Bombay Rayon	C-1-7	120.0
BSYDF	Bharati Shipyar	C-1-7	68.4
CDLHF	CADILA HEALTHCAR	C-1-7	248.3
CIDFF	Container Corp	C-3-7	613.9
CNRKF	Canara Bank	C-3-7	164.0
CPIYF	Colgate India	C-2-7	391.6
DBUIF	Dabur India	C-2-7	76.7
DRYBF	Dr Reddy's Lab	C-3-7	459.2
EUSOF	Educomp Solu	C-1-7	2224.1
FSSOF	Firstsource	C-3-9	12.5
GJGCF	Gujarat Gas Co	C-3-8	201.4
GJRSF	Gujarat State	C-1-7	26.8
GKLDF	Gokaldas Exports	C-3-7	90.0
GRSJF	Grasim	C-3-7	1080.5
GUJIF	Gujarat Inds	C-2-7	41.0
GXOLF	GSK India	C-2-7	1159.3
GYDPF	Gateway Distriparks	C-3-7	78.8
HGDFF	HDFC	C-1-7	1606.0
HINLF	Hindustan Unilever	C-1-7	241.6
HMKFF	Himatsingka Seid	C-2-7	24.8
HNDFF	Hindalco	C-3-7	51.3
HRHDF	Hero Honda	C-1-7	792.1
IAGSF	Indraprastha Gas	C-3-7	99.5
IBELF	Indiabulls Real	C-2-7	128.6
IBLFF	IndiaBulls Finan	C-1-7	104.1
ICIJF	ICICI Bank	C-1-7	406.1
IDEAF	Idea Cellular	C-2-9	53.5
IFDFF	Infrastruct Dev	C-2-7	66.2
IFKFF	Infotech India	C-1-7	104.8
IIFRF	IVRCL Infrastruc	C-1-7	151.8
INDIF	Indian Bank	C-1-7	121.7
INFYF	Infosys Tech	C-2-7	1134.9
INIAF	India Cements	C-3-9	97.9
IOCOF	IOC	C-1-7	377.0
ITCTF	ITC Limited	C-1-7	171.2
JPRKF	Jaiprakash	C-1-7	82.8
JTAIF	Jet Airways	C-2-8	153.4
KPTCF	KPIT Cummins Inf	C-3-7	26.9
LTOUF	Larsen & Toubro	C-1-7	782.0
MAHHF	M & M	C-3-7	287.0
MPSSF	MphasiS	C-1-7	155.5
MSKDF	Mastek	C-3-7	163.3
MUDGF	Maruti Suzuki India	C-3-7	510.7
MXLBF	Matrix Lab Ltd	C-3-7	63.9
NAUDF	NALCO	C-3-7	196.0
NEYVF	Neyveli Lignite	C-2-7	57.2
NGRJF	Nagarjuna Const	C-1-7	72.5

Table 7: India Coverage Universe

ML Code	Company	Rating	Price (Rs)
NTHPF	NTPC Ltd	C-1-7	167.1
ONGCF	ONGC	C-1-7	665.0
ORBCF	ORBC	C-3-7	140.0
PATIF	Patni	C-3-7	135.4
PFIAF	Pantaloon	C-2-8	223.5
POLNF	Petronet LNG Ltd	C-3-7	33.9
PUJBF	Punjab	C-1-7	456.0
RCTDF	Reliance Infra.	C-1-7	604.7
RKHAF	Radico Khaitan	C-3-7	57.1
RLCCF	Reliance Capital	C-1-7	491.8
RLCMF	RCVL	C-2-7	239.2
RLTAF	Rolta India	C-1-7	127.0
RPLUF	RPL	C-3-7	84.1
SAYPF	Satyam	C-2-7	224.5
SBINF	SBI	C-1-7	1198.9
SBXSF	Subex Ltd	C-3-7	31.0
SHPSF	Shoppers' Stop	C-3-7	173.2
SKNCF	Sasken Communic	C-3-7	55.4
SLAUF	Steel Authority	C-3-7	79.4
SREEF	Shree Cements	C-3-7	427.5
SRNKF	Renuka Sugars	C-1-7	57.2
SUTVF	Sun TV LTD	C-2-7	166.4
SZEYF	Suzlon Energy	C-1-7	50.0
TACSF	Tata Consultancy	C-1-7	507.7
TAELF	Tata Steel	C-3-7	217.7
TENJF	Tata Motors Ltd.	C-3-7	160.7
TMHAF	Tech Mahindra	C-1-7	254.1
TTNIF	Titan Industrie	C-1-7	827.2
TVIEF	Triveni Engg	C-1-7	41.9
UBOIF	Union Bank India	C-1-7	143.9
UDSRF	United Spirits	C-1-7	930.0
UPHHF	United Phosphoru	C-1-7	90.0
UTBKF	Axis Bank	C-1-7	457.0
UTKIF	Unitech Ltd	C-3-7	34.7
VJYAF	Vijaya Bank	C-3-7	30.1
VSLSF	Tata Communications	C-3-8	493.3
WIPRF	Wipro	C-3-7	249.7
WPNIF	Welspun India	C-3-9	19.5
XAPNF	Asian Paints	C-2-7	869.8
XATOF	Automotive Axles	C-1-7	94.9
XBJBF	Bajaj Auto	C-2-7	355.2
XBPCF	BPCL	C-2-7	323.6
XBWTF	Aban Offshore L	C-2-7	759.4
XCANF	Cairn India	C-1-9	147.4
XCLAF	Cipla Ltd.	C-3-7	181.1
XCRRF	Corporation Bank	C-1-7	179.8
XCVFF	Mcleod Russel	C-1-7	44.4
XDBIF	IDBI	C-3-7	63.5
XDBVF	Ashok Leyland	C-3-7	13.4
XDIIF	Bank of India	C-1-7	262.3
XDJNF	UltraTech Cemen	C-2-7	341.2
XDUVF	Wockhardt	C-3-7	95.2
XEDRF	Exide Indus Ltd	C-1-7	43.7
XEICF	Eicher Motors	C-2-7	211.7
XFDRF	Federal Bank	C-3-7	139.0
XFKMF	TVS Motor	C-3-7	24.8
XFTCF	Hexaware Tech	C-3-7	20.1
XGHSF	HDIL	C-2-7	106.6
XGLAF	Gail India	C-2-7	208.5
XHDFF	HDFC Bank	C-1-7	918.6
XHTPF	Hindustan Petro.	C-1-7	224.1
XINAF	Rico Auto Ind	C-1-7	10.3

Table 7: India Coverage Universe

ML Code	Company	Rating	Price (Rs)
XIZZF	Ranbaxy Lab	C-1-7	209.5
XJDLF	JSPL	C-3-7	927.4
XJSHF	Jaiprakash Hydro	C-3-7	29.7
XJWJF	JSW Steel	C-3-7	239.9
XMSUF	Motherson Sumi	C-1-7	59.7
XMTNF	MTNL	C-3-7	76.8
XMXIF	Max India	C-1-9	100.0
XNIGF	Piramal	C-2-7	208.7
XNTEF	Nestle India	C-1-7	1365.6
XOMXF	Omaxe	C-3-8	55.1
XPEAF	Panacea Biotec	C-1-7	133.7
XPJVF	PVKP	C-3-7	38.3
XRAMF	Raymond Ltd	C-3-7	91.8
XRELF	Reliance Inds	B-1-7	1259.0
XTAWF	Tata Pwr. Co.	C-2-7	730.8
XTNDF	Sterlite Industr	C-2-8	294.6
XUUVF	Bharat Forge	C-3-7	84.3
XVDUF	DLF Limited	C-2-7	255.4
XVHLF	Vishal Retail	C-3-9	100.6
XVQWF	Glenmark Pharm	C-1-7	256.0
XXQPF	Divi's Lab	C-1-7	1250.4
XZETF	Zee Entertainmen	C-1-7	126.9
XZUYF	Aptech	C-1-7	68.6
YESBF	Yes Bank Ltd	C-1-9	74.3
CHBZF	Chambal Fert.	C-1-7	37.8
NFACF	Nagarjuna Fert.	C-3-9	15.8
TTCXF	Tata Chemicals	C-1-7	159.8
XSGAF	Sesa Goa	C-3-7	80.4

Source: Merrill Lynch

Table 8: India Coverage (ADR/GDR) Universe

ML Code	Company	Rating	Price (USD)
HDB	HDFC Bank	C-1-7	64.2
IBN	ICICI Bank - A	C-1-7	16.9
MTE	MTNL	C-3-7	3.2
PTI	Patni Computer	C-3-7	5.6
RDY	Dr Reddys Lab-A	C-3-7	9.4
SAY	Satyam	C-2-7	12.2
SLT	Sterlite Ind.	C-2-8	6.1
TCL	Tata Communications	C-3-8	21.3
TTM	Tata Motors Ltd.	C-3-7	4.4
WIT	Wipro	C-3-7	7.5
WNS	WNS (Holdings) L	C-1-7	8.5
LTORF	Larsen & Toub -G	C-1-7	16.4
MAHMF	M & M -G	C-3-7	5.9
RELFF	Reliance Infra.	C-1-7	35.5
RLNIY	Reliance Inds -G	B-1-7	53.4
SBKFF	SBI -G	C-1-7	50.0
UTIBY	Axis Bank - GDR	C-1-7	9.5
XLROF	Rolta India-GDR	C-1-7	3.6
XZSUF	Subex Ltd-GDR Regs	C-3-7	3.0
BJAUF	Bajaj Hldgs & Inv-G	C-2-7	5.0
GAILF	Gail Limited - G	C-2-7	25.7
GRSJY	Grasim -G	C-3-7	22.5
IAMZY	India Cements -G	C-3-9	2.0
XAKUF	NCC-GDR	C-1-7	1.5
INFY	Infosys Tech - A	C-2-7	24.0
SIFY	SIFY Limited	C-3-9	1.4

Source: Merrill Lynch Research

Appendix: Most-Least Preferred (MLP) terminology and calculation methods

1. Objective of MLP lists

The MLP lists seek to select a subset of stocks under coverage (3x3) to exhibit the highest/lowest preference over 0-3 months in contrast to the usual ML fundamental equity rating which is based on a 0-12 month timeframe. They remain a recommended stock list and should not be viewed as a portfolio or an index. Stock selection is based purely on catalysts and anticipated performance criteria. While our analysts may also consider factors such as investability and ability to borrow stock, these are not the primary criteria for selection.

2. Least preferred lists (LPL)

Including a specific stock in the LPL implies to long-only investors that we think they should reduce or eliminate their holding in that name on a short-term view. Meanwhile, it advises hedge funds, 130/30 funds, etc, that we think there may be a short-selling opportunity in the name. Depending on investors' circumstances, it may inform another trading decision. For example, they could take a position in instruments that might rise in value if the stock declines, eg, buy a put.

3. Calculation rules and performance measurement

The performance of the MPL (Most-Preferred List) and the LPL are calculated on an equally-weighted price return basis as opposed to a total return basis. Both the MPL and the LPL are treated as long-only lists when performance is thus calculated. However, when referring to the performance of the LPL, it is assumed that the investor shorted the list such that decreasing index levels generate positive returns.

For calculation purposes, stocks are equally weighted at the inception of each list and rebalanced to maintain equal weighting whenever the list is updated, typically on a monthly basis. From their inception, the performance calculations of the MLP lists reflect the additions to and deletions from each list, and the stocks thus rebalanced are priced at market close on the day the change is published.

If the report is released before 11am HKT, rebalancing will occur on the same day at the price prevailing at the close of the stock's main market. Otherwise, the list will be rebalanced on the next day.

The performance of country MLP teams will be calculated in their respective local currencies, while the share prices of sector MLP teams will be converted into US$ at the FX closing rate of the day in question.

In the event that no published price is available, we will hold the last publicly known price level flat until the rebalancing. If a member of the MLP list is "on holiday" (ie, the exchange on which it is traded is closed for that day), the entire MLP list is deemed "on holiday". The pricing of the list will be held flat until the list as a whole is trading again. Should a revised MLP be published on a day when either list is "on holiday," the affected list will be rebalanced on the next available trading day, using the closing prices on that day.

The performance of the lists is calculated on a price return basis. Corporate actions such as rights and bonus offerings, stock splits, and mergers and acquisitions are implemented on a case-by-case basis in order to accurately reflect the market conditions surrounding the corporate action. Cash dividends are not included in the calculation. Under normal circumstances, dividends accrued for MPL stocks should be similar to those payable for LPL stocks, such that the impact on overall performance should be relatively insignificant.

All corporate actions are treated on a case-by-case basis in order to accurately reflect the market conditions surrounding the corporate action.

- **Rights and bonus offerings:** We assume that all investors subscribe to the rights and bonus offerings. Merrill Lynch PacRim Equity Research will handle the implementation of the rights issue on a case-by-case basis, taking into consideration liquidity constraints and prevailing market conditions.
- **Stock splits:** These are reflected in the performance of the list.
- **Mergers and acquisitions:** Again, Merrill Lynch PacRim Equity Research will handle the implementation of mergers and acquisitions on a case-by-case basis to realistically reflect the background market conditions, with a view to recognizing the impact on investors.
- **Spin-off, divestment:** The divested holding company is included in the performance of the lists on a reinvested basis at the closing price on the day the divestment came into effect.

Transaction costs are excluded from the performance calculations; however, investors must be aware that transaction costs charged by brokers in Asian markets can be material to performance. Borrowing costs are not included in the performance of the LPL, neither the costs of collateralizing the LPL.

The MPL and the LPL reflect the short-term stock preferences of the Merrill Lynch equity analysts. The performance results are model in nature and do not reflect actual transactions. The performance results of persons following the published compositions of the lists will differ for a variety of reasons, including but not limited to: (1) differences related to transaction costs on both the MPL and the LPL, (2) borrowing and collateral costs on the LPL, (3) the receipt and reinvestment of dividends and earnings, (4) the taxation of dividends and other income, (5) implementation of other corporate actions, (6) the time and price that stocks were acquired and disposed of, (7) differences in the weighting of such stocks, and (8) the effects of currency fluctuations. In addition, no assurance can be given about future performance results.

The performance of the MPL and the LPL are calculated by Merrill Lynch PacRim Equity Research.

The performance of the lists is compared against the MSCI country/sector benchmarks as specified in the reports. The specified country/sector index is a capitalization-weighted index which includes a subset of all the Asian companies involved in the country/sector in question. The MPL and the LPL differ from these benchmarks in at least three ways. First, the MLP lists will occasionally include stocks from Asian markets outside the specified country/sector index. Second, the MLP lists are equally-weighted indices, whereas the MSCI country/sector indices are capitalization-weighted indices. Third, the MLP lists are less diversified and hence more exposed to stock-specific risk than the MSCI country/sector indices. As a result of these differences, the MPL and the LPL may experience higher volatility than the benchmarks.

4. Two absolute return products — Market Neutral and Long/Short

In addition to following either the MPL and/or LPL as individual investment strategies, other lists can be derived using the MLP lists as components.

MLP Market Neutral (MLP MN)

The Most Least Preferred Market Neutral (MLP MN) list is a classical hedge fund strategy that can be derived using the MPL and LPL as underlying assets. The MLP MN list is calculated by placing an initial and equal investment in both the MPL and the LPL at a start date and returns to market neutrality (ie, zero net exposure) at every rebalancing. The cumulative return in the MLP MN list is the starting point of the next period. In practice, this requires investors to increase or decrease the nominal investment in both lists to become equal (or "market neutral") again as the new members come into effect in the MPL and the LPL. The leverage introduced by substituting gains and losses across both MPL and LPL indexes will either inflate or deflate the performance of the MLP MN list compared to MLP Long/Short (see below), depending on the relative performance of both lists and the nominal investment in each list at the start of each period.

MLP Long/Short (MLP L/S)

The Most Least Preferred Long/Short list (MLP L/S) – complementary to the MLP MN – is calculated by placing an initial and equal investment in both the MPL and the LPL at a start date and not rebalancing the notional value of either investment until the specified end date. As a result, the cumulative performance of the MLP L/S list over a specified period equals the difference between the cumulative performance of the MPL since the start date of the investment period and the cumulative performance of the LPL since the start date.

This list is market neutral only at inception and a bias towards either net long or net short will be created organically, driven by the relative performance between the MPL and the LPL.

The table below focuses on the difference between the MLP L/S and the MLP MN and demonstrates how performance gap between the two investment strategies arises. The actual values are illustrative only.

Table 9: Implementation of MLP L/S versus MLP MN

	MLP L/S product				MLP MN product			
	MPL	LPL	Difference	MLP L/S	MPL	LPL	Difference	MLP MN
Period 1:								
Start = 22/12/2006	100	100	0.00		100	100	0.00	
End = 23/01/2007	106.71	104.71	2.00		106.71	104.71	2.00	
Return over period 1	N\A (6.71%)	N\A (4.71%)			6.71%	4.71%		2.00%
Return since inception	6.71%	4.71%	2.00%	2.00%	N\A	N\A		2.00%
Period 2:								
Start = 23/01/2007	106.71	104.71	2.00		102.00	102.00	0.00	
End = 23/02/2007	109.60	104.65	4.95		104.76	101.94	2.82	
Return over period 2	N\A (2.71%)	N\A (-0.06%)			2.71%	-0.06%		2.76%
Return since inception	9.60%	4.65%	4.95%	4.95%	N\A	N\A		4.82%
Period 3:								
Start = 23/02/2008	109.60	104.65	4.95		104.82	104.82	0.00	
End = 28/02/2008	104.39	100.88	3.51		99.83	101.04	-1.21	
Return over period 3	N\A (-4.75%)	N\A (-3.60%)			-4.75%	-3.60%		-1.15%
Return since inception	4.39%	0.88%	3.51%	3.51%	N\A	N\A		3.61%

Table 9: Implementation of MLP L/S versus MLP MN

	MLP L/S product				MLP MN product			
	MPL	LPL	Difference	MLP L/S	MPL	LPL	Difference	MLP MN
Period 4:								
Start = 28/02/2008	104.39	100.88	3.51		103.61	103.6093	0.00	
End = 23/03/2008	113.79	103.93	9.86		112.94	106.74	6.20	
Return over period 3	N\A (9.01%)	N\A (3.03%)			9.01%	3.03%		5.98%
Return since inception	13.79%	3.93%	9.86%	9.86%	N\A	N\A		9.81%

Price objective basis & risk

Hero Honda (HRHDF)

Our PO of Rs902 is based on 8x FY10E EV/EBITDA,which is at a 10% discount to the ten-year historical average. At our PO, the stock would trade at a P/E of12.5x FY10E EPS, which is also at a similar disocunt to the historical average. Risks: Continuing withdrawal of financing intermediaries, and new competing models, both of which could impact sales.

Maruti Suzuki India (MUDGF)

Our PO of Rs500 is based on 4.0x EV/EBITDA FY10E, equivalent to trough valuations, on weak growth trajectory. We expect domestic car demand to decelerate sharply, restricting overall sales growth. At our PO, the stock would trade at 9.6x FY10E EPS, also at trough values. Upside risks: Stronger sales following sixth pay commission payout, and moderation of commodity prices. Downside risks: Financing constraints, and economic slowdown which would adversely volume growth.

NALCO (NAUDF)

Our PO of Rs153 is based on 40% discount to our DCF valuation (WACC of 13.7%, terminal growth rate of 0%). Our DCF currently assumes aluminum prices of US$2395/t in FY09E, US$1951/t in FY10E and long term price of US$2646/t. However, we believe there is downside risk to our forecasts in the medium term given rising metals surplus and continuing turmoil in financial and commodity market and risks to demand growth. Hence, we expect Nalco to trade at a discount to DCF. Upside risks: Higher aluminum and alumina prices. Downside risks: Lower aluminum prices, execution risks and delays in capacity expansions.

SBI (SBINF)

Our PO for SBI ofRs1650 (US$74) captures strong earnings growth of 17% CAGR over FY08-10E, driven by strong topline and fees. Although the stock trades at 1.5x FY09E book assuming no value for subs, if we were to assume that the market is assigning the full value to the subs of Rs484/shr for FY09E and Rs542/shr for FY10E, then the stock would trade at just 0.8x FY09E book with ROE forecast to rise to about 16% by FY10E. Given its strong brand franchise, dominant deposit franchise (market leader with 18-19% share), core operating profit growth of +20% CAGR through FY08-10E, low interest risk and manageable asset quality, we believe the stock could arguably trade up to 1.4-1.5x book. While this reflects a significant rerating, we reckon, the market is assigning much lower value to the subs itself making the valuations of 0.8x look more understated. Moreover, the markets are also pricing in worst case valuations which, in our research implied a value of Rs911/shr (assuming target multiple pf 0.8x book, seen at the trough of the cycle). Moreover, it is also likely to be a beneficiary of the expected downtrend in the interest rate cycle. At 1.5x FY10E book, we get a value of Rs1110/sh. and adding Rs542/shr we get our PO of Rs1650 on the stock. As banks' net NPLs shrink, the PE may gain some relevance. We believe the stock could trade up to 7.5-8.0x FY10E earnings, which is still at a 20-30% discount to its historical trading range. Risks are a sharp rise in rates and in NPLs.

United Spirits (UDSRF)

We value UNSP at Rs1,350/share. This is a combination of the base business at Rs1,150 and treasury stock at Rs200. For the base business, we use PEG since UNSP is a growth stock. We take a target PEG of 1.1x for FY10E using EPS CAGR of two years over FY08-10E. We forecast EPS to grow at an average of 18pct over the next two years and our target PEG of 1.1x is lower than the sector average of 1.2x to capture the higher regulatory risks associated with alcohol business in India. Based on this methodology, we arrive at the base business value of Rs1,150. At Rs1,150, the base business would trade at FY10E P/E of 21x. Treasury stock accounts for 13pct of shares outstanding and we assume that these will be sold at market value of Rs1,300/share which implies per share price of Rs200. Upside risks: Stronger-than-expected demand and higher-than-expected value of treasury stock. Downside risks: Sharp input cost increases.

Wipro (WIPRF)

Our PO of Rs260 is at 9x FY10E PE, a 25% discount to Infy target PE to factor in enhanced macro risk to the technology vertical, over 20% of revs. Wipro has a richer valuation on PEG basis vs TCS and Infosys and compares unfavorably to Satyam on valuation metrics of EV/sales, P/E ex cash.

Risks: Any near term business impact of recent management changes. Industry specific risks include increasing competition from global vendors, risk of Rupee appreciation and sharper than expected macro slowdown. Upside risk to estimates from any large deal wins.

Analyst Certification

We, Jyotivardhan Jaipuria, Vandana Luthra, Rajeev Varma, Mitali Ghosh and S.Arun, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

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Important Disclosures

Investment Rating Distribution: Autos Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	31	36.47%	Buy	3	10.00%
Neutral	16	18.82%	Neutral	9	69.23%
Sell	38	44.71%	Sell	7	24.14%

Investment Rating Distribution: Banks Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	99	33.33%	Buy	45	55.56%
Neutral	76	25.59%	Neutral	33	47.83%
Sell	122	41.08%	Sell	54	51.92%

Investment Rating Distribution: Beverages - Alcoholic Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	20	57.14%	Buy	0	0.00%
Neutral	7	20.00%	Neutral	4	66.67%
Sell	8	22.86%	Sell	2	28.57%

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	56.74%	Buy	15	21.13%
Neutral	32	22.70%	Neutral	11	44.00%
Sell	29	20.57%	Sell	6	27.27%

Investment Rating Distribution: Technology Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	113	42.97%	Buy	21	20.59%
Neutral	60	22.81%	Neutral	12	22.22%
Sell	90	34.22%	Sell	13	15.66%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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