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STRATEGY REPORT

20th March 2007

In Search of Equilibrium

Defeat of UPA, India's ruling party, in recent state elections is being attributed to:

- **Inflation:** Rise in cost of basic necessities.
- **Non-inclusive Growth:** Leaving behind a large section of population from benefits of the economic growth.

Government is sorting out the short-term issues by dampening demand (increasing interest rates) and price freeze(s).

AND

Long-term issues by de-bottlenecking the supply side by accelerating the infrastructure development and Bharat Nirman Programme.

We prefer sectors insulated from 'inflation – politics'.

Key Recommendations

Positive on..

India Theme	:	Reliance
IT	:	TCS, Infosys, Mphasis BFL
Power equipments	:	Siemens, Crompton Greaves, Kalpataru Power
Engineering	:	Cummins, Elecon Engineering
CVs/Four Wheelers	:	Tata Motors, M&M
Telecom	:	Bharti
Infrastructure	:	HCC, Nagarjuna, Sadbhav
Banks (Private)	:	ICICI, UTI
Others	:	Century (Realty), NTPC (Power), United Phosphorus (Agri)

Neutral on..

Autos (Two Wheelers), FMCG, Pharmaceuticals, Metals, Hotels and Cement.

Negative on..

Primary commodities, Food Processing, PSU Banks, Media, Textiles and Oil & Gas.

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Politics – Emerging risk to markets

Uttarakhand

	Seats Won
NDA	34
UPA	21
Others	14

Punjab

	Seats Won
NDA	67
UPA	44
Others	5

NDA: National Democratic Allaince
UPA: United Progressive Allaince

United Progressive Allaince's (UPA) loss in recent state elections has surprised many, including the Congress Party. Many Groups, from within the party and outside (especially the Left Parties, the alliance partners) have started introspection.

Interestingly, reactions were quick to come by:

- **March 03, 2007: Mr. P Chidambaram: "**A party loses elections for many reasons, One of them could be price rise".
- **March 06,2007: Mrs Sonia Gandhi "**Our performance in Punjab and Uttarakhand left much to be desired. Inspite of all-round development, we were unable to retain power. This tells us that while objective factors such as the price rise may have had an impact, there were other reasons as well".
- **March 08,2007: Mr. Manmohan Singh** "in the process of growth, if inflation becomes a problem and that brings agony and hardships for the poorer sections of our society, that also has to be dealt with on a priority basis."

Deliberation, Introspection, Conclusion ...

Consensus – losses due to marginalization of 'Aam Aadmi'

The state assembly election results have created qualms over the neo liberal policy that the UPA government has been adopting since it assumed power in the general election of 2004.The common thread in post results discourses of the congress men seem to be "inclusive growth" and "curbing inflation". An opinion amongst congress and non congress parties about the recent losses in the assembly election is that the leadership of the government had evolved a creative model but had steadily digressed away. General opinion is while **"**Aam Aadmi" has found a place in the agenda of the UPA government, it has been overshadowed by market forces and scorching growth of the economy.

...and execution

UP elections, key to the future policy orientation

The assembly election in India's most populous state of UP scheduled in April - May would be of key political significance. The electoral trend is unequivocal. The anti incumbency factor is far greater against Congress (and their ideologies) rather than the states where ruling part has lost elections. The mandate of the people was not so much against the Chief Ministers Amarinder Singh (Punjab) and ND Tiwari (Uttarakhand) as against establishment at the centre (for their inability to curb price rise). The UP elections are also important because a relatively better success rate can improve the party's chances to secure another term at the centre.

General elections not too far

General election not too far, any bold steps by government is unlikely

The UPA government will complete three year in May 2007. With its eye on the general elections scheduled in 2009, Congress party will likely stay in a damage control mode. UPA is now faced with the similar situation where the voters do not find themselves benefiting from the economic growth (remember, the National Democratic Alliance – NDA, led by BJP – lost election in 2004 on similar grounds). Although the UPA in the annual budget exercise has promised investment in education, health and farm sector, whether these measure would be in time to impact the next general election remains uncertain.

UPA is expected to resort to populist measures and put off tough economic decisions. With close to 3 election lined up in the current financial year ,10 in 2008 and national polls in May 2009 the government, would have to walk the tight rope of maintaining the growth and curbing inflationary pressures.

UPA would like to improve its performance in General elections 2009, unlike being exposed to a fractured verdict in 2004

General Election 2004 - A fractured verdict

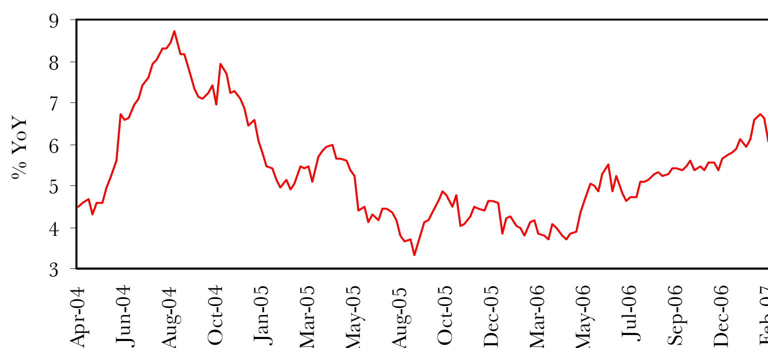
UPA - 222
NDA - 189
Others - 132

Inflation – The biggest culprit

The present upside in inflation started from mid April 2006. Earlier there was a continuous slide in Inflation from end Aug 2004 to mid Feb 2005. After that inflation again went up to 5.96% till mid Apr 2005 before falling to 3.33%, the lowest levels since Apr 2004. Inflation moved in the range of 4% to 4.8% till Jan 2006 from where it moved in the range of 3.86% to 4% till Apr 2006.

Inflation currently ruling at two year high

Inflation (WPI Based, % YoY)



Top 10 items in WPI weightage

	1993-94 series	1981-82 series
Milk	4.36708	1.96
Sugar	3.61883	2.013
Cotton yarn	3.02271	1.232
Rice	2.44907	3.685
Elec(Industry)	2.16918	0.825
Urea N Content	2.15577	0.992
High Speed Diesel	2.02034	2.154
Elec(agr)	1.94557	0.317
LPG	1.83731	0.677
Portland cement	1.73105	
Non-coking coal	1.3967	0.798

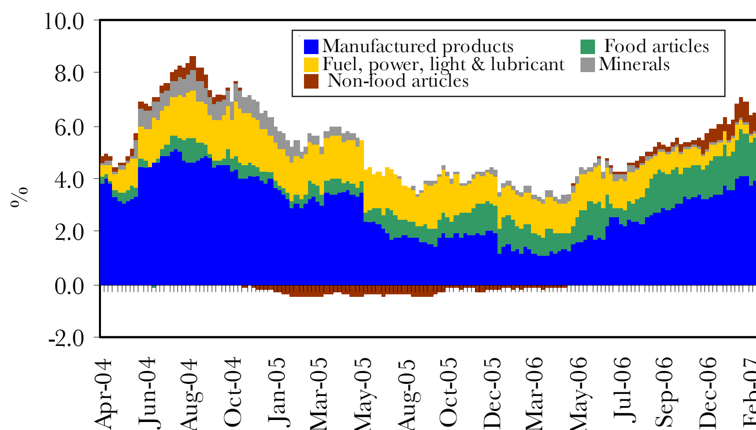
Manufactured items causing the pain

Manufacturing remained the major factor deciding the trend in inflation since Apr 2004. The rise in inflation from Apr 2004 to the peak of 8.74% in Aug 2004 was mainly driven by manufactured products and fuel (but all other components of inflation were also at there peak). The fall in inflation witnessed thereon till Aug 2005 was primarily due to fall in contribution of manufactured products, significant fall in contribution of minerals and negative contribution from Non food articles.

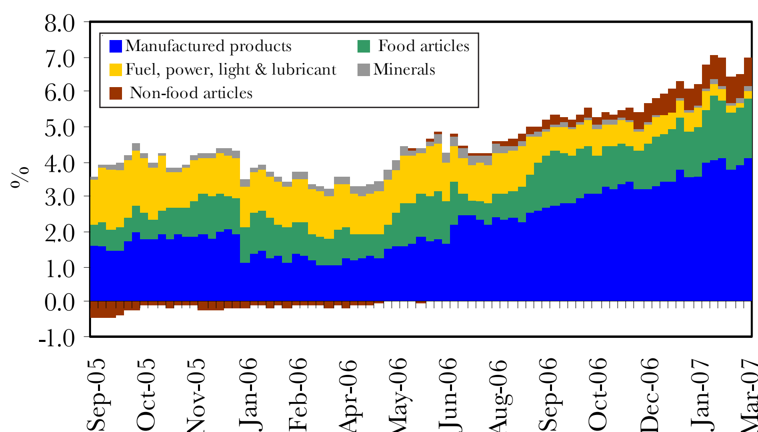
Inflation started rising again from Apr 2006 onwards mainly as a result of manufactured products and food prices (May 06) and fuel inflation was on the higher side. Fuel contribution to inflation started tapering after Jun 2006. But rising contribution of Food Articles and non food prices from Jun 2006 onwards kept inflation moving upwards. Non Food articles gave a further thrust to inflation from Nov 2006 onwards.

Rise in prices of key commodities in basic primary articles led to substantial jump in inflation

Contributors to Inflation (WPI Based)



Contributors to Inflation (WPI Based)



A step rise after initial fall

Monetary Action

	Repo	Reverse Repo	Inflation
Sep-04	4.50	5.50	7.87
Oct-04	4.75	5.75	7.28
Apr-05	5.00	6.00	5.92
Oct-05	5.25	6.25	4.7
Feb-06	5.50	6.50	4.02
Jun-06	5.75	6.75	5.12
Jul-06	6.00	7.00	4.82
Oct-06	6.00	7.25	5.47
Jan-07	6.00	7.50	6.25

"Policy Shift": Contain inflation at all cost

(I) Monetary Action

The RBI has been taking consistent action on the monetary front to contain inflation since October 2004. Subsequently, the Reverse Repo rate has been hiked 6 times from 4.50% in September 2004 to a current 6.00%. The Repo rate has been hiked 8 times from 5.50% in Sept'04 to a current level of 7.50%. The central bank has also adopted other policy measures to dampen the inflationary impact of the large foreign fund inflows which have increased the Rupee liquidity in the system. Consequently in Dec'06, the Cash Reserve Ratio (CRR) was hiked for the first time since Sept'04 from 5.00% to 5.50 and then again in Feb'07 from 5.50% to 6.00%. Apart from these above mentioned measures, from 2nd March 2007, the RBI has announced dated security MSS (besides the normal T-Bill MSS) to suck out excess liquidity, the amount of which will be decided every Friday.

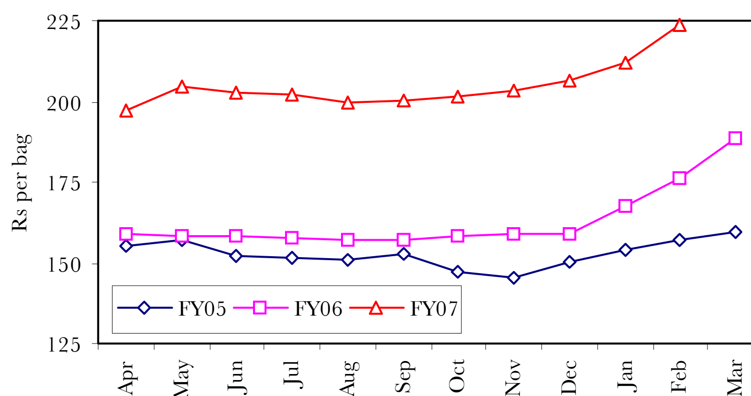
(II) By controlling prices

We believe the Government will keep a close watch on all commodity prices and any tendency to increase prices will be restrained through:

Government will not allow commodities prices to escalate

- **Voluntary Restrain:** Steel industry is key example. After consultation with the steel ministry, steel manufactures decided to voluntarily roll back the price hike announced on March 1, 2007, barely a few day's after they had increased prices. The roll back was in the range of 50%-100%. With this, the government has ensured that there will not be substantial increase in steel prices in the near future.
- **Negotiated settlement with Industry:** Cement industry is a striking example. Worried by rising cement prices over the past one year, the government had clearly indicated manufacturers to lower prices. With no favourable response from the industry, the government introduced 'differential excise structure' in Union Budget 2007-2008. This imposes excise duty of Rs. 650 / MT if cement prices rose above Rs. 190 per bag and Rs. 450 / MT otherwise. Alarmed by stringent action, cement manufacturers have agreed to hold price at current level for the next one year. While the roll-back on dual excise structure ruled out, the Finance Minister continues to maintain that cement prices need to be further moderated.

All India Avg Cement Prices (Retail)



(III) Fiscal Measures: Reduction of customs and excise duty

Manufactured Items

The Central Government had issued notification dated Jan 22, 2007 with a view to reduce cost of manufacturing, and infrastructure development. It decided to reduce customs duty on cement, various raw materials and capital goods.

Details of items on which customs duty has been reduced are:

(i) **Specified capital goods and their parts, and winding wires** from 12.5%/10% to 7.5%.

(ii) **Project imports** from 12.5%/10% to 7.5%.

(iii) **Extension of project import rate** of 7.5% to 'Airport development projects' and 'Metro Rail projects'.

(iv) **Inorganic chemicals**, like halogens (Fluorine, Chlorine, Bromine, Iodine), sulphur, carbon, hydrogen, rare gases (Nitrogen, Oxygen, Silicon, Phosphorus) and alkali metals (Sodium, Calcium etc) from 10% to 5%.

Wide-range cut in duties to arrest inflationary pressures

(v) **Carbon Black Feedstock** from 10% to 5%.

(vi) **Primary and semi-finished forms of Copper, Aluminium, Zinc, Tin, Other base metals** from 7.5% to 5%;

(vii) **Ferro-alloys Stainless steel and other alloy steel** from 7.5% to 5%

(viii) **Pipes and tubes of aluminium, copper and zinc** (heading 7907) from 12.5% to 7.5%.

(ix) **Calcined alumina** from 7.5% to 5%.

(x) **Refractories** from 7.5% to 5% and **specified raw materials of refractories** from 10%/7.5% to 5%.

(xi) **Portland cements** from 12.5% to Nil.

Manufacturing products have been contributing maximum to Inflation (WPI Based) and these custom duty cuts will help check this rise.

Essential commodities - Edible Oils

Keeping a close watch on essential commodities & agro-products; action expected to stern price rise

As a part of its strategy to keep the prices of essential commodities under check, Government had earlier exempted customs duty on wheat and pulses, and had reduced customs duty on palm oils by 10%. Government had also frozen the tariff values for the palm group of oils at July, 2006 levels.

Keeping in view the high prices of **Edible Oils**, the Government decided on Jan 22, 2007 to further reduce the customs duty on specified edible oils as under:

(a) **Crude palm oil, crude palmolein and other fractions of crude palm oil** from 70% to 60%;

(b) **Refined Bleached Deodorized (RBD) palm oil, RBD palmolein and other refined palm oils** from 80% to 67.5%;

(c) **Crude sunflower oil** from 75% to 65%; and

(d) **Refined sunflower oil** from 85% to 75%.

Reduction in customs duty will reduce the landed cost of these oils, and is expected to soften the domestic prices of edible oils. The tariff values for the palm group of oils will also continue to remain frozen at July, 2006 levels.

Keeping in view the high price of maize, Government decided on Jan 25, 2007 to allow imports of maize at Nil customs duty till 31 Dec 2007.

Petrol and Diesel Price Cut

The Central Government decided that the prices of petrol and diesel will be reduced by Rs. 2/litre and Rs. 1/litre respectively from the midnight of 15/16 Feb 2007. The Government said that the burden of this price reduction will be met partly by Revenue and partly through oil bonds already approved by the Government. ***Reduction in the ad valorem component of excise duty on petrol and diesel from 8 per cent to 6 per cent.***

Inclusive Growth

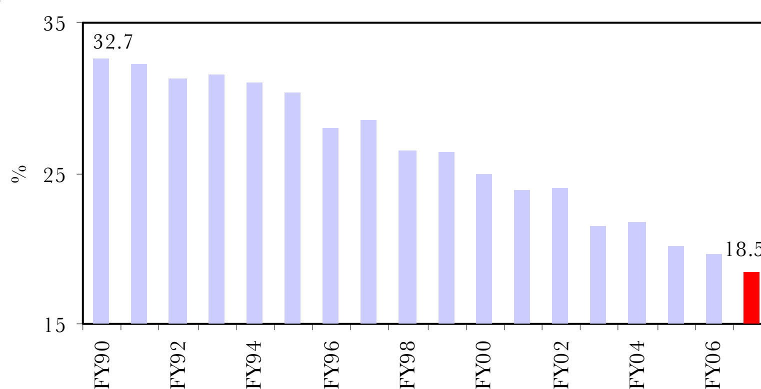
One of the more serious concerns for the Government is lopsided growth, causing social and regional disparity.

The 'Economic Survey 2007' see-slow growth in agriculture a serious cause of concern

The economic Survey 2007 says, ""**With more than half the population directly depending on this sector, low agricultural growth has serious implications for the *'inclusiveness'* *of growth*....** poor agricultural performance… can complicate maintenance of price stability with supply-side problems in essential commodities of day-to-day consumption."

"After an annual average of 3.0% in the first five years of the new millennium…growth of agriculture at only 2.7% in 2006-07…. *is a cause of concern* …Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continued to be a drag on the sector's performance…. as the current year has demonstrated, can complicate maintenance of price stability in essential commodities of day-to-day consumption." As a result, in 2006-07, while the share of agriculture in GDP declined to 18.5 per cent, the share of industry and services improved to 26.4 per cent and 55.1 per cent, respectively." Says Economic Survey 2007. The share of agriculture in GDP has gone down from 25.0% in FY00 to 18.5% in FY07.

Declining Share of Agriculture in GDP (%)



Serious implications

Growing opposition to urbanization of agricultural land, Income disparity causing social unrest

One of growing concerns for the government is impediment in development due to rising social tensions. One such glaring example is growing resistance to new "SEZ Policy"

The SEZ policy was introduced in April 2000 with the view of setting up Special Economic Zones at par with international standards for exports of either manufactured goods or services. The policy provided for setting up of SEZ's in the public, private, joint sector or by State Governments. Logically, this should help the growth in the region where SEZ is set up. However, the whole policy is mired in controversies.

Recently concerns have been expressed regarding acquisition of agricultural land for setting up SEZs. For instance the dispute in Singur district of West Bengal is regarding the acquisition of the agricultural land by the West Bengal government for the car factory planned by Tatas. The Tatas have planned to construct their $2,000 car factory at Singur. The project brings in an approximate investment of Rs 10 bn. to the area. The West Bengal government is claiming that it has got the consent of all farmers whose land it has acquired for the Tata factory. Opposition parties are protesting the acquisition of the multi crop agricultural land by the ruling CPI (M) party on the grounds that the government's claims about farmers' consent are false.

Similarly the Nandigram SEZ (in West Bengal) incident also symbolizes the problems associated with the acquisition of land for setting up Industry under the SEZ policy. In response to the violent protests over the proposed SEZ in Nandigram, the West Bengal government has recently decided to put on hold all proposals for setting up of SEZs statewide.

What Government is expected to do?

We believe rural development, agriculture sector and urban lower-middle class will get substantial thrust in the last two years of this government's Five – Year term.

Sectorwise budgetory allocations

Rs bn	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08E	% YoY
Agriculture & Allied Activities	30	36	32	37	48	59	74	86	15.8
Rural Development	42	57	113	115	86	167	183	203	11.4
Irrigation & Flood Control	4	4	4	3	4	4	4.6	5.1	9.7
Energy	261	298	368	422	436	537	688	792	15
Industry & Minerals	71	73	71	57	78	101	126	204	62.3
Transport	208	301	278	260	263	404	498	716	43.7
Communications	203	189	142	129	91	175	179	258	44.6
Science Technology & Environment	32	35	40	42	53	60	68	88	30.1
General Economic Services	12	12	16	20	25	28	26	36	41.5
Social Services	220	270	300	328	420	513	591	803	35.8
General Services	3	3	4	4	4	5	5	8	53
Grand Total	**1,086**	**1,279**	**1,369**	**1,418**	**1,508**	**2,053**	**2,442**	**3,200**	**31.0**

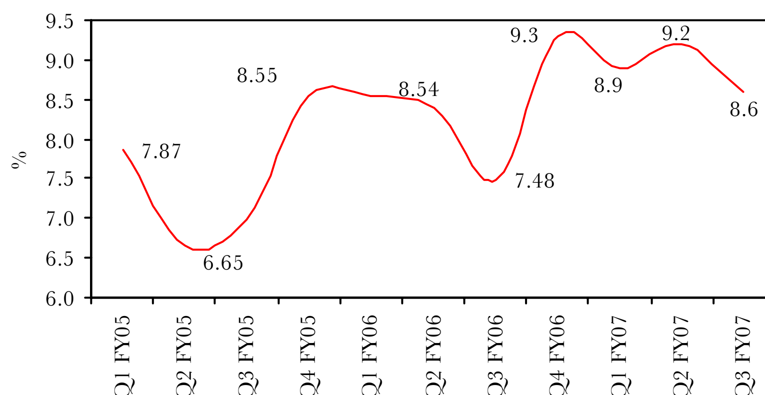
Prefer growth sectors insulated from "inflation worries"

Fundamentals of the economy continue to be strong

Strong GDP growth averaging 8.9% for the first three quarters of the current fiscal year and is expected to be close to **8.5**% for the current fiscal year. GDP grew at 9% for FY06. Industry growth is up to 9.9% in Q3FY07 compared to 9.6% in the same quarter previous year, while growth in Services has improved to 11.3% from 9.5%.

GDP expected to maintain 8% growth in FY08

GDP Growth Rates (%YoY)



- India's **Savings, Consumption and Capital Formation** are all in a healthy growth path with sector mix changing in favour of consistent growth. Contribution from both Private and Public Enterprises to Savings and Capital Formation is improving consistently since FY'03. Private consumption growth around 10% for the past three years is at its best level, auguring consistent domestic demand for goods and services from corporate sector.
- Net international capital inflow, although is negligible in over all size of the capital formation through domestic savings, but it has changed to positive during the last two years.

Net capital formation grew at >25 for the consecutive year

- Private Corporate Sector has given a boost to savings growth since FY '03 and grew at a CAGR of over 35%.
- Nation's consumption growth maintained at double digit level for the third consecutive year.
- Net Capital Formation growth maintained at 25%+ level for the fourth consecutive year. Private Corporate Sector maintained a net capital formation growth of over 30% for the third consecutive year.

Consumption, Capital Formation & Savings as % of GDP

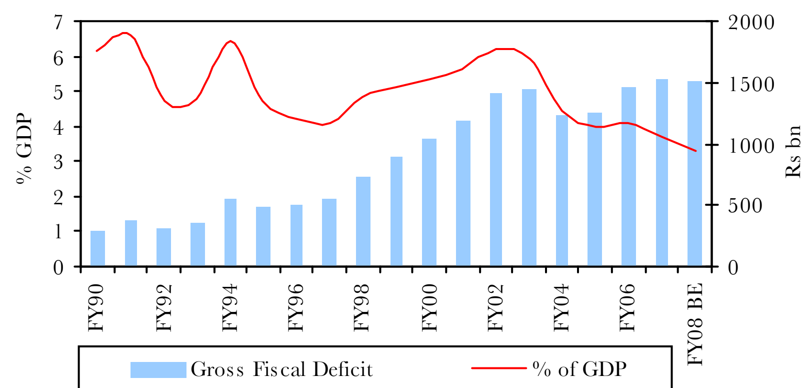
	Consumption	Capital Formation	Gross Savings
1999-00	77.4	25.9	24.8
2000-01	76.7	24.0	23.4
2001-02	76.7	22.9	23.5
2002-03	74.7	25.2	26.4
2003-04	73.2	28.0	29.7
2004-05	70.9	31.5	31.1
2005-06	69.4	33.8	32.4

Higher growth in capital formation

Fiscal Deficit as a % of GDP has been falling consistently since FY02. Fiscal Deficit is planned lower at 3.3% of GDP in FY08 and is well under control to achieve FRBM target by FY09. Even revenue deficit is under control targeted at 1.5% of GDP for FY08 against 2% in FY07.

Trend in Fiscal Deficit

Fiscal deficit declining consistently



Plan Outlay for FY08 has been enhanced by 26% over the previous budgeted target for FY07 and 31% above the FY07 revised estimate. This phenomenal growth in Plan Outlay will be a big positive for growth in FY2008.

Prefer Sectors with visible growth sans government intervention

Reliance Industries

Establishing Indian dominance across the globe

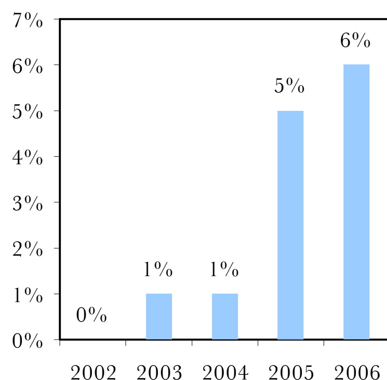
RIL is fast emerging as a global player in energy value chain with strong growth expected in all the energy verticals which include Exploration & Production (E&P), refining & Marketing (R&M) and petrochemicals. To maintain its growth backed by strong cash flows, the company is planning to expand its wings in the global energy markets and targeting the high growth domestic retail sector. Looking at strong prospects across businesses, we value RIL at Rs1447/share based on SOTP valuation.

Information Technology

Momentum to Continue

IT sector would continue to maintain momentum. Slowdown in US economy would make off shoring more attractive for cost management and India, being the leading offshore destination, may stand to gain the most. We believe that IT sector may also be insulated from Government's Inflation control measure due to low exposure to domestic market. Further more, Indian companies are gaining new competencies, diversifying service offerings and targeting newer markets. Revenue visibility remains strong based on higher number of large size deal wins, multi year contracts and high proportion of revenue coming from maintenance jobs. We believe TCS and Infosys are best positioned to leverage offshoring trend and India advantage.

Indian Service Providers share in top 100 contracts



- **TCS:** trading at 22x FY08E, should be a major beneficiary of the offshoring boom as is stands out with its focus on large deals and global delivery model.
- **Infosys:** Trading at 24 x FY08E, to benefit from its global reach, strong brand, and investment in S&M.
- **Mphasis BFL:** Trading at 18 x FY08E, will benefit from EDS parentage and will gain the scalability and brand name to break into to the league of bigger players.

Telecom

Strong subscriber growth

Favourable regulatory regime and falling prices (both the handset & service) is resulting in more affordable mobile services. Highest subscriber addition per month, favourable demographic (>30% under 14 years) & economic profile (improving per capita income, GDP >8%) coupled with low teledensity (~18%) is attracting both the operators & investors worldwide. Recent cost control initiatives regarding infrastructure sharing will help reduce operating cost as well as capex per subscriber. We expect further industry led initiatives like micro-prepaid & lifetime validity and increasing coverage in under penetrated cities will also help keep up the subscriber growth. Telecom majors like Bharti Aitel, Reliance Communications & (now) Vodafone Essar are likely to gain the most.

- **Bharti Airtel:** The largest player in mobile telephony in India both in terms of subscriber base & profitability, is likely to be a major beneficiary with an estimated growth of 48% CAGR in topline and 55% in bottomline over FY06-09E. It is trading at 21.7 x FY08E and 16.2 x FY09E EPS.

Power equipment

Accelerated Investments to drive growth

With nearly 66000 MW of power capacity planned for the XI Plan (April 2007 – March 2012), outlook for the power equipment manufacturers continues to be positive. With nearly 48,000 MW under construction and nearly 26,000 MW under various stages of approvals, target of the next Five-Year Plan looks achievable. We believe that T&D equipment manufacturers to be the key gains due to likely acceleration in the segment.

- **Siemens:** Key beneficiary of substantial investment in T&D sector and infrastructure sectors. Outsourcing by parent, for software services and engineering products/ projects, will continue to be a key long-term growth driver. Growing at 49% (FY06-08E). The stock is trading at 27xFY07E (Sept. 2007) and 19.3xFY08E (Sept. 2008).
- **Crompton Greaves:** Being the market leader in transformers and switchgears, the company stands to gain from ongoing investments in the T&D sector. It has successfully turned around Pauwel's and has recently acquired Ganz in order to strengthen its competitive positioning as a global player. Growing at 32% (FY06-09E). The stock is trading at 15.7FY08E and 12.0xFY09E.
- **Kalpataru Power:** One of India's largest power transmission manufacturing and contracting companies. Growing at 49% (FY06-09E). The stock is trading at 15.8xFY08E and 12.9xFY09E.
- **BHEL:** Play on power investment in India. Doing a capex of Rs. 16 bn to double capacity from nearly 5500 MW per year to 10000 MW per year. The stock is trading at 15.7 x FY08E and 12.7xFY09E.

Engineering

The priority back up

The outlook for engineering companies continues to be bright on the back of accelerating investments in core sectors like power, infrastructure, cement, and steel. Earnings visibility is high due to order backlog and continuing momentum in in-take. Despite rise in interest cost and manpower, we believe that engineering companies would continue to maintain higher return ratios and government backed measures will enable the companies to maintain profitability over the next three years.

- **Cummins:** Market leader in Indian engines markets. Expected to be key beneficiary of growing demand from industrial and services sector. Parent outsourcing (exports a third of sales) a key long-term grow driver. Trading at 15.5 x FY08E earnings.
- **Elecon Engineering:** Leading player in material handling equipment and transmission gear boxes. Benefiting from investment in thermal power plants and manufacturing sector. Trading at 15 x FY08E earnings.
- **Thermax:** Key beneficiary of growing demand for Captive power projects (of < 100 MW). Trading at 18 x FY08E earnings.

Infrastructure/Construction

Growth momentum continues...

On the back of strong infrastructure story, construction sector is set experience robust growth. Increasing opportunities and growth visibility given by over flowing order books provides further impetus to the improving fundamentals of companies into the sector. Because of capital intensive nature of the sector, return ratios are likely to remain subdued for FY07E and FY08E, and then improving sharply. With average CAGR of 45% and 35% in revenues and earnings respectively of construction companies, we maintain our positive view on the sector as a whole.

- **Hindustan Constructions:** Across entire spectrum of construction: EPC business, Real estate development and BOT projects. Revenues to grow at a CAGR of 27% and earnings at 33% over FY06-09E. Considering value of real estate and BOT assets at Rs. 50 per share, the stock is trading at 9.6x FY08E and 5.5x FY09E earnings.
- **Nagarjuna Constructions:** Highly diversified construction major with expertise in BOT segment and likely to foray into real estate ventures. To grow revenues at a CAGR of 42% over FY06-09E and profit at a CAGR of 36%. Stock trades at 13.8x FY08E and 10.5x FY09E (Ex-BOT) earnings.
- **Sadbhav Engineering:** Riding on huge growth in order book, the company is expected to exhibit revenue CAGR of 53% and earnings CAGR of 51% over FY06-09E. Currently trading at 5.9x FY08E and 4.2x FY09E (Ex-BOT) earnings, it is one of our top picks.

Order backlog of construction majors as on 31.12.2006

Company	Order Backlog (Rs. Mn)	Sales FY08E (Rs. Mn)	Order Book to Sales Ratio
Punj Lloyd	144,000	74,087	1.9
Hindustan Constructions	96,000	31,801	3.0
IVRCL Infrastructures	80,000	29,987	2.7
Gammon India	75,000	28,956	2.6
Nagarjuna Constructions	70,000	40,560	1.7
Simplex Infrastructures	55,000	24,557	2.2
Patel Engineering	41,000	16,901	2.4
Sadbhav Engineering	25,700	7,331	3.5

Private Banks

Better off than PSU Banks

Private Sector Banks will continue to outperform PSU Banks viewing their high growth rates, aggressive management, young workforce, versatile functional capabilities and strong IT infrastructure which gives them an edge over PSU Banks. Strong performances of the Private Sector Banks are being reflected in rich valuations, almost double, they command over their PSU peers. Moreover, the intervention by government in day to day functioning of PSU banks may widen the valuation gap further going forward.

- **ICICI Bank:** The most aggressive bank. Earnings growing at 25% CAGR. Trading at 18.1x FY08E earnings and 2.4x FY08 P / BV.
- **UTI Bank:** Better among the new generation bank. Earnings growing at 31% CAGR. Trading at 15.1x FY08 earnings and 2.8x FY08 P / BV.

Select Realty assets

Pick and Choose

With the Indian economy growing at a sustained 8% level the need for quality living and office space has seen a quantum jump while supply has not caught up causing a steep increase in prices across markets. Besides, increased affordability levels and easier availability of credit at attractive rates has brought

this steep rise. To tap this growth most of the Real Estate players have announced unprecedented project rollouts far higher than their cumulative development till date across markets. Given this background, we maintain positive outlook on the sector.

- **Century:** With the encouraging response to the VRS package in the Mumbai textile mill (occupying 30 acres in prime area Worli, Mumbai) the eventual development is likely to unlock significant shareholder value. Given its timely expansion in all its core businesses of Cement, Paper and Textiles the growth in earnings too is expected to be quite robust.

Others

NTPC: The key long term play on growing power demand, doubling capacity over next 5 years. Trading at 12x FY09E earnings.

United Phosphorus: to grow at CAGR of 42% (FY07-09) on back of organic and inorganic growth opportunities. Currently trading at 11x FY09E earnings.

Neutral on consumer discretionary/sectors with uncertain growth

Autos

Bigger the better

Automobiles sector is likely to exhibit moderate growth in the coming years due to intense competition and increase in raw material cost, particularly two wheeler industry. Four wheeler segments, however, commands positive outlook on back of heightened economic activities leading to improvement in availability of freights and consequently the profitability of commercial vehicle operators. We prefer **Tata Motors** and **M&M,** while maintain market performer on **Hero Honda** and **TVS.**

Cement

Price makers to price takers

Consent of cement companies to freeze prices at current levels is likely to constrain topline growth of most of the companies while any cost pressures from hereon need to be absorbed. Players with high exposure in the cement clusters or high exports will be better placed as the distance to markets is low while coal is available in plenty in near vicinity. This has led to downward revision of our earnings estimates (by 5-10% across companies) and marginal decrease in our target multiples. Preferred stocks are **Grasim**, while maintain sell on **India Cement**.

FMCG

Regaining traction

The FMCG industry is expected to continue to display signs of robust growth driven by anticipated strong growth in personal incomes. While we expect the pricing environment to continue to remain conducive, we do not see the FMCG companies taking larger price hikes as compared to the previous year in a bid to keep the discount end market under check. We prefer **HLL** and **Colgate** as defensive plays.

Hotels

Environment Remains Conducive

The hotel industry has recently underperformed the broader indices. There is expectation of additions to the country's room inventory which would result in a possible cooling of ARRs across select cities like Bangalore where ARRs have averaged at Rs 15000. We prefer **Indian Hotels**.

Metals **Pricing power - (less)**

Reduction in steel prices to help curb inflation that's running at close to a high of more than two years is likely to check earnings growth of steel makers. We expect steel companies to maintain prices at the current level. The government is of the view that the companies are making good money and can afford not to take price hike, so as to make steel affordable for the larger masses. For zinc and aluminum we do not expect the government to bring in any price control. It has already reduced the custom duty to 5% from 7.5%. We do not see much that the government can do to control prices in the non- ferrous sector. We prefer **SAIL** and **JSW Steel** in the sector.

Pharma **Remains selective**

Sector valuations have corrected significantly with correction in valuations of large top rung companies like Cipla, Ranbaxy, Dr Reddy's. Currently, these stock are trading at the lower end of valuations over last two years, which we believe could be reflective of the changed market dynamics of generics industry.

We believe that earnings growth from now onwards would be the key driver of stock prices. We believe that CRAMS companies and generics companies with niche focus areas are best investment ideas. We recommend **Sun Pharma** and **Divi's Labs**.

Negative Sector

Primary commodities/Food Processing **Greener on the other side...**

Prices of primary commodities like sugar and rice will continue to be under government's scanner. This will affect growth and companies' ability to maintain returns, thereby adversely affecting valuations. We maintain negative view on all **sugar** and **rice** processing stocks.

Media **Increasing Cost pressure and media fragmentation!**

Media and entertainment sector is expected to show robust growth. However, valuations continue to be stretched despite correction. While we maintain buy on **Zee**, **TV 18** and have negative view on **TV Toda**y and **Jagran Prakashan.**

PSU Banks **Margins under pressure**

Rising interest rates have again become the key risk to the Indian Banking sector which was already reeling under the pressure of poor resource accumulation. It will impact the banks' bond book and margins (depending on their ability to pass on the rising cost of funds). Moreover, higher government / regulatory intervention in terms of micro management will further aggravate the functional capability of banks especially PSU banks.

Oil & Gas **Sector marred by regulatory risk**

Inability of PSU's oil marketing companies (OMC's) to revise domestic retail prices on major petroleum products in line with international prices has adversely affected the performance of all the public sector oil and gas companies. Although, the GOI has tried to address the issue of rising under-recoveries by issuing oil bonds, it is still insufficient to meet the overall losses of OMC's. We believe government will continue to interfere with the sector in order to tackle the high inflation. The high regulatory risk coupled with high oil prices will have negative impact on the sector.

Sectors

Agri-Commodities (Rice) Negative

Greener on the other side...

Agriculture contributes 19% to India's GDP

India produces 22% of the world's total rice and is second only to China. The rice sector is expected to grow with the improvement in logistics, retail and income levels. In the Union Budget for 2007-08 also, increased focus has been given on better irrigation and banking facilities for farmers through reduction in duties on irrigation equipments and food processing machinery (from 7.5% to 5%), fertilizer subsidies and improving rural credit etc. However, the industry is still in the nascent stage of development and is yet to reach the optimum level of transparency and efficiency.

Unorganised players:
- *Basmati – 65%*
- *Non-Basmati – 95%*

- Processed rice is still an evolving industry in India and has a long way to go before achieving a full- fledged industry status. Rice is still sold in the market as a commodity with only a limited number of large players dealing in the organized trade. Hence, the market forces governing the product are similar to that in case of any other commodity business. Further to this, there are no entry barriers and big retail chains have already started setting up their own mandis, hence leading to increasing competition and larger number of players as compared to the present.

  Indian rice industry is largely fragmented and hence suffers from inefficient production processes, as these players lack modern techniques and expensive machines required for rice processing.

Exports for a major market

  Rice accounts for 13% of total agricultural exports from India with many companies in the industry deriving major part of their revenue from the global markets. This exposes it to international vagaries and an unfavorable foreign exchange fluctuation may have an adverse impact on the realisation of these companies.

- Rice industry has low EBITDA margins of 7-8% due to high material cost component at around 80% of revenue. This is further hampered by the high working capital requirements on account of lengthened ageing of products, stocking up inventories due to seasonality factors and upfront cash payments to mandis.

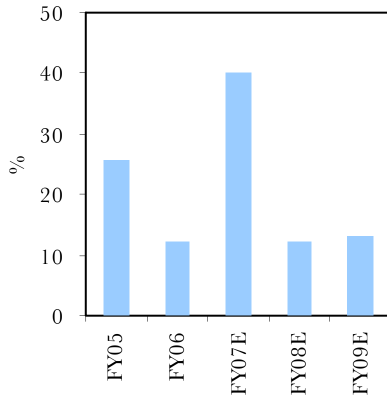
Focus on branding and RTE

- Due to lack of transparency in the management of rice and rice trade still being traded as a commodity, the valuation of these companies is not expected to exceed that of other commodity players in the near future. To meet this, the organised players are undertaking branding of rice as a retail product to improve realisations.

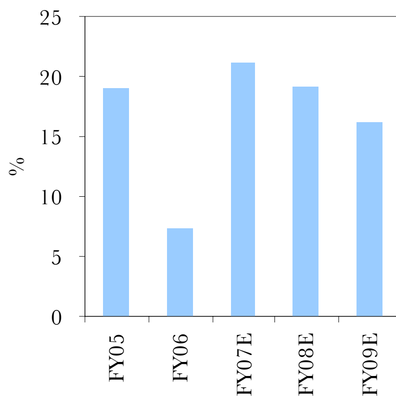
Automobiles

Neutral

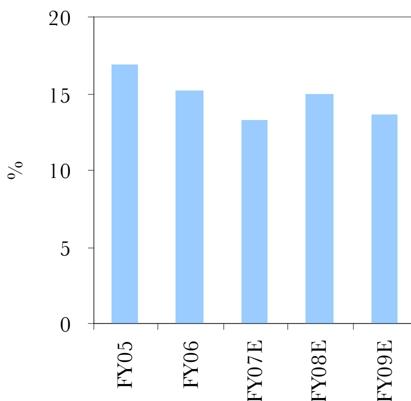
Commercial vehicle sales growth



Passenger vehicle sales growth



Two Wheeler sales growth



Source: B&K Research

Bigger the better

Automobiles sector after showing a robust demand performance in the current year is expected to have a moderate growth in the coming years. Due to intense competition and increase in raw material cost, profitability of the companies is under pressure especially in two wheeler segment. We believe passenger cars and light commercial vehicles (LCV) will be the out-performer in the sector. We remain positive on four-wheeler segment but on two wheeler segment we have negative bias.

- Economic growth in the country especially in the services sector has led to increase in disposable income and this has been the basic demand driver for the two wheelers and four wheelers. Easy availability of financing has further helped the growth of automobiles. Commercial vehicles have been a beneficiary of heightened economic activities leading to improvement in availability of freights and consequently the profitability of commercial vehicle operators.
- Two wheeler industry especially at the entry and executive segment have been commoditized leading to intense price competition and is hurting the profitability of the players. Premium segment is better placed in both growth and profitability. Passenger cars are able to excite the consumer mind-space with slew of new launches. Commercial vehicles especially LCV are a beneficiary of emerging hub and spoke model in the transportation sector and we expect this segment to maintain growth.
- Major risk in the automobile sector is the increase in interest rates resulting into higher cost of ownership. Entry level segments are more sensitive to interest rates. Beside interest rates, fuel prices are another important factor affecting automobile demand.
- We are positive on four wheeler companies – Mahindra & Mahindra, Maruti Udyog, Tata Motors and Ashok Leyland. In the two-wheeler segment, we are positive on Bajaj Auto due to its higher exposure to premium segment motorcycles and presence of highly profitable three wheeler products.

Banking

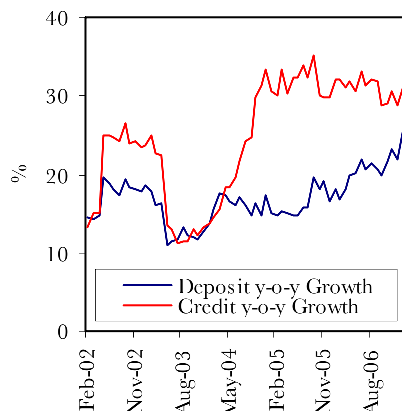
Neutral

Margins under pressure, positive on Private Banks

Rising cost of funds to impact margins

Rising interest rates have again become the key risk to the Indian Banking sector which was already reeling under the pressure of poor resource accumulation. It will impact the banks' bond book and margins (depending on their ability to pass on the rising cost of funds). Moreover, higher government / regulatory intervention in terms of micro management will further aggravate the functional capability of banks especially PSU banks.

Growth



- Business growth has been strong for the banking industry over the last few years coupled with healthy asset quality and diversifying revenue stream. We believe that the fast pace of IT implementation in Indian banks will help in smooth migration to Basel II norms along with reduced costs and increased efficiencies. Moreover, governments' focus on phased implementation of international best practices will help banks to meet the increased competition from foreign players and prepare for the post FY09 era, wherein foreign banks will be allowed to takeover private sector banks.

Private sector banks to outperform PSU peers

- Private Sector Banks will continue to outperform PSU Banks viewing their high growth rates, aggressive management, young workforce, versatile functional capabilities and strong IT infrastructure which gives them an edge over PSU Banks. Strong performances of the Private Sector Banks are being reflected in rich valuations, almost double, they command over their PSU peers. Moreover, the intervention by government in day to day functioning of PSU banks may widen the valuation gap further going forward.
- Bankers are resorting to various means to protect their margins like increasing the PLR rates, reducing the sub-PLR lending, resetting the floating rate loans, and increasing exposure to high yielding segments. Going forward the banks with high CASA ratio (SBI, PNB, HDFC Bank, J&K Bank) will be the key beneficiaries.
- Over last one year banking index has underperformed the broader index as public sector banks underperformed grossly negating the out-performance of the private sector peers. At the current valuations, banking stocks are attractive investment options with a long term perspective. However in the short term, interest rate/inflationary concerns/regulatory issues may act as a dampener on the price performance.

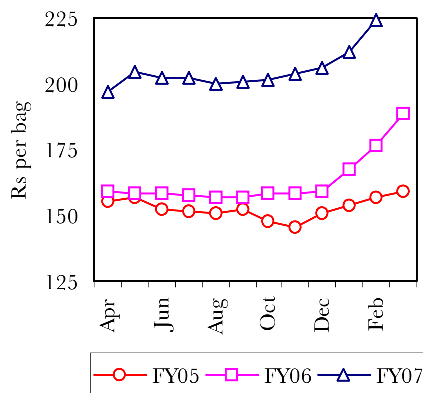
Cement

Neutral

Price makers to price takers

Price Freeze: Cement industry has agreed to a price freeze at current levels for a period of one year on Friday the 9th of March 2007 post the meeting with the Commerce and Industry ministry.

All India avg. cement prices (Retail)

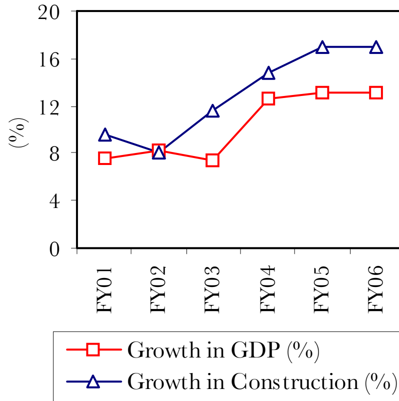


- This step, in essence, cleared the deadlock between the Government (which faces concerns of a rising inflation which can impact their performance in the crucial forthcoming elections in key states) and the Cement industry (which enjoyed the benefits of the uptrend in the cement cycle).
- Current prices, though are at fairly remunerative levels for the existing capacities, this price freeze is likely to encourage black marketing in the high realisation zones by the channel members (especially during peak seasons) while clusters will remain fairly competitive.
- With prices frozen for a period of one year, the topline growth for most of the companies is going to be constrained while any cost pressures from hereon would have to be absorbed.
- Players with high exposure in the cement clusters or high exports will be better placed as the distance to markets is low while coal is available in plenty near these markets.

Earnings downgraded in 5-10% range across companies

- Earnings growth as a result would be largely stunted. With an increasing interest rate scenario and the current developments, fund raising for new capacities would be a tad more difficult.
- We have downward revised our earnings estimates (by 5-10% across companies) to factor in the current pricing scenario and have also marginally brought down our target multiples.
- Given its high sensitivity to cement prices, scarce capacity addition (impacting volume growth) and high exposure to imported coal we are negative on India Cements and maintain our SELL call.

Growth in GDP vs. Construction



Gammon, HCC, NCC, Patel eng and Sadbhav Eng to be impacted by Section 80IA

No impact of explanation to Section 80IA on companies like Punj Lloyd, Simplex Infra and JMC projects

Construction

Positive

Growth momentum continues...

Construction sector has been witnessing booming activity across all major segments like transportation, power, airports, water & irrigation, urban infrastructure etc. Recent clarification regarding applicability of Section 80IA of IT Act had a negative impact on earnings by 15-20%. However, growth trajectory remains buoyant supported by increasing focus on infrastructure, continuing performance and innovative models.

- Construction companies are likely to report strong earnings growth over the next two years driven by robust revenue growth and stable margins. Higher ticket size orders, regular capital infusion and increase in bid capacity has resulted in swelling order book of the companies. This in return is shifting focus towards execution than bagging new orders. Improved order book mix.

  Increasing opportunities has led the companies to diversify in new geographical locations and segments of activity. Most of the companies are moving into real estate arena as well. Transition to a private-public participation model and transferring management of existing infrastructure to private players to attract private sector investment and to ensure timely and cost effective execution of projects has further opened a new dimension of opportunities and challenges.

  Capital intensive nature of the sector has led to huge capital infusion at regular intervals by all the companies. Large companies are at advantage because of bigger balance sheets, greater bidding capacity and better pre-qualification.

  However, margins may come under pressure due to rising cost of raw materials, wages and increasing working capital needs. Shortage of efficient manpower will be a key challenge as it carries the risk of time and cost over-run. High sensitivity to interest rate movements and complex business models will lead to considerable variation in valuations over various time-frames.

  Higher tax rates will bring down estimated earnings by 15-20% in existing orders because of low provisions and will require companies to target projects with healthy margins in a cut throat competitive environment. Higher tax burden won't be impacting cash outflow substantially because of tax deducted at source.

- Negative impact on earnings and concerns regarding execution capabilities has led to de-rating of entire sector. However, huge visibility reflected by strong order book, unlocking of value from real estate ventures and potential upsides from BOT projects makes current valuation attractive and provides scope for substantial upside.

Engineering

Positive

The priority back up

Engineering companies have been one of the biggest beneficiaries of the growth witnessed in the economy in the last three years. Growth is driven by volume growth, substantial improvement in cost – structure and optimization of unutilized capacities. With signs of accelerating investments in core manufacturing sectors like oil, metals and commodities, outlook continues to be bright for the sector. Sharp rise in interest rates may act as dampener thereby delaying investments.

Outstanding investments

Rs. Trillion	Dec-05	Dec-06	Gr. (%)
Manufacturing	4.0	5.7	42.2
Mining	0.8	0.8	5.3
Electricity	6.1	7.5	21.9
Services & Utilities	8.3	9.6	15.5
Irrigation	1.6	1.6	1.3

- The all round capex in the core sector such as power, infrastructure, cement, steel, have led to engineering companies going aggressive about bagging orders and projects which have driven the revenues and earnings in recent past. This has also led to all round visibility from order books spanning between 1 – 3 years of sales.

  Increased optimism has also enabled the Indian companies to expand horizons foreign acquisitions and tie-ups, thereby providing a positive sense of growth through the organic as well as inorganic route.

- Key challenges for the industry will continue to be global competition and volatile raw material prices. On the other hand, paucity of skilled labour is causing to hurt the small and medium corporates as costs shoot up. Slowdown in business (volume growth) will be detrimental as profitability will come under squeeze.

Paucity of skilled labor to hurt the small and medium corporates as costs shoots up

- Valuations in this sector have typically been varied between 10x to 20x one year forward estimates earnings based on size, visibility and growth potential of companies. While there may be small pockets of disappointment on account of rise in interest costs and manpower, the government-backed measures to control commodity prices will allow these companies to maintain profitability. On the flip side, the segments without 'technology-driven entry barriers' will attract competition thereby adversely affecting profitability of low technology companies.
- We have a positive view on heavy engineering, material handling, pump and engine manufacturing companies in particular.

FMCG

Neutral

Regaining traction

The FMCG Sector has witnessed a revival since early 2005, with nominal per capita incomes returning to double digits after a 4 year dull phase between FY2000-2003. A clear pickup has been witnessed across categories and we have also seen signs of a receding price war between large FMCG players. Going forward we expect demand for FMCG products to remain strong driven by continuation of strong growth in per capita incomes and do not see much threat from downgrading in the near future.

Expect growth to remain strong backed by strong volume growth and pricing power

- The FMCG industry is expected to continue to display signs of robust growth driven by anticipated strong growth in personal incomes. While we expect the pricing environment to continue to remain conducive, we do not see the FMCG companies taking larger price hikes as compared to the previous year in a bid to keep the discount end market under check. The past 3-4 quarters, according to us, points out to signs of a receding price war in detergents, which would augur well for players like HLL. However possible cost inflation in prices of palm oil, which is a key raw material in the manufacture of soaps, remains a concern since there is new demand for the commodity for the manufacture of Bio-diesel.
- For cigarettes the imposition of VAT continues to create an environment of uncertainty. What is also important is not just at what rate VAT is imposed but also whether the imposition would be at the Selling price or the Net price. While we expect the cigarette companies to pass on the increased taxation burden in terms of a VAT levy to the final consumer, a severe imposition could result in volumes de-growth.

Sector in the near past has underperformed due to:

- Concerns on cigarette VAT implementation
- One off shortened and delayed winter
- Concerns of possible inflationary pressures on commodities like Palm Oil

- The sector has witnessed underperformance with respect to the indices. The underperformance has got more accentuated due to concerns of VAT imposition on ITC as well as a delayed and shortened winter that affected the Personal products performance for 4QCY06. However, we believe that the recent dip in performance of the non-cigarette FMCG companies is due to one off weak quarter and expect the performance to pick up over the current year.

Hotels

Neutral

Environment Remains Conducive

The Hotels Industry has hit a sweet spot with continuation of demand-supply mismatch which has resulted into high occupancies and increasing ARRs over the past 3 years. We expect the pricing environment to continue to remain conducive during FY08 resulting in higher RevPARs and increasing profitability of hotel companies. FY09 will be the year in which additional supply, in terms of room inventory, is entering the market and we are likely to witness pressures on the ARRs especially in select cities like Bangalore.

Hotel Industry ARRs driven by increasing foreign and domestic tourism both Businsess and Leisure

- The growth in foreign tourist arrivals in the country continues to remain strong with a 14% increase during the first half of FY07 leading to a demand for additional hotel rooms in the country. In addition, domestic travel is also on an increase backed by strong economic activity and increasing domestic tourism. 60% of clients in premium hotels is metro cities is accounted for by business travelers and we expect the current boom in the economy to add further to demand for hotel rooms.
- Other measures that are having a positive impact on the domestic hotels segment include a further increase by the government in its budget outlay for tourism to Rs 8.3n for 060-07 and measures by the government to improve infrastructure leading to better accessibility to tourist destinations as well as improved connectivity between cities. In addition the advent of low cost airlines has facilitated improved connectivity between cities. Future opportunities in the hospitality segment lie in new areas like Budget Hotels, Wellness and Medical tourism and Ecotourism, which we feel hold promising potential.

Significant capacity addition is expected in FY09 and FY10

- The hotel industry has recently underperformed the broader indices. There is expectation of additions to the country's room inventory which would result in a possible cooling of ARRs across select cities like Bangalore where ARRs have averaged at Rs 15000. Within our coverage universe we see Hotel Leela becoming aggressive with expansion plans and doubling room inventory by FY10. Indian Hotels with its well diversified portfolio stands best placed from the favourable dynamics of the domestic hotel industry.

Information Technology — Positive

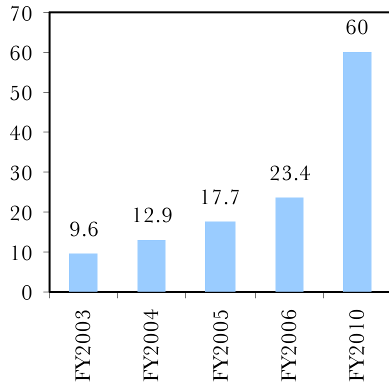
Momentum to continue

Indian IT services continue to gain share in the broader outsourcing market with offshoring becoming the norm for Global companies. According to TPI, share of India based vendors has increased from 1% in 2002 to 7% in 2006 and there is a growing pipeline of large size deals for Indian vendors.

Indian companies have continued to demonstrate their execution and project management skills and we see increased demand for services in the future. Accentuated hiring and client additions are indicative of the same. According to Nasscom, Indian IT-BPO exports is expected to grow at a CAGR of 26% from FY06-10 to cross revenues of US$ 60 bn by 2010.

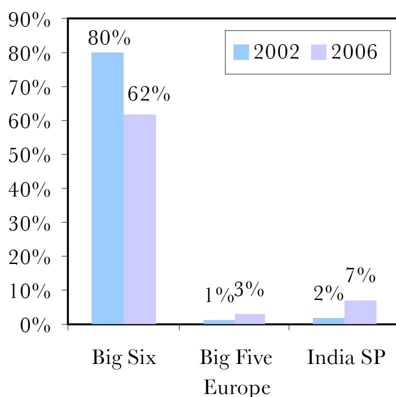
- Deal momentum remains strong and given the wider portfolio of services and increasing adoption of global delivery model, we believe Indian IT companies will continue to show an impressive growth performance. We believe that an improvement in billing rate coupled with increasing cost efficiencies will enable the companies to absorb some pressure on margins but margins to show a gradual decline due to increasing wage inflation.
- Companies are also seeing increasing acceptance and demand from non-legacy service lines like (BPO, PI, testing and engineering services). Non-US Geographies like Europe, Asia Pacific are also adopting offshoring as a strategic initiative. Client wins and manpower additions also indicate the strong demand environment. In 9MFY07, top 4 IT companies added 186 clients and 54065 employees re-affirming the strong demand environment.
- After the recent correction in the stock prices of IT companies, due to global factors and negative impact of Budget, we believe valuations have become even more reasonable as companies have corrected by ~20% and we see this as an opportunity to buy into some fundamentally strong companies. Our top picks in the sector are Infosys and TCS, Infosys trading at 24x FY08E and TCS trading at 22 x FY08E.

Indian IT-BPO exports: Growth rates and Projections (US$ bn)



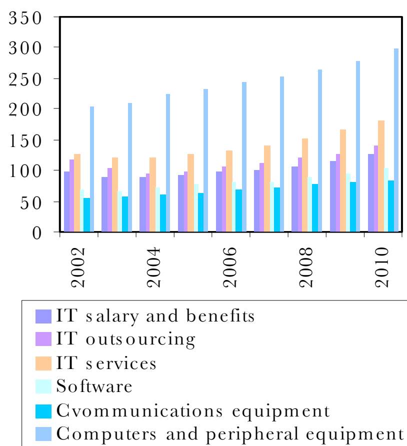
Source: NASSCOM

Market share trend for >US$25 mn contract deal values



Source: TPI

US IT spending Forecast (US$ bn)



Source: Forrester Research

Media & Entertainment — Negative

Increasing Cost pressure and media fragmentation!

Media spend set to show robust growth yet multiple media opportunities and new evolving media could make the space more competitive for existing players. Wage and content inflation would further put pressure on margins.

Corporate ad spend & increasing consumerism boosting growth

- Media & Entertainment sector is in the midst of strong growth driven by strengthening economic fundamentals for the country. We feel that the sector would continue to witness robust revenue flow going forward, coming on the back of higher corporate advertising spends and increasing consumerism.
- Accelerated development of Malls/Multiplexes/New Media would not only create an avenue to tap burgeoning middle class but also provide more avenues to consumers for spending on entertainment.

Addressable media to open new revenue source

- Benefits would also accrue in the form of subscription revenue with acceptance of addressable media through cable CAS, DTH, IP TV, delivery of content over mobile et al.

Competition may lead to content & wage inflation and put downward pressure on ad rates

- However though the picture looks extremely promising, we feel that the stakeholders to share the gains would also multiply making the landscape more competitive. With a slew of channels planned to be rolled out in the next couple of years, there would be increasing pressure on ad rates, entail higher investment in content and further escalate manpower costs. This cost inflation would not only be felt in the broadcasting sector but also in multiplexes with spiraling lease-rentals and increasing content cost due to eagerness for control.

Increasing media fragmentation a challenge

- Multiple media offerings would create other challenges in the form of fragmentation of audiences, loss of stickiness, ad avoidance and greater degree of clutter leading to a diversified media plan which would put pressure on traditional media like Television and Print.
- With the recent correction the valuations for media stocks have returned to more realistic levels yet some stocks look richly valued given the cautious outlook for the sector.

Metals

Neutral

Pricing power - (less)

Pricing power in steel with the government

Government asked steelmakers to cut prices to help curb inflation that's running at close to a high of more than two years. We expect steel companies to maintain prices at the current level. The government is of the view that the companies are making good money and can afford not to take price hike, so as to make steel affordable for the larger masses.

Earnings to accrue from volume growth

For zinc and aluminum we do not expect the government to bring in any price control . It has already reduced the custom duty to 5% from 7.5%. We do not see much that the government can do to control prices in the non- ferrous sector.

In the steel space we feel the growth in earnings will largely accrue from the growth in volumes.

Tata steel is the only player in the country to enjoy the benefits of higher steel prices through acquisition of Corus

We expect JSW steel and SAIL to benefit from the volume expansion and very modest price increase inspite of very firm global steel prices as government resolve to control inflation remains strong. Tata steel is the only player in the country to enjoy the benefits of higher steel prices through acquisition of Corus. It sells 80% of its consolidated output in Western Europe which is the best market for steel makers today. European Steel producers have announced price hikes ranging from 5%-20% last month.Tata Steel also has aggressive capacity expansion planned in Chattsgarh, Orissa and Jharkhand. The funding of Corus acquisition may lead to a equity dilution of 25-30%. Due to which we expect the stock to react negatively to this news.

We like Hindusthan Zinc in the non- ferrous space. The huge cash flow generation and capacity expansion makes us comfortable about the company's prospects. In the Alumunium space we expect Hindalco to remain an underperformer on the back of impending dilution and huge interest cost on the consolidated P&L of the company. The benefits of the acquisition are likely to accrue from FY09, but there is no visibility of the four year metal rally sustaining till then.

Hindalco to feel the debt burden

Although Hindalco has corrected by more than 27% since the announcement of Novelis acquisition, it is likely to underperform further as we are concerned about the debt servicing ability of Novelis in the near term due to its fixed price contracts.

Oil & Gas

Negative

Sector marred by regulatory risk

PSU's oil and gas companies lack pricing power

Inability of PSU's oil marketing companies (OMC's) to revise domestic retail prices on major petroleum products in line with international prices has adversely affected the performance of all the public sector oil and gas companies. Although, the GOI has tried to address the issue of rising under-recoveries by issuing oil bonds, it is still insufficient to meet the overall losses of OMC's. We believe government will continue to interfere with the sector in order to tackle the high inflation. The high regulatory risk coupled with high oil prices will have negative impact on the sector.

- ONGC will continue to absorb the under-recoveries borne by OMC's. The sharing will peg the net realization on crude oil after paying duties and taxes between US$29-32/bl. However, lower crude prices could result in higher sharing by the GOI and this could improve the net realization on crude oil for ONGC. OVL's ability to grab international assets and ONGC's ability to strike fresh domestic gas reserves in Krishna-Godavari and Mahanadi Basins will provide growth for the company in coming years.
- OMC's like HPCL, IOCL and BPCL will continue to bear the brunt of lower realizable retail prices on auto fuels, kerosene and cooking gas. Although, the GOI and upstream companies provide some relief by sharing under-recoveries with them, it is still insufficient to meet the overall under-recoveries of these companies. The future performance of these companies will be dependent on their ability to diversify in other streams of energy chain.
- Being a part of upstream companies, GAIL will continue to share the part of under-recoveries with OMC's. However, the company is benefiting from strong polymer prices. The future growth of GAIL is dependent on its ability to tap new gas supplies both from domestic and international sources.

Valuations low on both asset based and earnings multiple

- The sector is trading at low valuations both on asset based and earnings multiple. The sector companies (ONGC, HPCL, IOCL, BPCL and GAIL) are trading at a PER of 6-8x FY9E. The primary reason for low valuations is uncertainty on earnings front due to high regulatory risk. We remain NEGATIVE on the sector. However, we are in process of reviewing our view on the sector looking at the attractiveness of the companies on the asset valuation benchmark.

Pharma

Neutral

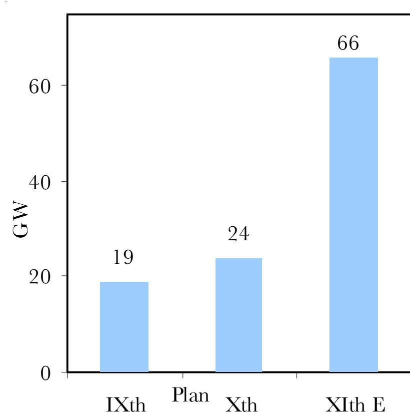
Remains selective

Valuation correction ends, earnings to be the driver from now

Indian pharma sector offers several investment themes like generics (potential US$ 35-40 bn), CRAMS (US$ 3-5 bn), R&D licensing and domestic opportunity (close to US$ 6-7 bn). These themes provide strong organic growth for companies having healthy product pipeline and for those who have a sound partnership arrangements globally. However, global generics market has changed drastically with large number of Indian companies flooding the market with really cheap generics. It has a significant bearing on the top rung Indian Pharma companies and they have languished in last two years. But, this increasing competition globally has also hastened the pace of consolidation thereby encouraging several Indian companies to participate in global M&A's. This avenue is helping Indian companies establish a global structure.

- Global generics market continues to expand significantly with large number of drugs going off-patent. Indian companies are well placed to reap the benefits, however, pricing pressure persist resulting into lower than expected returns on the investments.
- But the sustainable growth driver for Indian pharma sector is the CRAMS business (to innovator) which continues to grow significantly and we believe that it offers significant investment opportunity. Worth noting in CRAMS opportunity is the inflection point for most of the CRAMS companies in India. We believe CRAMS companies can grow their business at a rate of 25-30% over next 4-5 years. We, however, like companies which have long experience and have assets in India which would give them substantial cost advantage.
- Domestic business for Indian companies would be a challenge going forward as the new product introduction would slow down considerable forcing companies to start price war. We are however, positive on MNC Pharma companies which do not have competing subsidiaries of their parent. GSK Pharma is the best bet.
- Sector valuations have corrected significantly with correction in valuations of large top rung companies like Cipla, Ranbaxy, Dr Reddy's. Currently, these stock are trading at the lower end of valuations over last two years, which we believe could be reflective of the changed market dynamics of generics industry. We believe that earnings growth from now onwards would be the key driver of stock prices. We believe that CRAMS companies and generics companies with niche focus areas are best investment ideas. We recommend Sun Pharma and Divi's Labs.

Plan-wise capacity addition



T&D Investments

(Rs. bn)		Xth Plan	XIth Plan
Transmission	Central	182	398
	State	174	408
	Private	-	150
	Total	**357**	**956**
Distribution	State	407	559
	RE	60	200
	Total	**467**	**759**
Total		**824**	**1,715**

Source: B&K Research

Power Grid to invest Rs.550 bn over 2007-12

Slow pace of distribution reforms to be a bottleneck

Power Equipment — Positive

Accelerated Investments to drive growth

Power Equipment companies have been the key beneficiary of buoyant investments in power sector. The demand scenario for the equipments continues to be robust on account of planned expenditure during the XIth Plan. However, intensifying global competition and volatile material prices will continue to challenge the profitability of vulnerable companies. We believe the power equipment companies are poised for strong growth and maintain a positive view.

- Thrust on addition in generation capacities continues to remain at forefront to sustain India's economic growth. With nearly 48,000 MW capacities under construction at the eve of XIth plan against 22,000 MW under construction at the beginning of the Xth plan, there is enhanced optimism and visibility for achieving the target of 66,000 MW in the XIth plan. While attracting private investments with continued emphasis on UMPPs, we expect investments nearing Rs.2,800 bn in generation during the XIth plan, against Rs.1,100 bn during the Xth plan.
- Keeping in view the colossal increase planned in generation capacities and proposed development of power market, strengthening the T&D infrastructure is imperative. MoP has pegged transmission investment for the XIth plan at Rs. 750 bn where Power Grid and private participation is expected to bring in Rs.550 bn and Rs.200 bn respectively. Rural electrification will continue to drive growth at distribution level. Overall we expect T&D investments during XIth plan to double over the Xth plan at Rs.1,715 bn.
- However, the dawdling pace of distribution reforms, which is a state level subject, continues to be a bottleneck in achieving the end results of investments in power sector. Any policy reversal may further hurt the investment thrust by the government.
- We reiterate our positive outlook on the power equipments companies given the strong growth trajectory, backed by strong order inflows and economies of scaling up operations. With valuations receding in past one year, we see the sector one of the most attractive investment play.

Real Estate Positive

Pick and Choose

- Real Estate, by nature a very localized industry, is governed by myriad rules and regulations. With the Indian economy growing at a sustained 8% level the need for quality living and office space has seen a quantum jump while supply has not caught up causing a steep increase in prices across markets. Besides, increased affordability levels and easier availability of credit at attractive rates has brought this steep rise.
- To tap this growth most of the Real Estate players have announced unprecedented project rollouts far higher than their cumulative development till date across markets.
- Though the players have acquired land at attractive rates for current developments, the land purchase for future projects are at relatively high levels which might impact the viability of these projects.
- Absence of bank funding for purchase of land to sustain these aggressive growth plans has forced the developers to look for alternative ways like going public, raising private equity etc…

Rising Interest Rate Scenario is the key concern

- Recent increase in interest rates to curb the speculative elements in the market will bring down the attractiveness of various projects, especially in upcoming Tier II and Tier III cities as commercial activity might not take off as expected while commercial activity in Tier I cities is sound. Given such a scenario, prices are likely to stagnate if not correct in centers which lack strong fundamentals. Prices in Tier I cities are also bound to stagnate or correct, if interest rates increase further as even genuine demand might become expensive.
- Players with large exposure in markets with strong fundamentals are likely to sustain growth in the long term as margins are largely made on the strong pricing scenario.
- Given this background, we like Century Textiles amongst the stocks under our coverage. With the encouraging response to the VRS package in the Mumbai textile mill (occupying 30 acres in prime area Worli, Mumbai) the eventual development is likely to unlock significant shareholder value. Given its timely expansion in all its core businesses of Cement, Paper and Textiles the growth in earnings too is expected to be quite robust.

Retail

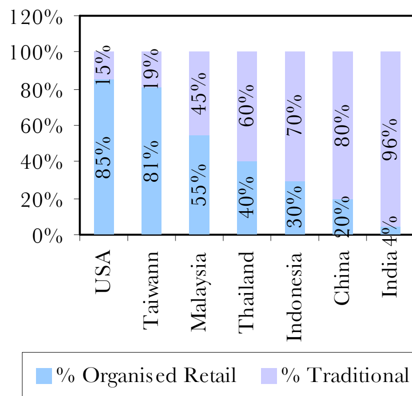
Positive

Strong growth trajectory...

New players: Indian Organized Retail Sector is expected to grow at a frenzied speed with larger domestic players entering the sector like Reliance Retail, Bhart-Walmart and Aditya Birla Group. All the major international retailers are planning to enter in India and are scouting for suitable JV partners in India. Investment worth US$ 20bn is expected over the next 3 years in setting up the Retail Infrastructure. With the advent of aggressive players organized retail share at 4% of the total market is expected to grow up to 15-20% over the next 8 years. Recent Budget proposal of 12% service tax on retail income from commercial premises would have an adverse impact on the margins of Indian retailers as they would have to bear the tax because of pass-through clauses in the long term lease agreements with the developers.

Orgamised Retail expected to be 15-20% of overall retail market by 2015E

Organized retail penetration



- Organized Retail in India which is just 4 % of the India's total retail market of about US$ 300bn; is expected to grow at 30% CAGR over the next 10 years, taking the total industry size to US$80 bn in 2015E. Buoyant economy, favorable demographics and increasing consumer aspiration would sustain high growth rate in the coming years.

Rising real estate costs biggest concern

- Lack of quality retail space and demand far exceeding the supply in the near term is keeping the rental costs high. Further imposition of service tax on rental income which would be borne by the retailers remains the biggest cost pressure across the sector.
- We are overall positive on the growth potential of the sector and we believe companies with size and operational efficiencies would emerge as winners in the long run. We expect competition getting fierce in the next 2 years mainly in the hypermarket and food retailing segment. Our top pick remains Pantaloon Retail mainly because of multiple growth drivers and value unlocking expected in subsidiaries. The execution risk we see it waning as the company has added 1.6 mn sq ft of new retail space in past 8 months.

Sugar

Negative

Not so sweet

Sugar weightage in WPI of 3.6% will keep inviting government intervention

Volume growth to be the only savior – going ahead, sugar prices are likely to remain weak, globally as well as domestically. Hence only way sugar companies would be able to maintain growth is through volume increase. Standalone sugar companies would be hit worst due to falling sugar realization, while integrated companies would see subdued or flat growth in sales and profit.

- Domestically sugar prices are likely to remain weak on account of supply glut and unviable export proposition. Domestically there has been oversupply situation for sometime now, with revision of countries output to 24 mn tonnes situation is further likely to worsen. In order to minimize default risk on payments by mills to farmer, the sugar commissioner in maharashtra has stepped in and passed order not to sell sugar below the levy prices. At the same time government has lifted export ban and is likely to announce export subsidy. But we don't see that helping mills in anyway, as at levy price mills would barely breakeven. Incase of export, economics are unviable as difference between international sugar prices is less then Rs. 2000/tonnes. Another concern being, export markets (due to lower sugar quality) are too small to gulp the excess supply (even with subsidy). The sugar output for the year is revised upward to 24 mn tonnes from earlier estimate of 22.7 mn tonnes and going ahead in SS07-08 situation is further likely to worsen as area under has increased resulting in higher output of 27mn tonnes & longer crushing season for mills (lower realization + higher production cost.
- Key likely triggers are
  - o Removal of SAP & SMP - Highly political move
  - o Food ministry's plan to create buffer stock for sugar – This can arrest temporarily slide in price.
  - o Increase in international sugar prices/Depreciation in rupee making exports viable.

Removal of SAP & SMP - Highly political move

International prices have weakened and are likely to remain so on account of record production in Brazil. Key trigger would be USA removing tariff on ethanol import from Brazil, in which case more cane would be diverted towards ethanol production, leading to fall in sugar production.

Telecom

Positive

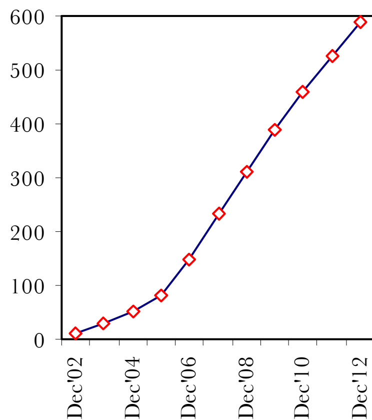
Strong subscriber growth

Subscriber base to grow at 26% CAGR over CY06-12

With highest monthly subscriber adds in the world, still accelerating, the journey seems to have just started for the Indian telecom industry

- What is most appealing is the potential growth that India beholds with just the right demographic profile (>30% population is <14 years), GDP growth of >8%, rising middle class and increasing disposable income coupled with a low teledensity of ~18%. We expect the total teledensity to cross 50% by 2012.
- This optimism is further fuelled by the huge capex plans lined up by telecom majors (~US$2.5 bn each by Bharti Airtel & Reliance Com for FY08) and falling equipment prices (both handsets & infrastructure equipment).
- Regulations have played a very crucial role in the growth of the industry. Increasing regulatory clarity regarding 3G & Wimax & further reduction in regulatory charges would contribute towards tariff reduction & subscriber addition
- Infrastructure sharing will help reduce capex per subscriber and operating expenses, hence, improving profitability & returns. Divesting off the towers will also help free up the capital which can be invested towards network expansion.
- Spectrum is a major concern esp in Metros (Delhi & Mumbai) & few other cities with high teledensity. In the absence of additional spectrum, the operators would be forced to divert their Capex towards catering to additional traffic in existing areas rather than expanding into connectivity starved B & C circles.
- Certain downside from Mobile number portability (MNP), if implemented and technologies like Wimax and VoIP can be disruptive for subscriber adds in the short term forcing the operators to divert the capex towards service improvements and technological upgradation
- Bharti Airtel is trading at around 12xFY08E EV/EBIDTA and 9xFY09E EV/EBIDTA level. The stock has corrected by 16% since it touched an all time high of Rs 850 on 20feb,07. Another telecom major Reliance Com is lower by 27% from its all time high of Rs 518 on 5feb, 07. We feel that fundamentals are intact and ever appealing. The divestment of the towers would provide further upside.

Mobile subscriber base (mn)



Companies

Bharti Airtel

BUY

Setting subscriber growth records

Bharti Airtel is the largest cellular operator with 35.44 mn cellular subscribers at end February 2007, 22.3% market share. The three business segments—Mobile Services (contributes 76% of total revenue), Broadband and Telephone Services (includes fixed line) and Enterprise Services (includes undersea cables and landing stations) gives it the scale in terms of wider service offerings as well as benefits of vertical integration. Only BSNL and Reliance Communications can boast of a similar scale and presence.

Outlook

Bharti Airtel has been setting new records every month in terms of subscriber additions despite having the largest cellular subscriber base and has managed to grow at a rate higher than market. Moreover, it has been able to achieve this growth without sacrificing much on ARPU, which (at Rs 427) is the highest in the industry.

Apart from the visionary leadership of Mr Sunil Bharti Mittal, Bharti Airtel gets support from strategic investors, Singtel and Vodafone which hold 31% and 4.4% stake.

Accredited with numerous awards (including most valued brand name for 2005 amongst Indian cellular service providers as stated by ET500), the company has been a trendsetter in introducing innovative services and outsourcing of non-core operations.

- Entry of new players in circles (esp C category) where Bharti has a strong presence is a major threat apart from the concerns regarding spectrum & technology related risks.

Valuation

We expect revenue and PAT to show a CAGR of 48% and 55% respectively during FY06-09E. Growth in Enterprise services segment and increased infrastructure sharing hold the key to margin expansion. At the current levels, the stock is trading at 21.7xFY08E and 16.2xFY09E EPS respectively. We maintain BUY recommendation with target price set at Rs 805.

Financials

Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	116,635	187,591	288,432	378,668
EBITDA	43,503	74,839	116,948	155.547
Margin (%)	37	40	41	41
PAT	22,587	41,603	62,584	84,049
EPS	12	22	33	44
ROCE (%)	22	30	35	38
ROE (%)	29	36	38	35

Share Data

Market Cap.	Rs. 1,360 bn (US$ 30.8 bn)
Price	Rs. 717
Target Price	Rs. 805
BSE Sensex	12430
Reuters	BRTI.BO
Bloomberg	BHARTI IN
Daily Vol.	US$ 19.0 mn (Rs. 839.8 mn)
52-week High/Low	Rs. 850/310
Issued Shares	1,896 mn

Performance (%)	1m	3m	12m
Absolute	(9)	16	83
Relative	5	28	60

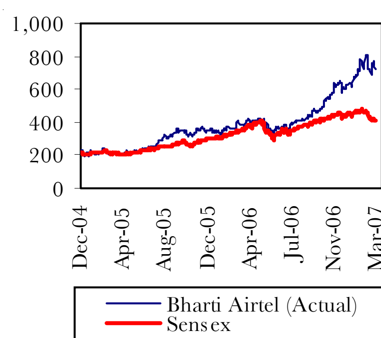
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	33.0	44.4
+/- (%)	50.1	34.3
PER (x)	21.7	16.2
Dividend/Yield (%)	0	0
EV/Sales (x)	4.9	3.7
EV/EBITDA (x)	12.1	9.1

Major shareholders (%)

Promoters	45
FIIs (incl ADRs/GDRs)	48
FIs/MFs	2
Institutions	2
Public & Others	3

Relative Performance



Century Textiles & Industries BUY

LANDmark gains in the offing

Century Textiles, the flagship company of the B.K.Birla group with key business interests in Cement, Textiles and Paper is poised to see a sustained growth in its earnings on the back of the opportune capacity additions in Cement and Paper. With the VRS scheme at the Mumbai Textile mill receiving an encouraging response, the likely development of the prime area occupied by the 30 acre mill will unlock significant shareholder value.

Outlook

Century Textiles is just completed an opportune cement capacity addition of 1.5 mnt through de-bottlenecking (capacity post expansion - 7.8 mnt) which will help provide the volume growth for the company. Besides this, the company is also just completed a 76000 tpa wastepaper based capacity in the Pulp & Paper division which will drive the earnings growth in this division. In the textiles division, the closure of the Mumbai textile mill (post the encouraging response to the VRS scheme) will help the turnaround in the business though revenues are going to be impacted in FY08E. Besides, this mill occupies a 30 acre land in prime area Worli, Mumbai. This land as per our conservative calculations of 1.33 FSI, 15% built-up loading and a lease rental of Rs 225/ sq.ft/month brings a value of Rs 238 per share. If we assume Knight Frank's valuation parameters (used for IndiaBulls Real Estate's properties – Elphinstone mill and Jupiter Mill in the neighbouring areas) for this property, the value works out to Rs 888 per share.

- We expect the earnings to show a CAGR growth 59% (FY06-FY09E) buoyed by the improvement in the cement realisations and the opportune capacity expansions.

Valuation

At the current price of Rs 507, the stock is trading at a PER of 10.5x FY08E and 9.6x FY09E earnings. We recommend BUY on the stock with a target price of Rs. 808 (including a conservative Rs. 238 per share value for land).

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	25783	31079	36652	40409
EBITDA	2719	6295	7762	8939
Margin (%)	10.5	20.3	21.2	22.1
PAT	1091	2501	3677	4117
EPS	13.1	42.2	48.2	52.8
ROCE (%)	13.2	25.4	27.5	28.0
ROE (%)	15.4	42.0	37.3	31.8

Share Data

Market Cap.	Rs. 4.7 bn (US$ 1.1 bn)
Price	Rs. 507
Target Price	Rs. 808
BSE Sensex	12430
Reuters	CNTY.BO
Bloomberg	CENT IN
Daily Vol.	US$ 28.9 mn (Rs. 1.3 bn)
52-week High/Low	Rs. 782/260
Issued Shares	93.1 mn

Performance (%)	1m	3m	12m
Absolute	(18)	(24)	24
Relative	(6)	(17)	8

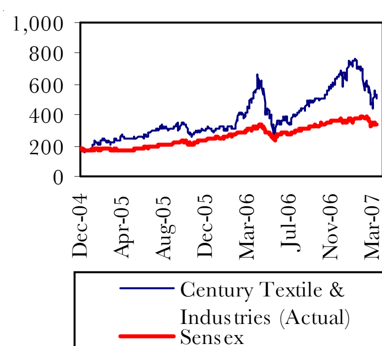
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	48.2	52.8
+/- (%)	14.3	9.6
PER (x)	10.5	9.6
Dividend/Yield (%)	0.8	0.9
EV/Sales (x)	1.6	1.4
EV/EBITDA (x)	7.3	6.5

Major shareholders (%)

Promoters	42
FIIs	8
MFs	16
Institutions	1
Public & Others	33

Relative Performance



Crompton Greaves

BUY

Share Data

Market Cap.	Rs. 64.8 bn (US$ 1.5 bn)
Price	Rs. 170
Target Price	Rs. 280
BSE Sensex	12430
Reuters	CROM.BO
Bloomberg	CRG IN
Daily Vol.	US$ 4.2 mn (Rs. 186.9 mn)
52-week High/Low	Rs. 234/103
Issued Shares	366.6 mn

Performance (%)	1m	3m	12m
Absolute	(16)	(15)	23
Relative	(2)	(7)	8

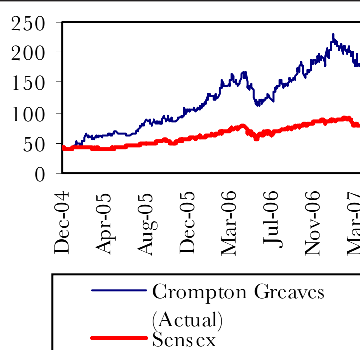
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	11.2	14.7
+/- (%)	74.9	30.9
PER (x)	15.7	12.0
Dividend/Yield (%)	1.4	1.4
EV/Sales (x)	1.0	0.8
EV/EBITDA (x)	10.2	7.9

Major shareholders (%)

Promoters	39
FIIs	12
MFs	24
Institutions	3
Public & Others	22

Relative Performance



Growing Bigger...

Crompton Greaves, a part of BM Thapar group, is one of the largest companies in India's electrical engineering space with turnover in excess of Rs 40 bn. The company operates through four divisions - Power systems, Industrial systems, Consumer Products and Digital products contributing ~47%, 25%, 27% and 1% respectively. The company has an order book of ~Rs 21.8 bn out of which ~84% is from the power segment and balance from the industrial segment.

Outlook

- Being the market leader in transformers and switchgears, the company stands to gain from ongoing investments in the T&D sector. The present order backlog of Pauwels and Ganz stands at Rs. 21.8 bn and Rs. 2.4 bn respectively
- Through Pauwels, the company got the technological capabilities thereby enhancing its competitiveness further in the domestic as well as international markets.
- Ganz, Crompton Greaves' 100%-owned Hungary-based subsidiary, is expected to turnaround in 1QFY08 driven by substantial pick-up in capacity utilization and internal cost restructuring.
- The company is investing over Rs. 2 bn in the next two years in augmenting capacities and strengthening the technology base. With commissioning of the EHV transformer manufacturing facility at Bhopal, the company is expected to capitalize on the growing opportunities in 500 kV-plus transmission system
- We expect the company's consolidated revenues to post a CAGR of 28% during the period FY06-09E. Earnings are expected to post a CAGR of 32% over the same period.

Valuation

At the current price of Rs. 170, the stock is trading at 15.7x FY08E and 12.0x FY09E earnings. We recommend a BUY on the stock with a target price of Rs. 280 based on 19x FY09E.on the stock.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	41,265	57,544	72,576	87,090
EBITDA	3,242	4,464	6,819	8,828
Margin (%)	7.9	7.8	9.4	10.1
PAT	2,320	2,351	4,113	5,385
EPS	6.3	6.4	11.2	14.7
ROCE (%)	31.3	28.2	34.9	37.3
ROE (%)	38.1	26.6	36.6	35.9

Cummins

BUY

All the right engines for growth

Cummins India (CIL) is a 51% subsidiary of Cummins Inc, US. It manufactures and markets diesel, gas and dual fuel engines for power generation, industrial and automotive applications. 33% of its sales accrue from power generation segment, 31% from exports to group companies, 17% from after market, 8% from industrial and 8% from spares.

Diesel engine demand is linked to investment in infrastructure, agriculture/ irrigation and growth in industry and construction. It also experiences spikes due to change in emission norms. Diesel engine demand for DG set application in power generation is dependant on growth in commercial construction, IT and Telecom services for back up/ deficit supply and from combined heat & power applications in process industry.

Outlook

The company is expected to achieve sales CAGR of 19.6 %(FY06-09) as demand continues to be driven by strong power generation and industrial demand. Growth will be supported as:

- Peak power deficit of 10-12% is likely to continue over the next 5 years.
- Industrial demand is expected to maintain strength as construction; material handling and mining machinery markets remain robust growth of >20%.
- Cummins Inc has plans for outsourcing production and procurement worth Rs.1.5bn annually for the next 3 years.

To enhance market presence the company is putting up a new facility for < 300HP engines, which is expected to contribute Rs.3000mn at full utilization. The capital investment undertaken in FY07 is expected to increase existing capacity by 30%. Margins are expected to remain stable, as the company in undertaking cost reduction measures to reduce gross cost by Rs.2bn over the next 3 years.

Valuation

At the current price of Rs.250, the stock is trading at 15.5x FY08E and 13.2 x FY09E earnings. We recommend a Buy rating on the stock with a target price of Rs.322 based on 17xFY09E.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	17,751	21,494	26,223	30,413
EBITDA	2,533	3,463	4,385	5,170
Margin (%)	15.0	16.7	17.3	17.0
PAT	1,841	2,546	3,189	3,732
EPS	9.3	12.9	16.1	18.8
ROCE (%)	31.3	38.1	39.9	38.0
ROE (%)	22.8	27.3	28.4	28.0

Share Data

Market Cap.	Rs. 49.5 bn (US$ 1.1 bn)
Price	Rs. 250
Target Price	Rs. 322
BSE Sensex	12430
Reuters	CUMM.BO
Bloomberg	KKC IN
Daily Vol.	US$ 4.5 mn (Rs. 198.4 bn)
52-week High/Low	Rs. 306/143
Issued Shares	198 mn

Performance (%)	1m	3m	12m
Absolute	(15)	(6)	(1)
Relative	(1)	3	(14)

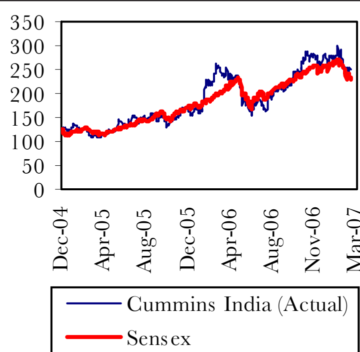
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	16.1	18.8
+/- (%)	25.3	16.8
PER (x)	15.5	13.3
Dividend/Yield (%)	1.5	1.5
EV/Sales (x)	1.9	1.6
EV/EBITDA (x)	10.8	9.5

Major shareholders (%)

Promoters	51
FIIs	15
MFs	14
Institutions	5
Public & Others	15

Relative Performance



Share Data

Market Cap.	Rs. 11.6 bn (US$ 262 mn)
Price	Rs. 374
Target Price	Rs. 450
BSE Sensex	12430
Reuters	ELCN.BO
Bloomberg	ELCN IN
Daily Vol.	US$ 0.7 mn (Rs. 31 mn)
52-week High/Low	Rs. 478/144
Issued Shares	31 mn

Performance (%)	1m	3m	12m
Absolute	(8)	(13)	62
Relative	7	(4)	42

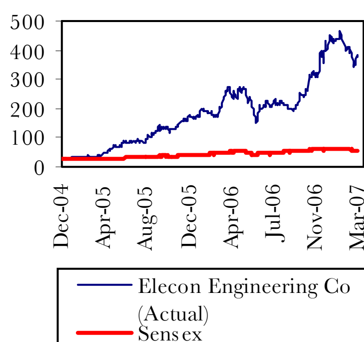
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	29.6	39.0
+/- (%)	48.7	31.8
PER (x)	12.5	9.5
Dividend/Yield (%)	0.5	0.6
EV/Sales (x)	1.4	1.0
EV/EBITDA (x)	8.5	5.8

Major shareholders (%)

Promoters	42
FIIs	5
MFs	14
ADRs/GDRs/Other Foreign	1
Public & Others	37

Relative Performance



Elecon Engineering **BUY**

Extending capabilities for growth

Elecon Engineering is a key player in the material handling equipment (MHE) industry and industrial gear boxes (know as transmission equipments). The company derives the growth in their MHE division on account of capex in the power sector which contributes to nearly 60-70% of their revenues. The gearing division stands to gain from all round investments in the manufacturing sector, where there gear boxes find application.

Outlook

The MHE business has grown at a CAGR of 133% over FY05-07 mainly on account of the significant capex in the power sector. In a thermal power plant, 10% of the capex is towards material handling equipments. This entails a five fold opportunity for Elecon Engg in their MHE business. Further, this segment has also seen significant margin improvement from 2.5% in FY05 to 13% in FY07 largely on account of better margins orders and optimum utilization of available resources.

The gearing business (TE) is expected to maintain a growth rate of 20-25% yoy. However, the key growth triggers in this segment are being witnessed on account of marine gear boxes. The company was recently the only qualified bidder for the supply of marine gear boxes to the Defence for providing gear box of value Rs.390 mn for the Aircraft carrier being indigenously built in India. Further, the company has received an order of Rs.200 mn from the Goa Shipyard as well.

The company is extending their capabilities in gearing to manufacture and provide windmill gear boxes in the range 1- 2 MW to global windmill manufacturers for domestic and export purposes. The capex is executing a capex of Rs.800 mn for the same and is expecting to achieve Rs.1,100 mn worth of revenues in the first full year of operations i.e.FY09 and a margins of 20-25%.

Valuation

At the current price of Rs. 374, the stock is trading at 12.5x FY08E and 9.5x FY09E earnings. We recommend a BUY rating on the stock with a target price of Rs.450 based on 15x FY08E earnings.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	4,425	7,320	10,461	14,026
EBITDA	597	1,236	1,727	2,317
Margin (%)	13.5	16.9	16.5	16.5
PAT	314	616	918	1,262
EPS	11.1	19.9	29.6	39.0
ROCE (%)	23.6	31.0	34.4	34.0
ROE (%)	37.2	41.6	35.6	34.8

Hindustan Construction Co. BUY

Attractive Valuations

Hindustan Construction Company (HCC) is one of the largest construction companies in India having eight decade of experience. The company has executed various big ticket projects across the segments such as Hydel & Nuclear Power, Transportation and Water & Irrigation. In its current order backlog of Rs 96 bn (35 projects), power projects constitutes 47% share, while transportation, water supply/irrigation and others represent 39%, 11% and 3% respectively. HCC has also forayed into high margin ventures such as BOT projects and Real Estate.

Outlook

On the back of strong order book revenue outlook remains healthy for the construction segment. We believe company's revenue would post a 26.6% CAGR and PAT to grow at 36.1% CAGR over the period FY06-FY09E respectively. EBITDA margins are expected to improve to 11.3% in FY09E as the loss making Bandra Worli Sea Link would be completed by April 2008.

HCC has also marked its entry in BOT space by securing BOT Annuity road project on NH7 worth Rs 2.7 bn, with a semi annual annuity of Rs. 238 mn.

HCC is developing 12,500 acres township in Lavasa where it holds 60% stake through its wholly-owned subsidiary, Hincon Realty Ltd. HCC is also developing a 2 mn sq ft IT Park at Vikhroli, which is expected to be completed by Dec 2008.

Though development of these real estate projects is at initial stage but they present growth potential for HCC's earnings in the next three-four years; which would be ascertained in due course, with more visibility on phase wise development plans.

Further delay in execution of Bandra Worli Sealink and real estate projects remain the key risks. Also, Sawalkote Power project (Rs. 19.4 bn), which is under arbitration, if cancelled could reduce the order book of the company considerably.

Valuation

At the current market price of Rs 95, the stock is trading at 22x FY08E and 12x FY09E earnings. If we account for the value of HCC's real estate and BOT projects Rs 50 per share, the stock is trading at 10x FY08E and 6x FY09E earnings. We arrive at a target price of Rs 164 based on 15x PE multiple on FY09 earnings and Rs 50 per share value of BOT and Real estate ventures. We recommend Buy.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	19,870	24,998	31,801	40,292
EBITDA	1,860	2,349	3,092	4,548
Margin (%)	9.3	9.4	9.7	11.3
PAT	829	405	1,190	2,088
EPS	3.2	1.5	4.3	7.6
ROCE (%)	9.4	8.2	10.4	15.0
ROE (%)	13.3	4.5	12.7	19.9

Share Data

Market Cap.	Rs. 24.2 bn (US$ 548.1 mn)
Price	Rs. 95
Target Price	Rs. 164
BSE Sensex	12430
Reuters	HCNS.BO
Bloomberg	HCC IN
Daily Vol.	US$ 8.5 mn (Rs.0.4 bn)
52-week High/Low	Rs. 196/83
Issued Shares	256.2 mn

Performance (%)	1m	3m	12m
Absolute	(26)	(36)	(45)
Relative	(15)	(30)	(52)

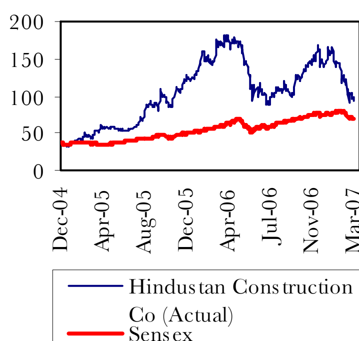
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	4.3	7.6
+/- (%)	193.8	75.5
PER (x)	22.0	12.4
Dividend/Yield (%)	1.1	1.3
EV/Sales (x)	1.2	1.0
EV/EBITDA (x)	12.1	8.5

Major shareholders (%)

Promoters	47
FIIs	13
MFs	10
ADRs/ GDRs/ Other Foreign	11
Public & Others	19

Relative Performance



ICICI Bank

BUY

Share Data

Market Cap.	Rs. 725 bn (US$ 16.4 bn)
Price	Rs. 810
Target Price	Rs. 950
BSE Sensex	12430
Reuters	ICBK.BO
Bloomberg	ICICIBC IN
Daily Vol.	US$ 31.6 mn (Rs. 1.4 bn)
52-week High/Low	Rs. 1,007/440
Issued Shares	894 mn

Performance (%)	1m	3m	12m
Absolute	(15)	(7)	33
Relative	(1)	2	17

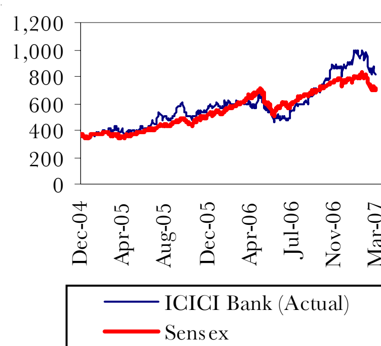
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	44.8	53.9
+/- (%)	24.7	20.2
ABV (Rs.)	318.8	361.8
+/- (%)	13.6	13.5
PER (x)	10.9	9.1
PABV (x)	1.5	1.3
Dividend/Yield (%)	1.2	1.2

Major shareholders (%)

FIIs	43
MFs	16
Institutions	29
Public & Others	12

Relative Performance



Subsidiaries to unlock values…

ICICI Bank is the largest private sector bank with respect to balance sheet size, business garnered and geographical reach. It is amongst the fastest growing banks in India, with a healthy share of retail business, increasing share of core income, growing international operations and improving asset quality.

Outlook

ICICI Bank is one of the few banks, which have been able to show double the industry growth rates along with stable margins over a period of time. The bank has consistently maintained its leadership position in various retail asset categories. Going forward, the bank is expected to follow a 4-pronged strategy of maintaining retail asset growth rates, international diversification, rural & SME business expansion and increasing sustainable fee-income business in order to diversify its asset book and revenues. Recently, RBI lifted branch expansion restrictions on the bank, which is expected to help the bank continue with the trend of impressive growth rates. The bank has a large customer base of more than 20 mn, which can be leveraged to cross sell its products and garner more of non-interest income.

ICICI Bank is in the process of incorporating of a wholly-owned subsidiary "ICICI Holdings", which will help it to unlock value from its subsidiaries without actually listing them separately.

Any steep rise in interest rates is likely to impact the profits from sale of investments and moreover rising interest rates may also affect its retail advance book (high delinquency rates) and lead to a slow down in credit off take.

Valuation

At the current market price of Rs. 810, the stock is trading at 10.9x FY08E and 9.1x FY09E earnings. On P/AB, the stock is trading at 1.5x FY08E and 1.3x FY09E adjusted book. We maintain our positive outlook on the stock and reiterate our BUY recommendation based on FY08E adjusted book value.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Interest Income	41,870	61,683	85,973	116,231
Operating Profit	46,907	67,821	86,025	102,745
Net Interest Margin (%)	2.2	2.2	2.3	2.4
PAT	25,401	31,967	39,872	47,944
EPS	28.5	35.9	44.8	53.9
ROA (%)	1.2	1.1	1.0	0.9
ROE (%)	14.0	13.0	14.2	14.9

Share Data

Market Cap.	Rs. 1,142 bn (US$ 25.9 bn)
Price	Rs. 2,047
Target Price	Rs. 2,600
BSE Sensex	12430
Reuters	INFY.BO
Bloomberg	INFO IN
Daily Vol.	US$ 73.9 mn (Rs. 3.3 bn)
52-week High/Low	Rs. 2,439/1,225
Issued Shares	558 mn

Performance (%)	1m	3m	12m
Absolute	(14)	(8)	13
Relative	(1)	1	23

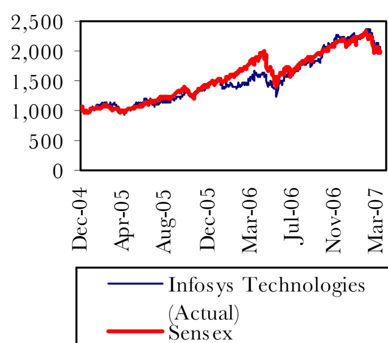
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	88.1	112.5
+/- (%)	31.2	27.6
PER (x)	23.2	18.2
Dividend/Yield (%)	0.8	1.0
EV/Sales (x)	5.7	4.4
EV/EBITDA (x)	18.3	14.1

Major shareholders (%)

Promoters	17
FIIs	56
MFs	3
Institutions	6
Public & Others	18

Relative Performance



Infosys Technologies

BUY

Offshore PosterBoy

Infosys is the 2nd largest Indian IT services company with FY07E revenues of $3.2 bn and employing over 69,000 people. It offers a wide range of IT solutions to its clients in North America and Europe ranging from traditional ADM to consulting and BPO services. It has the highest margins in the industry with FY07E operating margin at 28%.

Mr. Nandan Nilekani, CEO and Managing Director, is one of the founders of Infosys and has served as a director on the company's board since its inception in 1981. Mr. Narayan Murthy is the chairman and chief mentor at Infosys. Infosys' growth story has been a totally organic story and it is also better positioned to maintain margins given its strategy of not locking up resources in multi-year competitively priced deals.

Outlook

Well Managed operating levers: Infosys is among the top companies in terms of optimized operating levers. It has the highest billing rate, best employee pyramid (0-3 years employees) and the highest offshore contribution in large caps.

Turnaround of subsidiaries: Infosys has 4 subsidiaries-Infosys China, consulting, Australia and Progeon(BPO). Infosys China and Consulting are still in investment mode and expected to break even in the coming quarters. The improving results of subsidiaries should help growth rates in FY08 and FY09.

Client mining capabilities: Infosys has excellent client mining capabilities and has been able to capture a larger part of its client's wallet by scaling the clients up to a higher revenue bracket. It gets the highest revenue/active client in the industry.

Valuation

At the current price of Rs. 2,047, the stock is trading at 23.2x FY08E and 18.2x FY09E earnings. We expect the company's revenues to grow at a CAGR of 37% and Earnings to grow at a CAGR of 37% over FY06-09E. We recommend a BUY rating on the stock with the target price of Rs.2,600.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	95,216	139,823	189,276	247,596
EBITDA	30,918	44,643	59,362	77,044
Margin (%)	32.5	31.9	31.4	31.1
PAT	24,602	37,435	49,097	62,641
EPS	44.5	67.2	88.1	112.5
ROCE (%)	45.2	49.6	46.7	43.7
ROE (%)	39.8	43.7	40.9	38.2

Kalpataru Power

BUY

Growing to a complete infrastructure services provider

Kalpataru Power, a leading EPC player in transmission line industry, has four key business segments viz., transmission line, real estate, power (biomass) and infrastructure (pipelines) contributing 90%, 3%, 2% and 5% respectively towards its FY06 revenues. Kalpataru is well positioned to benefit from the upcoming opportunities unfolding in Indian T&D space especially through 100% private transmission projects and in pipelines business.

Outlook

Kalpataru is one of the key beneficiaries in the strong growth in transmission line and pipelines contracting businesses. The company has commendable project execution capabilities, key to success in high-end contracting business reflected in its healthy working capital management and return ratios.

- Order-backlog stands at Rs. 22 bn (US$ 475 mn), over 2.4 x FY06 sales, implying high earnings visibility.
- We see the company's standalone PAT and EPS growing at a CAGR of 50% and 40% respectively over FY06-09.
- Kalpataru is now entering into new, asset-intensive business segment that have high entry barriers. With entry in the logistics business, Kalpataru is expected to turn itself into a diversified infrastructure services company, thereby lowering its dependence on transmission line business.
- Kalpataru likely to benefit from the turnaround of its subsidiary JMC projects, a key civil contracting company. We expect JMC to post revenues of Rs.Rs.5 bn and Rs.8.4 bn and net profit of Rs. 192 mn and Rs.427 mn respectively fro FY07E and FY08E earnings.

Valuation

The company continues to enjoy the benefits of economies of scale with strong order book and large transmission and distribution projects under bidding process; growth visibility remains high for next couple of years. The stock is trading at 15.8x FY08E and 12.9x FY09E EPS of Rs.69 and Rs.84.5 respectively. We recommend Buy.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	8.368	15,487	21,136	27,815
EBITDA	1,294	2,520	3,355	4,103
Margin (%)	15.4	16.2	15.8	14.7
PAT	665	1,369	1,831	2,239
EPS	30.6	51.7	69.1	84.5
ROCE (%)	39.4	37.1	32.9	34.5
ROE (%)	47.2	34.2	26.1	26.1

Share Data

Market Cap.	Rs. 29 bn (US$ 655.6 mn)
Price	Rs. 1,092
Target Price	Rs. 1,382
BSE Sensex	12430
Reuters	KAPT.BO
Bloomberg	KPP IN
Daily Vol.	US$ 0.9 mn (Rs. 38.1 mn)
52-week High/Low	Rs. 1,328/541
Issued Shares	27 mn

Performance (%)	1m	3m	12m
Absolute	(6)	16	29
Relative	8	27	13

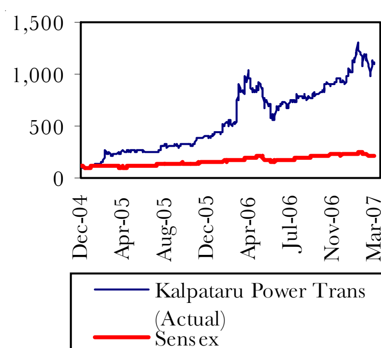
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	69.1	84.5
+/- (%)	33.8	22.3
PER (x)	15.8	12.9
Dividend/Yield (%)	1.4	1.4
EV/Sales (x)	1.1	0.8
EV/EBITDA (x)	7.0	5.7

Major shareholders (%)

Promoters	78
FIIs	3
MFs	4
Institutions	2
Public & Others	14

Relative Performance



Mahindra & Mahindra BUY

Share Data

Market cap.	Rs. 178.7bn (US$ 4.1 bn)
Price	731
Target Price	1,078
BSE Sensex	12430
Reuters Code	MAHM.BO
Bloomberg code	MM IN
Daily Vol.	US$ 18.4 mn (Rs. 819 mn)
52 Week High/Low	Rs. 1,002/488
Issued shares (mn)	244

Performance (%)	1m	3m	12m
Absolute	(19)	(10)	18
Relative	(6)	(1)	3

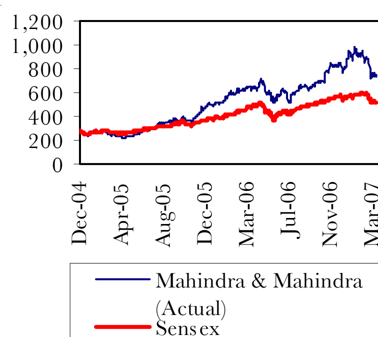
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	44.1	50.3
+/- (%)	6.3	14.2
PER (x)	16.6	14.5
Dividend/Yield (%)	1.5	1.6
EV/Sales (x)	1.6	1.3
EV/EBITDA (x)	12.5	11.0

Major shareholders (%)

Promoters	23
FIs/MFs	21
FIIs	35
ADRs/GDRs/Other Foreign	7
Public & Others	14

Relative Performance



'Good Growth Ahead'

Mahindra & Mahindra (M&M), India's largest tractor and UV manufacturer all set to re-enter the fast growing car segment with 'Logan', which is being manufactured by 'Mahindra Renault', its JV with Renault. Its dominant position in the tractor and UV segment make it the best play on the rural and agricultural growth story. Increasing interest rates and vulnerability to monsoons are the key threats.

Outlook

We expect M&M's UV and tractors sales to grow at CAGR of 13% and 10.5% respectively over FY07-FY09E on back of strong domestic and export demand. Its leadership position will be further strengthened with the launch of new UV platform 'Ingenio'. Impending launch of 'Logan' will give M&M a foothold in the fast growing car segment. We haven't factored in contribution from 'Logan' in our above growth projections. M&M being the host partner in the JVs with Renault- Nissan and ITEC will derive considerable income/fees (manufacturing fees,marketing) arising out of services rendered to the JVs. Strong focus on growing international business both in Automobiles and tractor segment has paid rich dividends especially in the tractor segment, M&M subsidiaries in US, China and Australia sold over 12,000 tractors in 2006. By acquiring Punjab Tractors (PTL) M&M has not only widened its lead over TAFE but also acquired a strong brand 'Swaraj' and spare tractor and engine capacities which can be utilized to service the North India market. We expect standalone earnings to grow at a CAGR of 10.2% over FY07-FY09E.

Valuation

At the current price of Rs. 731, the stock is trading at 16.6x FY08E and 14.5x FY09E standalone earnings. We Recommend Buy on the stock based on sum of parts valuation.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	79,888	96,994	109,921	126,826
EBITDA	8,937	12,023	13,649	15,586
Margin (%)	11.2	12.4	12.4	12.3
PAT	6,733	9,733	10,495	11,981
EPS	28.9	41.4	44.1	50.3
ROCE (%)	25.3	29.0	25.7	25.9
ROE (%)	27.6	29.0	24.9	23.9

Mphasis BFL

BUY

Share Data

Market Cap.	Rs.45.8 bn (US$ 1.0 bn)
Price	Rs. 280
Target Price	Rs. 335
BSE Sensex	12430
Reuters	BFLS.BO
Bloomberg	MPHL IN
Daily Vol.	US$ 8.6 mn (Rs. 380 mn)
52-week High/Low	Rs. 329/121
Issued Shares	205 mn

Performance (%)	1m	3m	12m
Absolute	(9)	3	42
Relative	6	12	24

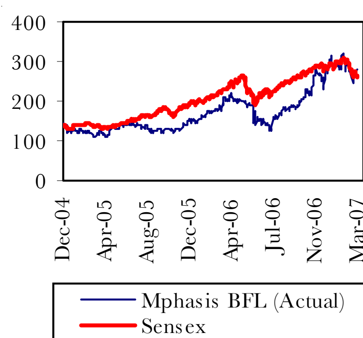
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	15.1	19.8
+/- (%)	68.9	31.2
PER (x)	18.6	14.2
Dividend/Yield (%)	1.1	1.4
EV/Sales (x)	1.8	1.3
EV/EBITDA (x)	9.5	7.0

Major shareholders (%)

Promoters	51
FIIs	14
MFs	9
Institutions	14
Public & Others	12

Relative Performance



EDS offshore emphasis

MphasiS is a mid-tier IT services company formed by the acquisition of MphasiS by BFL in 1999. It offers integrated IT and BPO services and is among the largest third party call centres in India. EDS recently acquired majority stake (62%) in MphasiS and EDS India has been merged with MphasiS.

Outlook

We are positive on the future of the company as once the process of integration of EDS India gets completed, consolidated MphasiS would be in a better position to scale up rapidly into a large scale player and there would be more visibility on the volumes. We expect quick ramp-up in manpower and shifting of higher margin transaction oriented HRO and CRM services by EDS to India.

Expansion of service offerings: EDS is the world leader and strong in Infrastructure Management space and consulting while MphasiS has a limited presence in this area. MphasiS has already stated its entry into the ITO space (Infrastructure) and believes it to be the major growth driver contributing ~20% to the consolidated revenue in 2-3 yrs. timeframe.

In the BPO space, EDS operates in HRO, CRM while MphasiS operates in inbound and outbound customer care primarily for BFSI, logistics, retail and telecom. So we believe there will be some shifting of higher margin transaction oriented HR and CRM functions to India benefiting BFL. Moreover, BFL's BPO operations are voice based and 65%-70% voice based and EDS has more platform based BPO operations so a mix of voice/non-voice (platform) will help in improving the margins of the BPO operations.

Valuation

At the current price of Rs. 280, the stock is trading at 18.6x FY08E and 14.2x FY09E earnings. We expect the company's revenues to grow at a CAGR of 51% and Earnings to grow at a CAGR of 40% over FY06-09E. We recommend a BUY rating on the stock with the target price of Rs.335.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	9,401	16,183	23,593	32,353
EBITDA	1,961	2,897	4,547	6,190
Margin (%)	20.9	17.9	19.3	19.1
PAT	1498	1831	3093	4059
EPS	9.4	8.9	15.1	19.8
ROCE (%)	23.2	26.7	35.5	36.4
ROE (%)	23.3	24.5	32.0	32.4

Nagarjuna Construction Co. BUY

Strong growth ahead

Nagarjuna Construction Company (NCC) is one of the leading company in construction space with over 27 years of experience in successful execution of projects across Building Structure, Transportation, Water & Environment, Irrigation and Electricals. The Order book of the company stands at Rs.70.25bn which is diversified. Order Book Break Up: Building Structure: 26%, Transportation: 40%, Water & Environment: 18%, Electricals: 7% & Irrigation: 9%.

Outlook

Current order book stands at Rs.70.25bn gives revenue visibility of 1.7xFY08E and 1.3XFY09E. During FY07 company forayed into international market by bagging a road project in Sultanate of Oman.

The company has land bank of 530 acres to be developed for residential & commercial purpose over a period of time. Recently, consortium of NCC & other companies has been awarded development of Machhilipatnam seaport on BOOT basis. Project is valued around 12 bn & NCC holds 25% stake in it.

During FY06-FY09E, Net sales and PAT are expected to grow at CAGR of 42% and 36% respectively.

The Company was planning to raise money through QIP in the current financial year. However, due to turbulent market conditions the company has deferred it for some time. Delay in the issue could restrict the ability of the company to fund its future growth plans.

Valuation

At the current market price of Rs 157 the stock is trading at 16.5x FY08E & 12.5xFY09E earnings, after excluding value of BOT & Land bank (Rs.25 per share) the stock is trading at 14xFY08E & 10.4xFY09E earnings respectively. We recommend Buy with a Target Price of Rs.214.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	18,404	29,827	40,560	52,639
EBITDA	1,641	2,866	4,056	5,274
Margin (%)	8.9	9.6	10.0	10.0
PAT	1,039	1,215	1,968	2,601
EPS	5.0	5.9	9.5	12.6
ROCE (%)	15.7	15.3	16.1	17.5
ROE (%)	16.4	12.3	17.6	20.0

Share Data

Market Cap.	Rs. 32 bn (US$ 735.8 mn)
Price	Rs. 157
Target Price	Rs. 214
BSE Sensex	12430
Reuters	NGCN.BO
Bloomberg	NJCC IN
Daily Vol.	US$ 6.2 mn (Rs. 277.8 mn)
52-week High/Low	Rs. 403/140
Issued Shares	207.4 mn

Performance (%)	1m	3m	12m
Absolute	(21)	(25)	(18)
Relative	(9)	(18)	(29)

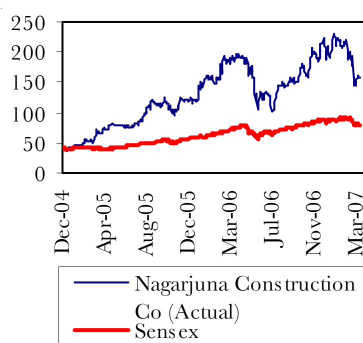
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	9.5	12.6
+/- (%)	61.9	32.2
PER (x)	16.5	12.5
Dividend/Yield (%)	1.1	1.5
EV/Sales (x)	1.1	0.9
EV/EBITDA (x)	11.2	9.2

Major shareholders (%)

Promoters	26
FIIs	27
MFs	14
Public & Others	33

Relative Performance



NTPC

BUY

Share Data

Market Cap.	Rs. 1,154bn (US$26.2 bn)
Price	Rs.140
Target Price	Rs.147
BSE Sensex	12430
Reuters	NTPC.BO
Bloomberg	NATP IN
Daily Vol.	US$ 13.1 mn (Rs.583.1 mn)
52-week High/Low	Rs.158/91
Issued Shares	8,245 mn

Performance (%)	1m	3m	12m
Absolute	(2)	(2)	3
Relative	14	7	(10)

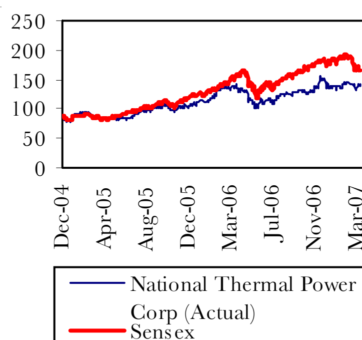
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	10.0	11.7
+/- (%)	20.6	17.0
PER (x)	14.0	12.0
Dividend/Yield (%)	2.1	3.8
EV/Sales (x)	3.8	3.7
EV/EBITDA (x)	13.2	12.9

Major shareholders (%)

Promoters	90
FIIs	7
Institutions	1
Public & Others	2

Relative Performance



Generating growth throughout...

NTPC, India's largest power generation utility, will add 21.9 GW in XIth Plan (2007-2011), taking total capacity to 51.3 GW. The company also has aggressive plans to go for backward integration. The company has already been allotted with coal blocks having estimated production of 58 MPTA. The company being the lowest cost producer of power (Rs. 1.67 / unit), stands to benefit from growing demand for energy in India.

Outlook

NTPC is going for aggressive expansion plans and revised its target for XIth plan to 21.9GW from 17GW, thus adding capacities at a 14% CAGR during the XI plan period of FY08-FY12. Merchant power capacity of 2 GW as planned for the XIth Plan will have significantly higher returns than other power units which get fixed 14% return plus incentives. Coal Mining will increase the operating margins of the company and will reduce the risk of being dependent only on Coal India for the supply of coal.

As of now NTPC is the only company other than NPCIL which has been allowed to enter into nuclear power based generation. The company has diversified into Hydro space which is the best means to cater to the peaking power demand.

Scope of inorganic growth: NTPC has actually turned around the sick power plants earlier owned by the SEBs into highly efficient units. Thus we expect similar inorganic growth of the likes of Badarpur and Muzaffarpur power plants in future

- We expect the revenues and earnings to show a CAGR growth 14% and 20% respectively for the period FY06-08E.

Valuation

At the current price of Rs 140, the stock is trading at a PER of 14x FY08E and 12x FY09E earnings. We recommend BUY rating on the stock.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	261,429	288,577	350,097	389,400
EBITDA	64,185	76,695	99,880	113,014
Margin (%)	24.6	27.6	28.5	29.0
PAT	55,113	68,422	82,519	96,092
EPS	6.7	8.3	10.0	11.7
ROCE (%)	10.3	10.9	11.6	11.5
ROE (%)	12.6	14.3	15.7	16.1

Reliance Industries BUY

Share Data

Market Cap.	Rs. 1,811 bn (US$ 41.1 bn)
Price	Rs. 1,300
Target Price	Rs. 1,447
BSE Sensex	12430
Reuters	RELI.BO
Bloomberg	RIL IN
Daily Vol.	US$ 112.8 mn (Rs. 4.98 bn)
52-week High/Low	Rs. 1,445/747
Issued Shares	139.4 mn

Performance (%)	1m	3m	12m
Absolute	(8)	4	69
Relative	7	14	48

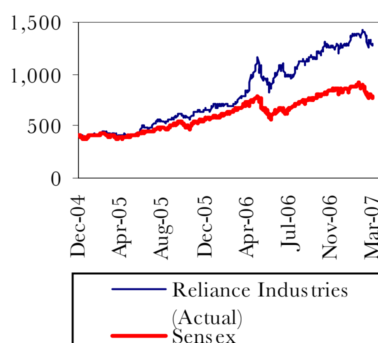
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	77.4	93.0
+/- (%)	5.2	20.2
PER (x)	16.8	14.0
Dividend/Yield (%)	0.9	0.9
EV/Sales (x)	2.1	1.7
EV/EBITDA (x)	11.3	8.9

Major shareholders (%)

Promoters	50
FIIs	20
MFs / FIs	8
ADR/GDR/Other foreign	5
Public & Others	17

Relative Performance



Driving India's growth

RIL is uniquely positioned in India's growth story. The company is benefiting from strong refining and petrochemicals cycle and will emerge as a major player in domestic E&P business after the commissioning of its oil and gas production at KG basin field on the East Coast. Going forward, RIL is positioning itself to emerge as a largest player in organized retail sector in India.

Outlook

RIL will continue to benefit from strong refining margins (advantage of US$4-5/bl over regional refining margins due to higher refinery complexity and lower crude cost). Commissioning of 27.0 MMTPA grass-root refinery at Jamnagar SEZ by September 2008.

Contribution from petrochemicals business will remain strong till mid of 2008 due to extended petrochemicals cycle. Expansion of 2.0 MMTPA integrated petrochemicals complex (Capex – USD 3.0 bn) at Jamnagar SEZ by FY2011.

E&P business continue to offer positive surprises with expectation of higher oil and gas reserves in KG D6 and NEC-25 NELP blocks. The development plan for KG D6 block is going as per schedule and oil and gas production will commission by 2HFY09 (peak production expected to go up from 80.0 MMSCMD to 120.0 MMSCMD by FY2011).

Retail business will be the next growth driver for the company. The company is planning to invest USD 5.5 bn in next 4-5 years in the business.

A cyclical dip in petrochemicals and refining business and delay in commercial gas production at KG D6 block could adversely affect the performance of the company.

Valuation

We value RIL at Rs. 1,447/share based on sum-of-the parts valuation. The valuation is based on Rs. 752/share for existing core business. Other than this, we value future E&P business at Rs. 450/share and retail business at Rs. 72/share. Investment in Reliance Petroleum Ltd, treasury stock of RIL held by Reliance trusts and investment companies and cash equivalents (after adjusting debts and minority interests) is valued at Rs. 173/share. We recommend BUY.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	812,109	929,999	922,195	1,318,611
EBITDA	142,986	162,676	168,706	249,568
Margin (%)	17.6	17.5	18.3	18.9
PAT	90,688	102,479	107,780	129,568
EPS	65.1	73.6	77.4	93.0
ROCE (%)	16.5	16.2	15.2	15.2
ROE (%)	20.1	18.9	17.1	16.6

* EPS has been calculated on existing equity base of 1,393 mn shares

Sadbhav Engineering BUY

BOT driven growth

Sadbhav Engineering (SEL) is a fast-growing construction company with focus on road, irrigation and mining sector. Over the years, the company has transformed itself from being a sub-contractor to an infrastructure developer. The company does large cash contracting projects and has recently bagged a number of BOT contracts, in JV with construction majors. Roads segment accounts for 80% of total revenue.

SEL, with its improved financial power and technical capabilities, is set to capitalize on growth opportunity in the construction sector. CEO and managing director, Mr. Vishnubhai M Patel has been guiding the company since its inception. The company will be raising funds through QIP issue with expected size of Rs. 650 – 750 mn for investment in BOT projects.

Outlook

Moving from sub-contracting job to execution of BOT projects, the company has traveled long distance and is all set to leverage acquired efficiency & capabilities. The strength of the company lies in earning better margins out of sub-contracting work and likely to continue margin levels above peers as maximum work is done in-house.

Riding on huge growth in order book which currently stands at Rs. 25.3 bn, the company is expected to increase its turnover by 53% CAGR over FY06-09E with similar growth in earnings. The company has 4 BOT projects in hand, contributing 30% value to the equity. SEL has submitted bids for number of projects with other construction majors.

Valuation

We believe the valuations are attractive given suitable earnings, growth visibility and continuing momentum in the sector. The stock is trading at 11.2x FY08E and 7.8x FY09E earnings. Considering the value in all the four SPVs at Rs. 200 per share, the stock is trading at 5.9x FY08E and 4.2x FY09E earnings. We recommend a BUY on the stock with a target price of Rs. 648 based on 12x FY08E earnings plus Rs. 200 as value per share in 4 SPVs.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	2,889	5,056	7,331	10,263
EBITDA	353	584	830	1,116
Margin (%)	12.2	11.5	11.3	10.9
PAT	126	228	407	573
EPS	15.1	20.9	37.3	52.6
ROCE (%)	13.6	22.3	27.2	28.5
ROE (%)	13.8	17.3	25.2	27.6

Share Data

Market Cap.	Rs. 4.5 bn (US$ 100 mn)
Price	Rs. 419
Target Price	Rs. 648
BSE Sensex	12430
Reuters	SADE.BO
Bloomberg	SADE IN
Daily Vol.	US$ 1.0 mn (Rs. 44.5 mn)
52-week High/Low	Rs. 657/185
Issued Shares	10.9 mn

Performance (%)	1m	3m	12m
Absolute	(20)	(6)	36
Relative	(8)	3	19

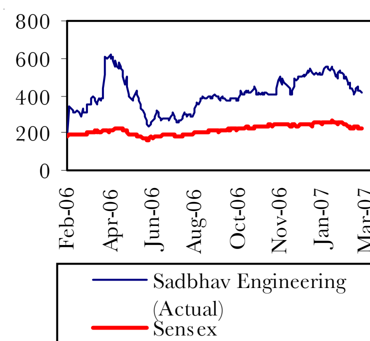
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	37.3	52.6
+/- (%)	78.2	40.9
PER (x)	11.2	8.0
Dividend/Yield (%)	0.5	0.5
EV/Sales (x)	0.7	0.5
EV/EBITDA (x)	6.0	4.5

Major shareholders (%)

Promoters	55
FIIs	14
MFs	2
Non-promoter Corp. Holding	12
Public & Others	17

Relative Performance



Siemens

BUY

Share Data

Market Cap.	Rs. 170.5 bn (US$ 3.9 bn)
Price	Rs. 1,012
Target Price	Rs. 1,409
BSE Sensex	12430
Reuters	SIEM.BO
Bloomberg	SIEM IN
Daily Vol.	US$ 25.6 mn (Rs. 1.2 bn)
52-week High/Low	Rs. 1,408/741
Issued Shares	168.6 mn

Performance (%)	1m	3m	12m
Absolute	(13)	(11)	(10)
Relative	1	(2)	(21)

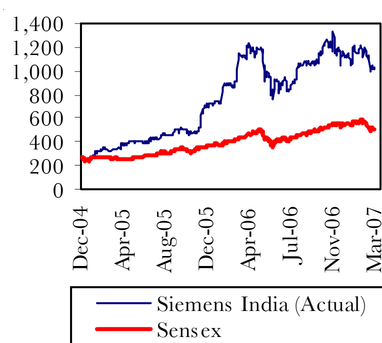
Valuation

Year to 30 Sep.	2007E	2008E
EPS (Rs.)	37.4	52.3
+/- (%)	58.7	39.8
PER (x)	27.0	19.3
Dividend/Yield (%)	0.4	0.4
EV/Sales (x)	1.8	1.3
EV/EBITDA (x)	16.0	11.1

Major shareholders (%)

Promoters	55
FIIs	12
MFs	9
Institutions	6
Public & Others	18

Relative Performance



Diversified business

Siemens Limited, a subsidiary of Siemens AG of Germany, has a diversified business portfolio with a presence in Power (40% of sales), Industry (29%), software (17%), and others (medical, transport, comm., etc. (14%). Siemens software business is through SISL – Siemens' 100% subsidiary, which is into development of software with a significant presence in healthcare, and software engineering and scientific applications.

Outlook

- As part of Siemens AG's initiative to reduce software development costs globally, SISL is identified as one of the main offshore development centres. It has engagements with various businesses, namely, medical, A&D, telecom, etc. This will accelerate growth in a significant way going forward.
- Parent has recognized Siemens India's Kalwa and Nashik facility as "Centre of Competence" and will source products from these units for its global requirement. It is expected that the parent will shift part of production to cost-competitive countries. India is expected to figure among the key sourcing destination in the long-term.
- Siemens order book currently stands at around Rs. 110 bn, implying 2x FY06 sales, highest among peers. The order book includes around Rs. 60 bn from Qatar, all of which will be executed in the next 24 months. These projects have good (around 7%) EBIT margins, which ensures healthy accretion to profits.
- We expect the company's consolidated revenues to post a CAGR of 42% during the period FY06-08E. Earnings are expected to post a CAGR of 50% over the same period. SISL will account nearly 14% of revenues & 7% of profits in FY07.

Valuation

At the current price of Rs. 1,012, the stock is trading at 27.0x FY07E and 19.3x FY08E earnings. We recommend a BUY rating on the stock with a target price of Rs. 1,409 based on 26xFY08E.

Financials

(Rs. mn)	FY06	FY07E	FY08E
Net Revenues	60,323	83,745	121,285
EBITDA	6,417	9,644	13,962
Margin (%)	10.6	11.4	11.5
PAT	3,971	6,302	8,838
EPS	23.6	37.4	52.3
ROCE (%)	51.8	60.9	61.2
ROE (%)	36.6	41.8	40.7

Year End - September

Tata Consultancy Services BUY

Share Data

Market Cap.	Rs.1,210 bn (US$ 27.4 bn)
Price	Rs. 1,236
Target Price	Rs. 1,500
BSE Sensex	12430
Reuters	TCS.BO
Bloomberg	TCS IN
Daily Vol.	US$ 34.8 mn (Rs. 1,536 mn)
52-week High/Low	Rs. 1,399/728
Issued Shares	979 mn

Performance (%)	1m	3m	12m
Absolute	(4)	7	35
Relative	11	17	18

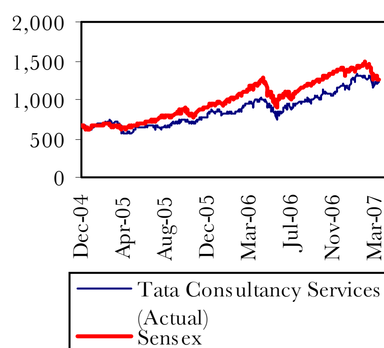
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	55.9	69.9
+/- (%)	30.8	25.1
PER (x)	22.1	17.7
Dividend/Yield (%)	1.0	1.2
EV/Sales (x)	4.9	3.8
EV/EBITDA (x)	17.9	14.3

Major shareholders (%)

Promoters	82
FIIs	7
MFs	2
Institutions	4
Public & Others	5

Relative Performance



Betting Big

TCS is India's largest IT services provider with FY07E revenues of $4.2 bn. It provides a wide range of IT services including consulting and Business process Outsourcing globally and employs over 83,500 people.

TCS is a professionally managed company and majority of the top management has been with the company in excess of 20 years. Mr. Ratan Tata is the chairman and Mr. S. Ramadorai is the CEO of the company. Taking organic as well as inorganic route, TCS is set on the path to show the same growth in the coming years and break into the top 10 IT companies globally by 2010 with revenue of US$10bn.

Outlook

Focus on large deals: TCS has been taking a leading position in winning large deals, and in 1HFY07, it participated in twice as many deals as in four quarters of FY06 combined.

Strategic acquisitions creating new capabilities: Acquisition of FNS and Comicron have been very strategic in the overall company's growth and TCS is open to further acquisitions with the intent of profitable growth. The rationale behind acquisitions is to gain niche expertise, enter into un-penetrated markets and to boost both its topline and bottomline.

Leveraging the Global Network Delivery Model: TCS has been able to capture the entire value chain of IT through its Global Delivery model, its excellent delivery capabilities and its strong portfolio of services. Such a global delivery model helps TCS to localize its offerings according to its client needs and extend its presence in otherwise under-penetrated markets by other players.

Valuation

At the current price of Rs. 1,236, the stock is trading at 22.1x FY08E and 17.7x FY09E earnings. We expect the company's revenues to grow at a CAGR of 34% and Earnings to grow at a CAGR of 33% over FY06-09E. We recommend a BUY rating on the stock with the target price of Rs.1,500.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	132,454	187,439	247,049	319,259
EBITDA	36,946	51,228	66,799	83,893
Margin (%)	27.9	27.3	27.0	26.3
PAT	29,079	41,811	54,678	68,401
EPS	29.8	42.7	55.9	69.9
ROCE (%)	69.4	62.0	55.3	49.4
ROE (%)	60.2	54.9	48.4	42.9

Tata Motors

BUY

Share Data

Market cap.	Rs. 288.8 bn (US$ 6.5 bn)
Price	Rs. 749
Target Price	Rs. 1,090
BSE Sensex	12430
Reuters Code	TELC.BO
Bloomberg code	TTMT IN
Daily Vol.	US$ 32.8 mn (Rs. 1.5 bn)
52 Week High/Low	Rs. 997/651
Issued shares (mn)	385

Performance (%)	1m	3m	12m
Absolute	(14)	(13)	(18)
Relative	0	(4)	(29)

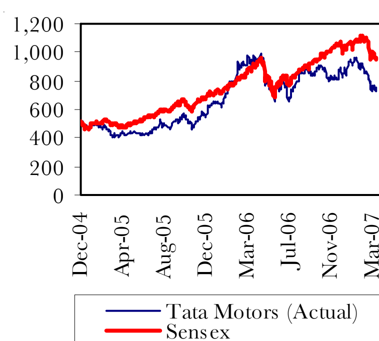
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	54.9	63.8
+/- (%)	10.2	16.3
PER (x)	13.7	11.7
Dividend/Yield (%)	2.0	2.1
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	7.2	6.0

Major shareholders (%)

Promoters	34
FIs/MFs	15
FIIs	24
ADRs/GDRs/Other Foreign	15
Public & Others	12

Relative Performance



'Aces' Up Its Sleeves

Tata Motors (TTMT), the market leader in CV is also the third largest player in the PV market. TTMT, due to its expansive product range – right from sub-one tonne to tractor trailers, continues to reap the maximum benefit from the emergence of 'Hub & Spoke' model in the transportation industry. In the exports market, company is making forays in Thailand and Latin American markets. In the PV segment the company will be launching the new platform of cars in FY08. Increasing interest rates and oil prices are a major risk to the demand for the company's products.

Outlook

We expect TTMT's total volumes to grow at a CAGR of 12.7% over FY07-08E to over 0.7 million units. CV sales are expected to grow by 13.5% during the same period aided by strong sales of its sub-one tonne offering 'Ace'. PV sales during the same period are expected to grow by 11.7% with uniform growth in both car and UV segments. Our estimates for PV doesn't include the incremental sales expected from the PV version of 'Ace' which is expected to be launched during FY08. Company will also benefit immensely from the growing partnership with Fiat Group in terms of reduced cost and risk associated with R&D and shorter 'time to market' for new products. Recent MoU with Fiat group company Iveco will help the company to strengthen its position in the heavy tonnage thus reducing the threat of global players entry into Indian market. The recent acquisition of an assembly plant in South Africa, JV with Thonburi of Thailand and Fiat's strong global presence offer huge upsides to its overseas business. Major subsidiaries and associates - HVAL, HVTL, TACO, which are unlisted offer value unlocking potential.

Valuation

At the current price of Rs. 749 the stock is trading at 13.7x and 11.7x our FY08E and FY09E standalone earnings. With valuations getting support from subsidiaries/associates, we recommend Buy.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net sales	202,240	265,458	293,948	338,260
EBITDA	25,116	32,628	35,861	43,020
Margin (%)	*12.4*	*12.3*	*12.2*	*12.7*
PAT	13,889	19,562	22,106	25,712
EPS	36.3	49.8	54.9	63.8
ROCE (%)	26.5	30.0	27.9	29.5
ROE (%)	28.9	28.4	24.6	24.1

United Phosphorus BUY

Treading a high growth trajectory

United Phosphorus is the world's 3rd largest generic agrochemical manufacturer with revenues above US$ 835 mn(post Cerexagri Acquisition). It gets around 84% of its revenues from agrochemicals and 9% of its revenues from the manufacture of industrial chemicals. Besides having a strong pipeline of products, it has been growing organically and inorganically through various product and company acquisitions.

Outlook

Good growth is seen in FY08E(CAGR 46% 06-08E) when sales from past acquisitions of companies (Cerexagri and Advanta Seeds) as well as products (Bensulfuron Methyl, Propanil and 3 products acquired from Bayer) will be fully realized.Under its JV with Ishihara (ISK)-Japan, UPL will undertake the manufacture and distribution of 2patented products(fungicides) of ISK, the benefit of which will be fully realized by FY09E. Besides 3-4 products registered for launch in FY'08, launch of Imidacloprid and Lambdacyhalothrin having a combined market of US$ 200-250mn in the March'07 quarter in the US, will trigger earnings of FY07.

Margins may take a marginal hit in FY'08E when Cerexagri's earnings will be consolidated. Ebitda margins for Cerexagri (sub-10%) are lower than UPL (27%). We expect margins of 21% for FY08E and 22 % for FY09E

The agrochemical market globally is seeing flat growth rates. However, being a generic agrochemical company, UPL has a potential market of US$ 4-5bn in the next 5 years.

Valuation

At the current price of Rs. 309, the stock is trading at 13x FY08E and 10x FY09E earnings. We recommend a BUY on the stock with a target price of Rs. 414 (15x FY09E).

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Revenues	16,693	20,879	36,985	41,816
EBITDA	4,831	5,866	8,162	9,772
Margin (%)	26.9	26.6	21.2	22.4
PAT	2,006	2,869	4,379	5,646
EPS	10.7	15.3	23.4	30.2
ROCE (%)	17.3	14.4	17.7	19.5
ROE (%)	19.4	20.4	25.1	25.4

Share Data

Market cap.	Rs. 57.8bn (US$ 1.3 bn)
Price	Rs. 309
Target Price	Rs. 414
BSE Sensex	12430
Reuters Code	UNPO.BO
Bloomberg code	UNTP IN
Daily Vol.	US$ 2.9 mn (Rs. 27.4 mn)
52 Week High/Low	Rs. 352/204
Issued shares (mn)	187

Performance (%)	1m	3m	12m
Absolute	(5)	2	13
Relative	10	11	(1)

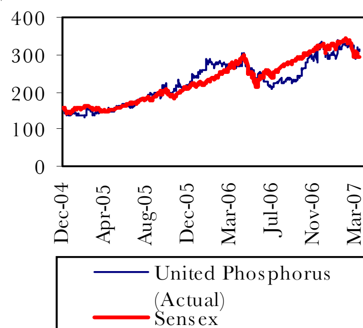
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	23.4	30.2
+/- (%)	52.6	28.9
PER (x)	13.2	10.3
Dividend/Yield (%)	0.4	0.4
EV/Sales (x)	2.0	1.7
EV/EBITDA (x)	8.9	7.4

Major shareholders (%)

Promoters	30
FIs/MFs	20
FIIs	34
ADRs/GDRs/Other Foreign	1
Public & Others	15

Relative Performance



UTI Bank

BUY

Share Data

Market Cap.	Rs. 126 bn (US$ 2.9 bn)
Price	Rs. 449
Target Price	Rs. 540
BSE Sensex	12430
Reuters	UTBK.BO
Bloomberg	UTIB IN
Daily Vol.	US$ 9.4 mn (Rs. 0.4 bn)
52-week High/Low	Rs. 615/222
Issued Shares	281 mn

Performance (%)	1m	3m	12m
Absolute	(18)	(2)	19
Relative	(5)	7	4

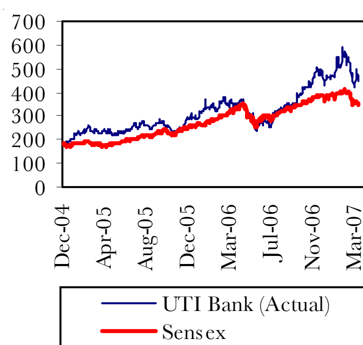
Valuation

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	29.8	36.6
+/- (%)	27.6	22.8
ABV (Rs.)	156.9	193.7
+/- (%)	24.1	23.5
PER (x)	15.1	12.3
PABV (x)	2.9	2.3
Dividend/Yield (%)	1.0	1.1

Major shareholders (%)

Promoters	43
FIIs	37
MFs	7
Institutions	5
Public & Others	8

Relative Performance



Strong growth rates...

UTI Bank is a new generation private sector bank with a balance sheet size of over Rs 650 bn growing at a CAGR of more than 35% since FY02. Strong growth in business has helped the bank to achieve critical size and is expected to join the league of big banks soon. It has shown a consistent track record of growth in business and profitability. Net profit of the bank has grown at over 30% y-o-y in 26 out of the last 28 quarters.

Outlook

UTI bank is consolidating its position and also focusing on diversifying its revenue stream. Current asset allocation is inclined more towards advance book rather than Investments which have helped it to maintain profitability ratios in a rising interest rate scenario. It is consolidating its core business operations by focusing on net interest income and lowering down cost of funds. Increasing contribution of retail business and low cost deposits has helped the bank to maintain margins. The bank is diversifying into other revenue generating treasury operations like derivatives and forex.

Over the last five years (ending FY06) it has maintained one of the highest compounded growth rates among its peers with total assets growing by 36%, advances by 36%, deposits by 35%, NII by 61%, PAT by 41% and net worth by 57%.

Rapid expansion and efficient use of technology has helped the bank to build a retail franchise covering more than 275 cities & town across the country as at end December 2006. It has the third largest ATM network in India and almost 95% of its retail cash transaction occurs through ATMs. UTI Bank has a strong and experienced management team with diverse set of backgrounds. Currently it is headed by Mr. P.J. Nayak, under whose able leadership the bank has achieved remarkable growth. The bank may need capital to support the aggressive growth in risk-adjusted assets and meet the Basel II norms. They are looking at various options to raise capital and may go for fresh equity issuance over the next few months.

Valuation

At the current market price of Rs. 449, the stock is trading at 15.1x FY08E and 12.3x FY09E earnings. On P/AB, the stock is trading at 2.9x FY08E and 2.3x FY09E adjusted book value. We recommend Buy.

Financials

(Rs. mn)	FY06	FY07E	FY08E	FY09E
Net Interest Income	10,782	15,605	20,825	26,787
Operating Profit	9,938	12,957	15,659	17,853
Net Interest Margin (%)	2.9	3.0	2.9	2.9
PAT	4,851	6,505	8,298	10,187
EPS	17.4	23.3	29.8	36.6
ROA (%)	1.1	1.1	1.1	1.1
ROE (%)	17.9	19.6	20.2	20.1

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