Company report

FOOD & STAPLES RETAILING
Equity – India

HSBC Global Research

Bajaj Hindustan

Neutral (V)

Target price (INR)	**300.00**
Share price (INR)	**255.20**
Potential total return (%)	**17.6**

Sep	**2005a**	**2006e**	**2007e**
HSBC EPS	14.34	13.14	22.49
HSBC PE	17.8	19.4	11.3
Performance	**1M**	**3M**	**12M**
Absolute (%)	-18.9	-19.8	15.9
Relative^ (%)	-23.4	-31.4	-26.7

Note: (V) = volatile (please see disclosure appendix)

Tough times ahead; downgrade to Neutral (V)

- **Sugar prices are falling and sugarcane prices are rising; greater economies of scale, diversified revenues, and industry discipline are needed to survive**
- **We reduce our estimates as volumes and sugar prices are lower than our earlier expectations and sugarcane prices are rising**
- **We reduce our target price from INR356 to INR300 and downgrade our rating from Overweight (V) to Neutral (V)**

Changing fundamentals of the sugar industry

We believe that the fundamentals of the Indian sugar industry have changed rapidly, due to global and domestic factors.

Some key changes which led to a change in the tide for the sugar industry include: i) continuation of the sugar export ban for longer than earlier expected; ii) subdued global sugar prices; iii) a downward trend in domestic sugar prices on the expectation of inventory build-up due to unattractive exports and more sugar capacity coming on stream; iv) higher-than-before sugarcane prices to squeeze margins; v) competition between sugar mills of Uttar Pradesh and Maharashtra, states which produce the highest sugar, would intensify in other non-sugar producing states.

Co-operative sugar mills will probably have to take the brunt of these changes, as they have in the past. We have looked at sugar companies' performances on historical PE and PB multiples and believe that strategies to survive tough times include increasing economies of scale, diversifying revenue streams through ethanol production**,** and power co-generation, and exercising industry discipline.

We discussed the sensitivity of Bajaj Hindusthan's valuation to low sugar prices in our earlier report, titled *Bajaj Hindusthan: India's premier Indian sugar producer* dated 9 October 2006. Based on the recent changes in the industry, which will affect Bajaj Hindusthan, we have changed our revenue forecasts for FY06e, FY07e and FY08e by -16%, -12.5% and -8% respectively; diluted EPS estimates for the same periods have been changed by -26%, -21.5% and -1.8%, respectively.

Index^	BOMBAY SE IDX
Index level	13,949
RIC	BJHN.BO
Bloomberg	BJH IN

Source: HSBC

Enterprise value (INRm)	43480
Free float (%)	62
Market cap (USDm)	807
Market cap (INRm)	36,087

Source: HSBC

8 December 2006

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HSBC

Financials & valuation: Bajaj Hindustan

Neutral (V)

Financial statements

Year to	09/2005a	09/2006e	09/2007e	09/2008e
Profit & loss summary (INRm)				
Revenue	9,001	14,885	27,142	43,032
EBITDA	2,188	3,679	6,441	11,845
Depreciation & amortisation	-351	-639	-869	-1,048
Operating profit/EBIT	1,837	3,040	5,571	10,797
Net interest	-132	-197	-707	-707
PBT	1,705	2,843	4,864	10,090
HSBC PBT	1,705	2,843	4,864	10,090
Taxation	-301	-853	-1,459	-3,027
Net profit	1,404	1,990	3,405	7,063
HSBC net profit	1,404	1,990	3,405	7,063
Cash flow summary (INRm)				
Cash flow from operations	1,454	2,288	3,958	7,710
Capex	-6,917	-4,600	-3,570	-2,000
Cash flow from investment	-6,945	-4,600	-3,570	-2,000
Dividends	-39	-90	-128	-219
Change in net debt	1,860	2,402	-260	-5,491
FCF equity	-5,603	-2,312	388	5,710
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	10,797	14,758	17,459	18,411
Current assets	1,823	5,063	6,480	13,343
Cash & others	58	2,657	2,917	8,408
Total assets	12,671	19,872	23,989	31,804
Operating liabilities	798	1,254	2,095	3,066
Gross debt	5,100	10,100	10,100	10,100
Net debt	5,042	7,444	7,184	1,692
Shareholders funds	6,142	8,042	11,320	18,164
Invested capital	11,764	15,910	18,927	20,280

Ratio, growth and per share analysis

Year to	09/2005a	09/2006e	09/2007e	09/2008e
Y-o-y % change				
Revenue	65.8	65.4	82.3	58.5
EBITDA	97.9	68.2	75.1	83.9
Operating profit	100.8	65.5	83.3	93.8
PBT	118.9	66.8	71.1	107.4
HSBC EPS	105.3	-8.4	71.1	107.4
Ratios (%)				
Revenue/IC (x)	1.1	1.1	1.6	2.2
ROIC	18.0	15.4	22.4	38.6
ROE	37.3	28.1	35.2	47.9
ROA	16.4	13.1	17.8	27.1
EBITDA margin	24.3	24.7	23.7	27.5
Operating profit margin	20.4	20.4	20.5	25.1
EBITDA/net interest (x)	16.6	18.7	9.1	16.8
Net debt/equity	82.1	92.6	63.5	9.3
Net debt/EBITDA (x)	2.3	2.0	1.1	0.1
CF from operations/net debt	28.8	30.7	55.1	455.6
Per share data (INR)				
EPS Rep (fully diluted)	14.34	13.14	22.49	46.65
HSBC EPS (fully diluted)	14.34	13.14	22.49	46.65
DPS	0.50	0.64	0.90	1.55
NAV	52.80	56.87	80.05	128.45

Valuation data

Year to	09/2005a	09/2006e	09/2007e	09/2008e
EV/sales	4.6	2.9	1.6	0.9
EV/EBITDA	18.8	11.8	6.7	3.2
EV/IC	3.5	2.7	2.3	1.9
PE*	17.8	19.4	11.3	5.5
P/NAV	4.8	4.5	3.2	2.0
FCF yield (%)	-15.5	-6.4	1.1	15.8
Dividend yield (%)	0.2	0.2	0.4	0.6

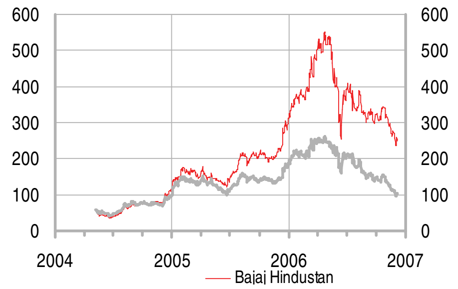
Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	255.20	Target price (INR)	300.00	Potent'l tot rtn (%)	17.6

Reuters (Equity)	BJHN.BO	Bloomberg (Equity)	BJH IN
Market cap (USDm)	807	Market cap (INRm)	36,087
Free float (%)	62	Enterprise value (INRm)	43480
Country	India	Sector	Food & staples retailing
Analyst	Sandeep Somani	Contact	91 22 22681245

Price relative



Source: HSBC

Note: price at close of 06 Dec 2006

Disclaimer & Disclosures. This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, that form part of it.

Tough times ahead

- Maharashtra's sugar co-operatives may be in troubled waters as sugar prices break even; impact on Uttar Pradesh sugar prices due to competition in other non-sugar producing states
- Volume driven revenue, diversification of revenue stream and sugar market discipline would help them to survive tough times
- Sugar stocks have corrected but still trade at median or average PE and PB multiples

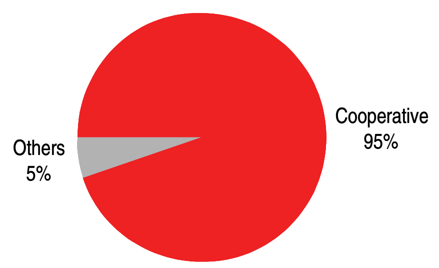
The states of Maharashtra and Uttar Pradesh produce more than 60% of the sugarcane and sugar produced in India. We recently spoke with the sugar co-operative federation in Maharashtra and companies based in Uttar Pradesh including Bajaj Hindusthan on the sugar industry outlook.

Maharashtra sugar: troubled waters

We met the managing director of the Maharashtra State Cooperative Sugar Factories Federation Ltd to gain an understanding of the market and its current conditions.

Sugar is produced in Maharashtra by 115 cooperatives and 23 private sugar mills. The government has equity stakes in these cooperatives, which are run by boards representing farmers. The cooperatives have small crushing capacities of 2,500-3,500 tonnes of cane per day (t.c.d.), which make them operationally inefficient due to a lack of scale. However, they contribute 95% of the total sugar produced in the state.

Breakdown of sugar production in Maharashtra by type of producer, 2004-05



Source: Ministry of Agriculture

According to the federation, the state will produce c7m tonnes in the 2005-06 crushing season (CS) in the 2007-08 season, output is expected to reach c8m tonnes, while consumption in the state is only c3m tonnes. Thus, the excess sugar needs to be sold to other states, such as West Bengal, Bihar, Orissa, Madhya Pradesh and the North Eastern states.

Apart from inefficient operations, Maharashtra sugar mills have disadvantages, relative to mills in Uttar Pradesh (UP) due to:

- The tax incentives of INR140 per quintal makes UP sugar cheaper than Maharashtra sugar

- Most of the co-operatives in Maharashtra do not have revenue streams from ethanol and power co-generation

The current sugar price, of INR1,500 per quintal, is the break-even price for the cooperatives. If this price falls, Maharashtra cooperatives will start suffering losses, and the government will probably have to bail them out.

Lower sugar prices may also lead to an accumulation of inventory, making the situation even worse.

Impact on Uttar Pradesh

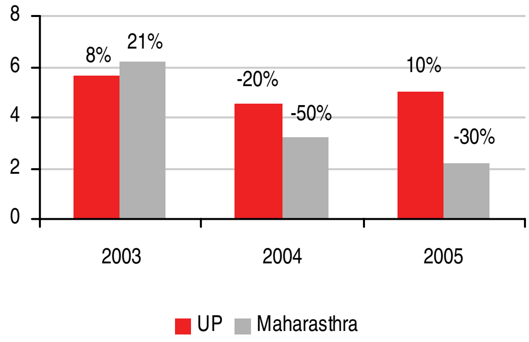
According to the federation, the Maharashtra cooperatives have taken up the issue of subdued sugar prices with the government and expect to receive some form of subsidy so as to compete with UP sugar. But the possibility of a subsidy has been denied by the sugar mills in UP.

We believe that some relief measure might be announced if the price in Maharashtra remains at the current level, since the government has equity stakes in the co-operatives. In this case, sugar prices in UP might be impacted.

The current price in UP is INR1650-1700 per quintal, and the consensus view in the industry is that prices will stabilise at these levels. However, prices may weaken if inventories build up or competition from Maharashtra sugar increases.

In 2003-05, sugar production in Maharashtra declined drastically, primarily due to reduced sugar production by co-operative sugar mills and to less sugarcane availability.

Sugar production in Uttar Pradesh and Maharashtra (m tonnes), and y-o-y rates of change in production, 2003-2005



Source: ICRA

Regulated sugar exports

We believe that the sugar export ban will be lifted by the end of December, as the agriculture and finance ministries have recently commented that the ban will be terminated.

According to the cooperative federation, sugar exports will be regulated, with only two million tonnes allowed in the first year. Half of this amount will be for re-export obligation (the Advance License Scheme mandates that the amount of raw sugar imported in CS 2004-05 should be exported as white sugar), and half will be for free sale. Some industry sources believe that sugar exports of at least 1.5mn tonnes should be allowed.

The global price of white sugar falls in the range of USD350-370 per tonne for March delivery. This is lower than the closing price for December delivery, of USD418 per tonne. The export price for will range from USD320-350 per tonne, as USD20-30 per tonne will be transportation cost.

Thus, a price of INR14,400-15,750 per tonne will make sugar exports unprofitable or breakeven. But even at these prices, sugar will be exported to countries like Indonesia, Sri Lanka, Pakistan and Bangladesh, to release cash and avoid inventory build-up.

How much inventory?

According to industry sources, the ideal inventory is equivalent to three months of consumption. The closing inventory for CS 2005-06 is expected to be c4m tonnes. Industry sources peg sugar production and consumption for CS 2006-07 at c22.5m tonnes and c19.5m tonnes, respectively. This would lead to a surplus of 3m tonnes and inventory of c7m tonnes, which is equivalent to c4.3 months of consumption.

Sugar exports of 2m tonnes would help arrest the inventory at the desired 3-month consumption level. But with the export prices becoming unattractive, this will be tough unless global sugar prices improve.

Tough times ahead

Looking at the current scenario, we believe that it will be tough going for sugar mills in India as sugar prices trend down and sugarcane prices rise.

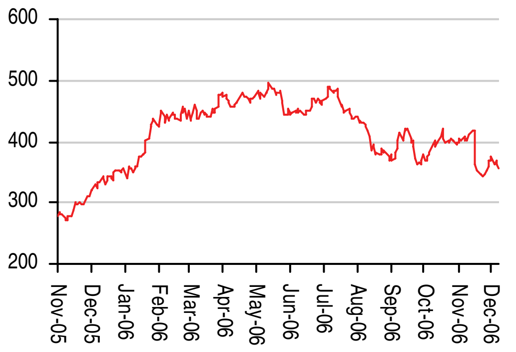
Sugar prices on downward trend

With the start of the new crushing season, domestic sugar prices have trended down based on the expectation that:

- Current global prices will make sugar exports unattractive even if the ban is lifted
- Inventory will build up due to bumper sugar production for next two years, i.e., CS 2006-07 and CS 2007-08, as supply will outstrip demand

Global and domestic sugar prices have corrected from their peaks, and it is hard to predict whether there is further downside left. Currently, London Euronext Liffe white sugar prices are USD350-370 per tonne and domestic prices are INR 15000-16500 per tonne. Any further downside will make going tough for the Indian sugar industry.

Global white sugar price (USD per tonne)



Source: Bloomberg

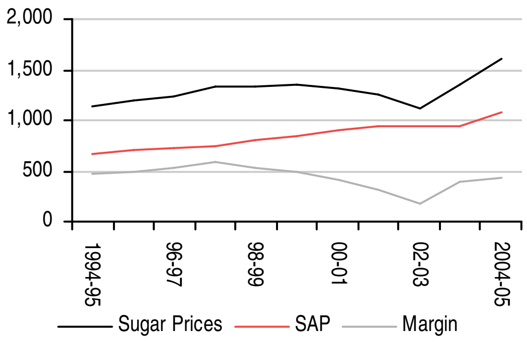
Sugarcane price hike to hit margins

Sugarcane prices are guided by the Statutory Minimum Prices (SMP) and State Advisory Prices (SAP). SMP price of INR802.5 per quintal has already been announced by the central government, and state governments are about to announce SAP prices.

Co-operative mills in Maharashtra are already making initial payments of INR950 per quintal, which is higher than last year's sugarcane price, of INR850 per quintal. The state of Tamil Nadu has declared an SAP price of INR1025 per quintal, which was previously INR1014 per quintal.

UP sugar mills expect the SAP price to increase to INR1250 per quintal for CS2006-07. Thus, the rise in sugarcane price will hit sugar mill margins just as sugar prices are going down.

Sugar price, SAP and margin per quintal, Uttar Pradesh (INR)



Source: Bajaj Hindusthan presentation

Survival strategies

As sugar prices weaken and the cost of sugarcane rises, producers need to adopt survival strategies. We believe that some survival strategies would be:

- Revenue growth could be volume driven as more capacity comes on stream, leading to larger economies of scale
- Revenue streams could be diversified
- The sugar market could exercise greater discipline

Volume to drive revenue

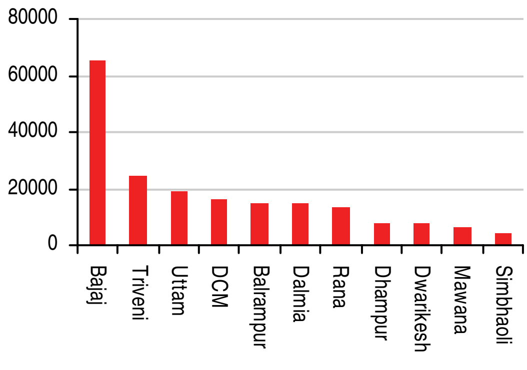
In 2003-03 and 2004-05, there was deficit sugar production. This led to a rally in the sugar price, and sugar companies committed to the capacity expansion, supported by incentives from the government. Most of this new capacity will be operational for the current crushing season, and the rest will be operational by next year. This will increase the volume of sugar production.

India consumes 90% of the sugar it produces. We believe as sugar prices stabilise, the revenue growth will be primarily volume driven, based on the assumption that volumes grow more than sugar prices fall. The sugar mills which have not added capacity might see their revenues decline.

Uttar Pradesh has witness major capacity expansion between CS2004-05 and CS 2006-07; 200,000 tonnes crushed per day (t.c.d) in greenfield and 100,000 in brownfield expansions. Going forward, availability of sugarcane would be key.

Sugarcane production follows a four-year cycle and is currently on an upward trend. Large sugar mills have a view that even if sugarcane production does not increase, the pie of alternative usage of sugarcane i.e., jaggery and *khandsari*, will reduce to make more sugarcane available for sugar production.

Capacity expansion in sugarcane crushing between 2004-05 and 2005-06 (t.c.d)



Source: Hindu Business Line

The major concern for sugar mills is sugarcane prices. As several large mills have increased their capacities recently, there would be greater competition for the raw material, leading to increased prices for sugarcane.

Diversified revenue stream important

Sugar revenues for the company could be volatile and it is important to diversify revenues through alcohol and power co-generation. Sugar mills that have an integrated model – sugar, alcohol and co-generation – would be able to sustain in this difficult business environment. Even though the revenue contribution from these businesses may be low, they are profitable.

Some companies are diversifying into other businesses: Bajaj Hindusthan into multi-density fibre board (MDF), Triveni Engineering has increased capacity for its biomass division; Sakthi Sugar in the auto parts business and EID Parry has a sanitary ware business.

Supplies to the oil marketing companies by sugar mills for ethanol has been fixed at INR21.5 per litre. The government intends to increase ethanol blending from the current 5% to 10% by June 2007, thus, creating demand of 1.2 billion litres of ethanol by June 2007. This would lead to steady revenue from the distilleries business. For power co-generation, sugar mills receive INR2.6-3 per unit from buyers.

Ethanol demand (in billion litres)

Year	FY06	FY07	FY08	FY09
Petrol	11.68	12.21	12.76	13.33
Ethanol@5%	0.58	0.61	0.64	0.67
Ethanol@10%	1.17	1.22	1.28	1.33

Source: HSBC

Industry discipline

Given the worsening situation in the sugar industry in UP, we see signs of greater discipline within the industry, which would help the players survive. The mills have agreed to start crushing sugar cane from November rather than October for better sugar recovery.

Although the possibility of consensus on sugar prices is remote, we believe it is the need of the hour.

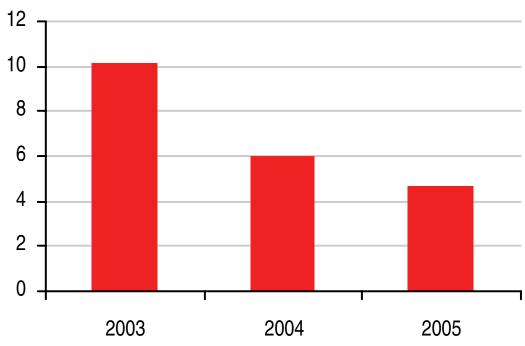
Recently, the Government of India amended the Sugarcane (Control) Order of 1966. This includes the performance guarantee for INR1m for all new industrial entrepreneur memoranda (IEM) for sugar mills, completing the effective steps within 2 years and commercial commencement of mills within four years. This amendment will provide clarity to capacity expansion of sugar mills.

Sugar co-operative mills to take the brunt

Most co-operative mills have small crushing capacities and thus lack economies of scale to reduce costs. With decline in sugar prices and hike in sugarcane cost, they are poised to take the brunt in tough times.

In the period 2003-05, sugar production from co-operatives was the worst hit. We believe that with further reduction in sugar prices, it will be difficult for the cooperatives to generate cash, leading to mounting debt.

Sugar production by co-operatives (in m tonnes)



Source: ICRA

Performance of sugar companies

In the last few months, news flow for sugar companies has been more negative than positive. The major setback was the continued ban on exporting sugar, at a time when prices were in favour of exports. Currently, CS2006-07 has kicked off; inventory build-up has started again.

A similar situation occurred in CS2002-03, when mounting inventories and farmers' dues led to correction in sugar prices. We look at margins of the sugar companies to identify players who were able to sustain themselves in tough times.

Historical PE and PB multiples, 2001 (y-t-d)

	PE			PB			Current PE		Current PB	
Companies	**Current**	**Median**	**Average**	**Current**	**Median**	**Average**	**Median**	**Average**	**Median**	**Average**
Bajaj Hindusthan	17.1	13.7	16.1	4.7	2.8	3.9	Above	Above	Above	Above
Balrampur Chini	14.4	11.0	11.6	4.2	2.2	2.7	Above	Above	Above	Above
Triveni	8.2	9.8	13.0	2.7	3.2	3.2	Below	Below	Below	Below
EID Parry	7.3	6.5	7.0	1.8	0.7	1.2	Above	Above	Above	Above
Sakthi Sugar	15.0	13.7	16.1	1.0	0.2	0.5	Above	Below	Above	Above
Dhampur Sugar	4.0	10.5	14.1	4.3	7.5	8.6	Below	Below	Below	Below
Shree Renuka Sugar	18.5	24.9	29.0	13.3	17.4	19.9	Below	Below	Below	Below
Simbhaoli Sugar	3.8	8.3	9.4	1.1	1.5	1.7	Below	Below	Below	Below
Bannari Amman	10.3	10.6	11.9	3.8	1.5	1.9	Below	Below	Above	Above
Thiru Aroorna	11.5	31.2	49.2	2.4	0.5	1.3	Below	Below	Above	Above
Sector Average	11.0	14.0	17.7	3.9	3.8	4.5	Below	Below	Above	Below

Note: Median and averages for Triveni since April 2005, Dhampur Sugar since October 2003, Shree Renuka Sugar since October 2005, Simbhaoli Sugar since April 2005
Source: Companies, Bloomberg

EBITDA Margins in 2003 and 2004

Company	2003	2004
Bajaj Hindusthan	7.75%	11.70%
Balrampur Chini	16.12%	10.80%
Triveni	11.90%	7.30%
EID Parry	10.86%	8.50%
Sakthi Sugar	3.69%	4.59%
Dhampur Sugar	7.20%	10.20%

Source: Companies, Capital Line

Most Indian sugar stocks have corrected from their peak levels and are nearing their lows.

We have looked at PE and PB multiples of sugar companies. Interestingly, most large sugar companies like Bajaj Hindusthan, Balrampur Chini, EID Parry and Sakthi Sugar are trading above historical median and average PE and PB multiples. The smaller companies are trading at lower than their median and average PE and PB multiples.

HSBC

Bajaj Hindusthan

- Reduce estimates due to lower sugar prices, lower volumes and higher sugarcane prices than anticipated
- Lower target price from INR356 to INR300 and downgrade rating from Overweight (V) to Neutral (V)

Recent update

Recently, we talked to the management. Key inputs were:

- Sugar production in FY06 was c750,000 tonnes and for FY07, it would be c1,300,000-1,400,000
- Sugar price in FY06 Q4 was cINR 17000 per tonne and for FY07 it will be INR16,500-16,750 per tonne

We are changing our estimates based on this guidance as we were expecting higher sugar production and sugar prices.

Reducing estimates

In our report titled *Bajaj Hindusthan: India's premier Indian sugar producer* dated 9 October 2006, we'd mentioned that the key risks to earnings and valuations would be fluctuation in sugar prices. The report also discussed the valuation sensitivity to lower-than-expected sugar prices. Given the downward trend of sugar prices, we are reducing our estimates for the current as well as future earnings.

Bajaj Hindusthan would announce its full year and Q4 FY06 results at the end of December. The company's management indicated that sugar prices in Q4 would be cINR17,000 per tonne as compared with y-t-d price of cINR17,510 per tonne. We are reducing our sales, net income and EPS estimates for current year by 1.4%, 4.5% and 4.5% respectively.

We are also reducing our estimates of FY07 and FY08. In our earlier estimates we had assumed free sale sugar price of INR1,7500 per tonne. We now believe these prices would be too aggressive to achieve, and this has been reiterated by the Bajaj Hindusthan management. Our key assumption changes include:

- Changes in sugar price assumptions
- Changes in sugarcane prices – For FY07e we have increased the sugarcane prices from INR1,200 per quintal to INR1,250 per quintal. For FY08e, it has been increased to INR1,300 per tonne

Sugar price (in INR per tonne)

	Old			New			% Change		
	FY06e	FY07e	FY08e	FY06e	FY07e	FY08e	FY06e	FY07e	FY08e
Free Sale	18,000	18,500	19,500	17,757	16,750	17,000	-1%	-9%	-13%
Levy	13,830	13,830	13,830	13,830	13,830	13,830	0%	0%	0%
Total	17,583	17,562	18,431	17,364	16,458	16,683	-1%	-6%	-9%

Source: HSBC

Estimate changes

Head	Old			New			% Change		
	FY06e	FY07e	FY08e	FY06e	FY07e	FY08e	FY06e	FY07e	FY08e
Revenue	17,739	31,010	46,844	14,885	27,142	43,032	-16.1%	-12.5%	-8.1%
Net Income	2,683	4,336	7,191	1,990	3,405	7,063	-25.8%	-21.5%	-1.8%
EPS	17.7	28.6	47.5	13.1	22.5	46.6	-25.8%	-21.5%	-1.8%
BVPS	61.77	91.22	140.10	56.87	80.05	128.45	-7.9%	-12.2%	-8.3%

Source: HSBC

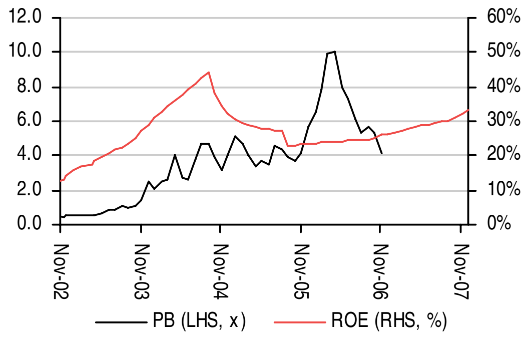
- Change in export assumptions – we assume that Bajaj Hindusthan would not export this year even if the government lifts ban on export of sugar, as export market prices are unattractive. This could have a marginal impact on EBITDA margin

Downgrade to Neutral (V)

We have assumed an ROE band of 28-33%, a cost of equity of 13.5% and a long-term growth rate of 2.5%, to arrive at a theoretical price-to-book multiple of 2.4-2.9x. Our new one-year target price is INR300 based on book value of FY08. Our target FY07e PE at this target price would be 13.3x and PB would be 3.7x.

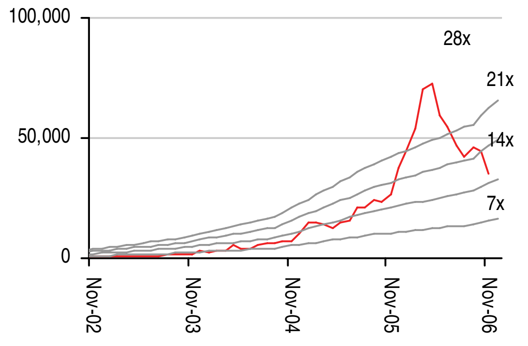
Bajaj Hindusthan is classified as a Volatile stock in our new rating system, meaning that if the returns ranged between 3.5%-23.5%, it is classified as Neutral. With its potential total return, including dividends of 15%, we are downgrading the stock from Overweight (V) to Neutral (V).

PB (x) vs. RoE (%)



Source: Bloomberg

Rolling PE band chart



Source: Bloomberg

Risks

We identify the following key risks for Bajaj Hindusthan's business and for our Neutral (V) rating:

- Deregulation of the Indian sugar market. A key risk is a potential deregulation of the Indian sugar market. If this happens at a time when global prices are lower compared to Indian domestic prices, imports could lower sugar prices. However, we do not believe that a full deregulation of the Indian sugar market is on the cards in the near term.
- Sugar price fluctuations due to changing dynamics of global and domestic prices; this could be an upside or a downside risk
- Inventory build-up due to low off take
- The lack of experience with regard to international ventures
- Fluctuation in prices of alcohol (which isn't used for ethanol production) in India; this again could be an upside as well as a downside risk
- Future equity dilution due to conversion of USD120m foreign currency convertible bonds (FCCB) issued at the strike price of INR465.4 per share, which would lead to dilution of equity

HSBC

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the views expressed herein accurately reflect their personal view(s) about the subject security(ies) and issuer(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Sandeep Somani

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

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Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months. Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

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Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

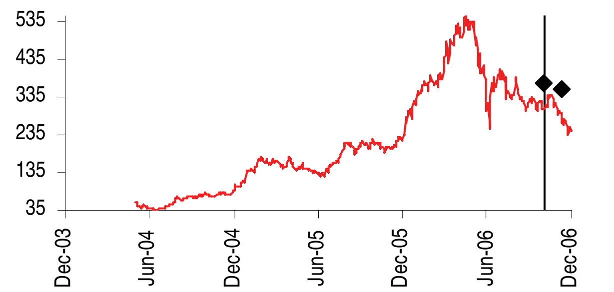
Rating distribution for long-term investment opportunities

As of 08 December 2006, the distribution of all ratings published is as follows:

Overweight (Buy)	44%	(13% of these provided with Investment Banking Services)
Neutral (Hold)	39%	(14% of these provided with Investment Banking Services)
Underweight (Sell)	17%	(10% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Bajaj Hindusthan Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight	09 October 2006
Target Price	**Value**	**Date**
Price 1	373.00	09 October 2006
Price 2	356.00	17 November 2006

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BAJAJ HINDUSTHAN	BJHN.BO	248.35	07-Dec-2006	4

Source: HSBC

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