

**EQUITY STRATEGY**  
Asia Equity Strategy

**Market  
Commentary/Strategy**

**SECTOR VIEW**

New: NOT RATED  
Old: NOT RATED

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**Analyst Certification**

We, Prabhat Awasthi, Nipun Prem and Sanjay Kadam, hereby certify (1) that the views expressed in this Industry Report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Industry Report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Industry Report.

May 07, 2009  
Nomura Financial Advisory and  
Securities (India) Private Limited

<http://www.nomura.com>

## Equity Strategy

### Beware of slowdown in govt expenses

The strength of the fiscal stimulus in the second half of FY09 has been a key reason for demand in several sectors to move ahead of growth consistent with the current level of GDP growth and investment activity. While the fiscal stimulus should continue, the amount of expenditure is unsustainable in light of the elevated levels in 2H FY09. We believe demand in sectors such as cement, steel and two-wheelers would have benefitted significantly from the stimulus and pre-election spending. Our economist, Sonal Varma, forecasts a slowdown in this spending and expects a 10.3% combined fiscal deficit in FY10. We believe that demand for cement, two-wheelers and steel could see some slowdown as expenditure growth cools off. We would advise investors to reduce weightings specifically in the cement and two-wheeler sectors.

- We believe central government expenditure would have likely grown 35% y-y in FY09 and 42% y-y in the second half, as enhanced spending came into play. This is based on government numbers from April 2008 to February 2009 and our estimates for March 2009. We believe that demand strength in sectors such as two-wheelers, cement and steel, despite relatively weaker economic growth and investment cycle, is a direct result of this stimulus.
- Given the weakness in revenues, we expect growth in government expenditure to start to fall. Our economist projects expenditure to grow 25% in 1H FY10 and then decline 2% in 2H FY10, bringing the full-year FY10 expenditure growth to 9.1% y-y, ahead of the government's estimate of 5.8% y-y. We continue to assume large fiscal slippages and believe spending numbers are unlikely to be higher than our estimates, since a higher stimulus is likely to be harmful from a long-term fiscal perspective. Thus, there is little scope to be more positive than this on the government's ability to stimulate the economy, in our view.
- While there is likely to be a gradual pick-up in activity and demand from households and the private sector, this might not fully offset the slowdown in government expenditure. The impact of lower government expenditure should begin to be felt in the second half of FY10.
- There has been a broad rally in the markets based on the green shoots of recovery. While not denying the structural growth resilience of economy, we note that expectations in some sectors have run ahead of fundamentals based on the demand pick-up. We advise caution in these sectors, the key ones being cement and two-wheelers.

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**PLEASE SEE IMPORTANT DISCLOSURES BEGINNING ON PAGE 14 gI**

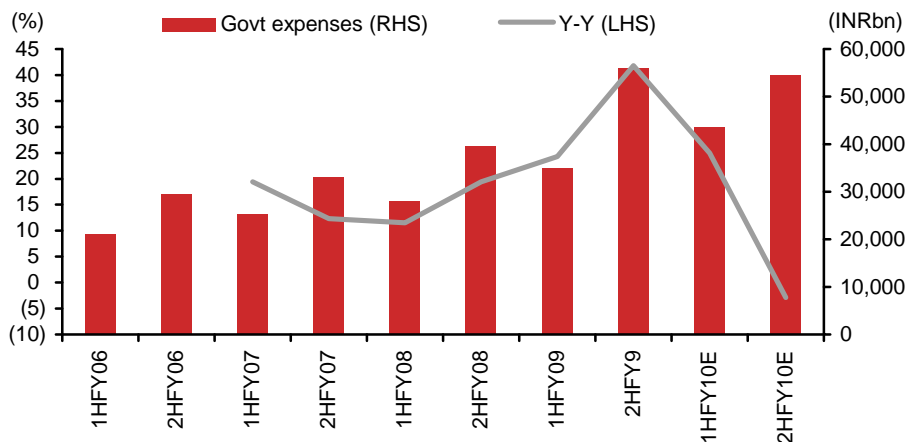


## Government expenditure and demand growth

### Massive spending push ...

As GDP growth decelerated post the global financial crisis, the Indian government stepped in to fill the void left by investment demand from the private sector through high spending. The chart below shows how this spending has inflected. Year-on-year growth in government expenses shot up to 40% in 2H FY09. On a monthly basis, extra expenditure incurred is approximately INR27.5bn higher than the same period last year.

Exhibit 1: Quarterly government expenses and growth



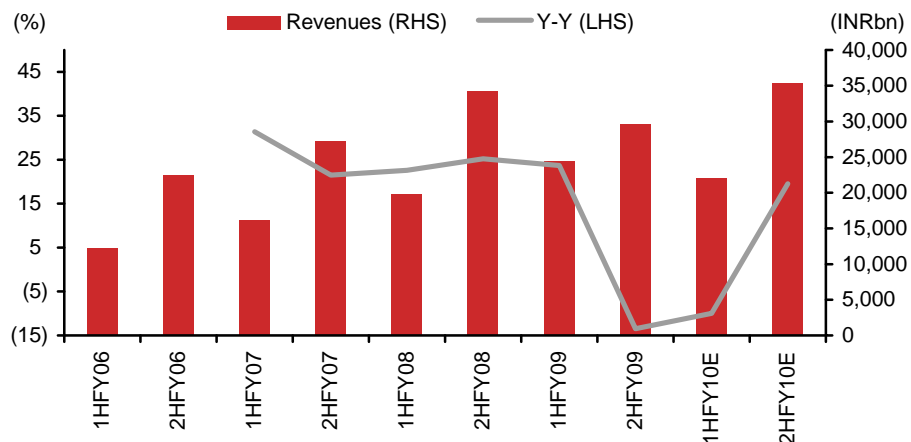
Source: Government of India, Nomura estimates

### ... but has to start coming off in absolute terms

The issue with sustaining this level of spending is:

- Revenues**, which are under significant pressure due to the economic slowdown and cuts in various levies (1H revenues in FY09 were robust). The chart below shows the revenue pattern between the first and second half. We expect revenue in 2H FY09 to decline 13%, clearly mismatched with a 40% expense growth rate during the same period. Moreover, the base impact would ensure that revenue growth remains negative in the first half as well. This would be the key limiting factor in government expenses in 1H FY09, especially given the seasonality in revenues. Also, our economics team is building a sizeable improvement in revenues in 2H FY09 (h-h jump is very high), which could be at risk if global economic growth remains slow.

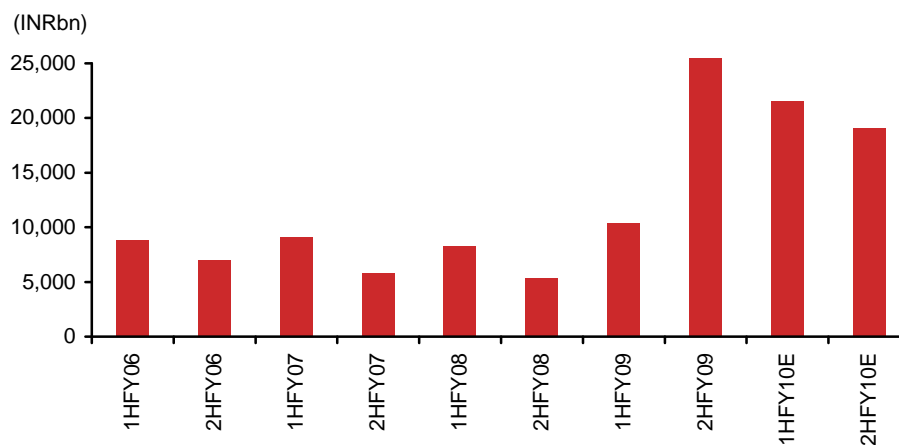
Exhibit 2: Government revenues — dipping into negative growth



Source: Government of India, Nomura estimates

- **The fiscal situation** is entirely back-end loaded in 2H FY09. Thus, despite a reasonably healthy fiscal situation in 1H FY09, overall fiscal slippage has been 4% for the full year, all on account of 2H09. The chart below shows this clearly. As we have already pointed out, we are assuming revenue buoyancy for 2H FY10.

Exhibit 3: Fiscal deficit — increasing in 2H FY09



Source: Government of India, Nomura estimates

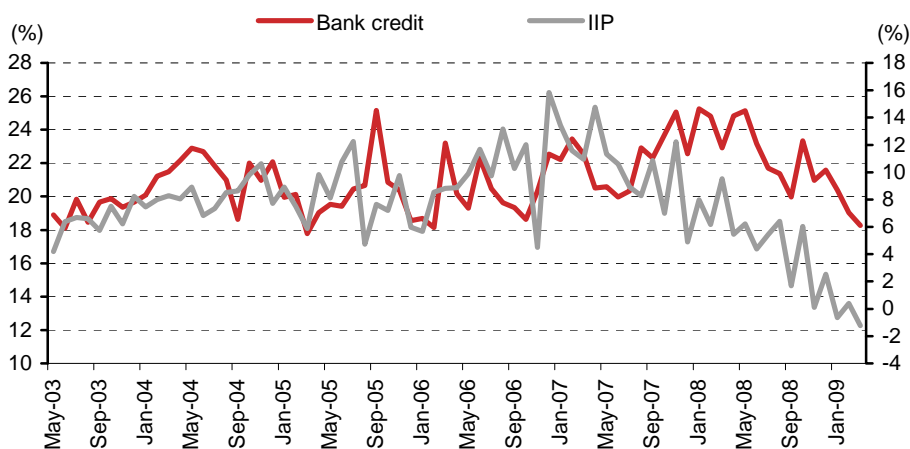
This means that for the fiscal deficit to be contained at current levels, spending levels cannot average higher than they were last year, since revenues are under significant pressure at this point. Our forecast is for 25% growth in expenses in 1H and a negative 2% growth in 2H.

## Would households and corporates step up to fill the shoes of the government?

As government expenditure comes off in absolute terms, it would be important for the private sector and households to step up to keep growth momentum intact. At this time, there are no signs of that starting to happen. One of the best gauges of this would be credit markets, which typically show a very strong correlation with credit growth in the system. As yet, there are no signs of a revival in banking credit. In addition, it would be unreasonable to expect a sudden inflection in banking credit, especially if the global economy remains weak.

We do expect, however, to see some more pick-up in household spending as interest rates in the economy remain low. In some sectors, such as automobiles, this is already visible. There could be some more stepping up in sectors such as housing.

Exhibit 4: Bank credit and IIP growth – still in the slow lane

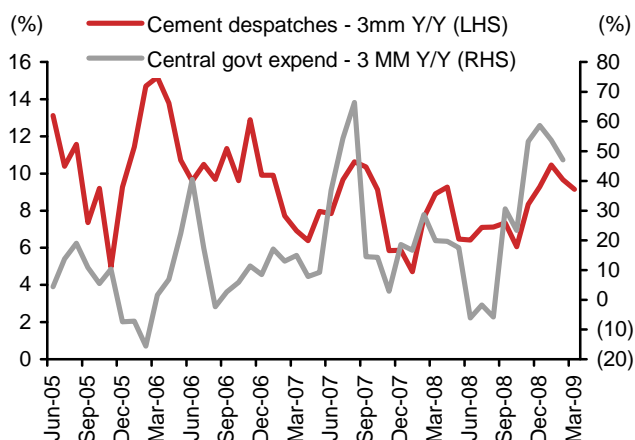


Source: Business Beacon, Nomura research

## Demand disappointments could follow, especially in sectors with high growth priced in

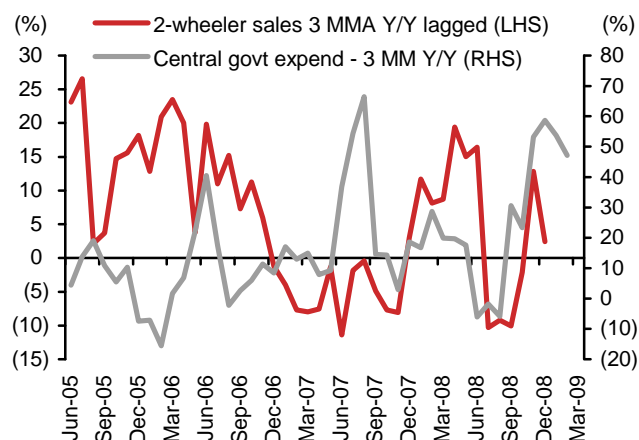
We single out the cement and the two-wheeler sectors, especially for this as the correlation of demand here with the stimulus looks reasonably strong (see charts below). Additionally, we also plot the performance of two-wheeler and cement stocks with volume growth. We have also plotted government spending with growth in two-wheeler, cement and steel demand. While government spending is not the sole factor to determine growth in these sectors, poor credit growth and slower capex cycle should mean that an acceleration in growth is on account of government expenditure and possible restocking (especially in the case of steel).

Exhibit 5: Cement sales growth vs government expenditure growth



Source: Business Beacon, Nomura Research

Exhibit 6: Two wheeler sales growth — three-month lag vs government expenditure growth



Source: Society of Indian Automobile Manufacturers, Nomura Research

In addition, the valuations of the above sectors have moved significantly with respect to the index. As government spending starts to come off, the stocks in the sector should start to underperform, we believe.

Exhibit 7: Autos — premium/discount to the market



Source: Nomura research

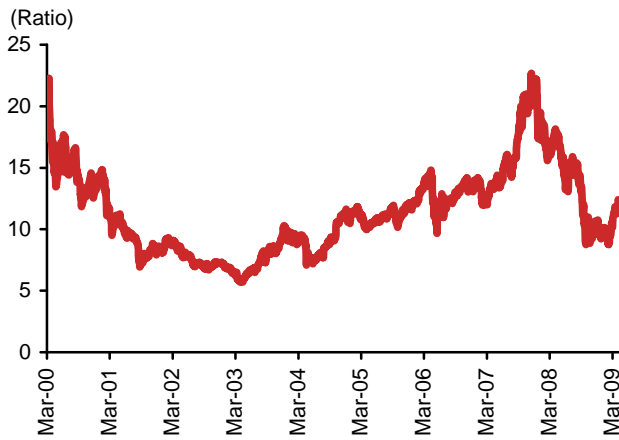
Exhibit 8: Cement — premium/discount to the market



Source: Nomura research

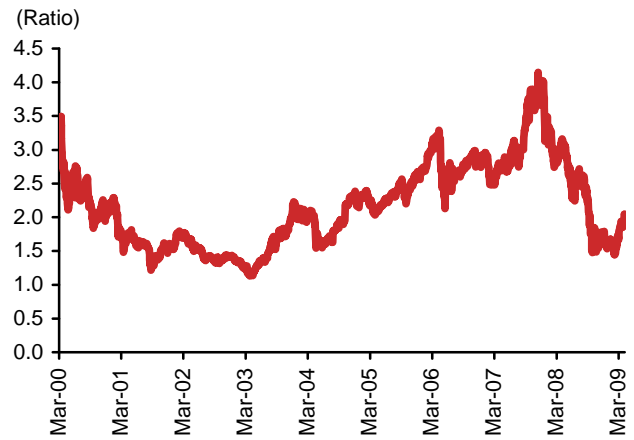
## Appendix I: Market performance and valuation

Exhibit 9: Sensex P/E 12-month forward



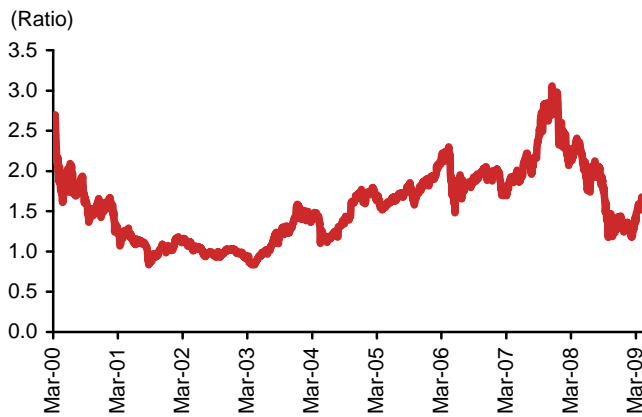
Source: Capitaline, Bloomberg, Nomura research

Exhibit 10: Sensex P/B



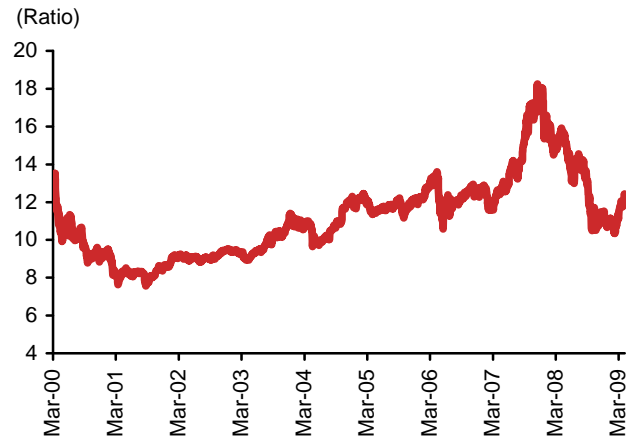
Source: Capitaline, Bloomberg, Nomura research

Exhibit 11: Sensex P/S



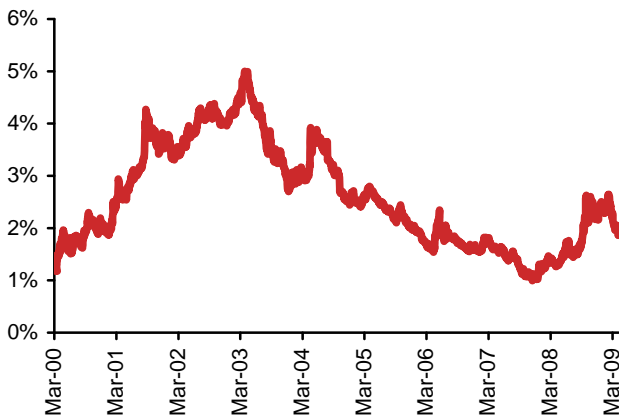
Source: Capitaline, Bloomberg, Nomura research

Exhibit 12: Sensex EV/EBITDA



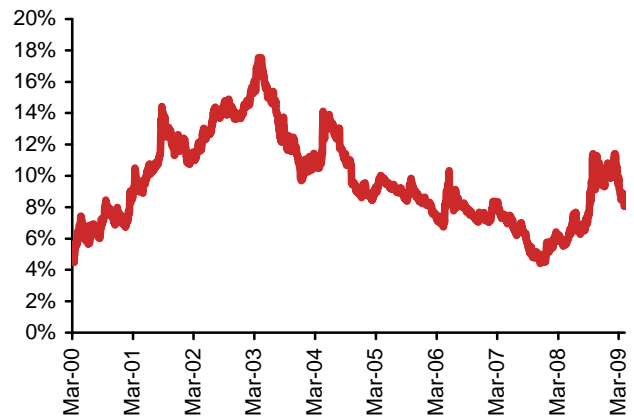
Source: Capitaline, Bloomberg, Nomura research

Exhibit 13: Sensex dividend yield



Source: Capitaline, Bloomberg, Nomura research

Exhibit 14: Sensex earnings yield



Source: Capitaline, Bloomberg, Nomura research

## Exhibit 15: Sectoral performance

Sector	Index	05-May-09	Index / Sectors performance (%)						
			1 Day	1 Wk	1 M	3 M	6 M	12 M	YTD
Sensex	BSE Sensex Index	12,131	(0.0)	10.3	15.2	31.8	17.3	(30.6)	22.5
Nifty	NSE CNX Nifty Index	3,662	0.2	8.9	12.4	30.6	20.3	(29.5)	20.7
Mid Cap	BSE Mid Cap Index	3,719	1.9	7.8	16.1	30.0	10.8	(49.1)	12.0
Small Cap	BSE Small Cap Index	4,163	2.0	7.1	17.3	27.2	6.0	(52.9)	9.2
Autos	BSE Auto Index	3,666	0.2	7.8	11.7	48.7	33.5	(23.8)	45.4
Banks	BSE Bankex	6,278	2.4	15.4	27.4	34.3	16.5	(31.2)	12.4
Capital Goods	BSE Capital Good Index	8,522	1.8	10.2	20.7	39.5	12.2	(40.0)	17.7
Cement	NSE & CRISIL Cement Index	2,935	(0.5)	1.0	11.4	28.8	42.6	(26.3)	32.8
Consumer Goods	BSE Consumer Good Index	1,850	1.0	7.3	1.8	14.9	(12.1)	(58.6)	(5.4)
FMCG	BSE FMCG Index	2,161	(2.2)	4.7	8.6	5.7	15.5	(12.6)	8.5
IT	BSE IT Index	2,826	(2.1)	11.4	15.1	28.7	(1.7)	(34.5)	22.2
Metals	BSE Metal Index	7,752	3.5	15.8	20.2	56.8	37.9	(51.2)	40.2
Oil & Gas	BSE Oil & Gas Index	8,415	(0.4)	7.1	8.6	35.9	28.5	(28.1)	36.6
Pharma	BSE Pharma Index	3,121	0.2	2.7	9.0	17.6	9.2	(27.4)	4.3
Power	BSE Power Index	2,209	1.2	7.8	12.7	27.4	31.0	(34.8)	17.3
Realty	BSE Realty Index	2,429	8.6	17.0	31.4	73.6	13.4	(72.2)	0.3
Telecom	NSE & CRISIL Telecom Index	3,279	(0.0)	5.8	11.6	25.2	8.0	(31.4)	3.6

Source: Bloomberg, Nomura research

## Exhibit 16: Comparative valuations

Country	Index universe*	PER (x)		PBV (x)		P/CF (x)		P/S (x)	
		2009F	2010F	2009F	2010F	2009F	2010F	2009F	2010F
Australia	AOI	14.5	13.0	1.7	1.6	9.1	8.6	1.3	1.2
China	CSI 300	19.7	16.8	2.8	2.5	12.4	11.3	1.5	1.5
	SHBSHR	12.4	10.1	1.6	1.4	5.1	5.5	1.3	1.6
	SZBSHR	18.2	12.0	1.3	1.2	5.7	5.8	1.4	1.2
Hong Kong	HSI	16.8	14.9	1.9	1.8	8.5	7.5	2.5	2.2
	HSCCI	14.8	13.5	2.2	2.0	7.2	6.6	2.4	2.2
	HSCEI	15.4	13.3	2.2	2.0	8.3	7.0	1.7	1.5
	HSCI	16.9	14.6	1.8	1.7	8.9	7.9	2.1	1.8
India	SENSEX	16.3	14.8	2.8	2.3	11.5	9.9	2.0	1.8
Indonesia	JCI	14.6	13.3	2.6	2.4	8.6	8.3	1.6	1.6
Korea	KOSPI	16.3	11.7	1.4	1.3	8.6	7.0	0.8	0.8
Malaysia	KLCI	16.1	14.5	1.7	1.6	8.7	8.9	1.4	1.3
Philippines	PASHR	12.1	10.8	1.5	1.4	6.8	7.1	1.3	1.2
Singapore	FSTAS	14.5	13.2	1.3	1.2	8.8	8.4	1.1	1.0
Taiwan	TWSE	35.5	20.0	1.9	1.9	10.8	10.0	1.2	1.1
Thailand	SET	11.4	10.0	1.3	1.3	5.9	5.6	0.7	0.6

Country	Index universe*	EPS growth (%)		Dividend yield (%)		ROE (%)		ROA (%)	
		2009F	2010F	2009F	2010F	2009F	2010F	2009F	2010F
Australia	AOI	(7.5)	11.4	4.6	4.8	11.2	12.5	9.8	11.6
China	CSI 300	14.2	17.0	1.8	2.1	14.4	15.4	3.4	4.4
	SHBSHR	15.5	20.2	2.0	2.4	7.7	8.4	14.4	16.9
	SZBSHR	(13.3)	22.5	1.8	2.5	5.0	5.8	4.0	23.7
Hong Kong	HSI	(17.9)	13.2	3.0	3.3	10.5	11.3	7.5	7.2
	HSCCI	(7.5)	9.2	2.7	3.0	14.5	14.8	9.8	9.8
	HSCEI	2.4	16.1	2.7	3.1	12.0	12.9	5.4	6.2
	HSCI	(14.1)	15.2	2.8	3.1	8.8	10.2	5.9	6.3
India	SENSEX	(1.5)	9.1	1.7	1.5	17.9	16.6	11.2	10.0
Indonesia	JCI	(1.7)	9.9	2.8	3.2	17.3	18.2	8.3	9.0
Korea	KOSPI	17.6	39.1	1.1	1.8	8.3	11.3	4.2	5.9
Malaysia	KLCI	(12.3)	11.5	3.3	3.6	9.7	10.6	4.8	4.9
Philippines	PASHR	13.8	10.9	4.3	4.6	11.8	12.7	6.1	6.2
Singapore	FSTAS	(20.9)	10.3	3.6	3.7	8.3	9.1	5.0	5.7
Taiwan	TWSE	(18.6)	80.8	2.9	3.2	5.5	8.7	3.4	6.3
Thailand	SET	10.1	16.0	4.2	4.7	12.0	13.1	6.2	7.1

\* Note that all valuation ratios are calculated using share-weighted on available I/B/E/S consensus.

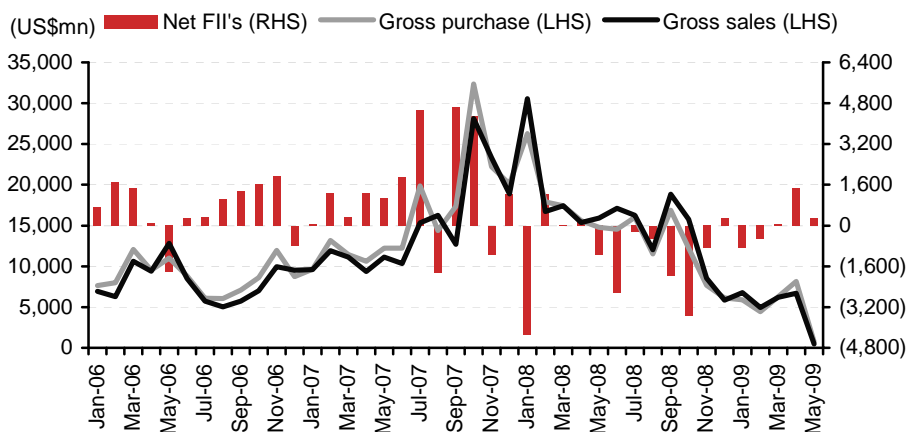
For valuation calculation, companies with extreme ratios are excluded from market level aggregation.

Source: Bloomberg, Thomas Reuters Datastream, I/B/E/S, Nomura International (HK) Limited-Quantitative Research, Pricing as at 5 May 2009



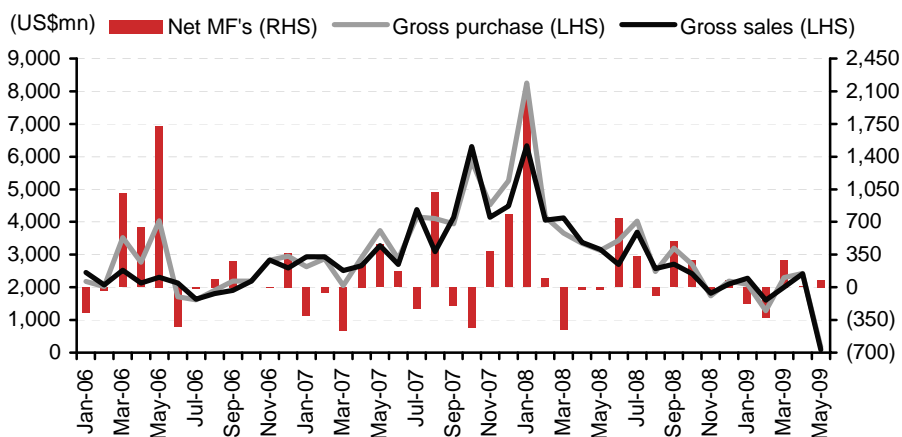
**Appendix II: Fund flows**

Exhibit 17: Monthly FII flows



Source: SEBI, Nomura research

Exhibit 18: Monthly mutual fund flows



Source: SEBI, Nomura research

## Exhibit 19: Nomura India coverage universe

Stock Name	Ticker	5 May 09		EPS (INR)			P/E (x)			P/BV (x)			EV/Core EBITDA (%)			ROE (%)			ROCE (%)*		
		Price (INR)	Rating	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E
<b>India Autos</b>																					
Ashok Leyland	AL IN	22.0	REDUCE	1.2	1.2	1.8	17.6	18.0	12.4	1.3	1.3	1.2	9.4	8.8	6.8	7.6	7.2	10.0	7.9	8.0	9.2
Bajaj Auto	BJAUT IN	682.8	BUY	54.7	56.8	59.9	12.5	12.0	11.4	5.0	4.2	3.5	11.2	10.6	10.0	44.5	37.9	33.1	35.4	33.1	31.4
TVS Motor	TVSL IN	35.0	NEUTRAL	1.2	2.3	2.8	29.6	15.3	12.6	1.1	1.0	1.0	8.3	6.5	5.9	3.6	6.8	7.9	4.7	6.8	7.2
Mahindra & Mahindra	MM IN	535.4	BUY	39.5	35.5	39.1	13.6	15.1	13.7	2.7	2.2	2.0	14.5	12.4	10.9	21.0	16.4	15.3	13.3	12.6	12.5
Maruti Suzuki India	MSIL IN	831.7	BUY	42.2	59.0	68.7	19.7	14.1	12.1	2.5	2.2	1.9	14.6	8.9	7.2	13.6	16.5	16.5	16.9	21.8	21.9
Hero Honda	HH IN	1199.3	NEUTRAL	62.8	83.0	94.2	19.1	14.4	12.7	6.5	5.3	4.3	12.3	9.5	8.2	37.7	40.3	37.1	47.6	48.9	44.5
Tata Motors	TTMT IN	271.4	REDUCE	9.9	10.4	15.0	27.5	26.0	18.0	1.2	1.1	1.1	-208.7	49.3	19.3	5.1	4.4	6.1	5.1	5.7	6.7
<b>India Building Materials</b>																					
ACC	ACC IN	656.0	REDUCE	58.6	49.8	34.9	11.2	13.2	18.8	2.4	2.1	1.9	7.0	8.1	10.3	23.7	16.9	10.6	28.1	20.3	12.4
Grasim Industries	GRASIM IN	1790.2	REDUCE	172.3	150.1	141.8	10.4	11.9	12.6	1.8	1.6	1.4	7.6	8.0	7.8	18.0	13.9	11.9	19.7	15.8	14.2
Ambuja Cements	ACEM IN	80.0	REDUCE	9.1	6.1	5.0	8.8	13.1	16.0	2.2	2.0	1.9	5.8	6.8	7.9	24.2	26.8	15.8	37.2	33.5	20.4
India Cements	ICEM IN	117.0	NEUTRAL	18.1	16.3	12.0	6.5	7.2	9.7	0.8	0.7	0.7	4.9	5.4	5.9	13.3	10.6	7.2	15.8	13.4	9.9
Shree Cement	SRCM IN	807.8	REDUCE	174.8	65.9	54.7	4.6	12.3	14.8	2.3	2.0	1.8	3.2	5.1	5.0	64.4	17.4	12.7	33.8	15.7	12.9
Ultratech Cement	UTCEM IN	587.1	REDUCE	78.5	56.1	36.4	7.5	10.5	16.1	2.1	1.7	1.6	5.7	6.4	7.9	31.3	17.9	10.2	25.3	18.6	12.1
<b>India Consumer</b>																					
Asian Paints	APNT IN	894.5	BUY	39.9	46.7	58.4	22.4	19.1	15.3	6.8	5.6	5.3	13.3	11.7	9.3	33.2	32.2	35.7	43.3	41.6	47.8
Dabur India	DABUR IN	105.0	BUY	4.4	5.2	5.4	23.7	20.0	19.4	11.1	8.7	8.2	18.4	15.6	15.0	53.8	48.7	43.6	56.4	53.4	50.3
Godrej Consumer Products	GCPL IN	143.3	BUY	6.9	9.6	10.4	20.8	15.0	13.8	6.0	5.5	4.9	15.2	11.0	10.0	45.2	38.0	37.4	42.0	40.3	40.2
ITC	ITC IN	197.8	REDUCE	8.6	10.0	11.4	23.1	19.9	17.3	5.6	5.1	4.7	14.4	12.4	10.6	25.1	26.8	28.3	35.5	38.1	40.3
Marico Industries	MRCO IN	68.3	BUY	3.2	3.1	3.1	21.6	21.9	22.0	9.6	9.5	10.6	13.3	9.6	8.0	52.0	50.1	50.4	16.0	18.1	19.8
Tata Tea	TT IN	693.0	BUY	61.3	74.2	87.5	11.3	9.3	7.9	0.9	0.8	0.7	6.9	5.3	4.4	8.0	8.9	9.6	10.4	11.7	13.0
Hindustan Unilever	HUVR IN	238.4	BUY	10.9	12.9	14.8	21.9	18.5	16.1	26.7	24.9	23.4	19.0	16.1	14.0	129.8	139.0	150.0	140.3	152.8	167.3
Nestle India	NEST IN	1769.8	NEUTRAL	60.0	68.7	80.1	29.5	25.7	22.1	32.8	28.5	24.7	19.0	16.6	14.4	123.4	118.5	119.6	174.9	167.8	169.6
United Spirits	UNSP IN	730.4	BUY	29.2	36.3	48.2	25.0	20.1	15.2	2.6	2.3	2.0	12.0	10.8	9.2	10.8	12.0	13.8	11.6	12.2	13.9

Stock Name	5 May 09		EPS (INR)			P/E (x)			P/BV (x)			EV/Core EBITDA (%)			ROE (%)			ROCE (%)*			
	Price (INR)	Rating	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	
<b>Electrical Equipments</b>																					
ABB India	ABB IN	469.6	REDUCE	25.9	21.2	30.4	18.1	22.2	15.5	4.7	4.0	3.2	11.6	13.3	8.5	29.2	19.3	22.9	44.2	29.3	34.3
BHEL	BHEL IN	1732.3	NEUTRAL	64.6	82.3	101.2	26.8	21.1	17.1	6.2	5.1	4.1	20.4	14.4	10.7	25.4	26.5	26.6	37.7	39.6	40.0
<b>IT Consulting &amp; Computer Services</b>																					
Hcl Technologies	HCLT IN	151.6	BUY	17.5	17.2	21.3	8.7	8.8	7.1	2.0	1.8	1.5	5.0	4.7	3.9	25.5	21.5	23.1	21.1	17.0	21.6
Infosys Technologies	INFO IN	1582.1	REDUCE	104.2	99.1	104.6	15.2	16.0	15.1	5.1	4.2	3.5	11.1	11.4	9.9	37.8	28.7	25.0	38.3	31.0	28.5
Patni Computer Systems	PATNI IN	163.0	BUY	33.5	21.7	27.1	4.9	7.5	6.0	0.8	0.7	0.6	1.2	0.9	0.6	16.7	9.3	10.2	16.3	10.8	12.0
Tata Consultancy Services	TCS IN	651.0	REDUCE	52.9	54.3	54.5	12.3	12.0	11.9	3.9	3.1	2.6	8.6	8.2	7.7	35.5	28.7	23.7	38.2	31.9	27.8
Tech Mahindra	TECHM IN	332.7	BUY	73.1	67.2	69.2	4.6	5.0	4.8	2.3	1.8	1.4	3.0	2.8	2.1	60.7	40.8	33.2	66.2	46.1	39.9
Wipro	WPRO IN	369.5	REDUCE	26.2	25.2	26.4	14.1	14.7	14.0	3.6	3.0	2.6	10.8	10.3	9.1	28.7	22.5	20.0	27.1	20.3	19.7
<b>India Infrastructure &amp; Constructions</b>																					
HCC	HCC IN	64.2	NEUTRAL	2.9	5.3	11.5	22.5	12.1	5.6	1.7	1.5	1.4	7.5	6.2	5.6	7.9	13.5	25.8	11.0	13.6	18.5
IVRCL Infra.	IVRC IN	179.2	BUY	15.4	19.1	23.8	11.6	9.4	7.5	1.3	1.2	1.0	8.3	6.7	5.7	12.1	13.2	14.5	13.1	14.3	16.0
Larsen & Toubro	LT IN	981.5	REDUCE	42.4	52.7	56.0	23.1	18.6	17.5	4.7	3.9	3.3	17.2	13.1	11.9	23.2	23.0	20.4	22.1	21.5	20.0
Nagarjuna Constructions	NJCC IN	78.2	BUY	6.8	9.1	9.9	11.6	8.6	7.9	1.0	0.9	0.9	6.1	5.2	4.8	9.4	11.4	11.2	12.9	14.2	14.2
IRB Infrastructure	IRB IN	98.7	BUY	5.7	12.6	15.6	17.3	7.8	6.3	1.8	1.5	1.2	11.8	6.6	6.2	10.9	20.5	20.6	9.5	16.3	15.3
Punj Lloyd	PUNJ IN	130.2	BUY	3.6	13.0	11.2	36.6	10.0	11.6	1.4	1.2	1.1	9.6	6.1	6.0	3.9	13.0	10.2	9.8	13.0	11.2
<b>India Oil and Gas</b>																					
ONGC	ONGC IN	887.0	NEUTRAL	96.8	80.8	89.7	9.2	11.0	9.9	2.0	1.8	1.7	4.0	4.6	4.1	24.1	17.7	17.7	28.4	20.9	20.7
Reliance Industries	RIL IN	1883.7	NEUTRAL	103.2	123.3	160.4	18.3	15.3	11.7	2.7	2.2	1.9	14.1	10.2	8.0	16.7	16.6	17.7	13.8	14.4	15.3
GAIL India	GAIL IN	259.1	REDUCE	21.5	18.5	21.3	12.1	14.0	12.2	2.2	2.0	1.9	7.4	9.1	8.1	19.7	15.3	16.0	25.5	19.7	20.1
Cairn India	CAIR IN	202.4	BUY	5.5	6.4	23.6	36.9	31.5	8.6	1.2	1.1	1.0	39.3	25.8	6.0	3.3	3.6	12.4	3.6	3.8	12.9
Reliance Petroleum	RPET IN	116.2	NEUTRAL	0.2	5.0	7.7	607.8	23.0	15.0	3.9	3.3	2.9	308.8	13.5	10.5	0.6	15.5	20.5	0.5	10.5	13.8

Stock Name	5 May 09		EPS (INR)			P/E (x)			P/BV (x)			EV/Core EBITDA (%)			ROE (%)			ROCE (%)*			
	Price (INR)	Rating	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	
<b>India Pharmaceuticals</b>																					
Cipla	CIPLA IN	236.1	NEUTRAL	9.9	15.5	17.5	23.9	15.2	13.5	4.2	3.4	2.8	15.0	12.2	10.5	19.0	24.8	22.9	19.0	23.7	22.5
Dr Reddy's Laboratories	DRRD IN	560.5	BUY	32.4	42.4	56.6	17.3	13.2	9.9	1.8	1.6	1.4	7.9	6.7	4.9	11.0	12.9	15.1	8.3	10.5	13.4
Ranbaxy Laboratories	RBXY IN	177.4	REDUCE	0.6	1.2	7.6	311.2	142.1	23.4	1.7	1.7	1.6	15.2	27.0	12.6	0.7	1.2	7.1	-4.6	2.1	6.5
Sun Pharma	SUNP IN	1297.6	BUY	85.9	73.4	90.6	15.1	17.7	14.3	4.1	3.6	3.1	12.9	15.0	11.7	30.4	21.7	23.1	30.6	21.9	23.3
Piramal Healthcare	PIHC IN	241.9	BUY	17.3	23.4	27.5	14.0	10.3	8.8	3.8	3.1	2.5	10.8	7.6	6.4	29.9	33.0	31.2	19.3	21.7	21.5
Lupin	LPC IN	728.1	BUY	52.5	65.7	72.0	13.9	11.1	10.1	3.2	2.6	2.2	9.6	7.9	6.9	28.2	26.1	23.7	22.5	23.5	22.8
Glenmark Pharma	GNP IN	186.7	BUY	15.5	14.3	18.5	12.0	13.0	10.1	2.5	2.1	1.8	8.6	8.0	6.4	23.1	17.6	19.1	21.1	16.2	17.6
GlaxoSmithkline Pharma	GLXO IN	1164.2	BUY	54.6	60.0	66.0	21.3	19.4	17.6	6.3	5.7	5.1	14.8	13.3	11.8	31.3	30.6	30.4	47.2	46.2	45.9
<b>Indian Utilities</b>																					
Tata Power	TPWR IN	903.1	BUY	56.4	63.5	69.9	16.0	14.2	12.9	1.9	1.6	1.4	10.3	10.2	10.4	12.8	12.3	11.6	13.4	13.4	12.6
NTPC	NATP IN	191.0	NEUTRAL	9.7	10.8	12.1	19.7	17.7	15.8	2.8	2.5	2.3	14.0	12.5	11.3	14.6	14.9	15.4	13.6	13.3	12.9
Power Grid Corp	PWGR IN	96.0	REDUCE	3.6	4.4	5.2	26.7	22.0	18.4	2.8	2.6	2.3	13.6	12.3	11.1	10.8	12.2	13.3	9.7	10.1	10.4
Reliance Power	RPWR IN	135.7	REDUCE	2.7	2.5	2.2	49.6	53.3	61.4	2.3	2.2	2.1	-471.8	-4483.5	192.2	4.7	4.2	3.5	4.7	3.5	2.6
Lanco Infratech	LANCI IN	235.3	BUY	15.9	21.1	16.7	14.8	11.2	14.1	1.8	1.5	1.3	12.9	14.3	9.3	13.4	15.0	10.1	9.5	7.9	9.8
<b>India Property</b>																					
DLF	DLFU IN	260.6	REDUCE	28.1	7.6	10.6	9.3	34.3	24.6	1.8	1.7	1.6	9.0	28.5	21.9	21.3	5.1	6.7	17.9	6.2	7.9
Puravankara Projects	PVKP IN	69.7	NEUTRAL	7.8	4.2	5.8	8.9	16.8	12.0	1.1	1.0	0.9	11.2	15.8	11.5	12.9	6.2	8.1	10.4	7.4	9.8
Indiabull Real Estate	IBREL IN	139.8	BUY	2.4	7.4	47.1	57.8	18.8	3.0	0.7	0.6	0.5	-3.9	-32.8	-0.3	1.2	3.5	19.7	3.9	5.9	20.1
Unitech	UT IN	54.4	REDUCE	5.8	2.1	2.9	9.4	25.5	18.6	1.9	1.7	1.6	11.3	17.9	15.5	22.5	7.7	8.6	11.9	7.0	8.3
<b>Metals &amp; Mining - Steel</b>																					
Tata Steel	TATA IN	286.2	BUY	128.4	30.0	56.2	2.2	9.5	5.1	0.7	0.6	0.5	3.4	5.2	4.4	33.4	6.9	11.2	16.5	7.7	9.9
SAIL	SAIL IN	118.7	REDUCE	14.8	7.4	8.1	8.0	16.0	14.7	1.7	1.6	1.5	4.2	8.9	8.0	23.8	10.6	10.8	25.7	12.2	12.9
<b>Metals &amp; Minings - Non Ferrous</b>																					
Hindustan Zinc	HZ IN	550.0	REDUCE	64.6	51.8	53.4	8.5	10.6	10.3	1.6	1.4	1.2	8.0	9.6	9.4	20.8	14.2	12.9	24.9	16.9	15.4
Nalco	NACL IN	232.6	REDUCE	24.0	11.4	11.5	9.7	20.4	20.2	1.5	1.4	1.4	5.2	12.4	11.4	16.3	7.2	7.0	22.9	10.2	10.0
Sterlite Industries	STLT IN	478.7	NEUTRAL	49.5	34.0	35.7	9.7	14.1	13.4	1.0	1.0	0.9	6.4	8.9	8.6	11.7	7.1	6.9	18.2	11.4	11.0
<b>Agri Inputs</b>																					
Jain Irrigation	JI IN	480.9	BUY	29.1	34.6	49.9	16.5	13.9	9.6	3.3	2.8	2.4	9.3	7.6	6.1	22.9	22.0	26.9	18.4	19.4	23.2

Stock Name	5 May 09		EPS (INR)			P/E (x)			P/BV (x)			EV/Core EBITDA (%)			ROE (%)			ROCE (%)*			
	Price (INR)	Rating	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	
<b>Transport Infrastructure</b>																					
Container Corporation	CCRI IN	769.0	REDUCE	63.1	62.7	70.4	12.2	12.3	10.9	2.7	2.3	2.0	8.7	7.9	6.6	23.6	20.1	19.6	27.9	24.0	23.5
Mundra Port	MSEZ IN	410.6	NEUTRAL	9.8	11.1	18.9	42.0	37.0	21.7	5.6	5.0	4.3	24.1	20.5	13.1	14.2	14.4	21.4	12.5	12.3	16.7
<b>Conglomerates</b>																					
GMR Infrastructure	GMRI IN	119.4	REDUCE	1.3	2.7	0.7	92.5	44.1	174.3	3.2	2.9	2.9	30.1	22.6	22.6	3.6	6.9	1.7	4.2	5.3	4.5
GVK Power & Infrastructure	GVKP IN	29.0	REDUCE	0.6	0.8	1.7	47.7	37.2	16.6	1.8	1.7	1.5	34.8	9.8	7.6	3.8	4.6	9.4	2.6	8.1	10.3
<b>Telecommunication</b>																					
Bharti Airtel	BHARTI IN	750.8	BUY	44.6	52.4	56.7	16.8	14.3	13.2	4.5	3.4	2.7	9.4	8.3	7.4	31.4	27.2	23.0	29.9	26.9	22.2
Reliance Communications	RCOM IN	237.3	BUY	29.3	22.5	22.9	8.1	10.6	10.4	1.5	1.3	1.2	7.3	7.1	6.3	19.8	13.2	11.8	9.3	9.1	9.0
<b>India Banks</b>																					
Axis Bank	AXSB IN	627.4	BUY	50.6	54.3	57.3	12.4	11.6	10.9	2.2	2.0	1.8				19.1	18.0	16.9	1.3	1.1	1.0
Bank of India	BOI IN	236.4	NEUTRAL	56.3	40.7	49.0	4.2	5.8	4.8	1.1	0.9	0.8				29.3	17.4	18.1	1.5	0.9	1.0
HDFC	HDFC IN	1850.9	REDUCE	88.0	87.0	103.0	21.0	21.3	18.0	4.0	3.6	3.4				20.0	18.0	20.0	2.7	2.3	2.4
HDFC Bank	HDFCB IN	1193.3	NEUTRAL	56.5	64.0	75.6	21.1	18.6	15.8	3.3	2.6	2.3				17.8	16.1	15.5	1.3	1.2	1.2
ICICI Bank	ICICIBC IN	569.1	NEUTRAL	33.8	35.9	43.1	16.8	15.8	13.2	1.3	1.3	1.2				7.9	8.1	9.4	1.0	1.0	1.1
Punjab National Bank	PNB IN	503.9	BUY	77.5	70.3	81.8	6.5	7.2	6.2	1.2	1.1	0.9				20.1	15.7	16.3	1.1	0.9	0.9
State Bank of India	SBIN IN	1345.2	REDUCE	146.4	129.8	147.2	9.2	10.4	9.1	1.5	1.3	1.2				17.5	13.6	13.8	1.1	0.8	0.8
Union Bank of India	UNBK IN	174.2	NEUTRAL	38.5	34.9	39.6	4.5	5.0	4.4	1.2	1.0	0.9				30.4	22.5	21.5	1.4	1.0	1.0

Source: Nomura estimates; Note: Ratings is as of the date of the most recently published report (<http://www.Nomura.com>) rather than the date of this document

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As at 31 March 2009.

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The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to price target defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

#### Stocks:

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#### Sectors:

A "**Bullish**" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.

A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.

A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.

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#### Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009:

#### Stocks:

Stock recommendations are based on absolute valuation upside (downside), which is defined as  $(\text{Price Target} - \text{Current Price}) / \text{Current Price}$ , subject to limited management discretion. In most cases, the Price Target will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

- A rating of "1", or "**Buy**" recommendation indicates that potential upside is 15% or more.
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Sectors:

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A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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**Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008:**

Stocks:

Stock recommendations are based on absolute valuation upside (downside), which is defined as  $(\text{Fair Value} - \text{Current Price}) / \text{Current Price}$ , subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

- A rating of "1", or "**Strong buy**" recommendation indicates that upside is more than 20%.
- A rating of "2", or "**Buy**" recommendation indicates that upside is between 10% and 20%.
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- A rating of "4", or "**Reduce**" recommendation indicates that downside is between 10% and 20%.
- A rating of "5", or "**Sell**" recommendation indicates that downside is more than 20%.

Sectors:

A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A "**Neutral**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimate

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