

# India Strategy

*Concerns over inflation, fiscal/monetary measures to tame prices have de-rated Indian equities*

*While being in cash is the flavor, we believe valuations are compelling enough to buy*

*As inflation begins to decline and interest rates stabilise, there could be a bounce-back*

*Corporate earnings remain robust and Sensex valuations are in line with historical averages*

*Expect focus to revert to earnings growth and a consequent market re-rating*

## RESULTS PREVIEW



Quarter ended March 2007

# Half Full

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<http://deadpresident.blogspot.com> **India Strategy**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

Technically, there is no difference between “the glass is half-full” and “the glass is half-empty”. But the meaning of these two statements is totally different, and so are their consequences. If the general perception swings between seeing the glass “half-full” and seeing it “half-empty”, it can create significant opportunities or risks. While the flavor of the season is to see the glass “half-empty”, i.e. to raise cash and get defensive, we believe that valuations are compelling enough to raise exposure to the markets. Like in the case of earlier corrections, it will remain a pipedream to catch the bottom.

### **FY07 – a year of de-rating of Indian equities**

In FY07, BSE Sensex delivered a return of 16%, making it the 4th consecutive year of positive returns. However, this positive return conceals the rising aversion to equities. Consider the following:

- ✍ Indian markets got de-rated in FY07. Though corporate earnings grew 35%, the markets returned just 16%. This de-rating gets further magnified if one considers the increase in the embedded value of the stocks in the index.
- ✍ The CNX mid-cap index delivered a mere 1% return in the 12 months ended March 2007. Excluding IndiaBulls, this index delivered a negative return of 2%.
- ✍ Investments of domestic mutual funds in equities contracted by 41% YoY, from net buying of US\$3.2b in FY06 to US\$1.9b in FY07. Investments of FIIs in equities contracted by 48% YoY, from net buying of US\$10.9b in secondary markets in FY06 to just US\$5.7b in FY07.

### **Inflation – the prime cause of this de-rating**

In our earlier strategy note (dated 5 January 2007), we had highlighted that inflation remains the biggest source of risk for Indian markets. These fears got further exaggerated, as the rising weekly inflation numbers coincided with assembly elections in the states, unleashing a series of unanticipated monetary and fiscal measures by the central bank and the government, respectively. Rise in interest rates and its impact on earnings resulted in a de-rating of Indian markets from a P/E of 21.6x in March 2006 to a P/E of 18.4x in March 2007. Besides the above factors, a disappointing budget and negative sentiment due to a few large global acquisitions by Indian companies also contributed to the de-rating.

### **Interim relief from high inflation and interest rates in the offing**

- ✍ We believe that in the near term, we are close to the peak of the inflation and interest rate cycle. The high base of April-May 2006 along with the impact of the fiscal and monetary measures should result in a fall in inflation to 5-5.5% over the next couple of

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months. This should halt the process of de-rating in the short term. However, supply-side constraints and strong monetary growth would remain an overhang on inflation.

- ✍ Lower rate of inflation could also lead to interest rates halting their upward march. While the steep lending rate hikes would result in some slowdown in credit, there would anyway be a seasonal slowdown in credit growth in 1Q due to the onset of lean season. In contrast, deposit growth remains strong due to the lag impact of a sharp increase in interest rates, in turn easing the tight liquidity conditions prevailing now and making the banks consider lending to segments where they have incrementally curtailed disbursements.
- ✍ However, we believe that the markets are still not in clear waters. Some of the impending risks include monsoons, higher oil and commodity prices, and sharp rupee appreciation.

### **Earnings growth remains strong**

While there are several macro concerns impacting the markets, we would not like to lose focus of corporate earnings growth and valuations. 4QFY07 earnings growth for Sensex would remain robust at 33% and we expect a 16% growth in FY08 earnings (Sensex EPS) on the high base of FY07 and after factoring in flat to moderate earnings growth for global commodities. Our FY08 Sensex EPS estimate has been pared by 1.6% to Rs822 largely driven by cut in estimates of ITC due to lower volumes on VAT imposition. Our embedded value for the Sensex stands at 1,250 points for FY08. Adjusting for the embedded value, the Sensex trades at 14.4x FY08E EPS. We are reducing our Sensex target P/E range by 10% to factor in some of the risks discussed above. We now expect the Sensex to trade in the 13-16x FY08E P/E band. Adding the embedded value, our revised Sensex target range is 12,000-14,500. Key risks to our estimates remain any further fiscal or monetary measures, further rise in interest rates or any change in the political equations.

- ✍ We recommend raising exposure to the rate-sensitive sectors, where valuations offer comfort and a change from negative to neutral stance on rates can provide significant returns. Amongst these, our top bets are Maruti, Tata Motors, ICICI Bank and PNB.
- ✍ We also remain positive on the growth outlook of IT and wireless services. Within IT, we would recommend buying Infosys and Satyam. In Wireless, our top bets are Bharti and RCom.
- ✍ We also remain positive on the infrastructure sector. Post the sharp correction, construction stocks now offer excellent upsides. Our top picks are L&T, GMR Infra and HCC.
- ✍ We would also recommend raising exposure to the pharma sector. Strong earnings growth and attractive valuations now offer reasonable upsides. Our top bets are Cipla and Ranbaxy.

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## FY07 – a year of de-rating of Indian equities

*Though the Sensex has returned 16% during FY07...*

In FY07, Indian markets scaled an all-time high, with the BSE Sensex touching 14,652 on 8 February 2007. From this high, the Sensex has corrected 11%, closing the year at 13,072 – a 16% return during the year. Despite strong returns at the index level, Indian markets got de-rated in FY07. Consider the following:

*...just four stocks have made positive contributions*

### Entire Sensex returns have been generated by just four stocks

While the BSE Sensex delivered a return of 16% in FY07, this was contributed by just four stocks. Excluding these four stocks that have a weightage of 38% in the Sensex, the market returns fall to zero in FY07. This needs to be viewed in the context of a 35% earnings growth estimated for the Sensex in FY07. The Sensex P/E (12 months trailing) contracted from 21.6x at the beginning of the year to 18.4x at the end of the year. If we adjust the increase in the embedded value of the Sensex stocks, the P/E de-rating would be even higher.

THE MARKETS HAVE BEEN RE-RATED EVERY ALTERNATE YEAR

YEAR	FY02	FY03	FY04	FY05	FY06	FY07
Sensex	3,469	3,049	5,591	6,493	11,280	13,072
Sensex Return (%)	-3.7	-12.1	83.4	16.1	73.7	15.9
EPS (Rs)	201	272	348	450	523	709
EPS Growth (%)	16.3	35.8	28.0	29.1	16.4	35.4
Sensex P/E (x, 12 Months Trailing)	17.3	11.2	16.0	14.4	21.6	18.4
G-Sec Yield (%)	7.4	6.2	5.2	6.7	7.5	8.0
Advance (Sensex Stocks)	19	16	34	23	31	17
Decline (Sensex Stocks)	13	16	1	8	1	14
<b>Top 5 Stock Contribution to Index Movement (%)</b>	<b>-142.9</b>	<b>-25.5</b>	<b>41.3</b>	<b>82.7</b>	<b>38.3</b>	<b>110.0</b>

Source: Company/Motilal Oswal Securities

*The CNX Mid-cap Index has generated a return of just 1% in FY07*

### Mid-cap indices have generated no returns

Against a 16% return delivered by Sensex, the CNX Mid-cap Index generated returns of merely 1% in FY07. However, if one adjusts for Indiabulls (this stock contributed to over twice of the index gains), then the Index would have recorded a decline of 2%. The number of stocks with negative returns outnumbered those with positive returns.



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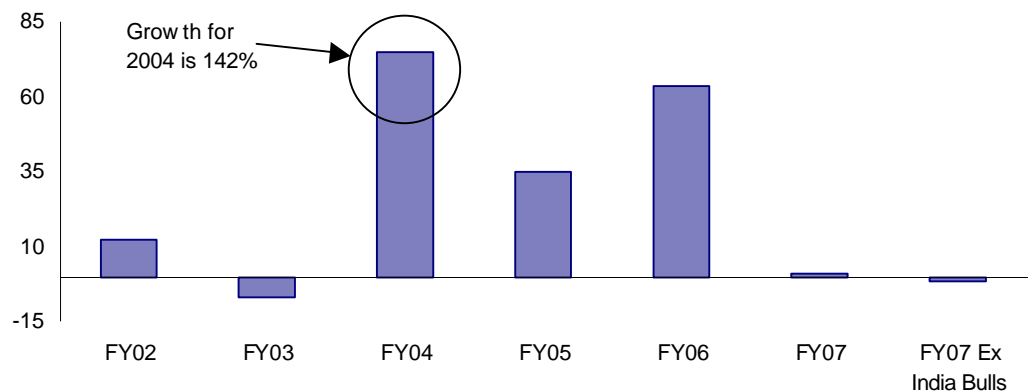
VIRTUALLY EVERY STOCK CONSTITUTING THE SENSEX HAS SEEN A DE-RATING IN FY07

COMPANY	CONTRI. TO INDEX POINTS	CONTRI. TO INDEX MOVE (%)	WEIGHT IN INDEX (%)	P/E FY06 END	P/E FY07 END	CHANGE IN P/E RATING
Reliance Inds.	699.27	39.0	11.5	12.2	17.8	Embedded value increased
ICICI Bank	366.97	20.5	9.2	20.6	23.4	Embedded value increased
Bharti Airtel	362.58	20.2	6.1	34.4	34.6	Unchanged
Infosys	298.66	16.7	11.5	33.4	29.9	Derated
Reliance Comm	244.38	13.6	3.6		28.1	-
Larsen & Toubro	158.57	8.8	4.9	33.4	28.1	Derated
TCS	82.74	4.6	2.9	32.1	29.0	Derated
HDFC Bank	68.42	3.8	2.9	27.8	25.9	Derated
HDFC	60.08	3.4	4.1	26.5	24.8	Derated
Satyam Computer	44.14	2.5	3.5	28.1	22.5	Derated
NTPC	29.31	1.6	2.2	20.8	18.5	Derated
ONGC	12.58	0.7	4.5	12.1	9.9	Derated
State Bank	6.99	0.4	2.8	9.0	9.0	Unchanged
Gujarat Ambuja	6.83	0.4	1.4	25.1	11.3	Derated
Grasim Industries	3.54	0.2	1.7	18.2	10.1	Derated
Dr Reddy' s Labs	1.80	0.1	1.1	79.4	29.4	Derated
BHEL	0.39	0.0	2.3	32.8	23.4	Derated
Wipro	-1.91	-0.1	1.9	39.3	28.4	Derated
ACC	-7.68	-0.4	1.1	34.7	12.5	Derated
Reliance Energy	-8.49	-0.5	1.0	22.1	15.7	Derated
Maruti Udyog	-13.33	-0.7	1.1	20.9	15.3	Derated
Cipla	-23.02	-1.3	1.4	32.7	25.1	Derated
Hero Honda	-32.67	-1.8	0.8	18.3	15.7	Derated
Ranbaxy Labs	-34.82	-1.9	1.1	79.7	26.0	Derated
Bajaj Auto	-36.39	-2.0	2.1	25.2	19.5	Derated
Tata Steel	-55.97	-3.1	2.2	7.9	6.0	Derated
Hindalco	-71.57	-4.0	1.4	13.4	5.7	Derated
Tata Motors	-76.40	-4.3	2.0	21.8	12.5	Derated
HLL	-118.90	-6.6	2.7	45.7	29.3	Derated
ITC	-188.20	-10.5	4.8	32.1	20.6	Derated
<b>SENSEX</b>	<b>1792.14</b>	<b>-</b>	<b>-</b>	<b>21.6</b>	<b>18.4</b>	<b>Derated</b>

Note: PE is calculated on 12 months trailing EPS

Source: Bloomberg/Motilal Oswal Securities

EXCLUDING INDIABULLS, THE CNX MID-CAP INDEX WOULD HAVE DELIVERED NEGATIVE RETURNS IN FY07



Source: Company/Motilal Oswal Securities

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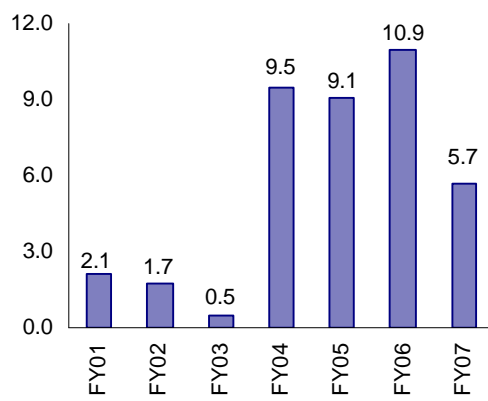
**Fund flows during the year were significantly lower**

*Institutional investors bought much less in FY07 than in FY06*

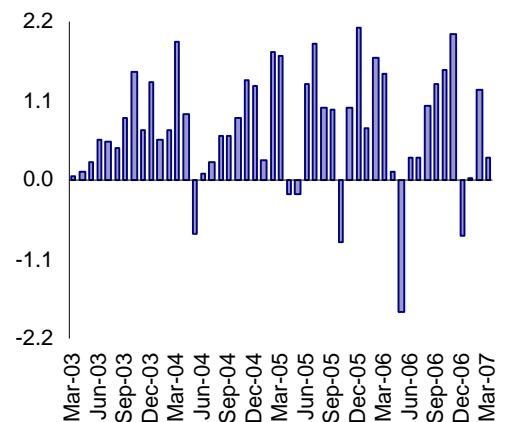
In FY07, there was a significant decline in total investments from both FIIs and domestic mutual funds. Investments of domestic mutual funds in equities contracted 41% YoY, from net buying of US\$3.2b in FY06 to US\$1.9b in FY07. Investments of FIIs in equities contracted 48% YoY, from net buying of US\$10.9b in secondary markets in FY06 to just US\$5.7b in FY07.

INVESTMENTS IN INDIAN EQUITIES BY BOTH FIIS... (US\$B)

YEARLY TREND



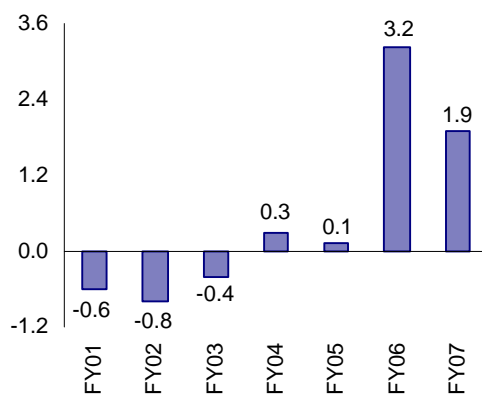
MONTHLY TREND



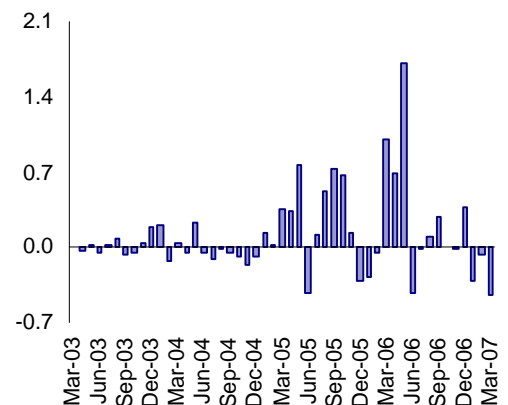
Source: SEBI/Motilal Oswal Securities

... AND DOMESTIC MUTUAL FUNDS FELL DURING FY07 (US\$B)

YEARLY TREND



MONTHLY TREND



Source: SEBI/Motilal Oswal Securities

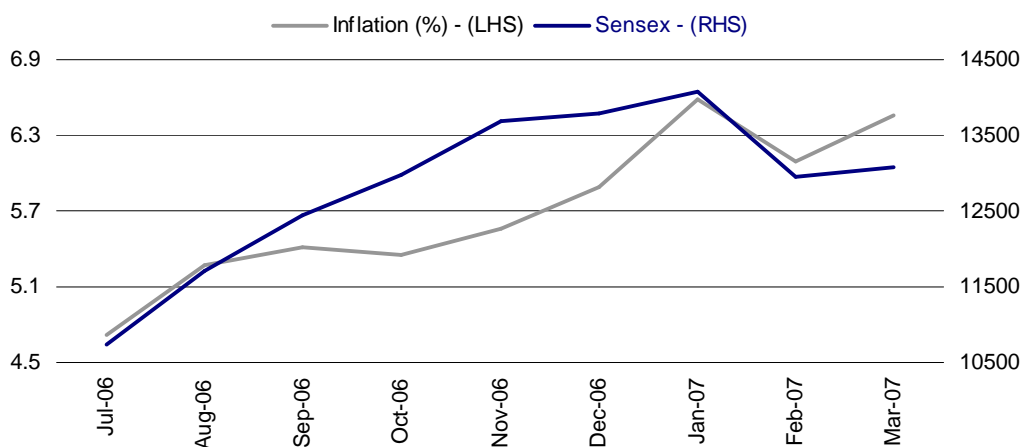
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## Inflation – the prime cause of this de-rating

*Concerns relating to inflation have led to the de-rating of Indian equities*

We believe that the key driver of de-rating of Indian equities have been fears related to inflation. Since July 2006, inflation has moved up from 4.7% to ~6.5%, well above the RBI's target range of 5-5.5%. The spurt in inflation has led to significant fiscal and monetary measures by the government and the RBI. These have a negative bearing on either earnings or valuations of Indian equities.

RIISING INFLATION HAS TAKEN A TOLL ON THE SENSEX



Source: Bloomberg/Motilal Oswal Securities

*While fiscal measures to control inflation have adversely impacted corporate earnings...*

Some of the measures taken by the government include:

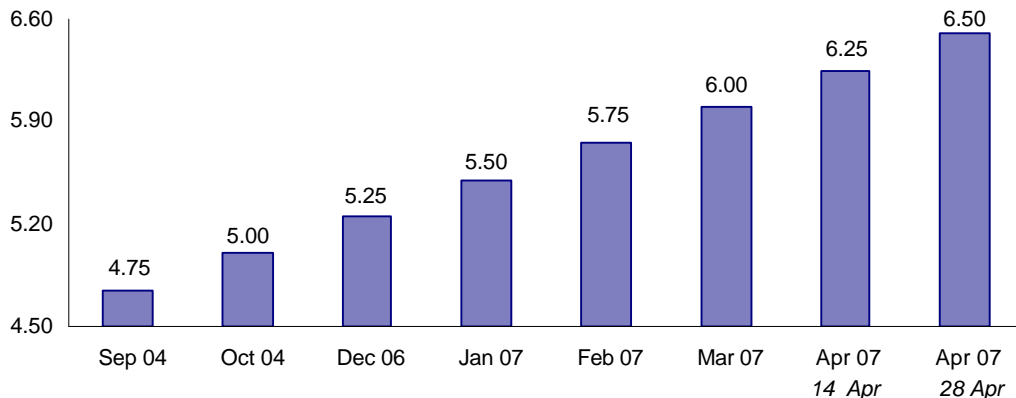
- ✍ Ban on sugar exports, leading to a drop in realizations, profits and market cap of sugar companies
- ✍ Reduction in customs duties for various sectors, adversely impacting domestic companies in those sectors
- ✍ Tough measures being imposed on the cement sector to keep cement prices under check
- ✍ Steel majors unable to raise prices to match global prices
- ✍ Oil companies unable to pass cost increases, resulting in further losses

Further, the RBI raised the cash reserve ratio (CRR) by 150bp in the last five months, draining out Rs450b of liquidity from the system. It also raised the key benchmark rates and increased provisioning requirements for sensitive sectors to curb credit growth. As a result, banks have hiked lending rates by 125-200bp in the last three months.

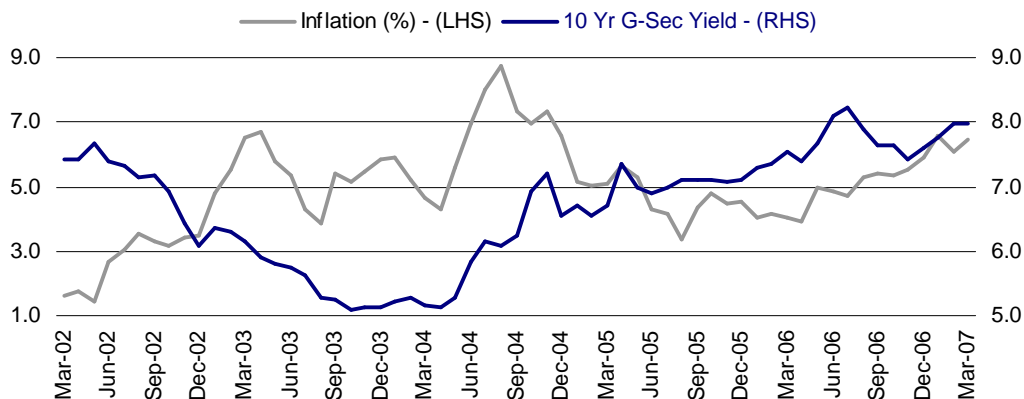


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RBI HAS RAISED CRR BY 150BP IN THE LAST FIVE MONTHS



THE 10-YEAR G-SEC YIELD HAS ONCE AGAIN CROSSED 8%



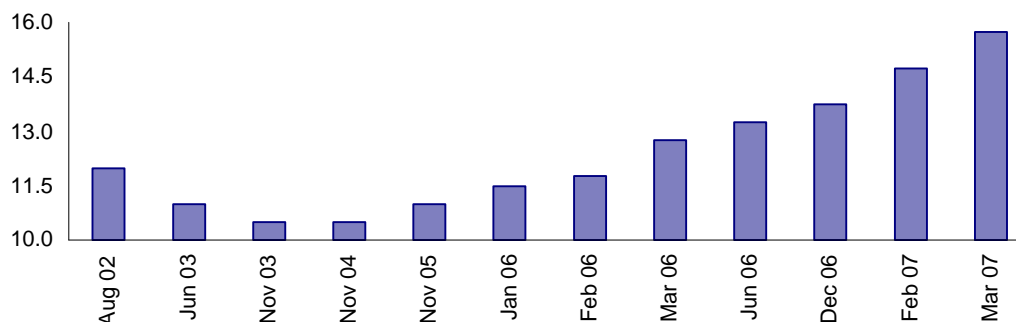
Source: Bloomberg/Motilal Oswal Securities

**Impact of higher interest rates is being felt gradually**

*...monetary measures are adversely impacting demand and growth*

Interest rates have been rising steadily over the last 12 months. While the 10-year bond yields have moved up by just 45bp in FY07, lending rates have increased much more. ICICI Bank has increased its prime lending rate (PLR) by 300bp in FY07. Even state-owned banks have hiked their PLRs by 125-175bp. Banks have reduced sub-PLR lending and have narrowed the discount on PLR to top corporates.

ICICI BANK HAS RAISED ITS PLR BY AS MUCH AS 300BP IN FY07



Source: Company/Motilal Oswal Securities

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The impact of higher interest rates would be felt more severely on consumer finance, where banks have also reduced their focus. Affordability of mortgages, cars, etc has been adversely impacted with rising interest rates. We expect mortgage growth rates to slow down from ~30% to ~20%. In the auto segment, while two-wheelers have already witnessed a significant slowdown, the four-wheeler segment is yet to witness the impact of higher interest rates. Any further hike in interest rates could impact this segment, as well.

The real estate sector is likely to be significantly impacted by rising interest rates. In our interactions, real estate companies and real estate agents revealed that property sales are on a decline. Moreover, as banks have reduced their focus on lending to developers, availability of funds for further land acquisition or development is becoming an issue.

#### HIGHER INTEREST RATES ARE MAKING CARS AND HOMES LESS AFFORDABLE

	FY06	1HFY07	2HFY07
Average Cost of Small & Compact Car (Rs)	300,000	300,000	300,000
Finance (%)	85	85	85
Loan Amount (Rs)	255,000	255,000	255,000
Interest Rate (%)	11.0	12.5	15.0
Duration (months)	36	36	36
Monthly EMI (Rs)	8,348	8,531	8,840
Per Day Usage (km)	30	30	30
Fuel Efficiency (km/lt)	12	12	12
Petrol Price (per lt)	43.5	50.8	47.5
Fuel Cost per Month	3,262	3,806	3,563
Monthly Maintenance Cost	750	750	750
Car Ownership Cost (per month)	12,360	13,087	13,152
Increase (%)		5.9	6.4

Note: Assumes no change in duration of loan

Source: Company/Motilal Oswal Securities

#### IMPACT OF 400BP INTEREST RATE INCREASE ON MORTGAGES RE-PAYMENT

	CASE I: ASSUMES NO CHG IN DURATION OF LOAN			CASE II: ASSUMES RISE IN DURATION FROM 15 TO 20 YRS		
	FY06	1HFY07	2HFY07	FY06	1HFY07	2HFY07
Average Cost of a House (Rs)	750,000	750,000	750,000	750,000	750,000	750,000
Finance (%)	85	85	85	85	85	85
Loan Amount (Rs)	637,500	637,500	637,500	637,500	637,500	637,500
Interest Rate (%)	8.5	10.5	12.5	8.5	10.5	12.5
Duration (months)	180	180	180	180	210	240
Monthly EMI	6,278	7,047	7,857	6,278	6,645	7,243
Increase (%)		12.3	25.2		5.8	15.4

Source: Company/Motilal Oswal Securities

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### Two other factors that aided the de-rating of Indian equities

Apart from inflation and rising interest rates, two other factors aided the de-rating of Indian equities. These are:

*The recent Union Budget came as a disappointment...*

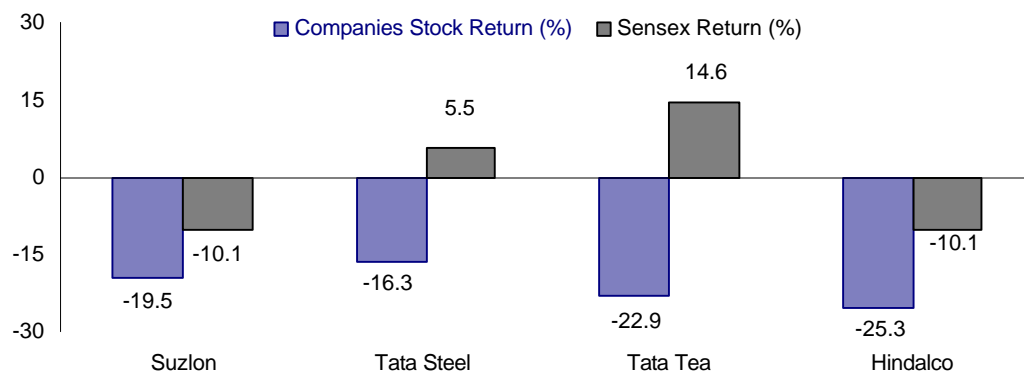
**1. Budget disappointment:** Changes in tax structure, move to curb commodity price increases and steps like hike in dividend distribution tax and fringe benefit tax on ESOPs have been some of the key disappointments with the recent Union Budget. Consider the following:

- ✗ No significant improvement in fiscal deficit to GDP, despite buoyant tax revenue
- ✗ Higher education cess of 1% v/s expectations of a reduction in direct taxes
- ✗ Profits exempt from tax under Section 10A, 10B (EOUs, STPs and SEZs) brought under MAT calculation – negative for IT sector
- ✗ Fringe benefit tax on ESOPs – negative for IT sector
- ✗ Dividend distribution tax raised from 12.5% to 15%
- ✗ Dual excise duty on cement

*...and the markets did not take kindly to high-profile overseas acquisitions by corporate India*

**2. Empire-building entrepreneurs:** In FY07, Indian companies made a significant leap in their global ambitions by acquiring large overseas companies. Over the long-term, these acquisitions could make sense. However, Indian stock markets have reacted negatively to most such deals due to the perceptively high prices paid for the acquisitions and the resulting increase in gearing of the companies.

MARKETS HAVE REACTED NEGATIVELY TO COMPANIES MAKING HIGH-PROFILE OVERSEAS ACQUISITIONS



Returns calculated from one-day prior to announcement

Source: Company/Motilal Oswal Securities

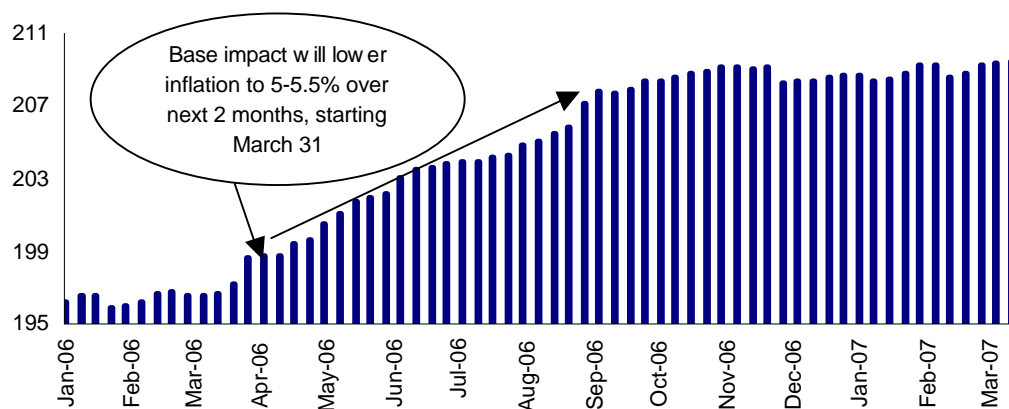
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## Interim relief from high inflation and interest rates in the offing

*While we expect inflation to be tamed shortly...*

We expect the inflation rate to decline from the week of 31 March 2007 onwards (reporting with a lag of two weeks). The higher base of last year has potential to drop inflation by ~100bp over the next few weeks. Moreover, the recent measures of the government and the RBI are also expected to curb inflation.

INFLATION INDEX



Source: Bloomberg/Motilal Oswal Securities

*...and lending rates to begin declining in 2HFY08...*

Once inflation is tamed to around 5%, we expect the government to ease its hawkish stance towards the several sectors listed above. We attribute the last 200bp rise in interest rates largely to the government's overdrive to curb inflation. With inflation falling to the targeted band of 5-5.5% by May 2007, we expect an end of this phase of monetary tightening and fiscal measures. We see following triggers for higher credit flow and stable interest rates for loans in 2HFY08:

- ✍ CRR hike is an interim measure to control liquidity, bring down inflation and lower credit growth. We estimate a slowdown in credit growth to below 25% in 1HFY08 and fall in inflation to ~5%. As a result, that will raise a strong possibility of cut in CRR from the current levels of 6.5%. A potential cut in CRR will not only augment the liquidity of the system but will also pave the way for reduction in lending rates.
- ✍ Banks have increased deposit rates significantly over the last few months. Interest rates of 9-9.5% are being offered on retail deposits and this will ensure that deposit growth remains robust in 1HFY08. Sustained growth in deposits coupled with slowdown in credit offtake will improve the availability of funds for several sectors and lead to stable lending rates.
- ✍ The government has approved the bill to empower RBI to cut SLR below 25%. We expect banks to be net buyers of government bonds at the current rate of SLR. Considering the increased appetite of insurance and pension funds for government bonds, we expect the demand for bonds to outstrip supply significantly in FY08. This

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will allow the RBI to reduce the rate of SLR to channelise more funds from the banking sector towards credit growth.

## But, there are a few more hurdles to cross in the near-term

### 1. Sharp appreciation in rupee

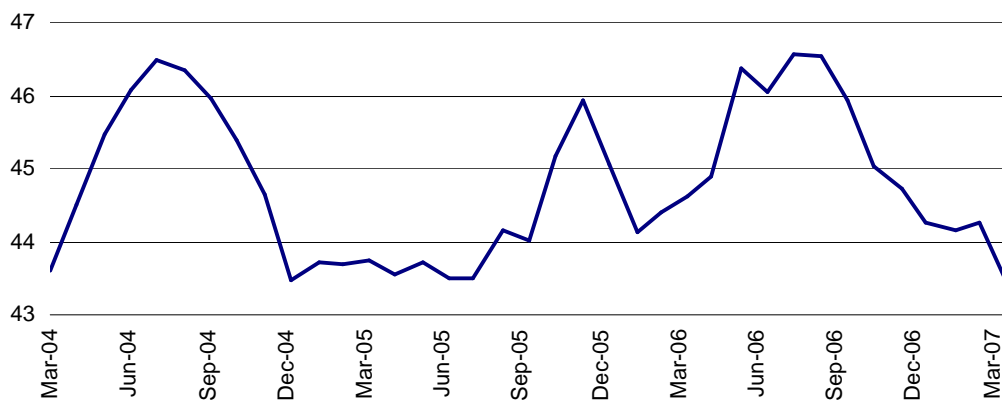
*...there are a few more hurdles to cross*

A strong rupee has negative earnings implications for export-oriented sectors, especially IT, which has a 14% share of Sensex profits and 20% weightage in the Index. Currently, the rupee is at Rs43/US\$, about 4.5% higher than the FY07 average of Rs45/US\$. The major reason for this is a vicious cycle:

- ✍ RBI's dilemma of managing inflation and the exchange rate – RBI's buying of dollars increases money supply, further fuelling inflation. Given inflation control as its current focus, the RBI has slowed down absorption of dollar inflows.
- ✍ Rising domestic interest rates, leading to higher dollar inflows.

Here too, the key to reversing this cycle lies in inflation control, expected 1QFY08 onwards.

RUPEE HAS APPRECIATED SHARPLY AGAINST DOLLAR



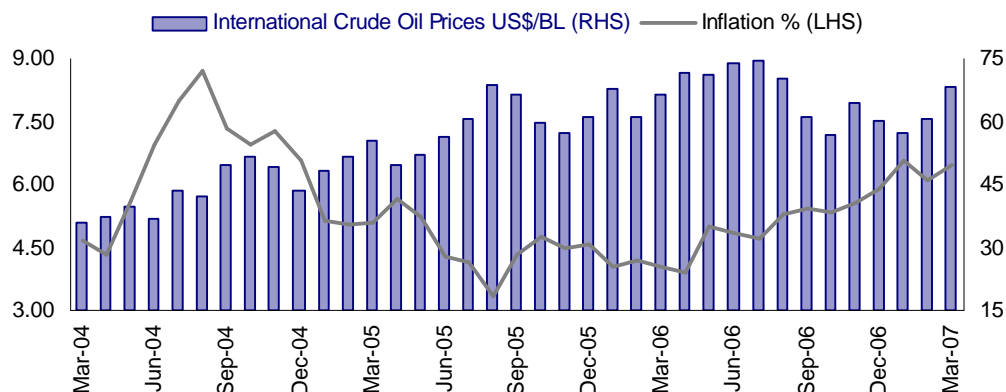
Source: Bloomberg/Motilal Oswal Securities

### 2. High oil and commodity prices

In March 2007, crude prices hit a seven-month high of US\$68/bbl. Most global commodities have also witnessed a significant rise in the last three months. For FY06, India's POL imports stood at 5.5% of GDP. If crude and commodity prices sustain at current levels, inflation will be that much harder to tackle. Moreover, higher input prices will impact margins of the domestic sectors.

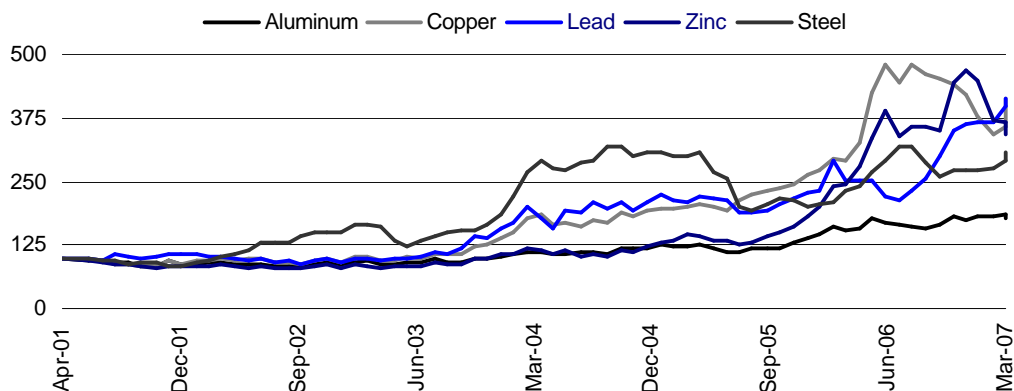
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PRICES OF CRUDE OIL HAVE RISEN...



Source: Bloomberg/Motilal Oswal Securities

... AND SO HAS OTHER COMMODITIES



Source: Bloomberg/Metal Bulletin/Motilal Oswal Securities

On the flip side, higher commodity prices should translate into higher profits – and hence higher stock prices – for Indian commodity majors (Tata Steel, Hindalco, ONGC, Reliance), which account for 33% of Sensex profits and 20% weightage in the Index. However, currently, the sentiment for these very companies is hit – Tata Steel, because of its Corus acquisition, Hindalco, because of the Novellis acquisition, and ONGC, because of the government's subsidy sharing formula.

### 3. Elections

In April-May 2007, India's largest state, Uttar Pradesh (UP) goes to the polls. The state is currently ruled by Samajwadi Party. As UP has the largest number of seats in the Central Parliament, the outcome of this election will be a signal of public sentiment, and of the possible outcome of the Central Elections in May 2009. This is more so following sweeping victories for the leading UPA opposition party, BJP and allies, in the recent state assembly polls in Punjab and Uttarakhand.



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Given the anti-incumbency factor in India, both BSP-Congress and BJP-allies would be hoping for major gains. The election also explains some of the recent actions at the Center:

- ✍ Extreme focus on inflation control
- ✍ Lifting of ban on sugar exports (UP is India's largest producer of sugarcane and sugar)

After UP, the next major state elections are in Gujarat (December 2007), in Madhya Pradesh (December 2008), leading to the Central Elections in May 2009. Overall, there are concerns that major reforms may be put on the backburner over the medium term. However, important to note is that in 3 of the previous 4 Central Elections, the BSE Sensex delivered a double-digit return in 12-month period prior to the elections.

#### INDIA: ELECTION SCHEDULE

OFFICE/STATE	MONTH YEAR	LOKSABHA SEAT	ASSEMBLY SEAT
Uttar Pradesh	May-07	80	403
Goa	Jun-07	2	40
President	Jul-07		
Vice-President	Aug-07		
Gujarat	Dec-07	26	182
Himachal Pradesh	Mar-08	4	68
Meghalaya	Mar-08	2	60
Nagaland	Mar-08	1	60
Tripura	Mar-08	2	60
Jammu & Kashmir	Nov-08	6	87
Madhya Pradesh	Dec-08	29	230
Mizoram	Dec-08	1	40
Nct Delhi	Dec-08	7	70
Chhatisgarh	Dec-08	11	90
Rajasthan	Jan-09	25	200
Sikkim	May-09	1	32
Andhra Pradesh	May-09	42	294
<b>CENTRAL ELECTIONS</b>	<b>May-09</b>	<b>543</b>	

Source: Election Commission

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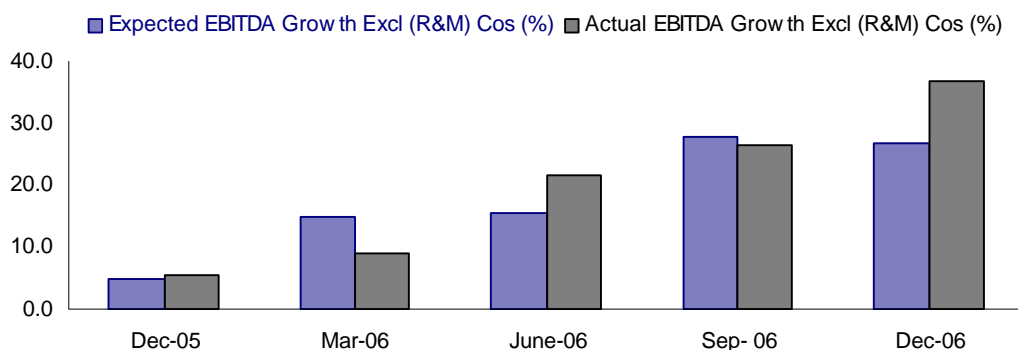
## Earnings growth remains strong

*The silver lining, however, is that corporate earnings continue to be robust*

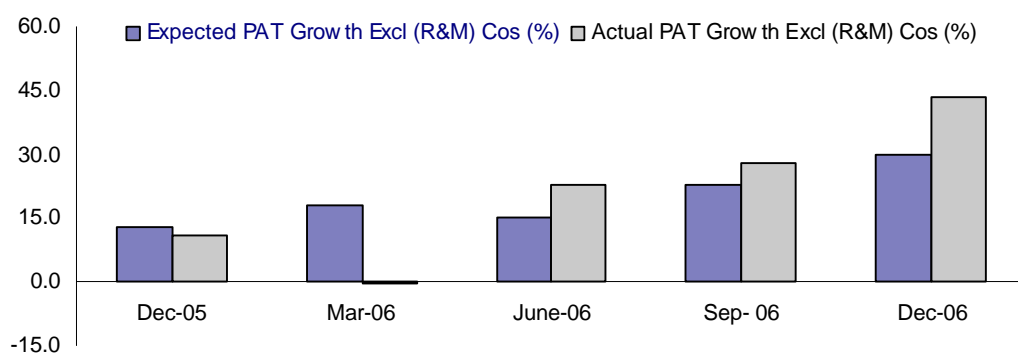
Notwithstanding all the macro concerns, the silver lining is the sustainability of the strong earnings momentum by Indian corporates. We estimate a growth of 33.3% for the Sensex earnings in 4QFY07, on a strong revenue growth of 22.3% and EBITDA growth of 26.1%. For each of the last three quarters, the reported earnings have been higher than our estimates. We believe that the continuation of strong earnings momentum in 4QFY07 along with guidance from companies on their outlook for FY08 will set the tone for the markets. We expect companies to be a bit cautious, given the recent changes in the macro economic variables and their impact on demand.

ACTUAL CORPORATE PERFORMANCE HAS BEEN BETTER THAN OUR ESTIMATES FOR THE LAST THREE QUARTERS

EBITDA GROWTH (%) - (EXCLUDING OIL R&M COMPANIES)



PAT GROWTH (%) - (EXCLUDING OIL R&M COMPANIES)



Source: Motilal Oswal Securities

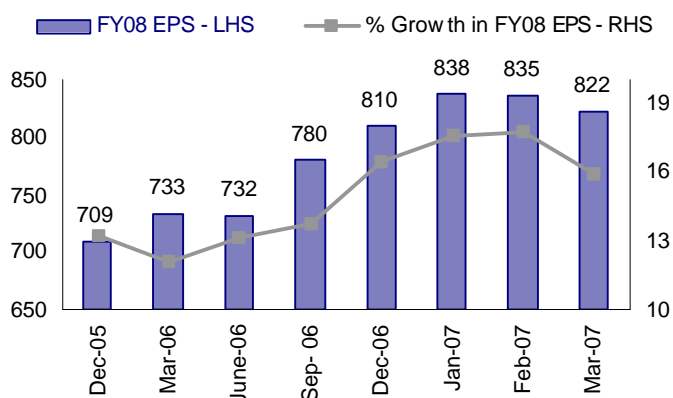
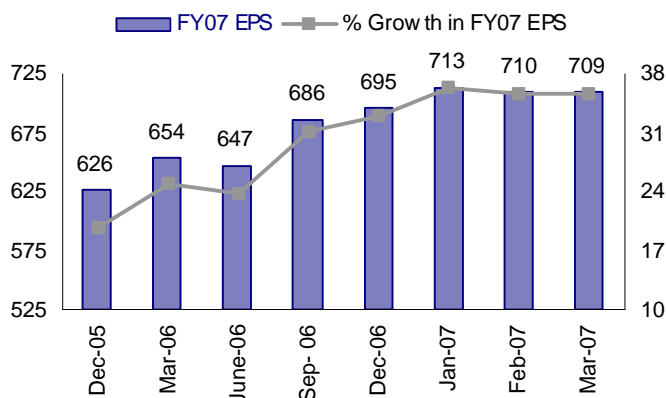
While there are several macro concerns impacting the markets, we would not like to lose focus of corporate earnings growth and valuations. 4QFY07 earnings growth would remain robust at 33.3% and we expect 16% growth in FY08 earnings (Sensex EPS) on the high base of FY07 and after factoring in flat to moderate earnings growth for global commodities. Our FY08 Sensex EPS estimate has been pared by 1.6% to Rs822, largely driven by a cut in estimates of ITC due to VAT imposition.

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OUR RECENT REVISIONS IN SENSEX EPS ESTIMATES HAVE BEEN DOWNWARD

FY07E

FY08E



Source: Motilal Oswal Securities

A break-up of the earnings profile of the Sensex indicates that unless we see a very significant slowdown in growth across sectors, earnings growth is unlikely to fall below 15%.

**Valuations are attractive**

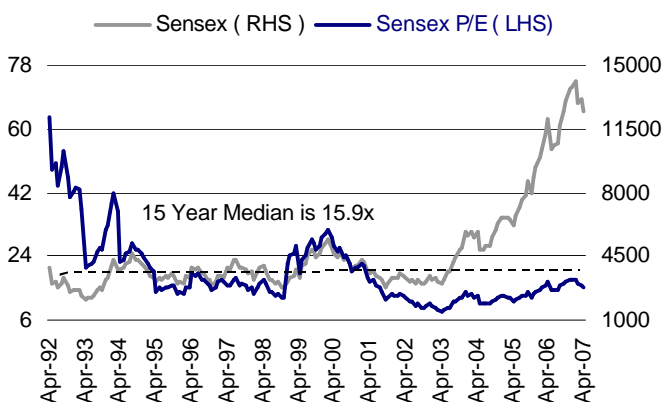
*Current valuations factor in most of the negatives...*

Since the beginning of the bull run in 2003, Indian markets have witnessed sharp corrections from their highs. In the previous corrections, the markets have fallen by ~20% in a period of two months. The recent correction has lasted for two months, during which the Sensex has seen a fall of 15%. The two concerns at this point are:

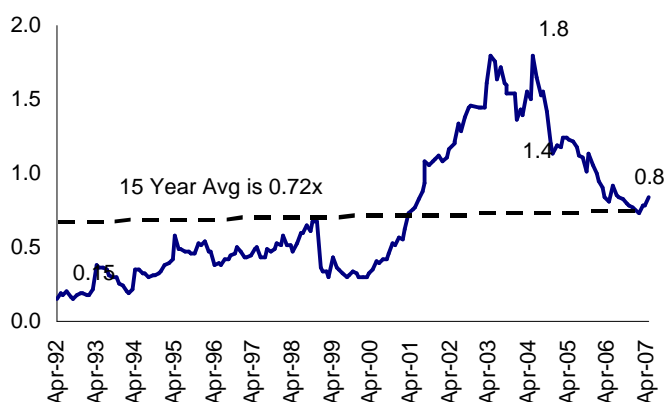
1. India-specific macro concerns (discussed earlier – inflation, interest rates, and reforms)
2. Concerns on earnings growth (impact of higher interest rates on demand and profits)

SENSEX VALUATIONS ARE BELOW/NEAR HISTORIC AVERAGES

SENSEX V/S SENSEX PER (X)



SENSEX EARNINGS YIELD TO BOND YIELD



Source: Motilal Oswal Securities

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### Our March 2008 Sensex target range offers favorable risk-reward equation

We believe that the current valuations factor the above concerns to a large extent. On FY08E EPS, the Sensex trades at a P/E of 14.4x (adjusted for the embedded value), which is below its 15-year median P/E of 15.9x. With some of the concerns likely to abate in 1QFY08, we expect earnings growth to re-emerge as the key driver for equities.

*...and our revised Sensex target range offers a favorable risk-reward equation*

We are reducing our Sensex target P/E range by 10% to factor in some of the risks discussed above. We now expect the Sensex to trade in the 13-16x FY08E P/E band. Adding the embedded value of unprofitable businesses (of 1,250 points), our revised Sensex target range is 12,000-14,500.

- ✍ We recommend raising exposure to the rate-sensitive sectors, where valuations offer comfort and a change from negative to neutral stance on rates can provide significant returns. Amongst these, our top bets are Maruti, Tata Motors, ICICI Bank and PNB.
- ✍ We also remain positive on the growth outlook of IT and wireless services. Within IT, we would recommend buying Infosys and Satyam. In Wireless, our top bets are Bharti and RCom.
- ✍ We also remain positive on the infrastructure sector. Post the sharp correction, construction stocks now offer excellent upsides. Our top picks are L&T, GMR Infra and HCC.
- ✍ We would also recommend raising exposure to the pharma sector. Strong earnings growth and attractive valuations now offer reasonable upsides. Our top bets are Cipla and Ranbaxy.

#### SENSEX CONSTITUENTS

SECTOR	WEIGHTS (%)	PAT (RS B) FY07E	PAT (RS B) FY08E	PAT GR. (%)
<b>Rate Sensitives</b>				
Automobiles (4)	5.9	60	68	11.9
Banks (4)	18.6	117	140	19.3
<b>Domestic Plays</b>				
Cement (3)	4.3	44	54	21.3
Engineering (2)	7.2	40	49	22.9
FMCG (2)	7.6	43	46	7.4
<b>High Growth Sectors</b>				
IT (4)	20.0	121	157	29.8
Telecom (2)	9.7	72	106	46.2
<b>Global Commodities</b>				
Metals (2)	3.6	72	75	4.4
Oil & Gas (2)	16.1	297	308	3.8
<b>Others</b>				
Pharma (3)	3.7	17	21	26.8
Utilities (2)	3.4	74	81	9.5
<b>Sensex (30)</b>	<b>100</b>	<b>958</b>	<b>1,106</b>	<b>15.4</b>

Source: Motilal Oswal Securities

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## MOST MODEL PORTFOLIO

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOST WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
<b>Banks</b>	<b>17.6</b>	<b>20.0</b>	<b>2.4</b>	<b>Overweight</b>
ICICI Bank	6.6	5.0	-1.6	Buy
Punjab National Bank	0.6	5.0	4.4	Buy
HDFC Bank	2.1	4.0	1.9	Buy
Bank of India	0.2	3.0	2.8	Buy
Syndicate Bank	0.0	3.0	3.0	Buy
<b>Information Technology</b>	<b>15.8</b>	<b>18.0</b>	<b>2.2</b>	<b>Overweight</b>
Infosys	8.3	5.0	-3.3	Buy
TCS	2.1	5.0	2.9	Buy
Wipro	1.4	4.0	2.6	Buy
Satyam Computer	2.5	4.0	1.5	Buy
<b>Auto</b>	<b>6.6</b>	<b>11.0</b>	<b>4.4</b>	<b>Overweight</b>
Maruti Udyog	0.8	4.0	3.2	Buy
Tata Motors	1.4	4.0	2.6	Buy
Mahindra & Mahindra	1.3	3.0	1.7	Buy
<b>Telecom</b>	<b>7.6</b>	<b>11.0</b>	<b>3.4</b>	<b>Overweight</b>
Bharti Airtel	4.4	6.0	1.6	Buy
Reliance Communication	2.6	5.0	2.4	Buy
<b>Engineering/Infrastrcuture</b>	<b>9.1</b>	<b>11.0</b>	<b>1.9</b>	<b>Overweight</b>
L&T	3.5	5.0	1.5	Buy
HCC	0.0	3.0	3.0	Buy
GMR Infrastructure	0.0	3.0	3.0	Buy
<b>Pharmaceuticals</b>	<b>4.1</b>	<b>7.0</b>	<b>2.9</b>	<b>Overweight</b>
Cipla	1.0	4.0	3.0	Buy
Ranbaxy Labs	0.8	3.0	2.2	Buy
<b>Petrochemicals</b>	<b>9.5</b>	<b>7.0</b>	<b>-2.5</b>	<b>Underweight</b>
Reliance Industries	8.4	7.0	-1.4	Neutral
<b>Metals</b>	<b>4.4</b>	<b>5.0</b>	<b>0.6</b>	<b>Neutral</b>
SAIL	0.6	5.0	4.4	Buy
<b>Cement</b>	<b>3.6</b>	<b>4.0</b>	<b>0.4</b>	<b>Overweight</b>
Gujarat Ambuja	1.0	2.0	1.0	Buy
Grasim Industries	1.3	2.0	0.7	Buy
<b>Oil &amp; Gas</b>	<b>5.2</b>	<b>4.0</b>	<b>-1.2</b>	<b>Neutral</b>
ONGC	3.2	4.0	0.8	Buy
<b>FMCG</b>	<b>6.8</b>	<b>2.0</b>	<b>-4.8</b>	<b>Underweight</b>
ITC	3.5	2.0	-1.5	Buy
<b>Utilities</b>	<b>4.3</b>	<b>0.0</b>	<b>-4.3</b>	<b>Underweight</b>
<b>Others</b>	<b>5.3</b>	<b>0.0</b>	<b>-5.3</b>	<b>Underweight</b>
<b>Cash</b>	<b>0.0</b>	<b>0.0</b>		
<b>Total</b>	<b>100.00</b>	<b>100.0</b>		

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## ANNUAL PERFORMANCE - MOST UNIVERSE

(RS BILLION)

SECTOR	SALES				EBITDA				NET PROFIT				
	Y/E MARCH	FY07E	FY08E	FY09E CH. (%)*	FY07E	FY08E	FY09E CH. (%)*	FY07E	FY08E	FY09E CH. (%)*			
Auto (11)		881	999	1,126	13.5	112	125	141	11.8	75	84	95	11.8
Banks (19)		644	768	907	19.2	457	538	636	17.8	211	250	298	18.4
Cement (7)		293	336	361	14.9	92	115	116	25.5	61	73	71	19.7
Engineering (9)		612	765	921	25.0	89	112	134	26.1	64	81	98	25.9
FMCG (11)		432	487	558	12.7	86	96	113	10.9	61	68	81	10.3
IT (14)		716	956	1,207	33.6	182	239	293	31.5	148	193	234	30.3
Infrastructure (8)		164	227	310	38.0	26	35	50	32.7	11	14	19	26.2
Media (1)		15	20	24	36.0	4	6	8	68.2	2	4	5	51.0
Metals (6)		956	1,020	1,157	6.8	298	311	373	4.1	176	186	233	5.8
Oil Gas & Petchem (9)		6,815	6,383	6,123	-6.3	735	787	824	7.1	407	431	447	6.0
Pharma (16)		336	393	456	17.0	69	83	98	20.9	48	60	72	24.8
Retail (3)		62	92	132	50.1	5	7	10	40.2	2	3	5	44.3
Telecom (3)		374	521	650	39.3	142	208	266	46.7	77	110	138	43.6
Textiles (7)		99	120	141	21.7	18	23	27	28.7	7	10	12	38.9
Utilities (6)		505	597	668	18.2	133	157	172	18.7	90	97	104	7.9
Others (2)		52	62	73	19.6	15	18	21	16.6	10	12	14	20.6
<b>MOST (132)</b>		<b>12,954</b>	<b>13,747</b>	<b>14,815</b>	<b>6.1</b>	<b>2,461</b>	<b>2,858</b>	<b>3,282</b>	<b>16.2</b>	<b>1,451</b>	<b>1,675</b>	<b>1,927</b>	<b>15.5</b>
<b>MOST Excl. Banks (113)</b>		<b>12,310</b>	<b>12,979</b>	<b>13,908</b>	<b>5.4</b>	<b>2,004</b>	<b>2,320</b>	<b>2,645</b>	<b>15.8</b>	<b>1,240</b>	<b>1,425</b>	<b>1,629</b>	<b>15.0</b>
<b>MOST Excl.Oil &amp; Gas (123)</b>		<b>6,139</b>	<b>7,365</b>	<b>8,693</b>	<b>20.0</b>	<b>1,726</b>	<b>2,071</b>	<b>2,457</b>	<b>20.0</b>	<b>1,044</b>	<b>1,244</b>	<b>1,480</b>	<b>19.2</b>
<b>MOST Excl. Banks &amp; Oil (104)</b>		<b>5,495</b>	<b>6,597</b>	<b>7,785</b>	<b>20.1</b>	<b>1,269</b>	<b>1,533</b>	<b>1,821</b>	<b>20.8</b>	<b>833</b>	<b>994</b>	<b>1,182</b>	<b>19.3</b>

NM - Not Meaningful; \* Growth FY08 over FY07; For Banks : Sales = Net Interest Income, EBITDA = Operating Profits

## VALUATIONS - MOST UNIVERSE

SECTOR	P/E			EV/EBITDA			P/BV			ROE			DIV. EARN.	
	(NO. OF COMPANIES)	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	YLD (%)
Auto (11)		15.8	14.2	12.6	9.1	7.8	6.6	3.9	3.3	24.8	23.2	22.1	2.0	12.2
Banks (19)		12.6	10.6	8.9	N.M	N.M	N.M	2.1	1.8	16.6	17.3	18.1	1.7	18.8
Cement (7)		10.8	9.0	9.3	7.0	5.5	5.1	4.1	3.0	37.5	32.8	25.5	1.8	8.0
Engineering (9)		24.0	19.0	15.6	16.3	12.9	10.6	7.4	6.0	31.0	31.6	31.3	0.9	23.8
FMCG (11)		23.2	21.0	17.5	16.0	14.2	11.7	7.6	6.7	32.7	31.7	33.3	2.4	15.1
IT (14)		26.6	20.4	16.8	20.7	15.3	12.1	8.2	6.2	35.9	34.7	32.2	1.3	25.7
Infrastructure (8)		34.6	27.4	19.8	17.4	14.6	11.1	3.8	3.2	11.1	11.7	14.2	0.4	32.3
Media (1)		43.5	28.8	21.5	29.8	17.3	13.0	3.8	3.4	9.8	12.4	14.7	0.4	42.3
Metals (6)		6.5	6.2	4.9	3.8	3.4	2.7	1.9	1.5	29.3	24.0	24.1	2.8	15.0
Oil Gas & Petchem (9)		11.3	10.6	10.3	6.5	5.9	5.4	2.5	2.2	24.4	22.1	18.3	2.4	4.8
Pharma (16)		23.1	18.5	15.2	16.6	13.5	11.2	5.3	4.4	23.0	24.0	24.2	1.2	23.0
Retail (3)		47.4	32.9	22.4	23.1	17.0	12.7	8.8	6.1	18.6	18.7	22.4	0.3	45.5
Telecom (3)		30.0	20.9	16.7	16.9	11.4	8.6	6.7	5.1	25.0	27.5	26.4	0.1	34.1
Textiles (7)		10.9	7.9	6.5	8.4	6.9	5.9	1.1	1.0	10.2	12.7	13.7	2.2	29.8
Utilities (6)		17.1	15.9	14.8	10.8	9.4	9.2	2.2	2.0	12.7	12.5	12.5	2.0	7.6
Others (2)		18.9	15.7	13.3	11.2	9.2	7.4	4.8	3.9	25.5	24.9	23.8	0.8	19.4
<b>MOST (132)</b>		<b>15.8</b>	<b>13.7</b>	<b>11.9</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.5</b>	<b>3.0</b>	<b>22.2</b>	<b>21.5</b>	<b>20.2</b>	<b>1.6</b>	<b>15.2</b>
<b>MOST Excl. Banks (113)</b>		<b>16.4</b>	<b>14.2</b>	<b>12.5</b>	<b>10.0</b>	<b>8.5</b>	<b>7.3</b>	<b>3.9</b>	<b>3.2</b>	<b>23.6</b>	<b>22.5</b>	<b>20.6</b>	<b>1.6</b>	<b>14.6</b>
<b>MOST Excl.Oil &amp; Gas (123)</b>		<b>17.6</b>	<b>14.8</b>	<b>12.4</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.9</b>	<b>3.2</b>	<b>22.1</b>	<b>21.9</b>	<b>21.9</b>	<b>1.4</b>	<b>19.0</b>
<b>MOST Excl. Banks &amp; Oil (104)</b>		<b>18.8</b>	<b>15.8</b>	<b>13.3</b>	<b>12.1</b>	<b>9.9</b>	<b>8.2</b>	<b>4.6</b>	<b>3.7</b>	<b>24.1</b>	<b>23.5</b>	<b>23.1</b>	<b>1.4</b>	<b>19.1</b>

N.M. - Not Meaningful

Source: Motilal Oswal Securities

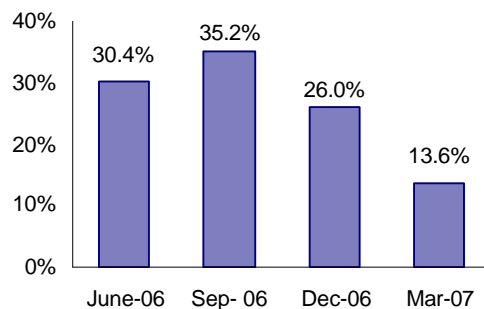


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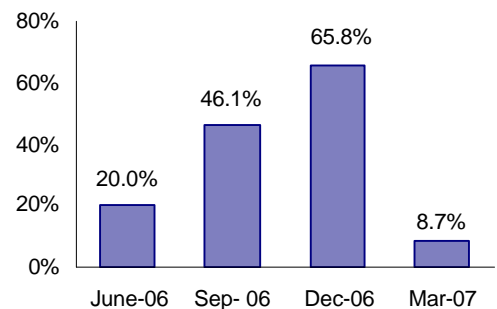
## 4QFY07: Steady performance

We expect 4QFY07 to be a quarter of steady corporate performance. We forecast revenue growth at 13.6% YoY for our Universe of 132 companies. EBITDA would grow at 14.3% YoY, resulting in flat margin, mainly due to oil marketing companies (OMCs). Excluding the latter, EBITDA growth would be 29% YoY and margins would expand 160bp. Net profit growth for our Universe would be 8.7% YoY, again dragged down by OMCs. Excluding them, the profit growth would be 33%. The key sectors driving profit growth during the quarter would be Telecom, Metals, IT, Cement and Pharma.

QUARTER-WISE SALES GROWTH (YOY)



QUARTER-WISE NET PROFIT GROWTH (YOY)



Source: Motilal Oswal Securities

QUARTERLY PERFORMANCE - MOST UNIVERSE

(RS MILLION)

SECTOR (NO. OF COMPANIES)	SALES			EBITDA			NET PROFIT		
	MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)
Auto (11)	207,563	249,997	20.4	28,673	31,793	10.9	19,313	21306	10.3
Banks (19)	136,720	162,424	18.8	115,689	131,020	13.3	46,857	55329	18.1
Cement (7)	61,259	83,775	36.8	14,763	28,972	96.3	10,188	18059	77.3
Engineering (9)	155,341	204,035	31.3	26,559	33,564	26.4	19,689	23176	17.7
FMCG (11)	96,524	114,349	18.5	17,508	21,585	23.3	12,629	15379	21.8
IT (14)	140,603	199,442	41.8	35,848	51,923	44.8	28,958	41990	45.0
Infrastructure (8)	37,832	47,585	25.8	4,084	6,512	59.5	2,507	2341	-6.7
Media (1)	3,966	3,991	-	761	1,284	-	684	809	-
Metals (6)	208,001	239,649	15.2	53,868	83,982	55.9	34,039	49890	46.6
Oil Gas & Petchem (9)	1,488,958	1,528,865	2.7	213,340	172,378	-19.2	134,706	92866	-31.1
Pharma (16)	69,299	86,323	24.6	11,298	17,644	56.2	8,744	12043	37.7
Retail (3)	10,419	16,328	56.7	1,041	1,397	34.2	643	611	-5.0
Telecom (3)	73,412	107,721	46.7	25,532	41,920	64.2	11,967	23217	94.0
Textiles (7)	21,266	25,281	18.9	3,803	4,557	19.8	1,777	1700	-4.4
Utilities (6)	112,069	136,491	21.8	22,719	28,998	27.6	20,108	24509	21.9
Others (2)	12,523	15,017	19.9	3,785	4,492	18.7	2,473	2816	13.9
<b>MOST (132)</b>	<b>2,835,754</b>	<b>3,221,273</b>	<b>13.6</b>	<b>579,270</b>	<b>662,020</b>	<b>14.3</b>	<b>355,282</b>	<b>386,040</b>	<b>8.7</b>
<b>MOST Excl. Banks (113)</b>	<b>2,699,035</b>	<b>3,058,849</b>	<b>13.3</b>	<b>463,581</b>	<b>531,000</b>	<b>14.5</b>	<b>308,426</b>	<b>330,711</b>	<b>7.2</b>
<b>MOST Excl. Oil &amp; Gas (123)</b>	<b>1,346,797</b>	<b>1,692,408</b>	<b>25.7</b>	<b>365,929</b>	<b>489,642</b>	<b>33.8</b>	<b>220,576</b>	<b>293,174</b>	<b>32.9</b>
<b>MOST Excl. Banks &amp; Oil (104)</b>	<b>1,210,077</b>	<b>1,529,984</b>	<b>26.4</b>	<b>250,240</b>	<b>358,622</b>	<b>43.3</b>	<b>173,719</b>	<b>237,845</b>	<b>36.9</b>
<b>MOST Excl Metals &amp; Oil (117)</b>	<b>1,138,795</b>	<b>1,452,759</b>	<b>27.6</b>	<b>312,061</b>	<b>405,660</b>	<b>30.0</b>	<b>186,537</b>	<b>243,285</b>	<b>30.4</b>

Source: Motilal Oswal Securities

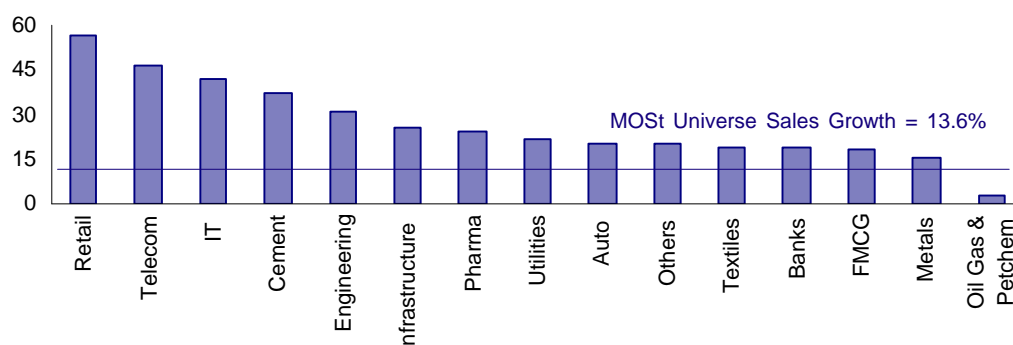
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### Sales excluding OMCs to jump 22% YoY

*Retail would be the fastest growing sector, followed by Telecom and IT*

- ✍ We expect our Universe of 132 companies to record sales growth of 13.6% YoY in 4QFY07, which would be robust across all sectors excluding the oil marketing companies (OMCs). The highlight of the quarter is strong growth in Cement sector, due to higher realizations and Telecom sector, due to strong subscriber additions.
- ✍ Telecom sector is expected to witness revenue growth of 46.7% on the back of sustained strong addition to the wireless subscriber base. Bharti leads the pack with revenue growth of 62.8% YoY followed by Reliance Communications at 38.8% YoY.
- ✍ IT sector is expected to record revenue growth of 41.8% YoY driven by strong volume growth. Tech Mahindra is likely to nearly double its revenue YoY, while the large caps like Infosys, Wipro and TCS are expected to grow at a brisk pace in the range of 40-50%.
- ✍ Cement is expected to report sales growth of 36.8% YoY, driven by a ~7% volume growth and ~21% growth in realizations. Shree Cement is likely to report revenue growth of over 70%, driven by 44% volume growth.
- ✍ We expect Engineering sector to witness sales growth of 31.3% YoY, on the back of sustained capex growth in the Indian economy. Siemens is likely to grow the fastest at 61% YoY, and industry heavyweights L&T and BHEL at 27-33%.
- ✍ We expect Infrastructure sector to record revenue growth of 25.8% YoY, with all companies under coverage reporting strong growth of over 28% except Jaiprakash Associates (1.4% YoY) and Hindustan Construction (16.6% YoY). IVRCL and Gammon India are expected to grow at over 36% YoY, with Nagarjuna at the top of the league with growth of 47.8% YoY.
- ✍ Pharma sector is likely to report sales growth of 24.6% YoY, on the back of two themes – consolidation of acquisition (Terapia for Ranbaxy, Betapharm for Dr Reddy's) and CRAMS (44% YoY growth for Nicholas). Pharma MNCs are expected to report topline growth of only 2% due to divestment (consumer healthcare for Pfizer and animal healthcare for GSK).
- ✍ Retail accounts for only 5% of our Universe, but is expected to clock the highest topline growth of 56.7% YoY on the back of rising “same-store” sales. Pantaloon leads the pack with 92% YoY growth.

SECTORAL SALES GROWTH - QUARTER ENDED MARCH 2007 (%)



Source: Motilal Oswal Securities

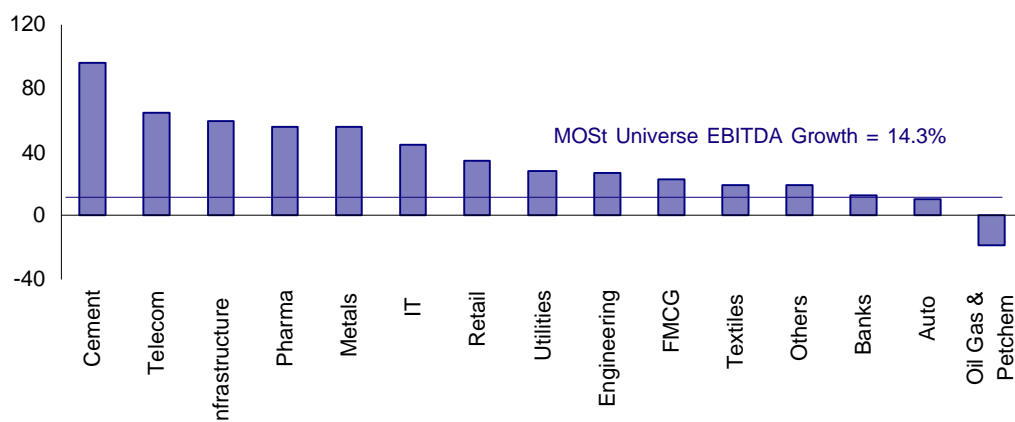
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**EBITDA margin excluding OMCs to expand 160bp**

- ✍ We expect overall 4QFY07 EBITDA growth of 14.3%, driven largely by 96% growth in Cement, 64% growth in Telecom, 56% growth in Metals, 56% growth in Pharma, and 45% growth in IT. Overall EBITDA margins are expected to remain flat – margin expansions in Cement (1,050bp), Metals (910bp), Pharma (410bp) and Telecom (410bp) are dragged down by Banks (-400bp), Oil & Gas (-310bp) and Auto (-110bp). Excluding OMCs, EBITDA would grow at 29% YoY, and margins would expand 160bp.
- ✍ Cement sector is likely to nearly double its EBITDA due to 21% higher realizations.
- ✍ Metals sector is also likely to report strong EBITDA growth of 56% driven by firm metal prices across the globe.
- ✍ Pharma sector is likely to record a strong EBITDA growth of 56% on the back of operational leverage, acquisitions and low base effect.
- ✍ Telecom sector is expected to report EBITDA growth of 64% on the back of cost efficiencies following high subscriber addition.
- ✍ IT sector is expected to maintain margins. Wage hikes and stronger rupee are expected to be offset by 2-5% higher billing rates by way of improved service mix.
- ✍ Auto sector would witness margin decline of 110bp due to higher prices of inputs (mainly metals and rubber) coupled with high competition. EBITDA for 2-wheelers are expected to decline while the 4-wheeler companies will record impressive growth, led by M&M (53.7% YoY).
- ✍ Banks would report a margin decline of 400bp, mainly due to lower other income for PSU banks. Private sector banks drive operating profit growth, with both HDFC Bank and ICICI Bank growing at over 50%.
- ✍ Oil & gas margins are expected down 310bp, mainly due to estimated Rs110b underrecoveries for IOC, BPCL and HPCL. This is the only sector where EBITDA is expected to decline 19% YoY.

*Cement and Telecom would show the highest EBITDA jump*

SECTORAL EBITDA GROWTH - QUARTER ENDED MARCH 2007 (%)



Source: Motilal Oswal Securities

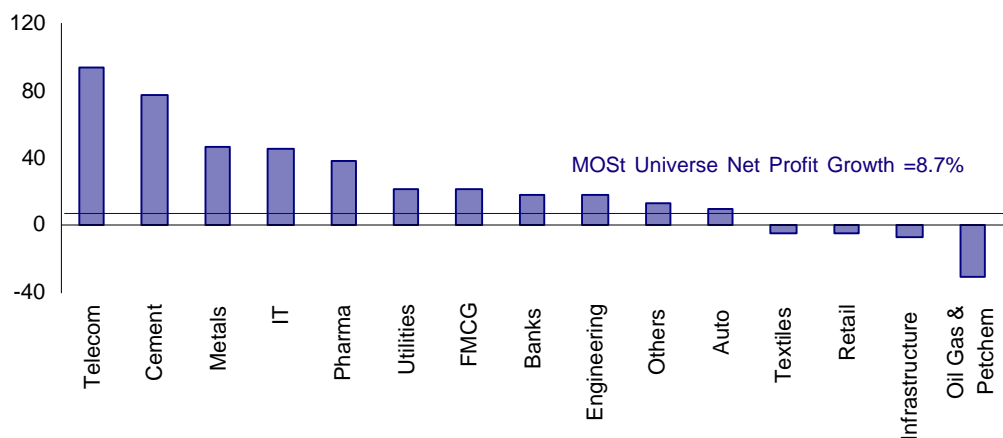
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**Net profit excluding OMCs to grow by 33% YoY**

*Telecom and Cement would witness the fastest net profit growth in our universe*

- ✍ We expect overall 4QFY07 PAT growth to be muted at 8.7% YoY. High growth in Telecom (94% YoY), Cement (77% YoY), Metals (47% YoY), IT (45% YoY) and Pharma (38% YoY) is offset by Oil & Gas (-31% YoY). Excluding OMCs, PAT growth is robust at 33% YoY. For the Sensex companies, we expect profit growth of 33%.
- ✍ Telecom is the high growth sector. RCom leads the pack with expected PAT growth of 128% YoY, followed by Bharti at 88% YoY.
- ✍ In Cement, Ultra Tech and India Cements are expected to clock PAT growth of over 200% YoY. Shree Cement would be the lowest at 34% YoY with all others – ACC, Birla Corp, Grasim, Gujarat Ambuja – recording growth rates of 58-78% YoY.
- ✍ Steel leads the Metals pack with JSW Steel expected to report highest PAT growth of 133% YoY followed by SAIL at 79%. Non-ferrous companies Hindalco (1% YoY) and Nalco (-1% YoY) significantly drag down sector growth to 47% YoY.
- ✍ IT PAT growth is expected to be 45% YoY and 6.6% QoQ driven by strong volume growth and better billing rates.
- ✍ Pharma PAT growth is expected to be 38% YoY, driven by CRAMS majors Nicholas (249% YoY) and Divi's (91% YoY). Consolidation of Terapia's performance is expected to drive Ranbaxy's PAT growth at 74% YoY.
- ✍ Three sectors are expected to register a decline in PAT — Oil & Gas (-31% YoY), Infrastructure (-7% YoY) and Textiles (-4.4% YoY). Oil & Gas is hit by underrecoveries. Infrastructure de-growth is due to the writeback of income-tax exemption under Section 80IA accounted for in earlier quarters. Textile continues to be hit by lower volume exports to the US and EU in the face of stiff competition from China.

SECTORAL NET PROFIT GROWTH - QUARTER ENDED MARCH 2007 (%)



Source: Motilal Oswal Securities

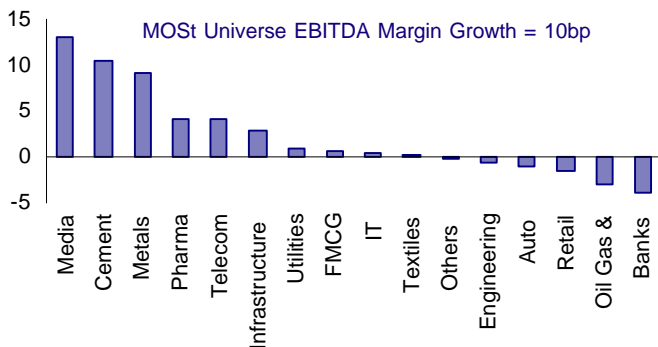
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## QUARTERLY PERFORMANCE - MOST UNIVERSE

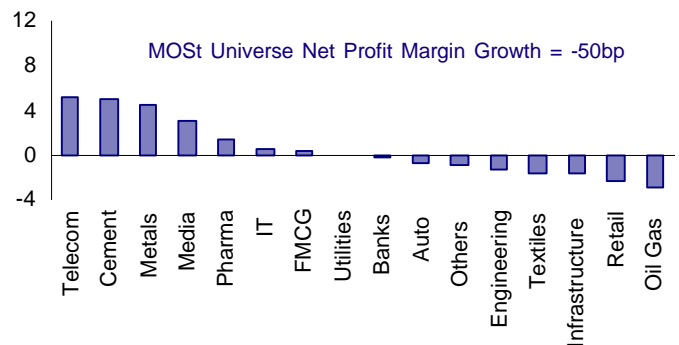
SECTOR (NO. OF COMPANIES)	EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)
Auto (11)	13.8	12.7	-1.1	9.3	8.5	-0.8
Banks (19)	84.6	80.7	-4.0	34.3	34.1	-0.2
Cement (7)	24.1	34.6	10.5	16.6	21.6	4.9
Engineering (9)	17.1	16.4	-0.6	12.7	11.4	-1.3
FMCG (11)	18.1	18.9	0.7	13.1	13.4	0.4
IT (14)	25.5	26.0	0.5	20.6	21.1	0.5
Infrastructure (8)	10.8	13.7	2.9	6.6	4.9	-1.7
Media (1)	19.2	32.2	13.0	17.2	20.3	3.0
Metals (6)	25.9	35.0	9.1	16.4	20.8	4.5
Oil Gas & Petchem (9)	14.3	11.3	-3.1	9.0	6.1	-3.0
Pharma (16)	16.3	20.4	4.1	12.6	14.0	1.3
Retail (3)	10.0	8.6	-1.4	6.2	3.7	-2.4
Telecom (3)	34.8	38.9	4.1	16.3	21.6	5.3
Textiles (7)	17.9	18.0	0.1	8.4	6.7	-1.6
Utilities (6)	20.3	21.2	1.0	17.9	18.0	0.0
Others (2)	30.2	29.9	-0.3	19.7	18.7	-1.0
<b>MOST (132)</b>	<b>20.4</b>	<b>20.6</b>	<b>0.1</b>	<b>12.5</b>	<b>12.0</b>	<b>-0.5</b>
<b>MOST Excl. Banks (113)</b>	<b>17.2</b>	<b>17.4</b>	<b>0.2</b>	<b>11.4</b>	<b>10.8</b>	<b>-0.6</b>
<b>MOST Excl. Oil &amp; Gas (123)</b>	<b>27.2</b>	<b>28.9</b>	<b>1.8</b>	<b>16.4</b>	<b>17.3</b>	<b>0.9</b>
<b>MOST Excl. Banks &amp; Oil (104)</b>	<b>20.7</b>	<b>23.4</b>	<b>2.8</b>	<b>14.4</b>	<b>15.5</b>	<b>1.2</b>
<b>MOST Excl Metals &amp; Oil (117)</b>	<b>27.4</b>	<b>27.9</b>	<b>0.5</b>	<b>16.4</b>	<b>16.7</b>	<b>0.4</b>

Source: Motilal Oswal Securities

## EBITDA MARGIN GROWTH - QUARTER ENDED MARCH 2007 (%)



## NET PROFIT MARGIN GROWTH - QUARTER ENDED MARCH 2007 (%)



Source: Motilal Oswal Securities

## SECTORAL CONTRIBUTION TO GROWTH IN SALES, EBITDA AND NET PROFIT (%)

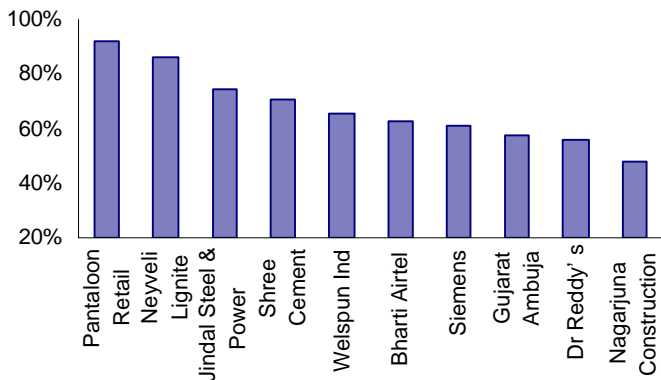
SECTOR	CONTRIBUTION TO SALES GR.	SECTOR	CONTRIBUTION TO EBITDA GR.	SECTOR	CONTRIBUTION TO NP GR.
IT (14)	15.3	Metals (6)	36.4	Metals (6)	51.5
Engineering (9)	12.6	Telecom (3)	19.8	IT (14)	42.4
Auto (11)	11.0	IT (14)	19.4	Telecom (3)	36.6
Oil Gas & Petchem (9)	10.4	Banks (19)	18.5	Banks (19)	27.5
Telecom (3)	8.9	Cement (7)	17.2	Cement (7)	25.6
Metals (6)	8.2	Engineering (9)	8.5	Utilities (6)	14.3
Banks (19)	6.7	Pharma (16)	7.7	Engineering (9)	11.3
Utilities (6)	6.3	Utilities (6)	7.6	Pharma (16)	10.7
Cement (7)	5.8	FMCG (11)	4.9	FMCG (11)	8.9
FMCG (11)	4.6	Auto (11)	3.8	Auto (11)	6.5
Pharma (16)	4.4	Infrastructure (8)	2.9	Others (2)	1.1
Infrastructure (8)	2.5	Textiles (7)	0.9	Media (1)	0.4
Retail (3)	1.5	Others (2)	0.9	Retail (3)	-0.1
Textiles (7)	1.0	Media (1)	0.6	Textiles (7)	-0.3
Others (2)	0.6	Retail (3)	0.4	Infrastructure (8)	-0.5
Media (1)	0.0	Oil Gas & Petchem (9)	-49.5	Oil Gas & Petchem (9)	-136.0

Source: Motilal Oswal Securities

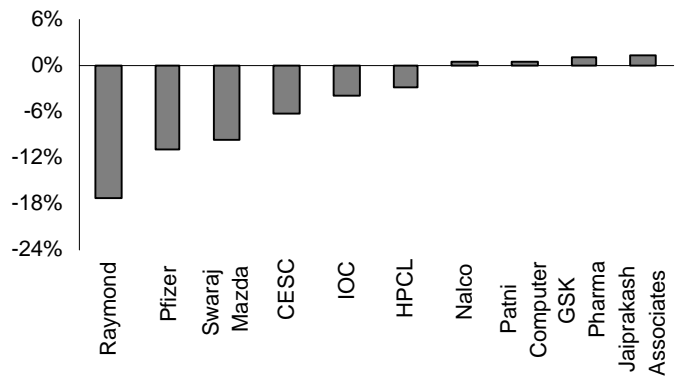
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Scoreboard (quarter ended March 2007)

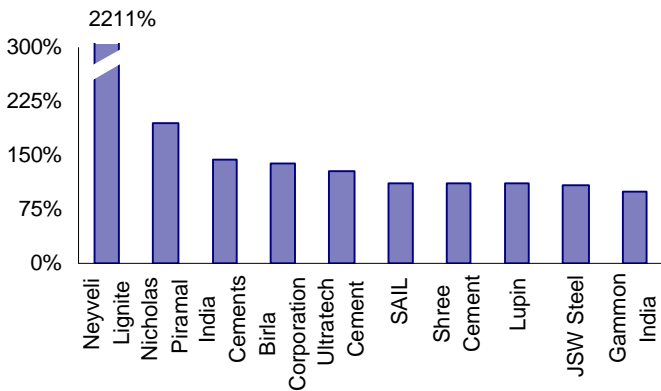
TOP 10 BY SALES GROWTH (%)



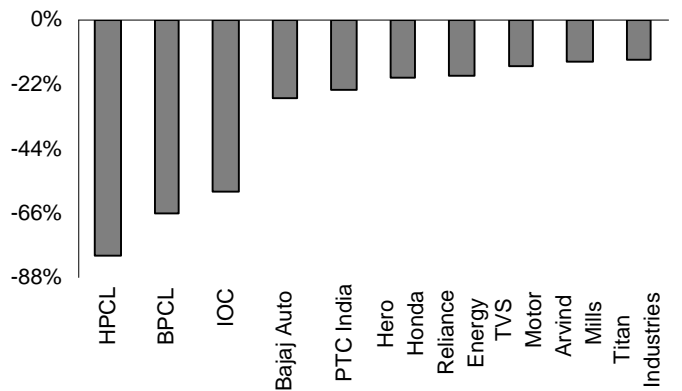
WORST 10 BY SALES GROWTH (%)



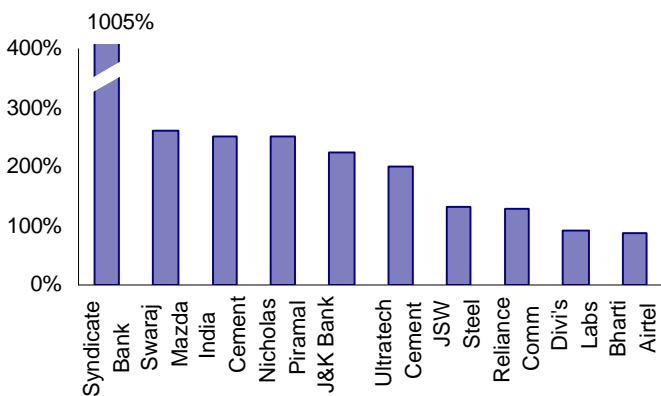
TOP 10 BY EBITDA GROWTH (%)



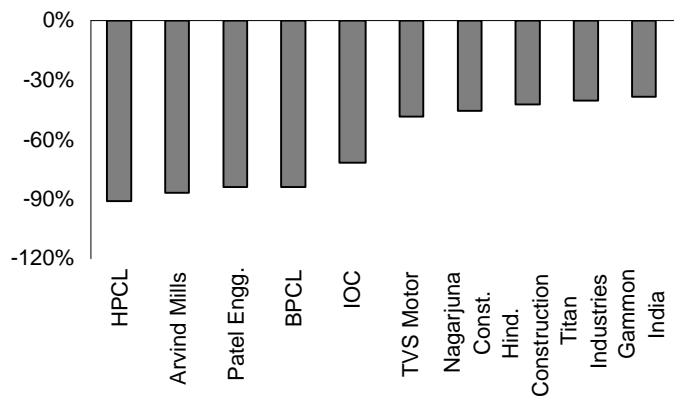
WORST 10 BY EBITDA GROWTH (%)



TOP 10 BY NET PROFIT GROWTH (%)



WORST 10 BY NET PROFIT GROWTH (%)



Matrix: Excluding DocPharma

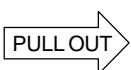
Source: Motilal Oswal Securities



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## Ready reckoner: valuations

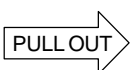
	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Automobiles</b>														
Ashok Leyland	36	Buy	3.3	3.9	4.5	11.1	9.2	8.1	5.9	4.6	3.8	26.3	27.3	26.9
Bajaj Auto	2,301	Neutral	124.1	135.1	148.4	18.5	17.0	15.5	13.4	12.1	10.2	22.5	21.1	20.1
Bharat Forge	303	Buy	12.9	17.0	20.5	23.5	17.8	14.8	13.7	10.3	8.1	18.6	20.2	20.0
Eicher Motors	231	Neutral	22.8	27.8	31.6	10.2	8.3	7.3	2.6	1.6	0.8	12.9	14.0	14.0
Hero Honda	639	Neutral	43.7	46.9	53.3	14.6	13.6	12.0	9.1	8.2	7.0	35.2	31.4	29.9
Mahindra & Mahindra	715	Buy	55.6	65.2	76.3	12.9	11.0	9.4	12.7	11.7	10.3	25.5	23.0	21.1
Maruti Udyog	753	Buy	53.7	62.9	74.3	14.0	12.0	10.1	7.7	6.2	4.8	22.6	21.4	20.5
Punjab Tractors	304	Neutral	12.7	14.2	15.3	23.9	21.5	19.9	14.1	12.5	11.3	12.4	12.8	12.7
Swaraj Mazda	340	Neutral	13.7	16.8	20.0	24.9	20.3	17.0	12.9	11.4	10.0	20.0	21.9	22.8
Tata Motors	669	Buy	58.4	65.3	73.8	11.5	10.2	9.1	7.0	6.3	5.5	29.4	26.5	24.5
TVS Motor	57	Neutral	3.1	3.5	3.8	18.6	16.4	15.1	8.1	7.3	6.4	8.9	9.5	9.7
<b>Sector Aggregate</b>						<b>15.8</b>	<b>14.2</b>	<b>12.6</b>	<b>9.1</b>	<b>7.8</b>	<b>6.6</b>	<b>24.8</b>	<b>23.2</b>	<b>22.1</b>
<b>Cement</b>														
ACC	705	Neutral	58.7	80.2	75.1	12.0	8.8	9.4	8.0	5.7	5.5	35.1	35.3	26.7
Birla Corporation	187	Buy	44.8	50.0	47.9	4.2	3.7	3.9	2.2	1.6	1.2	51.0	38.4	28.1
Grasim Industries	2,055	Buy	207.8	231.3	226.6	9.9	8.9	9.1	7.1	6.4	6.1	29.5	25.7	20.8
Gujarat Ambuja	104	Buy	9.5	11.6	10.6	11.0	8.9	9.8	8.0	5.8	5.4	45.5	38.2	27.8
India Cements	154	Buy	19.5	19.7	19.2	7.9	7.8	8.0	7.3	5.6	5.3	47.0	31.6	23.4
Shree Cement	910	Buy	101.6	139.4	165.6	9.0	6.5	5.5	6.0	3.8	2.8	78.1	58.6	44.2
UltraTech Cement	722	Buy	63.9	74.5	82.1	11.3	9.7	8.8	6.8	5.8	5.0	56.5	42.0	32.8
<b>Sector Aggregate</b>						<b>10.8</b>	<b>9.0</b>	<b>9.3</b>	<b>7.0</b>	<b>5.5</b>	<b>5.1</b>	<b>37.5</b>	<b>32.8</b>	<b>25.5</b>
<b>Engineering</b>														
ABB	3,399	Neutral	80.3	110.7	135.0	42.3	30.7	25.2	28.5	19.4	15.2	32.6	33.9	31.3
Alstom Projects	371	Neutral	14.0	16.2	19.0	26.5	23.0	19.5	23.6	20.0	16.1	28.9	28.9	29.0
Bharat Electronics	1,456	Buy	84.4	103.2	123.4	17.3	14.1	11.8	8.6	6.7	5.3	26.4	25.8	24.7
BHEL	2,154	Buy	96.6	118.3	141.2	22.3	18.2	15.3	13.2	10.6	8.6	28.6	27.8	26.6
Crompton Greaves	191	Buy	7.7	9.7	11.9	24.8	19.6	16.1	20.6	15.9	13.0	32.2	32.7	45.8
Cummins India	256	Neutral	12.0	14.6	17.4	21.4	17.5	14.7	-1.5	-1.4	-1.3	26.0	27.5	27.7
Larsen & Toubro	1,525	Buy	57.7	71.3	88.2	26.4	21.4	17.3	25.1	20.3	16.9	22.3	22.9	36.3
Siemens	1,036	Neutral	33.8	47.8	60.3	30.7	21.7	17.2	19.6	14.7	12.7	45.9	50.2	47.7
Thermax	370	Buy	16.1	23.0	30.5	23.0	16.1	12.1	14.2	10.5	7.4	39.7	40.4	42.1
<b>Sector Aggregate</b>						<b>24.0</b>	<b>19.0</b>	<b>15.6</b>	<b>16.3</b>	<b>12.9</b>	<b>10.6</b>	<b>31.0</b>	<b>31.6</b>	<b>31.3</b>
<b>FMCG</b>														
Asian Paints	741	Buy	27.8	33.4	40.9	26.6	22.2	18.1	16.0	13.1	10.8	35.6	35.1	34.5
Britannia	1,215	Buy	43.7	63.2	86.4	27.8	19.2	14.1	18.8	11.2	7.8	18.4	21.8	23.7
Colgate	333	Neutral	14.2	15.8	18.8	23.4	21.0	17.7	20.9	17.5	14.5	64.3	63.3	66.1
Dabur	93	Neutral	3.3	4.0	4.9	28.1	23.1	18.8	22.5	18.3	15.0	46.1	45.1	43.8
GSK Consumer	537	Buy	30.2	34.5	39.1	17.8	15.6	13.7	11.8	9.7	8.3	22.9	22.7	22.2
Godrej Consumer	143	Neutral	5.9	7.7	9.4	24.4	18.5	15.1	18.7	14.7	12.2	136.9	155.0	151.4
HLL	196	Buy	7.0	8.2	9.4	28.0	24.0	20.8	24.5	20.5	17.7	58.9	65.6	68.9
ITC	147	Buy	7.3	7.5	9.0	20.0	19.6	16.3	12.5	12.3	9.8	26.5	24.0	25.5
Marico	60	Buy	2.2	3.1	3.8	27.7	19.4	15.9	16.4	12.5	10.3	82.3	71.3	57.9
Nestle	940	Neutral	33.9	39.7	48.5	27.7	23.7	19.4	16.5	15.0	12.2	52.6	55.0	59.7
Tata Tea	593	Neutral	51.2	42.5	56.2	11.6	14.0	10.6	10.6	8.5	7.0	13.6	9.6	11.6
<b>Sector Aggregate</b>						<b>23.2</b>	<b>21.0</b>	<b>17.5</b>	<b>16.0</b>	<b>14.2</b>	<b>11.7</b>	<b>32.7</b>	<b>31.7</b>	<b>33.3</b>



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## Ready reckoner: valuations

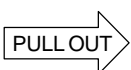
	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Information Technology</b>														
Geometric Software	99	Buy	6.1	10.1	15.6	16.3	9.8	6.3	10.1	5.6	3.7	20.8	25.5	31.1
Hexaware	168	Buy	9.4	12.9	15.7	17.9	13.1	10.7	14.4	10.6	8.0	22.7	20.8	21.3
HCL Technologies	272	Buy	15.4	18.5	22.4	17.7	14.8	12.2	11.7	8.8	6.9	26.1	28.2	30.3
i-flex solutions	2,057	Neutral	38.7	56.8	72.7	53.2	36.2	28.3	39.6	25.4	20.2	17.6	19.1	20.7
Infosys	1,921	Buy	67.3	87.2	103.4	28.6	22.0	18.6	22.9	17.0	13.5	43.3	39.4	34.6
Infotech Enterpr	351	Buy	17.2	23.7	30.3	20.4	14.8	11.6	13.6	9.6	7.3	31.4	32.0	30.6
KPIT Cummins	131	Buy	6.8	9.1	12.1	19.3	14.4	10.8	14.2	9.9	7.2	29.6	29.5	29.9
MphasiS	275	Buy	7.2	11.6	13.5	38.0	23.7	20.3	21.3	14.7	12.0	26.8	34.1	31.2
Patni Computer	375	Neutral	25.8	30.9	36.9	14.5	12.1	10.2	7.9	6.1	4.6	16.8	17.6	17.9
Sasken Comm	475	Buy	17.5	30.4	39.4	27.1	15.6	12.0	16.8	9.8	7.1	12.1	18.3	20.2
Satyam Computer	446	Buy	20.9	25.6	30.1	21.4	17.4	14.9	16.5	12.8	10.2	27.7	27.1	25.6
TCS	1,189	Buy	42.4	55.0	66.6	28.0	21.6	17.9	22.6	17.1	13.8	54.3	46.9	39.9
Tech Mahindra	1,342	Buy	45.0	60.9	85.2	29.8	22.0	15.8	21.6	15.6	10.9	46.2	42.3	36.3
Wipro	518	Buy	19.6	25.7	30.5	26.4	20.1	17.0	20.6	15.0	11.7	31.1	31.5	29.3
<b>Sector Aggregate</b>						<b>26.6</b>	<b>20.4</b>	<b>16.8</b>	<b>20.7</b>	<b>15.3</b>	<b>12.1</b>	<b>35.9</b>	<b>34.7</b>	<b>32.2</b>
<b>Infrastructure</b>														
BL Kashyap	1,145	Neutral	46.4	70.0	101.5	24.7	16.4	11.3	18.3	12.2	8.8	16.7	20.6	23.5
GMR Infrastructure	341	Buy	5.1	4.8	5.8	66.9	71.0	58.3	24.2	25.0	17.4	9.8	8.5	9.6
Gammon India	292	Buy	10.5	15.2	21.0	27.7	19.2	13.9	13.2	9.5	7.1	9.4	12.3	15.0
Hindustan Construction	84	Buy	2.7	4.4	6.6	31.2	19.0	12.8	13.1	8.2	6.4	7.7	10.3	11.9
IVRCL Infra.	258	Buy	7.9	12.7	18.4	32.8	20.3	14.1	15.6	11.3	8.4	7.8	11.4	14.4
Jaiprakash Associates	534	Buy	17.2	18.7	26.0	31.1	28.6	20.5	17.2	15.3	11.6	12.1	10.5	13.2
Nagarjuna Construction	147	Buy	6.9	9.3	13.2	21.5	15.8	11.2	13.5	10.3	8.1	14.3	17.4	21.0
Patel Engineering	316	Buy	13.0	18.4	24.3	24.3	17.2	13.0	13.0	9.5	7.8	18.4	15.8	17.9
<b>Sector Aggregate</b>						<b>34.6</b>	<b>27.4</b>	<b>19.8</b>	<b>17.4</b>	<b>14.6</b>	<b>11.1</b>	<b>11.1</b>	<b>11.7</b>	<b>14.2</b>
<b>Media</b>														
Zee Entertainment	240	Neutral	5.5	8.3	11.2	43.5	28.8	21.5	29.8	17.3	13.0	9.8	12.4	14.7
<b>Metals</b>														
Hindalco	128	Buy	23.0	23.2	26.3	5.6	5.5	4.8	4.1	3.8	3.3	21.9	17.2	16.6
Jindal Steel & Power	2,247	Buy	232.0	306.8	342.6	9.7	7.3	6.6	7.5	5.4	4.0	28.6	28.0	26.5
JSW Steel	476	Buy	70.6	91.0	105.2	6.7	5.2	4.5	4.3	3.4	3.5	24.7	24.5	23.2
Nalco	231	Neutral	37.1	29.1	29.6	6.2	7.9	7.8	3.2	4.1	3.7	30.2	19.9	17.4
SAIL	108	Buy	14.7	16.3	20.8	7.3	6.6	5.2	3.7	3.1	2.3	34.5	29.3	29.1
Tata Steel	424	Buy	74.4	79.2	110.4	5.7	5.4	3.8	3.3	2.8	1.9	30.2	24.2	26.4
<b>Sector Aggregate</b>						<b>6.5</b>	<b>6.2</b>	<b>4.9</b>	<b>3.8</b>	<b>3.4</b>	<b>2.7</b>	<b>29.3</b>	<b>24.0</b>	<b>24.1</b>
<b>Oil &amp; Gas</b>														
BPCL	294	Buy	39.1	38.6	46.8	7.5	7.6	6.3	5.4	4.4	3.2	16.0	14.2	15.5
Chennai Petroleum	185	Neutral	27.7	31.7	32.8	6.7	5.8	5.7	3.6	3.8	3.4	17.2	17.9	16.2
GAIL	266	Neutral	27.7	27.0	26.2	9.6	9.8	10.1	6.1	5.1	5.7	22.2	19.3	16.7
HPCL	241	Buy	35.9	35.1	40.0	6.7	6.8	6.0	7.4	5.4	4.3	13.5	12.3	12.9
IOC	388	Buy	37.3	48.7	47.2	10.4	8.0	8.2	6.8	5.9	4.6	11.0	13.8	11.8
IPCL	259	Neutral	47.6	36.6	28.8	5.4	7.1	9.0	2.4	3.4	5.3	33.9	21.2	3.1
Indraprastha Gas	98	Not Rated	9.6	11.1	11.8	10.3	8.9	8.4	5.2	4.1	4.3	31.9	30.5	25.9
ONGC	828	Buy	88.8	94.1	99.8	9.3	8.8	8.3	4.5	4.1	3.7	31.1	27.9	26.2
Reliance Inds.	1,314	Neutral	76.9	76.8	79.5	17.1	17.1	16.5	11.8	10.9	9.9	31.5	25.4	22.3
<b>Sector Aggregate</b>						<b>11.3</b>	<b>10.6</b>	<b>10.3</b>	<b>6.5</b>	<b>5.9</b>	<b>5.4</b>	<b>24.4</b>	<b>22.1</b>	<b>18.3</b>



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## Ready reckoner: valuations

	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Pharmaceuticals</b>														
Aurobindo Pharma	683	Sell	33.5	42.0	53.7	20.4	16.2	12.7	13.0	10.7	8.7	22.2	22.0	22.1
Aventis Pharma	1,214	Buy	73.5	84.0	96.1	16.5	14.5	12.6	10.7	8.6	7.2	28.6	26.9	25.5
Biocon	465	Buy	20.5	24.7	28.2	22.7	18.8	16.5	15.9	12.0	10.2	19.6	20.0	19.4
Cadila Health	331	Buy	19.2	21.8	25.6	17.2	15.1	12.9	11.5	9.3	7.9	27.7	26.7	25.5
Cipla	226	Buy	9.4	11.7	14.5	24.0	19.3	15.6	18.5	15.1	12.2	21.9	22.4	22.7
Divi's Labs	3,015	Neutral	104.9	124.9	153.4	28.7	24.1	19.7	21.3	16.8	14.0	34.1	31.4	30.1
Dr Reddy's Labs	711	Buy	24.8	35.8	41.4	28.7	19.9	17.2	17.5	14.4	12.8	11.7	14.9	15.3
GSK Pharma	1,104	Buy	42.7	48.1	56.0	25.8	22.9	19.7	17.4	14.8	12.3	30.3	28.2	27.1
Jubilant Organosys	252	Buy	12.0	16.0	18.7	20.9	15.7	13.5	11.9	9.4	7.4	22.7	23.3	22.2
Lupin	603	Buy	24.8	35.8	41.2	24.4	16.9	14.6	16.8	12.4	10.4	30.9	34.7	31.2
Nicholas Piramal	241	Buy	10.8	14.9	18.8	22.3	16.2	12.8	14.1	11.6	9.4	22.3	27.2	29.2
Pfizer	775	Neutral	39.4	33.6	38.7	19.7	23.1	20.0	12.9	13.8	11.5	26.9	20.8	21.5
Ranbaxy Labs	341	Buy	13.6	15.8	20.3	25.2	21.6	16.8	16.8	14.1	11.3	20.1	20.9	23.7
Shasun Chemicals	98	Buy	-2.3	12.2	17.4	-43.3	8.1	5.6	8.1	5.5	4.1	18.9	23.8	24.6
Sun Pharma	1,043	Buy	35.6	42.4	51.9	29.3	24.6	20.1	26.9	21.8	17.6	39.0	36.3	34.8
Wockhardt	378	UR	22.3	25.3	31.2	17.0	15.0	12.1	10.2	7.7	6.6	29.4	27.0	27.0
<b>Sector Aggregate</b>						<b>23.1</b>	<b>18.5</b>	<b>15.2</b>	<b>16.6</b>	<b>13.5</b>	<b>11.2</b>	<b>23.0</b>	<b>24.0</b>	<b>24.2</b>
<b>Retailing</b>														
Pantaloon Retail	378	Buy	6.9	9.2	13.8	54.7	41.3	27.5	24.0	17.7	13.2	14.3	13.5	17.2
Shopper's Stop	615	Neutral	10.4	12.8	18.0	59.2	47.9	34.2	28.7	22.7	16.7	12.7	14.4	18.2
Titan Industries	815	Neutral	21.6	34.0	49.4	37.7	24.0	16.5	19.7	13.8	10.3	35.0	31.8	33.6
<b>Sector Aggregate</b>						<b>47.4</b>	<b>32.9</b>	<b>22.4</b>	<b>23.1</b>	<b>17.0</b>	<b>12.7</b>	<b>18.6</b>	<b>18.7</b>	<b>22.4</b>
<b>Telecom</b>														
Bharti Airtel	731	Buy	22.1	32.2	40.1	33.1	22.7	18.2	19.4	12.8	9.6	37.1	37.1	32.6
Reliance Comm	397	Buy	14.9	22.2	28.2	26.5	17.9	14.1	14.5	9.8	7.3	23.0	26.2	25.7
VSNL	396	Neutral	16.2	16.0	17.8	24.5	24.8	22.2	11.4	9.2	7.8	7.2	7.0	7.4
<b>Sector Aggregate</b>						<b>30.0</b>	<b>20.9</b>	<b>16.7</b>	<b>16.9</b>	<b>11.4</b>	<b>8.6</b>	<b>25.0</b>	<b>27.5</b>	<b>26.4</b>
<b>Textiles</b>														
Alok Ind	56	Neutral	7.0	10.3	12.1	8.0	5.4	4.6	8.5	6.4	5.6	11.5	15.1	15.4
Arvind Mills	42	Neutral	0.8	3.9	4.9	50.0	10.8	8.7	9.3	7.6	6.9	1.2	5.4	6.4
Gokaldas Exports	228	Buy	21.4	26.7	31.3	10.7	8.5	7.3	6.9	5.7	4.7	19.2	20.2	19.9
Himatsingka Seide	115	Neutral	6.2	9.2	11.4	18.5	12.5	10.1	17.5	8.8	7.1	10.3	14.2	15.9
Raymond	336	Neutral	28.9	35.0	43.6	11.6	9.6	7.7	7.2	6.0	4.8	8.7	9.2	9.9
Vardhman Textiles	200	Buy	26.9	32.9	39.4	7.4	6.1	5.1	7.1	7.1	6.1	16.7	17.7	18.2
Welspun Ind	71	Neutral	7.8	10.1	12.8	9.2	7.0	5.6	8.9	7.9	6.7	10.0	12.0	13.6
<b>Sector Aggregate</b>						<b>10.9</b>	<b>7.9</b>	<b>6.5</b>	<b>8.4</b>	<b>6.9</b>	<b>5.9</b>	<b>10.2</b>	<b>12.7</b>	<b>13.7</b>
<b>Utilities</b>														
CESC	366	Buy	28.5	29.4	31.3	12.8	12.4	11.7	8.3	8.2	8.0	12.6	11.7	11.1
Neyveli Lignite Corp.	53	Buy	4.3	3.8	3.9	12.3	13.8	13.5	5.4	6.0	6.8	8.8	7.6	7.5
NTPC	147	Neutral	8.1	8.9	9.5	18.2	16.6	15.4	11.5	10.0	9.8	14.2	14.3	14.1
PTC India	60	Buy	2.6	3.4	4.4	23.3	17.7	13.5	24.8	17.0	14.0	14.8	17.5	20.1
Reliance Energy	477	Buy	31.6	33.8	38.1	15.1	14.1	12.5	7.9	5.3	3.5	9.5	9.0	9.4
Tata Power	496	Buy	28.1	31.3	31.6	17.7	15.9	15.7	10.9	9.8	9.0	9.1	8.4	8.2
<b>Sector Aggregate</b>						<b>17.1</b>	<b>15.9</b>	<b>14.8</b>	<b>10.8</b>	<b>9.4</b>	<b>9.2</b>	<b>12.7</b>	<b>12.5</b>	<b>12.5</b>

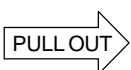


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## Ready reckoner: valuations

	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Others</b>														
Concor	1,880	Buy	102.4	118.9	142.0	18.4	15.8	13.2	12.0	10.0	7.9	28.4	26.4	25.4
United Phosphorous	312	Buy	14.4	18.8	21.8	21.7	16.6	14.3	10.0	8.0	6.6	20.7	22.2	21.1
<b>Sector Aggregate</b>						<b>18.9</b>	<b>15.7</b>	<b>13.3</b>	<b>11.2</b>	<b>9.2</b>	<b>7.4</b>	<b>25.5</b>	<b>24.9</b>	<b>23.8</b>

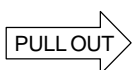
	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Banks</b>														
Andhra Bank	72	Buy	11.2	12.9	14.5	6.4	5.5	4.9	1.1	1.0	0.9	17.9	18.5	18.5
Bank of Baroda	201	Buy	28.9	34.7	41.5	6.9	5.8	4.8	0.9	0.8	0.7	12.8	13.9	14.9
Bank of India	154	Buy	19.1	23.4	29.3	8.1	6.6	5.3	1.4	1.2	1.0	17.6	18.8	20.3
Canara Bank	183	Buy	31.2	34.5	40.9	5.9	5.3	4.5	0.9	0.8	0.7	16.8	16.5	17.3
Corporation Bank	259	Sell	37.1	42.0	46.8	7.0	6.2	5.5	1.0	0.9	0.8	14.8	15.0	14.8
Federal Bank	203	Buy	30.5	36.4	42.1	6.7	5.6	4.8	1.2	1.0	0.9	17.8	18.1	17.9
HDFC Bank	902	Buy	36.6	47.8	62.1	24.6	18.9	14.5	4.5	3.8	3.1	19.9	21.9	23.5
HDFC	1,433	Neutral	61.2	71.7	86.5	23.4	20.0	16.6	6.7	5.6	4.7	31.1	30.5	30.7
ICICI Bank	805	Buy	36.4	44.8	53.9	22.1	17.9	14.9	2.9	2.6	2.3	13.9	15.4	16.4
Indian Overseas Bank	96	Buy	17.5	20.3	23.8	5.5	4.7	4.0	1.4	1.1	0.9	26.8	25.3	24.3
J&K Bank	628	Buy	62.7	74.3	90.1	10.0	8.5	7.0	1.5	1.3	1.1	15.9	16.5	17.5
Karnataka Bank	166	Buy	16.7	19.4	22.1	10.0	8.6	7.5	1.6	1.4	1.2	17.0	17.3	17.1
Oriental Bank	169	Neutral	35.0	36.3	41.0	4.8	4.6	4.1	0.8	0.7	0.6	16.2	15.5	16.0
Punjab National Bank	428	Buy	53.9	69.8	85.8	7.9	6.1	5.0	1.3	1.1	0.9	16.9	19.0	20.0
State Bank	930	Buy	77.1	88.0	102.1	12.1	10.6	9.1	1.6	1.4	1.3	13.9	14.2	14.7
Syndicate Bank	59	Buy	13.9	15.5	17.1	4.2	3.8	3.4	1.0	0.8	0.7	23.3	21.9	20.5
Union Bank	96	Buy	16.1	18.9	22.3	6.0	5.1	4.3	1.0	0.9	0.8	16.8	17.6	18.3
UTI Bank	460	Buy	22.6	28.1	34.9	20.3	16.4	13.2	3.8	3.2	2.7	20.2	21.2	22.0
Vijaya Bank	39	Neutral	7.8	8.7	9.6	5.0	4.5	4.0	0.9	0.8	0.7	18.8	18.6	18.2
<b>Sector Aggregate</b>						<b>12.6</b>	<b>10.6</b>	<b>8.9</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>16.6</b>	<b>17.3</b>	<b>18.1</b>



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## Ready reckoner: quarterly performance

	CMP (RS) 2.4.07	RECO	SALES			EBITDA			NET PROFIT		
			MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)
<b>Automobiles</b>											
Ashok Leyland	36	Buy	17,319	22,819	31.8	2,153	2,743	27.4	1,322	1,742	31.8
Bajaj Auto	2,301	Neutral	21,659	22,153	2.3	4,250	3,131	-26.3	3,337	2,908	-12.9
Bharat Forge	303	Buy	4,384	5,443	24.1	1,053	1,394	32.4	530	696	31.3
Eicher Motors	231	Neutral	5,144	5,876	14.2	358	416	16.3	280	236	-15.7
Hero Honda	639	Neutral	22,559	25,145	11.5	3,606	2,882	-20.1	2,678	2,105	-21.4
Mahindra & Mahindra	715	Buy	22,278	27,046	21.4	2,119	3,256	53.7	1,634	2,548	55.9
Maruti Udyog	753	Buy	33,059	43,130	30.5	5,503	6,557	19.2	3,982	4,442	11.6
Punjab Tractors	304	Neutral	2,514	2,789	11.0	383	356	-7.1	210	221	5.0
Swaraj Mazda	340	Neutral	1,573	1,422	-9.6	49	96	96.5	12	42	259.5
Tata Motors	669	Buy	68,683	85,006	23.8	8,718	10,557	21.1	5,037	6,216	23.4
TVS Motor	57	Neutral	8,393	9,168	9.2	482	405	-15.9	291	150	-48.4
<b>Sector Aggregate</b>			<b>207,563</b>	<b>249,997</b>	<b>20.4</b>	<b>28,673</b>	<b>31,793</b>	<b>10.9</b>	<b>19,313</b>	<b>21,306</b>	<b>10.3</b>
<b>Cement</b>											
ACC	705	Neutral	13,218	18,131	37.2	3,151	5,838	85.3	2,552	4,043	58.4
Birla Corporation	187	Buy	3,941	4,665	18.4	815	1,950	139.2	671	1,196	78.2
Grasim Industries	2,055	Buy	18,151	23,412	29.0	4,065	7,194	77.0	2,627	4,390	67.1
Gujarat Ambuja	104	Buy	9,243	14,544	57.4	3,213	5,968	85.8	2,645	4,218	59.4
India Cements	154	Buy	4,228	5,762	36.3	764	1,859	143.5	270	947	250.2
Shree Cement	910	Buy	2,255	3,848	70.6	836	1,771	111.8	607	815	34.3
UltraTech Cement	722	Buy	10,224	13,413	31.2	1,918	4,390	128.9	815	2,450	200.6
<b>Sector Aggregate</b>			<b>61,259</b>	<b>83,775</b>	<b>36.8</b>	<b>14,763</b>	<b>28,972</b>	<b>96.3</b>	<b>10,188</b>	<b>18,059</b>	<b>77.3</b>
<b>Engineering</b>											
ABB	3,399	Neutral	8,029	10,036	25.0	695	928	33.7	513	650	26.8
Alstom Projects	371	Neutral	2,499	2,746	9.9	179	222	23.8	207	207	0.2
Bharat Electronics	1,456	Buy	15,757	19,811	25.7	4,174	5,261	26.0	2,809	3,181	13.2
BHEL	2,154	Buy	55,157	70,328	27.5	11,949	15,477	29.5	8,680	11,005	26.8
Crompton Greaves	191	Buy	7,983	10,452	30.9	752	1,199	59.4	748	662	-11.6
Cummins India	256	Neutral	3,877	4,939	27.4	583	700	20.0	541	623	15.2
Larsen & Toubro	1,525	Buy	45,943	61,085	33.0	6,304	6,742	6.9	4,585	4,520	-1.4
Siemens	1,036	Neutral	11,334	18,241	60.9	1,214	1,950	60.7	1,178	1,632	38.5
Thermax	370	Buy	4,762	6,397	34.3	709	1,084	52.9	427	695	62.8
<b>Sector Aggregate</b>			<b>155,341</b>	<b>204,035</b>	<b>31.3</b>	<b>26,559</b>	<b>33,564</b>	<b>26.4</b>	<b>19,689</b>	<b>23,176</b>	<b>17.7</b>
<b>FMCG</b>											
Asian Paints	741	Buy	5,645	6,887	22.0	812	1,071	31.9	537	662	23.3
Britannia	1,215	Buy	4,540	5,722	26.0	225	407	80.9	229	373	63.0
Colgate	333	Neutral	3,021	3,369	11.5	392	539	37.6	370	491	32.7
Dabur	93	Neutral	4,462	5,325	19.3	784	927	18.2	633	743	17.3
GSK Consumer	537	Buy	2,769	3,198	15.5	580	598	3.2	345	380	10.4
Godrej Consumer	143	Neutral	1,908	2,457	28.8	393	445	13.2	285	334	17.0
HLL	196	Buy	27,981	30,800	10.1	3,306	3,900	18.0	2,985	3,497	17.2
ITC	147	Buy	27,845	34,690	24.6	8,077	9,998	23.8	5,670	6,967	22.9
Marico	60	Buy	2,977	3,860	29.7	364	604	66.2	251	391	55.6
Nestle	940	Neutral	7,210	8,184	13.5	1,365	1,559	14.2	760	934	23.0
Tata Tea	593	Neutral	8,167	9,856	20.7	1,211	1,537	26.9	565	606	7.3
<b>Sector Aggregate</b>			<b>96,524</b>	<b>114,349</b>	<b>18.5</b>	<b>17,508</b>	<b>21,585</b>	<b>23.3</b>	<b>12,629</b>	<b>15,379</b>	<b>21.8</b>

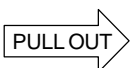


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## Ready reckoner: quarterly performance

	CMP (RS) 2.4.07	RECO	SALES			EBITDA			NET PROFIT		
			MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)
<b>Infrastructure</b>											
BL Kashyap	1,145	Neutral	1,510	1,942	28.7	157	200	27.4	93	113	21.1
GMR Infrastructure	341	Buy		4,289	-		1,767	-		610	-
Gammon India	292	Buy	4,767	6,518	36.7	353	710	101.0	288	177	-38.6
Hindustan Construction	84	Buy	7,681	8,953	16.6	675	918	36.1	426	244	-42.8
IVRCL Infra.	258	Buy	5,906	8,157	38.1	558	833	49.2	438	371	-15.4
Jaiprakash Associates	534	Buy	8,550	8,667	1.4	1,540	2,507	62.8	700	1,211	73.0
Nagarjuna Construction	147	Buy	6,404	9,466	47.8	531	946	78.0	349	192	-45.1
Patel Engineering	316	Buy	3,014	3,882	28.8	269	399	48.1	212	34	-84.2
<b>Sector Aggregate</b>			<b>37,832</b>	<b>47,585</b>	<b>25.8</b>	<b>4,084</b>	<b>6,512</b>	<b>59.5</b>	<b>2,507</b>	<b>2,341</b>	<b>-6.7</b>
<b>Media</b>											
Zee Entertainment	240	Neutral	3,966	3,991	-	761	1,284	-	684	809	-
<b>Metals</b>											
Hindalco	128	Buy	36,574	42,750	16.9	9,298	10,426	12.1	6,269	6,330	1.0
Jindal Steel & Power	2,247	Buy	6,735	11,739	74.3	2,687	4,201	56.3	1,507	2,141	42.1
JSW Steel	476	Buy	15,832	23,067	45.7	4,012	8,346	108.0	1,546	3,610	133.5
Nalco	231	Neutral	15,380	15,459	0.5	9,705	8,917	-8.1	6,080	6,012	-1.1
SAIL	108	Buy	92,190	100,550	9.1	15,159	32,212	112.5	11,032	19,713	78.7
Tata Steel	424	Buy	41,290	46,084	11.6	13,008	19,880	52.8	7,604	12,083	58.9
<b>Sector Aggregate</b>			<b>208,001</b>	<b>239,649</b>	<b>15.2</b>	<b>53,868</b>	<b>83,982</b>	<b>55.9</b>	<b>34,039</b>	<b>49,890</b>	<b>46.6</b>
<b>Oil &amp; Gas</b>											
BPCL	294	Buy	250,940	258,620	3.1	19,163	6,443	-66.4	16,839	2,794	-83.4
Chennai Petroleum	185	Neutral	65,815	69,477	5.6	1,366	1,482	8.5	354	363	2.4
GAIL	266	Neutral	42,078	52,360	24.4	7,044	8,800	24.9	4,093	6,374	55.8
HPCL	241	Buy	227,390	221,127	-2.8	19,528	3,815	-80.5	20,134	1,934	-90.4
IOC	388	Buy	507,844	488,556	-3.8	52,305	21,690	-58.5	40,306	11,345	-71.9
IPCL	259	Neutral	29,130	30,500	4.7	5,640	6,500	15.2	3,210	4,208	31.1
Indraprastha Gas	98	Not Rated	1,357	1,618	19.2	581	674	15.9	298	358	20.3
ONGC	828	Buy	118,984	144,275	21.3	67,254	77,329	15.0	24,454	38,940	59.2
Reliance Inds.	1,314	Neutral	245,420	262,332	6.9	40,460	45,646	12.8	25,020	26,550	6.1
<b>Sector Aggregate</b>			<b>1,488,958</b>	<b>1,528,865</b>	<b>2.7</b>	<b>213,340</b>	<b>172,378</b>	<b>-19.2</b>	<b>134,706</b>	<b>92,866</b>	<b>-31.1</b>
<b>Pharmaceuticals</b>											
Aurobindo Pharma	683	Sell	4,630	5,233	13.0	716	821	14.7	375	565	50.7
Aventis Pharma	1,214	Buy	2,005	2,335	16.5	502	625	24.6	369	468	26.8
Biocon	465	Buy	2,143	2,938	37.1	605	894	47.8	478	646	35.1
Cadila Health	331	Buy	3,460	4,198	21.3	656	854	30.2	344	462	34.1
Cipla	226	Buy	8,706	9,857	13.2	1,803	2,458	36.3	1,908	1,954	2.4
Divis Labs	3,015	Neutral	1,271	1,783	40.3	388	551	42.2	229	437	90.9
Dr Reddy' s Labs	711	Buy	6,974	10,880	56.0	-19	1,766	-	-232	878	-
GSK Pharma	1,104	Buy	4,254	4,293	0.9	1,411	1,388	-1.6	1,034	1,040	0.6
Jubilant Organosys	252	Buy	4,238	5,128	21.0	693	912	31.6	482	592	22.9
Lupin	603	Buy	4,220	5,055	19.8	416	879	111.1	502	582	16.0
Nicholas Piramal	241	Buy	4,220	6,077	44.0	332	978	194.7	147	512	249.2
Pfizer	775	Neutral	1,729	1,538	-11.0	426	403	-5.5	291	270	-7.2
Ranbaxy Labs	341	Buy	12,981	15,414	18.7	1,482	2,158	45.6	714	1,245	74.4
Shasun Chemicals	98	Buy	991	1,357	36.9	228	249	9.2	132	123	-6.3
Sun Pharma	1,043	Buy	3,966	5,184	30.7	969	1,642	69.4	1,429	1,682	17.7
Wockhardt	378	UR	3,510	5,051	43.9	689	1,066	54.7	543	587	8.1
<b>Sector Aggregate</b>			<b>69,299</b>	<b>86,323</b>	<b>24.6</b>	<b>11,298</b>	<b>17,644</b>	<b>56.2</b>	<b>8,744</b>	<b>12,043</b>	<b>37.7</b>

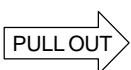
*Shasun: Excluding acquisition of Rhodia*



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## Ready reckoner: quarterly performance

	CMP (RS) 2.4.07	RECO	SALES			EBITDA			NET PROFIT		
			MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)
<b>Retailing</b>											
Pantaloon Retail	378	Buy	4,554	8,750	92.1	385	725	88.3	162	278	71.2
Shopper's Stop	615	Neutral	1,635	2,299	40.7	119	208	75.3	61	82	33.5
Titan Industries	815	Neutral	4,231	5,279	24.8	537	463	-13.8	419	251	-40.2
<b>Sector Aggregate</b>			<b>10,419</b>	<b>16,328</b>	<b>56.7</b>	<b>1,041</b>	<b>1,397</b>	<b>34.2</b>	<b>643</b>	<b>611</b>	<b>-5.0</b>
<b>Telecom</b>											
Bharti Airtel	731	Buy	34,113	55,541	62.8	12,782	22,589	76.7	6,823	12,801	87.6
Reliance Comm	397	Buy	29,704	41,223	38.8	10,422	16,681	60.1	4,029	9,172	127.7
VSNL	396	Neutral	9,595	10,957	14.2	2,328	2,650	13.8	1,115	1,244	11.6
<b>Sector Aggregate</b>			<b>73,412</b>	<b>107,721</b>	<b>46.7</b>	<b>25,532</b>	<b>41,920</b>	<b>64.2</b>	<b>11,967</b>	<b>23,217</b>	<b>94.0</b>
<b>Textiles</b>											
Alok Ind	56	Neutral	4,077	5,414	32.8	876	1,182	34.9	347	420	21.1
Arvind Mills	42	Neutral	3,578	4,315	20.6	864	739	-14.4	215	28	-87.0
Gokaldas Exports	228	Buy	2,391	3,005	25.7	276	343	24.5	150	214	42.3
Himatsingka Seide	115	Neutral	379	474	25.1	106	153	44.4	118	130	9.9
Raymond	336	Neutral	3,843	3,176	-17.3	531	623	17.2	348	322	-7.6
Vardhman Textiles	200	Buy	4,948	5,509	11.3	836	909	8.7	492	411	-16.4
Welspun Ind	71	Neutral	2,051	3,388	65.2	314	608	93.5	107	175	63.4
<b>Sector Aggregate</b>			<b>21,266</b>	<b>25,281</b>	<b>18.9</b>	<b>3,803</b>	<b>4,557</b>	<b>19.8</b>	<b>1,777</b>	<b>1,700</b>	<b>-4.4</b>
<b>Utilities</b>											
CESC	366	Buy	5,840	5,475	-6.2	1,440	1,243	-13.7	440	550	25.0
Neyveli Lignite Corp.	53	Buy	3,676	6,847	86.3	130	3,006	2,210.6	1,190	1,774	49.1
NTPC	147	Neutral	72,914	85,749	17.6	17,583	20,565	17.0	15,662	19,096	21.9
PTC India	60	Buy	7,547	10,627	40.8	92	70	-23.8	70	89	27.9
Reliance Energy	477	Buy	10,382	14,477	39.4	1,901	1,541	-19.0	1,695	1,871	10.4
Tata Power	496	Buy	11,711	13,316	13.7	1,573	2,573	63.6	1,052	1,129	7.4
<b>Sector Aggregate</b>			<b>112,069</b>	<b>136,491</b>	<b>21.8</b>	<b>22,719</b>	<b>28,998</b>	<b>27.6</b>	<b>20,108</b>	<b>24,509</b>	<b>21.9</b>
<b>Others</b>											
Concor	1,880	Buy	6,806	8,184	20.2	1,966	2,251	14.5	1,362	1,437	5.5
United Phosphorous	312	Buy	5,717	6,834	19.5	1,818	2,241	23.2	1,111	1,379	24.1
<b>Sector Aggregate</b>			<b>12,523</b>	<b>15,017</b>	<b>19.9</b>	<b>3,785</b>	<b>4,492</b>	<b>18.7</b>	<b>2,473</b>	<b>2,816</b>	<b>13.9</b>



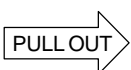


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			DEC.06	MAR.07	CHG. (%)	DEC.06	MAR.07	CHG. (%)	DEC.06	MAR.07	CHG. (%)
<b>Information Technology</b>											
Geometric Software	99	Buy	1,067	1,250	17.1	170	181	6.1	105	103	-2.1
Hexaware	168	Buy	2,402	2,691	12.0	357	373	4.4	338	353	4.5
HCL Technologies	272	Buy	14,651	15,492	5.7	3,241	3,481	7.4	2,863	2,936	2.6
i-flex solutions	2,057	Neutral	5,502	6,360	15.6	1,064	1,495	40.5	773	1,157	49.7
Infosys	1,921	Buy	36,550	39,173	7.2	11,960	12,900	7.9	9,830	10,508	6.9
Infotech Enterpr	351	Buy	1,430	1,524	6.5	323	323	0.2	188	218	16.2
KPIT Cummins Inf	131	Buy	1,171	1,240	5.9	178	209	17.0	137	140	2.1
MphasiS	275	Buy	3,060	3,235	5.7	588	655	11.4	358	432	20.7
Patni Computer	375	Neutral	6,805	6,843	0.6	1,467	1,422	-3.1	1,135	1,030	-9.2
Sasken Comm	475	Buy	1,310	1,486	13.4	189	290	54.0	119	170	42.8
Satyam Computer	446	Buy	16,611	17,552	5.7	4,100	4,095	-0.1	3,372	3,571	5.9
TCS	1,189	Buy	48,605	51,954	6.9	13,753	14,977	8.9	11,047	11,924	7.9
Tech Mahindra	1,342	Buy	7,698	8,370	8.7	2,073	2,213	6.8	1,668	1,776	6.5
Wipro	518	Buy	39,636	42,272	6.7	8,945	9,308	4.1	7,450	7,672	3.0
<b>Sector Aggregate</b>			<b>186,499</b>	<b>199,442</b>	<b>6.9</b>	<b>48,409</b>	<b>51,923</b>	<b>7.3</b>	<b>39,382</b>	<b>41,990</b>	<b>6.6</b>

	CMP (RS) 2.4.07	RECO	NET INT INCOME			OPERATING PROFIT			NET PROFIT		
			MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)	MAR.06	MAR.07	CHG. (%)
<b>Banks</b>											
Andhra Bank	72	Buy	3,102	3,790	22.2	2,055	2,672	30.0	1,386	1,463	5.6
Bank of Baroda	201	Buy	8,690	9,939	14.4	6,035	6,629	9.9	2,088	2,763	32.3
Bank of India	154	Buy	8,378	8,811	5.2	6,298	6,161	-2.2	2,544	2,573	1.1
Canara Bank	183	Buy	9,838	10,703	8.8	7,713	7,614	-1.3	4,935	3,633	-26.4
Corporation Bank	259	Sell	3,109	3,413	9.8	2,692	2,917	8.4	1,003	1,189	18.5
Federal Bank	203	Buy	1,722	1,756	2.0	1,427	1,303	-8.7	507	700	37.9
HDFC	1,433	Neutral	5,585	6,743	20.7	5,186	6,227	20.1	4,265	5,059	18.6
HDFC Bank	902	Buy	7,394	10,135	37.1	5,612	8,495	51.4	2,632	3,454	31.2
ICICI Bank	805	Buy	13,736	18,037	31.3	14,813	22,576	52.4	7,899	9,548	20.9
Indian Overseas Bank	96	Buy	5,411	6,237	15.3	4,110	4,743	15.4	2,044	2,369	15.9
J&K Bank	628	Buy	1,887	2,076	10.1	1,426	1,725	21.0	228	739	224.3
Karnataka Bank	166	Buy	1,011	1,093	8.2	968	987	2.0	510	517	1.4
Oriental Bank of Commerce	169	Neutral	4,030	4,363	8.3	2,824	3,186	12.8	2,673	1,675	-37.3
Punjab National Bank	428	Buy	11,802	14,578	23.5	9,983	9,821	-1.6	2,887	3,973	37.6
State Bank	930	Buy	35,546	40,774	14.7	32,772	32,043	-2.2	8,533	10,072	18.0
Syndicate Bank	59	Buy	3,937	5,726	45.4	2,395	3,161	32.0	103	1,140	1,005.3
Union Bank	96	Buy	5,979	7,088	18.6	4,585	4,903	6.9	1,446	1,940	34.1
UTI Bank	460	Buy	3,129	4,426	41.5	2,981	3,961	32.9	1,517	1,836	21.0
Vijaya Bank	39	Neutral	2,436	2,735	12.3	1,815	1,895	4.4	-345	687	-
<b>Sector Aggregate</b>			<b>136,720</b>	<b>162,424</b>	<b>18.8</b>	<b>115,689</b>	<b>131,020</b>	<b>13.3</b>	<b>46,857</b>	<b>55,329</b>	<b>18.1</b>



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**Note:** In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company's quarterly and annual results or because of differences in the way we classify account heads as opposed to the company.

<http://deadpresident.blogspot.com> **Automobiles**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.	
Ashok Leyland	46	Volume growth in the auto sector during April 2006-February 2007 has been robust in passenger cars, CVs and three-wheelers. However, two-wheeler sales growth, including motorcycle sales has shown a sluggish trend in the past three months.
Bajaj Auto	47	
Bharat Forge	48	Despite the high base effect created by strong sales growth in FY07, we expect passenger cars, and commercial vehicles to sustain their strong growth rates. Conversion to CNG will help drive three-wheeler growth, and subject to the monsoons being adequate in the next fiscal, tractor sales should also be good. Strong volume growth (except two-wheelers) will drive earnings, but input cost pressures will result in stagnant margins in most segments. Intense competitive pressures and sluggish volume growth will adversely impact performance of the two-wheeler segment.
Eicher Motors	49	
Hero Honda	50	
Mahindra & Mahindra	51	
Maruti Udyog	52	
Punjab Tractors	53	On a YTD basis, all the segments in the sector posted double-digit growth in volumes. The growth in economy/industry, policy focus on infrastructure and development of India as a small car manufacturing hub, along with wider vehicle financing availability will help expansion in sector volumes. We maintain our positive view on the sector as the structural and fundamental factors driving growth are intact. Also, our positive view is influenced by strong economic growth, increasing middle class population, reduction in duties, ban on truck overloading, infrastructure development, aggressive capex plans of most passenger car manufacturers, and aggressive targets set in the Draft Automotive Mission Plan 2006-2016.
Swaraj Mazda	54	
Tata Motors	55	
TVS Motor	56	

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Automobiles</b>							
Ashok Leyland	Buy	22,819	31.8	2,743	27.4	1,742	31.8
Bajaj Auto	Neutral	22,153	2.3	3,131	-26.3	2,908	-12.9
Bharat Forge	Buy	5,443	24.1	1,394	32.4	696	31.3
Eicher Motors	Neutral	5,876	14.2	416	16.3	236	-15.7
Hero Honda	Neutral	25,145	11.5	2,882	-20.1	2,105	-21.4
Mahindra & Mahindra	Buy	27,046	21.4	3,256	53.7	2,548	55.9
Maruti Udyog	Buy	43,130	30.5	6,557	19.2	4,442	11.6
Punjab Tractors	Neutral	2,789	11.0	356	-7.1	221	5.0
Swaraj Mazda	Neutral	1,422	-9.6	96	96.5	42	259.5
Tata Motors	Buy	85,006	23.8	10,557	21.1	6,216	23.4
TVS Motor	Neutral	9,168	9.2	405	-15.9	150	-48.4
<b>Sector Aggregate</b>		<b>249,997</b>	<b>20.4</b>	<b>31,793</b>	<b>10.9</b>	<b>21,306</b>	<b>10.3</b>

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AUTO VOLUMES SNAPSHOT FOR APR - FEB FY07 YTD

	FY07	FY06	% GR.
<b>Domestic Sales</b>			
Motorcycles	6,036,330	5,279,248	14.3
Two wheelers	7,209,869	6,410,078	12.5
Three wheelers	369,025	322,006	14.6
Passenger cars	1,036,643	829,201	25.0
UVs	192,981	171,249	12.7
M&HCV	246,821	180,421	36.8
LCV	171,849	127,572	34.7
<b>Total</b>	<b>9,227,188</b>	<b>8,040,527</b>	<b>14.8</b>
<b>Export Sales</b>			
Motorcycles	497,938	348,840	42.7
Two wheelers	567,175	466,667	21.5
Three wheelers	134,023	69,966	91.6
Passenger cars	176,145	157,633	11.7
UVs	4,074	3,995	2.0
M&HCV	16,684	12,349	35.1
LCV	27,024	22,839	18.3
<b>Total</b>	<b>925,125</b>	<b>733,449</b>	<b>26.1</b>
<b>Total Sales</b>			
Motorcycles	6,534,268	5,628,088	16.1
Two wheelers	7,777,044	6,876,745	13.1
Three wheelers	503,048	391,972	28.3
Passenger cars	1,212,788	986,834	22.9
UVs	197,055	175,244	12.4
M&HCV	263,505	192,770	36.7
LCV	198,873	150,411	32.2
<b>Total</b>	<b>10,152,313</b>	<b>8,773,976</b>	<b>15.7</b>

Source: SIAM/Motilal Oswal Securities

On the volume growth in the quarter we expect sector revenues to grow at 20.4% YoY and 11.5% QoQ. However, margin pressures, particularly for two-wheeler companies will lead to sector EBITDA margin on a YoY basis declining 110bp (but improving 10bp QoQ).

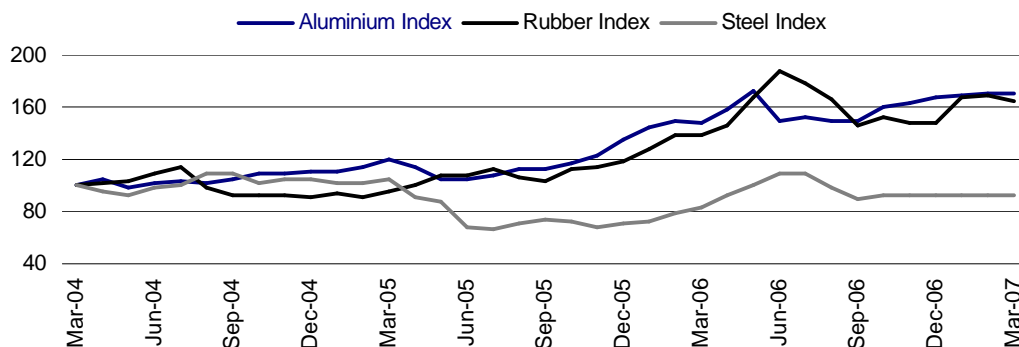
### Risks to sector growth not completely eased

We believe that the risk to sector growth from rising interest rates (leading to concerns on demand growth) and high input cost prices (impacting operating performance and Causing margin concerns) have remained in place. However, with crude price cooling off, the prices of petrol and diesel have witnessed two successive price cuts in the past four months thereby easing concerns of higher fuel prices.

While challenges from higher interest rates and volatile input costs remain, the strong demand pull due to structural and fundamental factors mentioned earlier is expected to sustain 4-wheeler volume growth momentum in FY08 and FY09, with relatively stable EBITDA margins. Leaders in the sector have aggressive plans for new products, models and markets, which should drive volume growth.

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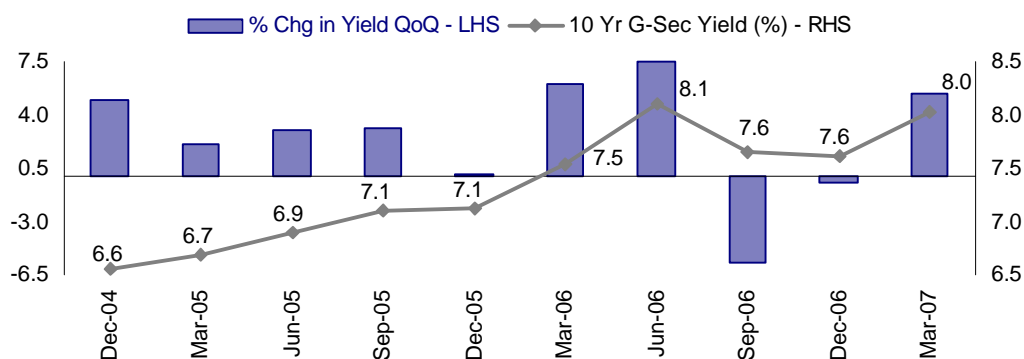
PRICES OF KEY INPUTS HAVE STABILIZED AT HIGHER LEVELS...



Source: LME/Bloomberg/Rubber Board of India/Motilal Oswal Securities

Prices of key input commodities have shown a slight upward trend after the decline from their peaks. This will maintain the pressure from higher input cost prices.

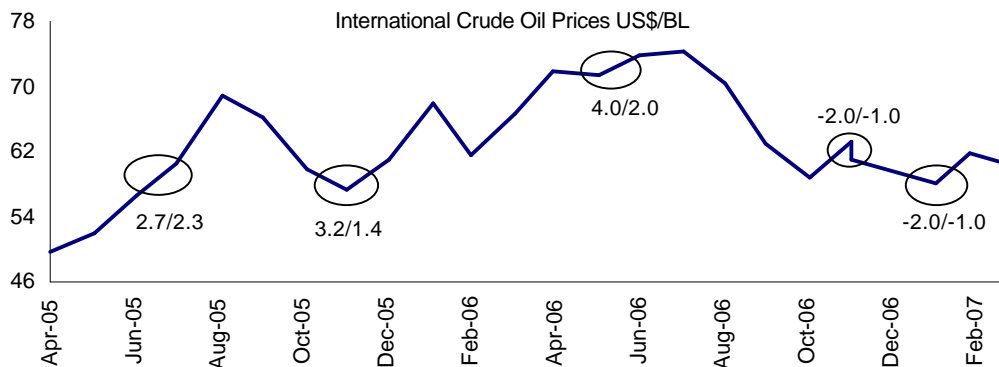
... 10-YEAR G-SEC YIELD AT HIGH LEVELS ...



Source: Bloomberg/Motilal Oswal Securities

Interest rates have remained high in 4QFY07. This results in a negative for the auto sector, since higher rates would mean higher financing cost for potential buyers.

... WHILE CRUDE PRICES HAVE DECLINED



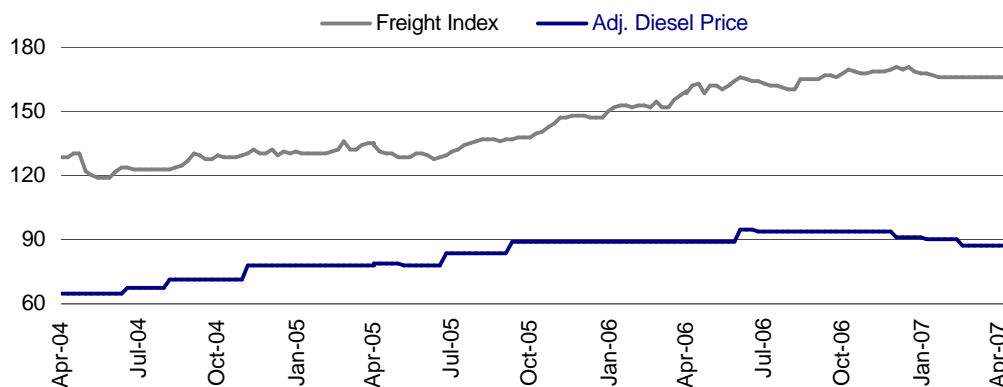
Note: Figures below the circles indicate the absolute increase in petrol/diesel prices

Source: Bloomberg/Motilal Oswal Securities

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Crude prices have declined by 11.5% since July 2006, resulting in fuel prices in India being lowered as well. With a decline in diesel cost and stable freight rates will help ease cost pressures for freight operators. However, concerns over higher EMIs and higher staff costs still persist.

#### FREIGHT RATES HAVE REMAINED FIRM



Source: TCIL/Motilal Oswal Securities

As a result, sector margins are expected to decline 110bp YoY, but increase 10bp on a QoQ basis. The biggest negative impact on margins for the sector will be from the two-wheeler sector, whose margins are expected to decline 440bp on a YoY basis.

#### SECTOR EBITDA MARGIN (%)

	4QFY06	3QFY07	4QFY07
Four-wheeler Companies	12.8	12.7	12.7
Two-wheeler Companies	15.8	11.3	11.4
<b>Auto Sector</b>	<b>13.8</b>	<b>12.6</b>	<b>12.7</b>

Source: Company/Motilal Oswal Securities

### Key developments in the sector

#### Capacity expansion / acquisitions

✎ M&M has acquired the 43.3% stake of Actis and Burman in Punjab Tractors (PTL) in an all-cash deal at Rs360 per share. The deal values the equity portion of the company at Rs21.9b, implying a cash outflow of Rs9.5b to buy the 43.3% stake. PTL also owns 14% stake in Swaraj Mazda, 33% in Swaraj Engines and 24% in Swaraj Automotives. M&M has made an open offer for an additional 20% of PTL entailing a cash outflow of Rs4.4b, should the offer be fully accepted. M&M has also made an open offer for 20% of the equity of Swaraj Engines amounting to Rs358m, if fully accepted. Post-acquisition, M&M's tractor share has increased from ~30% to over 40%. The acquisition will help M&M consolidate its position in the northern Indian markets in general and in the states of Punjab and Haryana in particular. M&M will also acquire Swaraj Engines, a JV with Kirloskar that manufactures engines for tractors; as well as Swaraj Automobiles that makes auto components and seats for tractors.

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- ✍ The Tata group has acquired Nissan, currently a non-operational and empty manufacturing facility at Pretoria, South Africa through a group company. The company is likely to use the facility to set up a manufacturing and car assembly plant to roll out the Indica and the Indigo sedan for the South African market.
- ✍ Tata Motors is likely to acquire the balance 79% stake in the Spanish luxury bus manufacturer, Hispano Carrocera.

### Other

- ✍ Tata Motors is working on a new model line-up that will replace the current versions of the Indica and Indigo by 2008.
- ✍ Maruti Udyog launched the diesel version of its successful hatchback Swift, opening up a hitherto untapped market of diesel car buyers for the company. MUL hopes to replicate the success of the Ford Fiesta diesel, which despite being more expensive now accounts 75+% of Ford's sales.

### Passenger vehicles: expect double digit volume growth

The demand for passenger cars in India is likely to grow at a CAGR of 15.8% over FY07-FY10 driven by changing lifestyles, rapid growth in high income households, vibrancy in services sector and rapid improvement in road network. Our positive view is also influenced by a reduction in excise duty on small cars from 24% to 16% in the recent Union Budget.

We remain extremely positive on Maruti's growth prospects. We expect its volume to grow at 15.7% CAGR over FY07-FY10; aggressive model launches could result in positive surprises both in domestic and export markets. Launch of the diesel powered Swift has heralded the much awaited entry into the diesel segment. Maruti is expected to maintain its dominance in the small cars segment and outpace industry growth therein, while new launches by other auto companies in a booming economy and upgradation cycle will see the overall passenger vehicle industry maintaining a double-digit volume growth rate.

### Two-wheelers: Margins under pressure

The motorcycle segment has lost momentum in 4QFY07 due to the rising interest cost and high base effect of the previous year. YTD the industry has grown at 16.1%. Although growth has been led mainly by Bajaj Auto, its performance in 4QFY07 was the most disappointing amongst two-wheeler companies. Hero Honda's growth was subdued throughout the year, while TVS Motor's performance was negatively impacted by the ongoing price war between Bajaj Auto and Hero Honda.

As a result, EBITDA margins of the two-wheeler players have come under pressure. Margin pressures have come to the fore on account of aggressive pricing of entry-level bikes like Platina, price cuts and promotional offers, new launches resulting in higher development costs, increased adspend and higher raw material prices. These factors have



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affected all the three two-wheeler majors negatively; as a result, we have a Neutral view on the two-wheeler sector.

**CV industry: Demand remains strong, ongoing infrastructure development activities to maintain growth**

The Supreme Court order banning overloading of vehicles in November 2005 proved to be the trigger for a revival in CV demand; CV demand growth has continued unabated since. This court ruling on the back of strong economic growth, higher freight rates, and government focus on highway development has sustained demand for CVs.

Though the budgetary allocation has increased by only Rs6b (up 6%) for FY07, the government is changing the nature of road development. By restructuring the NHAI and focusing on greater public-private partnership, the onus of maintaining the roads and expressways will shift to the private sector. This will lead to faster and more efficient implementation of projects. The increasing network and improving quality of roads will in turn benefit CV players.

Strong economic outlook, renewed infrastructure impetus and continued industrial capex along with significant improvement in road infrastructure are multiple structural factors that will drive a continued expansion in CV volumes. We expect M&HCV and LCV volumes to rise strongly at a CAGR of 11.9% and 14.8% respectively over FY07-FY10. Our assumptions are based on rapidly changing dynamics of the Indian freight industry due to development of highway infrastructure projects and drop in replacement demand, higher vehicle prices, slower freight rate growth and continued pressure on fuel price increase. Given the structural growth drivers, we are positive on Tata Motors.

**Tractors: Government's thrust on rural segment key growth driver**

The tractor industry registered 18.4% growth in FY06, while it has registered 25.6% growth in 9MFY07. Increased farm credit offtake, focus on agri-driven growth and normal monsoons have been the demand drivers for tractors. However, sustained higher interest rates might impact tractor sales negatively, since most tractors are purchased through the financing route.

M&M's performance has been in line with that of the tractor industry during this period, registering 24.7% growth. M&M also has a sizeable presence in USA (with sales of 10,000 units in FY06) and is gaining a foothold in China via Jiangling Tractor. It has also set up distribution in Australia. M&M now has a presence in the largest tractor markets in the world. Currently, M&M's exports are at 7.5% of sales and we expect this to improve to 15% over the next 3-4 years. The acquisition of Punjab Tractors has led to M&M increasing its lead over other tractor industry players.

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**Valuation and view: Volume growth to drive earnings**

Volume growth has been robust in most segments – passenger cars, CVs, tractors, and three-wheelers. Segments such as scooters and motorcycles have underperformed the auto sector in 4QFY07, while UVs have registered good growth. While Bajaj Auto's re-entry into the scooters market will see competition intensify between it and Hero Honda, Honda Motorcycles and TVS Motors in this segment, we believe the potential market size is limited.

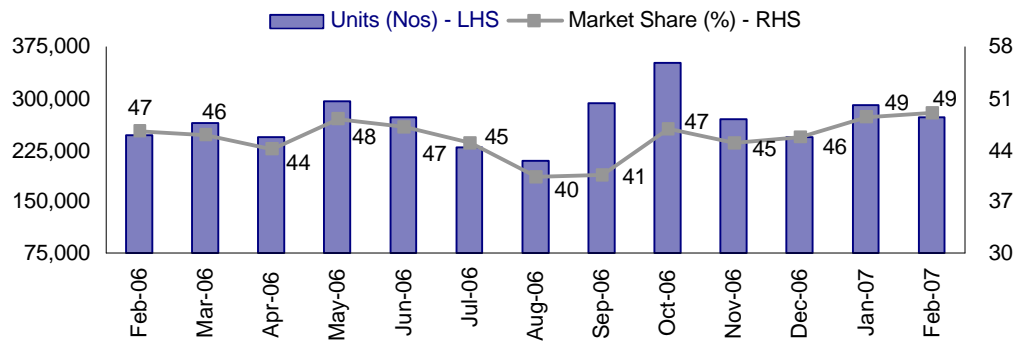
The high base created in FY07 may slow down growth rates in the auto sector across select segments in FY08. But structural demand drivers should drive growth in four wheelers and CVs. Strong volume growth will drive earnings, despite margin pressure in the first two segments, while two-wheelers will be adversely affected.

Valuations continue to be in a comfortable zone for the sector. We reiterate our Overweight stance on the sector. Our top picks, Maruti Udyog, Tata Motors, and M&M are dominant players in highly consolidated segments, where the top two players command more than 50% market share.

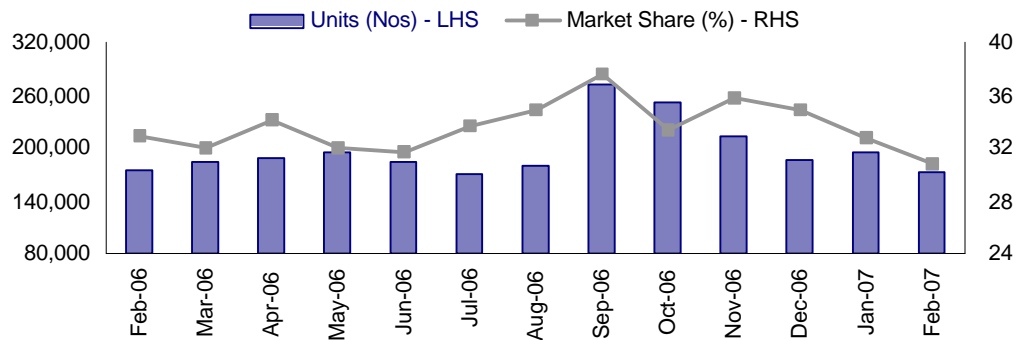
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PERFORMANCE OF MAJOR PLAYERS IN THE INDUSTRY

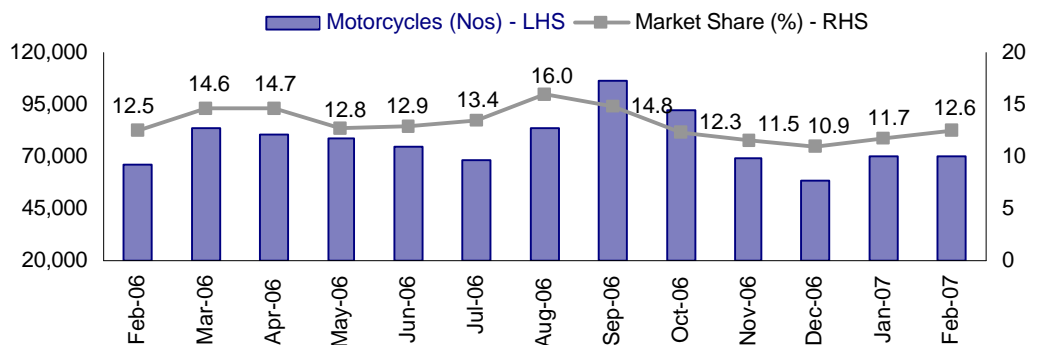
HERO HONDA: MONTHLY MARKET SHARE MOVEMENT (MOTORCYCLES)



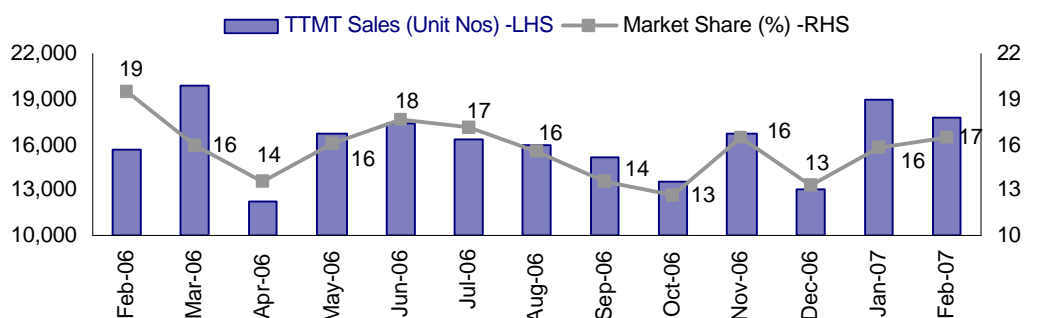
BAJAJ AUTO: MONTHLY MARKET SHARE MOVEMENT (MOTORCYCLES)



TVS MOTORS: MONTHLY MARKET SHARE MOVEMENT (MOTORCYCLES)



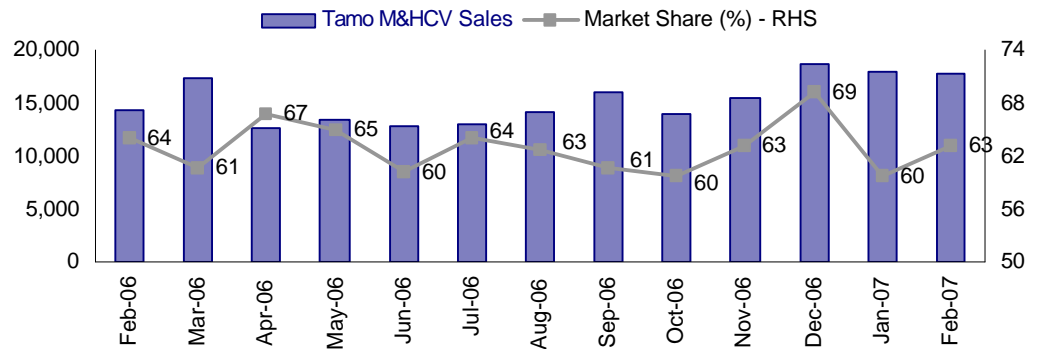
TATA MOTORS: MONTHLY MARKET SHARE MOVEMENT (PASSENGER CARS)



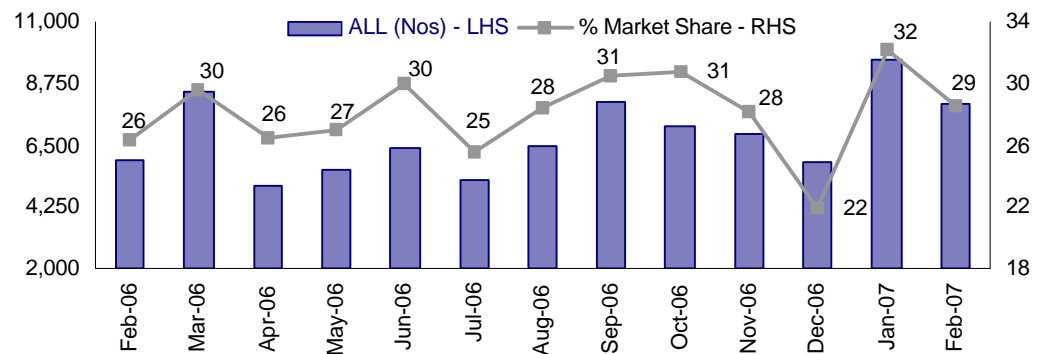
Source: SIAM/Motilal Oswal Securities

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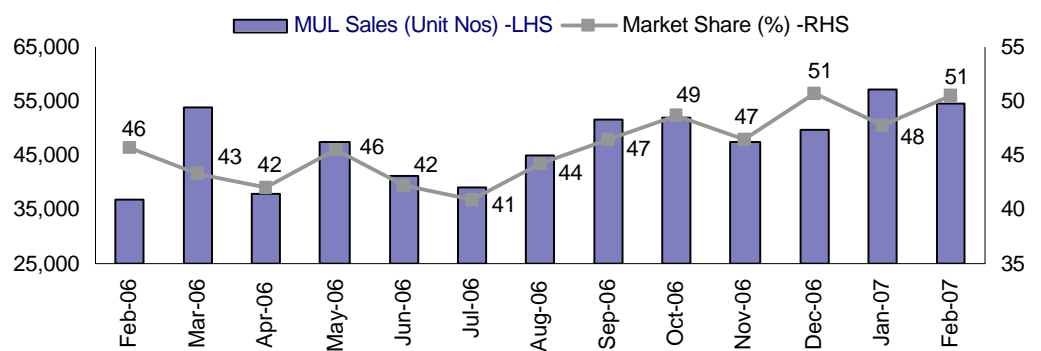
TATA MOTORS: MONTHLY MARKET SHARE MOVEMENT (M&HCV)



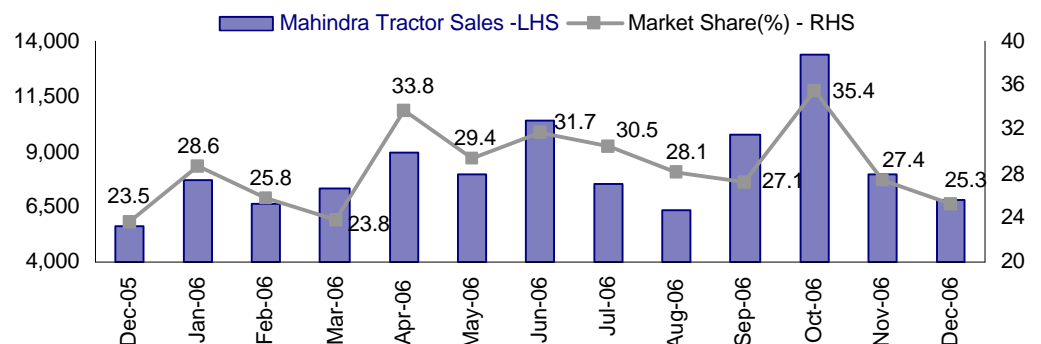
ASHOK LEYLAND: MONTHLY MARKET SHARE MOVEMENT (M&HCV)



MARUTI UDYOG: MONTHLY MARKET SHARE MOVEMENT (PASSENGER CARS)



MAHINDRA & MAHINDRA: MONTHLY MARKET SHARE MOVEMENT (TRACTORS)



Source: SIAM/Motilal Oswal Securities

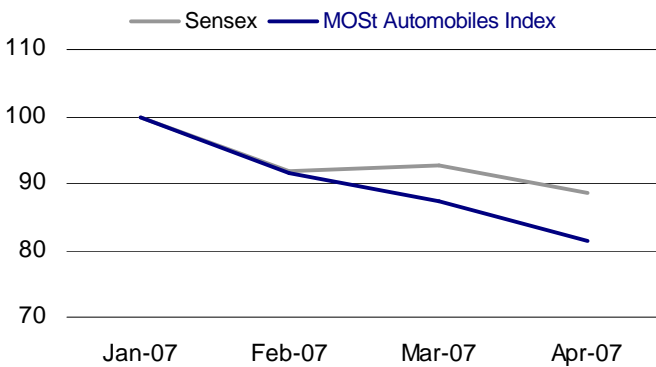
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Stock performance and valuations

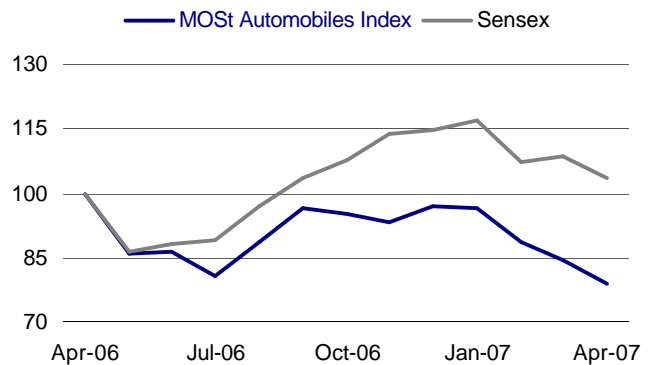
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Automobiles</b>						
Ashok Leyland	-22	-11	-11	-19	0	9
Bajaj Auto	-16	-18	-5	-26	6	2
Bharat Forge	-17	-33	-7	-41	5	-13
Eicher Motors	-38	-27	-27	-35	-16	-6
Hero Honda	-18	-29	-8	-36	3	-8
Mahindra & Mahindra	-25	12	-15	4	-3	32
Maruti Udyog	-22	-17	-12	-25	0	3
Punjab Tractors	22	19	33	12	44	40
Swaraj Mazda	1	-3	11	-11	23	17
Tata Motors	-28	-31	-17	-39	-6	-11
TVS Motor	-33	-63	-22	-71	-11	-43

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	2.4.07													
<b>Automobiles</b>														
Ashok Leyland	36	Buy	3.3	3.9	4.5	11.1	9.2	8.1	5.9	4.6	3.8	26.3	27.3	26.9
Bajaj Auto	2,301	Neutral	124.1	135.1	148.4	18.5	17.0	15.5	13.4	12.1	10.2	22.5	21.1	20.1
Bharat Forge	303	Buy	12.9	17.0	20.5	23.5	17.8	14.8	13.7	10.3	8.1	18.6	20.2	20.0
Eicher Motors	231	Neutral	22.8	27.8	31.6	10.2	8.3	7.3	2.6	1.6	0.8	12.9	14.0	14.0
Hero Honda	639	Neutral	43.7	46.9	53.3	14.6	13.6	12.0	9.1	8.2	7.0	35.2	31.4	29.9
Mahindra & Mahindra	715	Buy	55.6	65.2	76.3	12.9	11.0	9.4	12.7	11.7	10.3	25.5	23.0	21.1
Maruti Udyog	753	Buy	53.7	62.9	74.3	14.0	12.0	10.1	7.7	6.2	4.8	22.6	21.4	20.5
Punjab Tractors	304	Neutral	12.7	14.2	15.3	23.9	21.5	19.9	14.1	12.5	11.3	12.4	12.8	12.7
Swaraj Mazda	340	Neutral	13.7	16.8	20.0	24.9	20.3	17.0	12.9	11.4	10.0	20.0	21.9	22.8
Tata Motors	669	Buy	58.4	65.3	73.8	11.5	10.2	9.1	7.0	6.3	5.5	29.4	26.5	24.5
TVS Motor	57	Neutral	3.1	3.5	3.8	18.6	16.4	15.1	8.1	7.3	6.4	8.9	9.5	9.7
<b>Sector Aggregate</b>						<b>15.8</b>	<b>14.2</b>	<b>12.6</b>	<b>9.1</b>	<b>7.8</b>	<b>6.6</b>	<b>24.8</b>	<b>23.2</b>	<b>22.1</b>

<http://deadpresident.blogspot.com>  
Ashok Leyland

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	AL IN
	REUTERS CODE
S&P CNX: 3,634	ASOK.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs36

	YEAR END	NET SALES (RS M)	PAT (RS M)	ADJ.EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
Equity Shares (m)	1,323.7										
52-Week Range	54/30										
1,6,12 Rel. Perf. (%)	-6/-21/-19										
M.Cap. (Rs b)	48.0										
M.Cap. (US\$ b)	1.1										
	3/07E	71,591	4,326	3.3	32.0	11.1	2.9	27.0	25.3	0.6	5.9
	3/08E	81,069	5,200	3.9	20.2	9.2	2.5	27.3	29.2	0.5	4.6
	3/09E	89,151	5,911	4.5	13.7	8.1	2.2	26.9	30.2	0.4	3.8

- ✍ Ashok Leyland is likely to report 30.9% growth in vehicle volumes in 4QFY07 resulting in sales growth of 31.8% to Rs22.8b. Sales growth would be higher v/s volume growth, as the company's product mix is shifting towards higher tonnage vehicles. For FY07, we expect Ashok Leyland to register volume growth of 35.7% to 83,626 units.
- ✍ Commercial vehicle volume growth continues to be strong on account of infrastructure development, better roads, sustained freight availability etc. As a result, M&HCV sales growth has been extremely strong; with Ashok Leyland benefiting a great deal.
- ✍ In 4QFY07, we expect EBITDA margin to increase 150bp QoQ, but decline 40bp YoY to 12%, resulting in EBITDA of Rs2.7b (growth of 27.4% YoY).
- ✍ We expect Ashok Leyland's volumes to grow at 10.7% CAGR over FY07-FY09. Its focus on non-cyclical businesses such as vehicle and aggregate exports would cushion domestic business cyclicality in the long term. The quality of earnings and earnings momentum should improve hereon, aided by capacity addition and margin improvement.
- ✍ The stock is trading at 9.2x FY08E EPS of Rs3.9 and 8.1x FY09E EPS of Rs4.5. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	13,320	14,895	13,038	20,373	17,017	19,869	20,068	26,672	61,626	83,626
<b>Net Sales</b>	<b>10,632</b>	<b>12,501</b>	<b>12,024</b>	<b>17,319</b>	<b>14,239</b>	<b>16,757</b>	<b>17,776</b>	<b>22,819</b>	<b>52,477</b>	<b>71,591</b>
Change (%)	29.5	36.7	21.8	18.7	33.9	34.0	47.8	31.8	25.5	36.4
Total Cost	9,774	11,304	10,863	15,166	13,026	15,437	15,907	20,075	47,108	64,446
<b>EBITDA</b>	<b>858</b>	<b>1,197</b>	<b>1,161</b>	<b>2,153</b>	<b>1,213</b>	<b>1,320</b>	<b>1,869</b>	<b>2,743</b>	<b>5,369</b>	<b>7,145</b>
As a % of Sales	8.1	9.6	9.7	12.4	8.5	7.9	10.5	12.0	10.2	10.0
Change (%)	14.4	60.0	13.9	25.9	41.4	10.3	61.0	27.4	27.0	33.1
Non-Operating Income	34	170	16	110	139	99	64	108	549	409
Interest	-12	7	71	98	5	4	26	37	384	72
<b>Gross Profit</b>	<b>903</b>	<b>1,359</b>	<b>1,106</b>	<b>2,165</b>	<b>1,346</b>	<b>1,415</b>	<b>1,907</b>	<b>2,814</b>	<b>5,534</b>	<b>7,482</b>
Less: Depreciation	297	342	290	330	328	365	332	343	1,260	1,368
<b>PBT</b>	<b>606</b>	<b>1,017</b>	<b>816</b>	<b>1,835</b>	<b>1,019</b>	<b>1,050</b>	<b>1,574</b>	<b>2,471</b>	<b>4,274</b>	<b>6,114</b>
Tax	271	215	250	513	262	334	463	729	1,250	1,788
Effective Tax Rate (%)	44.8	21.2	30.7	28.0	25.7	31.8	29.4	29.5	29.2	29.2
<b>Adj. PAT (before EO)</b>	<b>334</b>	<b>802</b>	<b>566</b>	<b>1,322</b>	<b>756</b>	<b>716</b>	<b>1,112</b>	<b>1,742</b>	<b>3,024</b>	<b>4,326</b>
Change (%)	-2.4	76.7	0.9	10.8	126.1	-10.7	96.5	31.8	18.6	43.1
Extraordinary Income	334	0	0	0	0	268	0	0	334	268
Extraordinary Loss	25	52	21	21	65	31	59	0	85	155
<b>Rep. PAT</b>	<b>644</b>	<b>750</b>	<b>545</b>	<b>1,335</b>	<b>692</b>	<b>954</b>	<b>1,053</b>	<b>1,742</b>	<b>3,273</b>	<b>4,440</b>
Change (%)	101.5	74.4	1.5	-6.5	7.5	27.1	93.1	30.6	20.6	35.7

E: MOSt Estimates

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<http://deadpresident.blogspot.com> Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BJA IN
	REUTERS CODE
S&P CNX: 3,634	BJAT.BO
Equity Shares (m)	101.2
52-Week Range	3,325/2,085
1,6,12 Rel. Perf. (%)	-6/-25/-26
M.Cap. (Rs b)	232.8
M.Cap. (US\$ b)	5.4

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs2,301

	YEAR END	NET SALES (RS M)	ADJ. PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/SALES	EV/EBITDA
	3/07E	94,222	12,557	124.1	14.0	18.5	4.2	22.5	24.7	2.0	13.4
	3/08E	103,823	13,671	135.1	8.9	17.0	3.6	21.1	23.5	1.7	12.1
	3/09E	114,815	15,020	148.4	9.9	15.5	3.1	20.1	23.0	1.5	10.2

- ✘ Bajaj Auto's total volumes have increased by a mere 1% in 4QFY07, making it the weakest quarter in terms of volume growth for the company. Two-wheelers have registered 1.1% YoY decline in volumes during 4Q, while three-wheelers were the major growth driver with 16.5% increase in volumes.
- ✘ We expect sales to increase by 2.3% to Rs22.2b in 4QFY07. Despite strong three-wheeler growth, we expect EBITDA margin to dip by 550bp YoY, but remain flat QoQ, at 14.1%. Margins will be impacted on account of advertising and promotional offers, new launches and reduction in the price of Platina in March, undercutting in margins and lower-than-anticipated three-wheeler sales. However, next fiscal, the impact of price cuts will be nullified if Bajaj Auto manufactures the bike at its new Uttaranchal plant (excise levy exemption applies). We expect EBITDA of Rs3.1b (-26.3% YoY) and adjusted PAT Rs2.8b (-13.6% YoY).
- ✘ The new plant at Pantnagar in Uttarakhand is scheduled to commence commercial production in April 2007. The new motorcycle platform that will enable movement away from the 100cc segment is progressing steadily, and is scheduled for launch in 2QFY08.
- ✘ We maintain our **Neutral** rating as we expect competitive pressures to remain, triggering possibility of further downgrades in earnings estimates as well as valuations. The stock is trading at valuations of 17x FY08E EPS of Rs135.1 and 15.5x FY09E EPS of Rs148.4.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	505,524	555,552	600,824	619,196	647,086	708,125	738,219	625,357	2,281,096	2,718,787
<b>Net Sales</b>	<b>16,342</b>	<b>18,670</b>	<b>20,009</b>	<b>21,659</b>	<b>22,027</b>	<b>24,360</b>	<b>25,682</b>	<b>22,153</b>	<b>76,679</b>	<b>94,222</b>
Change (%)	33.3	28.9	24.6	32.5	34.8	30.5	28.4	2.3	29.6	22.9
Total Cost	13,766	15,513	16,428	17,409	18,420	20,708	22,046	19,022	63,116	80,196
<b>EBITDA</b>	<b>2,575</b>	<b>3,156</b>	<b>3,581</b>	<b>4,250</b>	<b>3,607</b>	<b>3,652</b>	<b>3,636</b>	<b>3,131</b>	<b>13,563</b>	<b>14,026</b>
As % of Sales	15.8	16.9	17.9	19.6	16.4	15.0	14.2	14.1	17.7	14.9
Change (%)	39.6	31.8	48.5	71.2	40.1	15.7	1.5	-26.3	48.5	3.4
Other Income	928	1,362	1,064	1,031	946	1,424	1,609	1,532	4,385	5,511
Interest	1	1	1	1	7	20	2	15	3	44
Depreciation	462	490	491	468	481	492	472	505	1,910	1,950
<b>PBT</b>	<b>3,040</b>	<b>4,028</b>	<b>4,153</b>	<b>4,813</b>	<b>4,064</b>	<b>4,564</b>	<b>4,775</b>	<b>4,140</b>	<b>16,034</b>	<b>17,543</b>
Tax	950	1,120	1,245	1,476	1,300	1,250	1,200	1,236	4,791	4,986
Effective Tax Rate (%)	31.3	27.8	30.0	30.7	32.0	27.4	25.1	29.9	29.9	28.4
<b>Adj. PAT</b>	<b>2,090</b>	<b>2,908</b>	<b>2,908</b>	<b>3,337</b>	<b>2,764</b>	<b>3,314</b>	<b>3,571</b>	<b>2,908</b>	<b>11,243</b>	<b>12,557</b>
Change (%)	28.2	62.0	59.8	30.3	32.2	14.0	22.8	-12.9	40.8	11.7
Extraordinary Expenses	-	-	108	119	104	139	123	123	226	489
<b>PAT</b>	<b>2,090</b>	<b>2,908</b>	<b>2,800</b>	<b>3,218</b>	<b>2,660</b>	<b>3,176</b>	<b>3,452</b>	<b>2,781</b>	<b>11,017</b>	<b>12,068</b>
Change (%)	27.0	61.5	53.3	34.2	27.3	9.2	23.3	-13.6	43.7	9.5

E: MOSt Estimates

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<http://deadpresident.blogspot.com> Bharat Forge

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BHFC IN
	REUTERS CODE
S&P CNX: 3,634	BFRG.BO
Equity Shares (m)	237.3
52-Week Range	469/221
1,6,12 Rel. Perf. (%)	-2/-17/-41
M.Cap. (Rs b)	71.8
M.Cap. (US\$ b)	1.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs303

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	CON. EPS (RS)	P/E (X)	CON. P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	18,927	2,564	10.1	12.9	29.9	23.5	17.8	16.0	3.3	12.7
3/08E	23,878	3,352	13.2	17.0	22.9	17.8	20.2	18.3	2.5	9.6
3/09E	28,705	4,011	15.8	20.5	19.1	14.8	20.0	19.0	2.0	7.5

- ✍ We expect Bharat Forge to post sales growth of 24.1% in 4QFY07 to Rs5.4b, driven by higher exports due to completion in ramp-up of capacities and strong domestic sales growth in line with the strong four-wheeler growth.
- ✍ We expect the company to report 32.4% growth in EBITDA to Rs1.4b, with EBITDA margin expanding by 160bp YoY, but declining 40bp QoQ to 25.6%. We estimate PAT at Rs696m (up 31.3%) for 4QFY07.
- ✍ The company plans capex of Rs3.5b for its non-automotive business ventures in energy, aerospace, and hydrocarbons.
- ✍ BFL's global subsidiaries operate at a blended margin of close to 10%. The company plans to enhance margins by achieving higher capacity utilization and introducing value-added products. Consolidated total income increased by 31.9% YoY in 9MFY07 while consolidated PAT increased by 20.2% YoY.
- ✍ We remain positive on Bharat Forge's 'dual shore' model and management's global vision. We believe the company's annual revenues would cross US\$1b by FY08. We estimate consolidated EPS at Rs17 for FY08 and Rs20.5 for FY09. The stock is trading at 17.8x FY08E and 14.8x FY09E consolidated EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>3,635</b>	<b>3,766</b>	<b>3,994</b>	<b>4,384</b>	<b>4,206</b>	<b>4,507</b>	<b>4,771</b>	<b>5,443</b>	<b>15,779</b>	<b>18,927</b>
Change (%)	41.6	29.8	28.5	21.4	15.7	19.7	19.5	24.1	29.4	19.9
Total Expenses	2,765	2,795	3,008	3,331	3,132	3,330	3,532	4,049	11,898	14,044
<b>EBITDA</b>	<b>870</b>	<b>971</b>	<b>986</b>	<b>1,053</b>	<b>1,073</b>	<b>1,177</b>	<b>1,239</b>	<b>1,394</b>	<b>3,881</b>	<b>4,883</b>
As % of Sales	23.9	25.8	24.7	24.0	25.5	26.1	26.0	25.6	24.6	25.8
Change (%)	26.0	19.9	12.7	18.1	23.3	21.1	25.6	32.4	18.5	25.8
Other Income	112	115	161	144	233	192	162	146	531	733
Interest	112	128	153	155	176	197	215	231	548	819
Depreciation	149	175	191	214	229	250	253	274	730	1,005
Extraordinary Expenses	-15	0	0	0	101	0	0	0	-15	101
<b>PBT</b>	<b>736</b>	<b>783</b>	<b>802</b>	<b>828</b>	<b>800</b>	<b>922</b>	<b>933</b>	<b>1,035</b>	<b>3,149</b>	<b>3,691</b>
Tax	247	265	270	298	285	301	303	340	1,079	1,229
Effective Tax Rate (%)	33.5	33.8	33.6	36.0	35.6	32.6	32.5	32.8	34.3	33.3
<b>PAT</b>	<b>489</b>	<b>518</b>	<b>533</b>	<b>530</b>	<b>515</b>	<b>622</b>	<b>630</b>	<b>696</b>	<b>2,070</b>	<b>2,463</b>
<b>Adj. PAT</b>	<b>474</b>	<b>518</b>	<b>533</b>	<b>530</b>	<b>616</b>	<b>622</b>	<b>630</b>	<b>696</b>	<b>2,055</b>	<b>2,564</b>
Change (%)	39.4	36.8	28.6	9.6	29.9	20.1	18.2	31.3	27.1	24.8

E: MOST Estimates; quarter numbers are for standalone company.

<http://deadpresident.blogspot.com> Eicher Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	EIM IN
	REUTERS CODE
S&P CNX: 3,634	EICH.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs231

Equity Shares (m)	28.0
52-Week Range	416/203
1,6,12 Rel. Perf. (%)	-28/-25/-35
M.Cap. (Rs b)	6.5
M.Cap. (US\$ b)	0.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	19,211	640	22.8	27.0	10.2	1.3	12.9	15.0	0.2	2.6
3/08E	21,218	782	27.8	22.2	8.3	1.2	14.0	16.7	0.1	1.6
3/09E	23,655	887	31.6	13.3	7.3	1.0	14.0	17.1	0.1	0.8

- ✗ We expect Eicher Motors' CV volumes to grow 10.8% in 4QFY07 and 17.4% in FY07, led by the passenger and LCV goods segments.
- ✗ Eicher should report sales of Rs5.9b for the quarter, resulting in an EBITDA of Rs416m and PAT of Rs236m. For FY07, we expect sales of Rs19.2b and adjusted PAT of Rs640m (27.1% growth).
- ✗ The company faced a sharp drop in profitability in 1HFY06, as Eicher Motors had to resort to heavy discounts in the scenario of slow industry growth. Eicher reported losses at the pre-tax level for 2QFY06 and 3QFY06, but profits rebounded sharply in 4QFY06. The company's performance is more evenly distributed in FY07.
- ✗ Eicher remains a small player in the CV industry, with severe pressure on its margins. We maintain our **Neutral** recommendation.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	4,611	5,212	5,924	7,857	5,365	6,546	7,096	8,708	23,604	27,715
<b>Net Sales</b>	<b>3,877</b>	<b>3,530</b>	<b>3,900</b>	<b>5,144</b>	<b>3,831</b>	<b>4,565</b>	<b>4,938</b>	<b>5,876</b>	<b>16,449</b>	<b>19,211</b>
Change (%)	12.0	-20.9	-26.9	-21.7	-1.2	29.3	26.6	14.2	-17.0	16.8
Total Expenses	3,778	3,511	3,725	4,787	3,649	4,301	4,612	5,460	15,801	18,022
<b>EBITDA</b>	<b>99</b>	<b>19</b>	<b>174</b>	<b>358</b>	<b>183</b>	<b>263</b>	<b>326</b>	<b>416</b>	<b>648</b>	<b>1,189</b>
As a % of Sales	2.6	0.5	4.5	7.0	4.8	5.8	6.6	7.1	3.9	6.2
Non-Operating Income	68	61	81	104	73	73	52	58	314	255
Extraordinary Income	1,821	0	0	0	0	0	0	0	1,821	0
Extraordinary Expense	0	0	151	4	0	0	0	0	155	0
Interest	41	37	42	45	34	31	32	37	165	135
<b>Gross Profit</b>	<b>1,948</b>	<b>43</b>	<b>61</b>	<b>412</b>	<b>221</b>	<b>305</b>	<b>346</b>	<b>437</b>	<b>2,464</b>	<b>1,309</b>
Less: Depreciation	116	95	95	162	98	99	102	109	468	407
<b>PBT</b>	<b>1,832</b>	<b>-52</b>	<b>-34</b>	<b>250</b>	<b>123</b>	<b>206</b>	<b>244</b>	<b>328</b>	<b>1,996</b>	<b>901</b>
Tax	7	24	-178	-26	39	65	66	92	-200	261
Effective Tax Rate (%)	0.4	-45.8	522.1	-10.5	31.7	31.3	27.0	28.0	-8.7	29.0
<b>PAT</b>	<b>1,825</b>	<b>-76</b>	<b>144</b>	<b>277</b>	<b>84</b>	<b>142</b>	<b>178</b>	<b>236</b>	<b>2,196</b>	<b>640</b>
<b>Adjusted PAT</b>	<b>4</b>	<b>-76</b>	<b>295</b>	<b>280</b>	<b>84</b>	<b>142</b>	<b>178</b>	<b>236</b>	<b>504</b>	<b>640</b>
Change (%)	-93.6	-148.6	44.8	5.0	2238.9	N.A.	-39.6	-15.7	-23.1	27.1

E: MOST Estimates

<http://deadpresident.blogspot.com> Hero Honda

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HH IN
	REUTERS CODE
S&P CNX: 3,634	HROH.BO
Equity Shares (m)	199.7
52-Week Range	950/629
1,6,12 Rel. Perf. (%)	-4/-18/-36
M.Cap. (Rs b)	127.7
M.Cap. (US\$ b)	2.9

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs639

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	97,749	8,734	43.7	-10.1	14.6	5.1	35.2	44.7	1.1	9.1
3/08E	109,160	9,373	46.9	7.3	13.6	4.3	31.4	40.3	1.0	8.2
3/09E	121,129	10,652	53.3	13.6	12.0	3.6	29.9	37.6	0.8	7.0

- Hero Honda's total volumes have increased by 10.8% YoY in 4QFY07, which is expected to result in sales growth of 11.5% to Rs25.1b. For FY07, total two-wheeler sales of 3.34m units (up 11.2%).
- We expect operating margins to decline 450bp YoY to 11.5%, resulting in EBITDA of Rs2.9b. We estimate PAT at Rs2.1b, a 21.4% YoY decline.
- Hero Honda has adopted an aggressive new model launch strategy, with 5 new bikes / variants on offer in 3QFY07. In February the company announced a discount scheme of Rs1,000 on its best selling models — Splendor Plus, Super Splendor, Passion Plus, and Glamour, to boost sales further.
- New launches resulting in higher advertising costs, aggressive promotional offers and discounts, and increased outlay for the ICC Cricket World Cup advertising will continue to squeeze margins.
- The plant in Haridwar (Uttaranchal) with an initial capacity of 0.5m units is expected to be completed by mid-2007.
- We expect the company to remain the leader and report volume growth of 8.4% CAGR over FY07-FY09. Although it has regained the market share it had lost over the past two months, its share amongst the top three players has come down by 220bp YoY to 50.3% for FY07.
- The stock is currently trading at 13.6x FY08E EPS of Rs46.9 and 12x FY09E EPS of Rs53.3. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	687,567	742,425	798,301	772,457	832,692	751,967	896,113	855,984	3,000,750	3,336,756
Change (%)	12.9	20.8	12.1	12.7	21.1	1.3	12.3	10.8	14.5	11.2
<b>Net Sales</b>	<b>19,771</b>	<b>21,663</b>	<b>23,148</b>	<b>22,559</b>	<b>23,644</b>	<b>22,300</b>	<b>26,661</b>	<b>25,145</b>	<b>87,140</b>	<b>97,749</b>
Change (%)	14.8	23.3	15.6	16.3	19.6	2.9	15.2	11.5	17.4	12.2
Total Cost	16,848	18,327	19,367	18,953	20,454	19,465	23,641	22,264	73,495	85,824
<b>EBITDA</b>	<b>2,923</b>	<b>3,336</b>	<b>3,781</b>	<b>3,606</b>	<b>3,190</b>	<b>2,835</b>	<b>3,019</b>	<b>2,882</b>	<b>13,645</b>	<b>11,925</b>
As % of Sales	14.8	15.4	16.3	16.0	13.5	12.7	11.3	11.5	15.7	12.2
Change (%)	2.4	21.3	21.6	23.0	9.1	-15.0	-20.1	-20.1	17.2	-12.6
Other Income	306	431	360	466	523	595	336	517	1,563	1,971
Interest	3	-8	-11	-45	-33	-65	-55	-64	-61	-217
Depreciation	250	267	324	305	323	344	376	376	1,146	1,419
<b>PBT</b>	<b>2,975</b>	<b>3,508</b>	<b>3,827</b>	<b>3,812</b>	<b>3,423</b>	<b>3,151</b>	<b>3,034</b>	<b>3,087</b>	<b>14,122</b>	<b>12,694</b>
Tax	937	1,129	1,209	1,134	1,045	991	943	982	4,409	3,961
Effective Tax Rate (%)	31.5	32.2	31.6	29.8	30.5	31.5	31.1	31.8	31.2	31.2
<b>PAT</b>	<b>2,039</b>	<b>2,379</b>	<b>2,618</b>	<b>2,678</b>	<b>2,377</b>	<b>2,160</b>	<b>2,092</b>	<b>2,105</b>	<b>9,713</b>	<b>8,734</b>
<b>Adj. PAT</b>	<b>2,039</b>	<b>2,379</b>	<b>2,618</b>	<b>2,678</b>	<b>2,377</b>	<b>2,160</b>	<b>2,092</b>	<b>2,105</b>	<b>9,713</b>	<b>8,734</b>
Change (%)	7.2	22.4	19.6	29.4	16.6	-9.2	-20.1	-21.4	20.8	-10.1

E: MOST Estimates

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Mahindra &amp; Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	MM IN
	REUTERS CODE
S&P CNX: 3,634	MAHM.BO
Equity Shares (m)	255.9
52-Week Range	1,002/488
1,6,12 Rel. Perf. (%)	-4/4/4
M.Cap. (Rs b)	183.1
M.Cap. (US\$ b)	4.2

2 April 2007

Buy

Rs715

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	CON. EPS (RS)	P/E (X)	CON. P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	99,481	9,310	36.4	55.6	19.7	12.9	25.5	25.9	1.4	11.4
3/08E	108,127	9,851	38.5	65.2	18.6	11.0	23.0	23.9	1.3	10.4
3/09E	119,538	10,497	41.0	76.3	17.4	9.4	21.1	22.8	1.1	9.2

- ✗ M&M has reported overall volume growth of 18.5% for 4QFY07, driven by strong growth in UVs (+19.3% YoY) and three-wheelers (+37.7% YoY). Tractors (+8.5% YoY) have displayed relatively growth rate.
- ✗ Net sales for the quarter should grow by 21.4% YoY to Rs27b. We expect margins to improve by 250bp YoY to 12%, resulting in 53.7% growth in EBITDA to Rs3.3b, and adjusted PAT of Rs2.5b, a growth of 55.9% YoY. For FY07 we expect M&M to deliver 22.2% net sales growth at Rs99.5b with corresponding net profit growth of 43.7% to Rs9.3b.
- ✗ M&M's new JV with Renault to manufacture 0.5m cars in India by 2012 will establish its presence in the fast-growing passenger car segment. The first offering of this JV – the sedan 'Logan' is expected to hit the roads shortly.
- ✗ Acquisition of majority stake in PTL has increased M&M's tractor market share by nearly 10% to ~40%, and offers a long-term positive in terms of capacity, diverse portfolio, a strong brand and dealer network in the north.
- ✗ M&M enjoys market leadership in both UVs and tractors. Given the rural bias in its product mix, we expect the company to benefit significantly from the government's thrust on the development of the rural economy. The stock is trading at 11x FY08E and 9.4x FY09E consolidated earnings of Rs65.2 and Rs76.3 respectively. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	52,421	53,746	62,845	65,587	62,426	66,649	73,971	77,720	234,599	280,766
<b>Total Income</b>	<b>18,119</b>	<b>19,148</b>	<b>21,867</b>	<b>22,278</b>	<b>22,172</b>	<b>24,501</b>	<b>25,761</b>	<b>27,046</b>	<b>81,412</b>	<b>99,481</b>
Change (%)	27.3	23.2	23.4	16.6	22.4	28.0	17.8	21.4	22.2	22.2
Total Cost	16,190	16,966	19,231	20,159	19,660	21,209	22,664	23,790	72,546	87,324
<b>EBITDA</b>	<b>1,929</b>	<b>2,182</b>	<b>2,636</b>	<b>2,119</b>	<b>2,512</b>	<b>3,292</b>	<b>3,096</b>	<b>3,256</b>	<b>8,865</b>	<b>12,157</b>
As % of Sales	10.6	11.4	12.1	9.5	11.3	13.4	12.0	12.0	10.9	12.2
Change (%)	19.9	16.4	24.5	0.5	30.2	50.9	17.5	53.7	15.0	37.1
Non-Operating Income	204	294	403	953	454	478	412	639	1,854	1,984
Extraordinary Income	0	0	689	1,411	190	1,393	0	0	2,100	1,583
Extraordinary Expense	15	15	15	-37	15	0	6	-6	8	15
Interest	-54	-48	-21	-61	-147	-155	-168	-180	-184	-650
<b>Gross Profit</b>	<b>2,171</b>	<b>2,509</b>	<b>3,734</b>	<b>4,581</b>	<b>3,288</b>	<b>5,318</b>	<b>3,670</b>	<b>4,082</b>	<b>12,995</b>	<b>16,358</b>
Less: Depreciation	466	466	558	509	463	501	522	550	2,000	2,037
<b>PBT</b>	<b>1,705</b>	<b>2,043</b>	<b>3,175</b>	<b>4,071</b>	<b>2,825</b>	<b>4,817</b>	<b>3,148</b>	<b>3,531</b>	<b>10,995</b>	<b>14,321</b>
Tax	253	472	841	859	784	952	731	977	2,424	3,443
Effective Tax Rate (%)	14.8	23.1	26.5	21.1	27.7	19.8	23.2	27.7	22.0	24.0
<b>PAT</b>	<b>1,453</b>	<b>1,572</b>	<b>2,334</b>	<b>3,212</b>	<b>2,042</b>	<b>3,865</b>	<b>2,417</b>	<b>2,554</b>	<b>8,570</b>	<b>10,878</b>
Change (%)	39.8	27.8	75.3	110.7	40.6	145.9	3.5	-20.5	47.1	26.9
<b>Adj PAT</b>	<b>1,468</b>	<b>1,587</b>	<b>1,790</b>	<b>1,634</b>	<b>1,867</b>	<b>2,472</b>	<b>2,423</b>	<b>2,548</b>	<b>6,479</b>	<b>9,310</b>
Change (%)	61.5	27.9	33.0	4.6	27.2	55.8	35.3	55.9	28.6	43.7

E: MOST Estimates

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<http://deadpresident.blogspot.com> Maruti Udyog

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	MUL IN
	REUTERS CODE
S&P CNX: 3,634	MRTI.BO
Equity Shares (m)	289.0
52-Week Range	991/670
1,6/12 Rel. Perf. (%)	-6/-23/-25
M.Cap. (Rs b)	217.7
M.Cap. (US\$ b)	5.0

2 April 2007

Buy

Previous Recommendation: Buy

Rs753

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	148,118	15,532	53.7	28.2	14.0	3.2	22.7	32.5	1.2	7.7
3/08E	178,235	18,173	62.9	17.0	12.0	2.6	21.5	30.8	0.9	6.2
3/09E	212,055	21,464	74.3	18.1	10.1	2.1	20.6	29.8	0.7	4.8

- Maruti's volumes have increased by 29.6% in 4QFY07; the A2 segment (Alto, Swift etc.) being the best performer.
- Sales for the quarter should grow by 30.5% to Rs43.1b. We expect 160bp YoY and 70bp QoQ decline in the EBITDA margin to 14.9% on account of consolidation of subsidiary financials and the 1.5% increase taken on commodity contracts in 2Q. Margins are expected to remain in the same range for the next 2 years, till the new plant achieves optimum production levels.
- Consequently, we expect EBITDA at Rs6.6b (+19.2% YoY) and PAT at Rs4.4b (+11.6% YoY)
- Maruti's debut in the diesel car segment, launch of the new Zen Estilo and forthcoming launch of the Baleno replacement (Baleno was discontinued in November 2006) would help the company increase market share. We expect volumes to grow at 16.4% CAGR over FY07-FY09.
- The company has an investment outlay of Rs90b for various projects spread over four years.
- We remain extremely positive on Maruti's growth prospects. We forecast strong volume growth over the next two years and estimate EPS at Rs53.7 for FY07, Rs62.9 for FY08 and Rs74.3 for FY09. The stock is trading at 12x FY08E and 10.1x FY09E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	121,863	140,540	145,016	154,400	144,948	157,683	172,181	200,112	561,819	674,924
<b>Total Income</b>	<b>26,271</b>	<b>30,399</b>	<b>31,142</b>	<b>33,059</b>	<b>31,255</b>	<b>34,006</b>	<b>36,795</b>	<b>43,130</b>	<b>120,871</b>	<b>145,186</b>
Change (%)	6.0	15.7	10.8	8.6	19.0	11.9	18.2	30.5	10.5	20.9
Other Operating Income	393	450.0	426	360	602	798	783	749	1,629	2,932
Total Cost	23,024	26,901	26,483	27,915	26,689	29,376	31,723	37,322	104,323	125,110
<b>EBITDA</b>	<b>3,641</b>	<b>3,948</b>	<b>5,085</b>	<b>5,503</b>	<b>5,168</b>	<b>5,428</b>	<b>5,855</b>	<b>6,557</b>	<b>18,177</b>	<b>23,008</b>
As % of Sales	13.7	12.8	16.1	16.5	16.2	15.6	15.6	14.9	14.8	15.5
Change (%)	11.6	11.0	26.6	20.7	42.0	37.5	15.1	19.2	18.6	26.6
Non-Operating Income	589	495	640	1,006	831	605	372	801	2,730	2,609
Extraordinary Income	0	0	0	0	0	0	129	0	0	129
Extraordinary Expense	0	0	0	349	0	60	0	0	349	60
Interest	91	61	17	34	33	31	157	174	204	394
<b>Gross Profit</b>	<b>4,139</b>	<b>4,382</b>	<b>5,708</b>	<b>6,126</b>	<b>5,967</b>	<b>5,942</b>	<b>6,199</b>	<b>7,185</b>	<b>20,354</b>	<b>25,292</b>
Less: Depreciation	783	665	681	725	641	596	759	787	2,854	2,782
<b>PBT</b>	<b>3,356</b>	<b>3,717</b>	<b>5,027</b>	<b>5,400</b>	<b>5,326</b>	<b>5,346</b>	<b>5,440</b>	<b>6,398</b>	<b>17,500</b>	<b>22,510</b>
Tax	1,091	1,236	1,637	1,645	1,630	1,672	1,676	1,955	5,609	6,933
Effective Tax Rate (%)	32.5	33.3	32.6	30.5	30.6	31.3	30.8	30.6	32.1	30.8
<b>PAT</b>	<b>2,265</b>	<b>2,481</b>	<b>3,390</b>	<b>3,755</b>	<b>3,696</b>	<b>3,674</b>	<b>3,764</b>	<b>4,442</b>	<b>11,891</b>	<b>15,577</b>
<b>Adjusted PAT</b>	<b>2,265</b>	<b>2,481</b>	<b>3,390</b>	<b>3,982</b>	<b>3,696</b>	<b>3,713</b>	<b>3,680</b>	<b>4,442</b>	<b>12,118</b>	<b>15,532</b>
Change (%)	32.5	35.1	41.4	53.5	63.2	49.7	8.6	11.6	36.5	31.0

E: MOSt Estimates

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<http://deadpresident.blogspot.com> Punjab Tractors

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	PJT IN
	REUTERS CODE
S&P CNX: 3,634	PTRA.BO
Equity Shares (m)	60.8
52-Week Range	359/191
1,6,12 Rel. Perf. (%)	-2/28/12
M.Cap. (Rs b)	18.4
M.Cap. (US\$ b)	0.4

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs304

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	3/07E	10,085	771	12.7	6.5	23.9	3.0	12.4	17.4	1.8	14.1
	3/08E	10,993	860	14.2	11.5	21.5	2.7	12.8	17.9	1.6	12.5
	3/09E	11,918	927	15.3	7.8	19.9	2.5	12.7	18.1	1.4	11.3

- For 4QFY07, we expect Punjab Tractors to post volume growth of 8.1%. The company has been lagging industry growth rate and has lost share to competitors due to its absence in the fast growing 41-50HP segment.
- We estimate sales for the quarter at Rs2.8b (up 11%) and operating margin at 12.8% (20bp QoQ expansion), resulting in EBITDA of Rs356m (decline of 7.1% YoY). PAT is likely to grow 5% to Rs221m.
- M&M has acquired a 43.3% stake in PTL and has also made an open offer for an additional 20% stake. With the company becoming part of the M&M group, its tractor business is expected to be consolidated with that of M&M's over a period of time, and should result in long-term positives to the acquirer in areas of: additional capacity, diverse portfolio, strong brand and strong dealer network in the north.
- We expect the company to report EPS of Rs12.7 for FY07, Rs14.2 for FY08 and Rs15.3 for FY09.
- The stock is currently trading at 21.5x FY08E and 19.9x FY09E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	7,820	6,847	8,600	8,129	8,192	6,974	8,384	8,788	31,847	32,338
<b>Net Sales</b>	<b>2,380</b>	<b>2,121</b>	<b>2,575</b>	<b>2,514</b>	<b>2,436</b>	<b>2,226</b>	<b>2,634</b>	<b>2,789</b>	<b>9,585</b>	<b>10,085</b>
Change (%)	19.0	11.8	2.6	6.8	2.4	5.0	2.3	11.0	11.7	5.2
Total Cost	2,125	1,863	2,210	2,131	2,135	1,950	2,303	2,433	8,325	8,821
<b>EBITDA</b>	<b>255</b>	<b>258</b>	<b>365</b>	<b>383</b>	<b>301</b>	<b>276</b>	<b>331</b>	<b>356</b>	<b>1,261</b>	<b>1,264</b>
As a % of Sales	10.7	12.2	14.2	15.2	12.4	12.4	12.6	12.8	13.2	12.5
Change (%)	20.3	43.3	-3.2	3.6	18.0	7.0	-9.3	-7.1	10.7	0.2
Non-Operating Income	0	44	0	3	2	40	0	4	46	46
Extraordinary Income	613	0	0	0	0	0	56	0	613	56
Interest	15	18	18	13	5	8	2	10	64	25
<b>Gross Profit</b>	<b>853</b>	<b>284</b>	<b>347</b>	<b>373</b>	<b>298</b>	<b>308</b>	<b>385</b>	<b>350</b>	<b>1,856</b>	<b>1,341</b>
Less: Depreciation	40	38	38	36	38	38	40	44	152	160
<b>PBT</b>	<b>813</b>	<b>246</b>	<b>309</b>	<b>337</b>	<b>260</b>	<b>270</b>	<b>345</b>	<b>306</b>	<b>1,704</b>	<b>1,181</b>
Tax	106	78	101	126	83	87	99	85	411	354
Effective Tax Rate (%)	13.0	31.7	32.7	37.5	31.9	32.2	28.7	27.9	24.1	30.0
<b>PAT</b>	<b>707</b>	<b>168</b>	<b>208</b>	<b>210</b>	<b>177</b>	<b>183</b>	<b>246</b>	<b>221</b>	<b>1,293</b>	<b>827</b>
<b>Adj PAT</b>	<b>138</b>	<b>168</b>	<b>208</b>	<b>210</b>	<b>177</b>	<b>183</b>	<b>190</b>	<b>221</b>	<b>724</b>	<b>771</b>
Change (%)	38.0	55.6	-1.0	-0.2	28.3	8.9	-8.7	5.0	15.1	6.5

E: MOST Estimates

<http://deadpresident.blogspot.com> Swaraj Mazda

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SM IN
	REUTERS CODE
S&P CNX: 3,634	SWRJ.BO
Equity Shares (m)	10.5
52-Week Range	385/206
1,6,12 Rel. Perf. (%)	8/51/-11
M.Cap. (Rs m)	3,568.0
M.Cap. (US\$ m)	82.1

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs340

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	5,805	143	13.7	-14.0	24.9	5.0	20.0	16.3	0.7	12.9
3/08E	6,392	176	16.8	22.8	20.3	4.4	21.9	18.1	0.7	11.4
3/09E	7,095	210	20.0	19.4	17.0	3.9	22.8	19.6	0.6	10.0

- ✗ We expect Swaraj Mazda to report volume decline of 14.2% for 4QFY07 due to a drop in sales of light commercial goods vehicles. Net sales should decline by 3.7% to Rs1.4b.
- ✗ We expect EBITDA margin to improve to 6.8% and EBITDA is expected to nearly double to Rs96m. We estimate PAT at Rs42m.
- ✗ Swaraj is increasing its production capacity from 12,000 units a year to 36,000 units per year over the next 2-3 years.
- ✗ We estimate EPS at Rs13.7 for FY07, Rs16.8 for FY08 and at Rs20 for FY09.
- ✗ Currently, Swaraj is facing pressure on its operating margins. It is also incurring huge capex over the next 2-3 years. We expect margin and capex pressures to affect profitability. Our recommendation is **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	2,608	3,133	3,032	2,830	2,201	3,101	2,730	2,429	11,887	10,461
<b>Net Sales</b>	<b>1,477</b>	<b>1,485</b>	<b>1,591</b>	<b>1,573</b>	<b>1,181</b>	<b>1,710</b>	<b>1,492</b>	<b>1,422</b>	<b>6,118</b>	<b>5,805</b>
Change (%)	10.0	6.7	15.0	-11.7	-20.0	15.2	-6.2	-9.6	23.3	-5.1
Total Cost	1,356	1,380	1,513	1,524	1,150	1,612	1,385	1,326	5,773	5,473
<b>EBITDA</b>	<b>121</b>	<b>105</b>	<b>78</b>	<b>49</b>	<b>31</b>	<b>98</b>	<b>107</b>	<b>96</b>	<b>345</b>	<b>332</b>
As % of Sales	8.2	7.1	4.9	3.1	5.5	5.7	7.2	6.8	5.6	5.7
Change (%)	20.6	-8.7	-28.4	-58.9	-74.4	-6.7	37.2	96.5	-21.5	-3.9
Interest	13	13	20	27	19	24	25	20	73	88
<b>Gross Profit</b>	<b>108</b>	<b>92</b>	<b>58</b>	<b>22</b>	<b>12</b>	<b>74</b>	<b>82</b>	<b>76</b>	<b>272</b>	<b>244</b>
Depreciation	7	7	7	6	6	7	8	9	27	30
<b>PBT</b>	<b>101</b>	<b>85</b>	<b>51</b>	<b>16</b>	<b>6</b>	<b>67</b>	<b>74</b>	<b>67</b>	<b>252</b>	<b>214</b>
Tax	34	30	17	4	4	18	24	25	85	71
Tax Rate (%)	33.7	33.5	33.1	25.3	70.0	26.6	32.4	36.7	35.8	33.0
<b>PAT</b>	<b>67</b>	<b>55</b>	<b>34</b>	<b>12</b>	<b>2</b>	<b>49</b>	<b>50</b>	<b>42</b>	<b>167</b>	<b>143</b>
<b>Adj. PAT</b>	<b>67</b>	<b>55</b>	<b>34</b>	<b>12</b>	<b>2</b>	<b>49</b>	<b>50</b>	<b>42</b>	<b>167</b>	<b>143</b>
Change (%)	16.9	-15.4	-41.4	-81.1	-97.3	-10.5	47.1	259.5	-31.2	-14.0

E: MOST Estimates



<http://deadpresident.blogspot.com> **Tata Motors**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TTMT IN
	REUTERS CODE
S&P CNX: 3,634	TAMO.BO
Equity Shares (m)	402.8
52-Week Range	997/651
1,6,12 Rel. Perf. (%)	-10/-24/-39
M.Cap. (Rs b)	269.5
M.Cap. (US\$ b)	6.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs669

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	CON. EPS (RS)	P/E (X)	CON. P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	3/07E	276,811	20,098	49.9	58.4	13.4	11.5	29.4	31.3	0.9	7.0
	3/08E	314,136	22,017	54.7	65.3	12.2	10.2	26.5	29.4	0.8	6.3
	3/09E	352,079	24,471	60.8	73.8	11.0	9.1	24.5	28.0	0.7	5.5

- ✗ Tata Motors has posted 15.7% volume growth in 4QFY07, with good growth across segments.
- ✗ We estimate sales at Rs85b (up 23.8%) and EBITDA at Rs10.6b (up 21.1%), with flat EBITDA margin on a QoQ basis at 12.4%. This would result in PAT of Rs6.2b (up 23.4%).
- ✗ We expect Tata Motors' CV portfolio to post CAGR of 21% over FY06-FY09, driven by 24.8% growth in LCVs and 17.9% growth in M&HCVs. We expect its passenger car portfolio to post CAGR of 12.2% in volumes over FY06-FY09. We expect the EBITDA margin to remain stable over the stated period.
- ✗ Tata Motors would be a key beneficiary of the positive outlook for CV industry. With good CV sales and pick up in passenger vehicle volumes evident, its operating leverage and cost saving initiatives will help maintain margins even in a rising input cost environment. We estimate consolidated EPS at Rs58.4 for FY07, Rs65.3 for FY08 and Rs73.8 for FY09.
- ✗ The stock is trading at 10.2x FY08E and 9.1x FY09E consolidated earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	87,492	107,061	111,228	148,564	126,154	139,905	141,393	171,926	454,345	579,378
<b>Total Income</b>	<b>38,781</b>	<b>47,813</b>	<b>50,746</b>	<b>68,683</b>	<b>57,835</b>	<b>65,718</b>	<b>68,252</b>	<b>85,006</b>	<b>206,022</b>	<b>276,811</b>
Change (%)	8.5	15.3	16.3	28.6	49.1	37.4	34.5	23.8	31.7	34.4
Total Cost	34,048	41,857	44,139	59,965	50,329	57,939	59,816	74,449	180,009	242,533
<b>EBITDA</b>	<b>4,733</b>	<b>5,956</b>	<b>6,607</b>	<b>8,718</b>	<b>7,506</b>	<b>7,779</b>	<b>8,436</b>	<b>10,557</b>	<b>26,014</b>	<b>34,278</b>
As % of Sales	12.2	12.5	13.0	12.7	13.0	11.8	12.4	12.4	12.6	12.4
Change (%)	-8.0	14.0	27.3	35.4	58.6	30.6	27.7	21.1	18.2	31.8
Non-Operating Income	583	580	41	44	859	848	143	178	1,248	2,028
Forex Gain / (Loss)	145	-196	-386	366	-783	254	1,316	0	-72	787
Extraordinary Income	0	0	1,643	97	0	0	0	0	1,740	0
Extraordinary Expense	10	10	10	155	242	316	235	0	185	793
Interest	510	461	601	692	726	956	852	756	2,264	3,289
<b>Gross Profit</b>	<b>4,940</b>	<b>5,870</b>	<b>7,293</b>	<b>8,378</b>	<b>6,614</b>	<b>7,610</b>	<b>8,809</b>	<b>9,978</b>	<b>26,481</b>	<b>33,011</b>
Depreciation & Amort.	1,267	1,272	1,308	1,363	1,411	1,435	1,435	1,467	5,209	5,748
Product Dev. Expenses	74	58	77	529	103	175	287	235	738	800
<b>PBT</b>	<b>3,600</b>	<b>4,540</b>	<b>5,908</b>	<b>6,486</b>	<b>5,100</b>	<b>5,999</b>	<b>7,087</b>	<b>8,276</b>	<b>20,534</b>	<b>26,464</b>
Tax	873	1,161	1,315	1,895	1,282	1,582	1,956	2,061	5,245	6,881
Effective Tax Rate (%)	24.3	25.6	22.3	29.2	25.1	26.4	27.6	24.9	25.5	26.0
<b>PAT</b>	<b>2,727</b>	<b>3,379</b>	<b>4,592</b>	<b>4,591</b>	<b>3,819</b>	<b>4,417</b>	<b>5,132</b>	<b>6,215</b>	<b>15,289</b>	<b>19,583</b>
Change (%)	22.1	9.3	45.2	18.3	40.0	30.7	11.7	35.4	23.6	28.1
<b>Adj PAT</b>	<b>2,733</b>	<b>3,385</b>	<b>3,123</b>	<b>5,037</b>	<b>3,976</b>	<b>4,623</b>	<b>5,284</b>	<b>6,216</b>	<b>14,278</b>	<b>20,098</b>
Change (%)	22.0	16.2	-1.6	26.3	45.5	36.6	69.2	23.4	14.6	40.8

E: MOST Estimates

Amit Kasast (AKasast@MotilalOswal.com); Tel: +91 22 3982 5411/ Rohan A Korde (RohanKorde@MotilalOswal.com); Tel: + 91 22 3982 5414

<http://deadpresident.blogspot.com> TVS Motor

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TVSS IN
	REUTERS CODE
S&P CNX: 3,634	TVSS.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs57

Equity Shares (m)	237.5
52-Week Range	187/53
1,6,12 Rel. Perf. (%)	-4/-56/-71
M.Cap. (Rs b)	13.5
M.Cap. (US\$ b)	0.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	38,518	726	3.1	-32.4	18.6	1.7	8.9	9.8	0.4	8.1
3/08E	42,326	823	3.5	13.4	16.4	1.6	9.5	10.2	0.3	7.3
3/09E	46,138	895	3.8	8.8	15.1	1.5	9.7	10.5	0.3	6.4

- TVS Motor has registered volume growth of 5.4% in 4QFY07, with motorcycles – the key volume growth driver in 1HFY07 - decreasing by 3% during 4Q. However, scooters and mopeds have posted robust performance in the quarter, increasing by 18.2% and 20% respectively.
- We expect sales to grow at 9.2% to Rs9.2b and EBITDA margin at 4.4%, resulting in EBITDA of Rs405m. Net profit is expected to register a decline for the second consecutive quarter to Rs150m (a decline of 48.4% YoY).
- In line with industry trend, TVS is to launch new variants / models on a regular basis in an effort to maintain its share. Its latest offering — Star Sport, a 100cc motorcycle with alloy wheels, targeting urban customers will be sold along with Star City and other Star basic models.
- TVS Motor's volumes have been negatively impacted by the aggressive strategies adopted by the top 2 two-wheeler companies – Hero Honda and Bajaj Auto. The company is attempting to put in place a strong product portfolio that can drive growth going forward. Entry in the three-wheeler segment will help diversify revenues over a period of time. However, we believe operating performance remains an area of concern.
- We expect TVS Motor to report EPS of Rs3.1 in FY07E, Rs3.5 in FY08E and Rs3.8 in FY09E. The stock is trading at 16.4x FY08E EPS and 15.1x FY09E EPS. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	307,425	325,530	358,559	350,689	375,885	419,195	363,670	369,464	1,342,203	1,528,214
<b>Net Sales</b>	<b>7,351</b>	<b>7,892</b>	<b>8,714</b>	<b>8,393</b>	<b>9,218</b>	<b>10,779</b>	<b>9,354</b>	<b>9,168</b>	<b>32,350</b>	<b>38,518</b>
Change (%)	20.3	6.2	8.4	16.8	25.4	36.6	7.3	9.2	12.5	19.1
Total Cost	6,854	7,433	8,107	7,911	8,802	10,219	9,058	8,762	30,305	36,841
<b>EBITDA</b>	<b>497</b>	<b>459</b>	<b>607</b>	<b>482</b>	<b>416</b>	<b>560</b>	<b>296</b>	<b>405</b>	<b>2,045</b>	<b>1,678</b>
As % of Sales	6.8	5.8	7.0	5.7	4.5	5.2	3.2	4.4	6.3	4.4
Change (%)	-11.7	-31.9	14.7	37.8	-16.3	21.9	-51.2	-15.9	-3.4	-18.0
Other Income	115	164	120	214	178	109	176	166	613	629
Interest	24	27	35	46	60	62	86	81	131	289
Depreciation	227	231	242	240	233	244	245	266	939	988
Extraordinary Gain / (Expense)	0	97	0	0	0	0	0	0	97	0
<b>PBT</b>	<b>361</b>	<b>463</b>	<b>450</b>	<b>410</b>	<b>301</b>	<b>363</b>	<b>141</b>	<b>224</b>	<b>1,684</b>	<b>1,029</b>
Tax	112	144	140	120	89	114	27	74	515	304
Effective Tax Rate (%)	31.0	31.0	31.0	29.1	29.5	31.5	18.8	33.1	30.5	29.5
<b>PAT</b>	<b>249</b>	<b>320</b>	<b>311</b>	<b>291</b>	<b>213</b>	<b>248</b>	<b>115</b>	<b>150</b>	<b>1,170</b>	<b>726</b>
Change (%)	-8.4	-6.7	10.1	-39.3	-14.6	-22.3	-63.1	-48.4	-15.0	-38.0
<b>Adj.PAT</b>	<b>249</b>	<b>223</b>	<b>311</b>	<b>291</b>	<b>213</b>	<b>248</b>	<b>115</b>	<b>150</b>	<b>1,073</b>	<b>726</b>
Change (%)	-8.4	-35.0	10.1	164.5	-14.6	11.6	-63.1	-48.4	-22.0	-32.4
As % of Net Sales	3.4	4.0	3.6	3.5	2.3	2.3	1.2	1.6	3.6	1.9

E: MOST Estimates

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<http://deadpresident.blogspot.com> **Banking**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
Andhra Bank	66
Bank of Baroda	67
Bank of India	68
Canara Bank	69
Corporation Bank	70
HDFC	71
HDFC Bank	72
Federal Bank	73
ICICI Bank	74
Indian Overseas Bank	75
J&K Bank	76
Karnataka Bank	77
Oriental Bank	78
Punjab National Bank	79
State Bank	80
Syndicate Bank	81
Union Bank	82
UTI Bank	83
Vijaya Bank	84

Inflation management was the central regulatory theme during 4QFY07, resulting in tight liquidity conditions and rising interest rates. Inflation continued to remain way above RBI's comfort level of 5-5.5%, prompting the central bank to hike CRR by 100bp (overall hike of 150bp from December 2006 to April 2007) to 6.5%. The RBI is also hiked the repo rate by 50bp (in January and March) to 7.75% and created higher provisioning requirement for certain asset classes.

Despite all these measures by the RBI, the credit growth and money supply continue to remain high at 30% and 22% respectively, as liquidity from other sources emerged (faster deposit growth of 25% YoY, on back of higher deposit rates and huge forex inflows).

Rising inflation has also led to increase in G-Sec yields over the last couple of months. Yields on the shorter end (2-year paper) have increased 73bp over December 2006 (even as 10-year yields are up only 30bp). Higher yields would result in depreciation in value of bond portfolios for all the banks. Among the PSU banks, SBI, Canara Bank, BoB, OBC, and PNB are the most vulnerable to this increase in G-Sec yield.

The bankex has dropped 19% from its peak in February 2007. The valuations at 0.7-1.2x FY08 BV, with RoEs in the range of 17-25%, are very much attractive. In a scenario of monetary tightening, we like banks having high CASA deposits like PNB, BoI, and BoB

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	NET INTEREST INCOME		OPERATING PROFIT		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Banks</b>							
Andhra Bank	Buy	3,790	22.2	2,672	30.0	1,463	5.6
Bank of Baroda	Buy	9,939	14.4	6,629	9.9	2,763	32.3
Bank of India	Buy	8,811	5.2	6,161	-2.2	2,573	1.1
Canara Bank	Buy	10,703	8.8	7,614	-1.3	3,633	-26.4
Corporation Bank	Sell	3,413	9.8	2,917	8.4	1,189	18.5
Federal Bank	Buy	1,756	2.0	1,303	-8.7	700	37.9
HDFC	Neutral	6,743	20.7	6,227	20.1	5,059	18.6
HDFC Bank	Buy	10,135	37.1	8,495	51.4	3,454	31.2
ICICI Bank	Buy	18,037	31.3	22,576	52.4	9,548	20.9
Indian Overseas Bank	Buy	6,237	15.3	4,743	15.4	2,369	15.9
J&K Bank	Buy	2,076	10.1	1,725	21.0	739	224.3
Karnataka Bank	Buy	1,093	8.2	987	2.0	517	1.4
Oriental Bank	Neutral	4,363	8.3	3,186	12.8	1,675	-37.3
Punjab National Bank	Buy	14,578	23.5	9,821	-1.6	3,973	37.6
State Bank	Buy	40,774	14.7	32,043	-2.2	10,072	18.0
Syndicate Bank	Buy	5,726	45.4	3,161	32.0	1,140	1,005.3
Union Bank	Buy	7,088	18.6	4,903	6.9	1,940	34.1
UTI Bank	Buy	4,426	41.5	3,961	32.9	1,836	21.0
Vijaya Bank	Neutral	2,735	12.3	1,895	4.4	687	-
<b>Sector Aggregate</b>		<b>162,424</b>	<b>18.8</b>	<b>131,020</b>	<b>13.3</b>	<b>55,329</b>	<b>18.1</b>

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among large cap banks and Andhra Bank, Union Bank and Syndicate Bank among mid-cap banks. Among private banks, we like HDFC Bank, ICICI bank and Federal bank - especially after the recent fall in their stock prices.

For 4QFY07, we expect our universe of stocks to report average growth of 18.8% in NII and 18.1% growth in net profit.

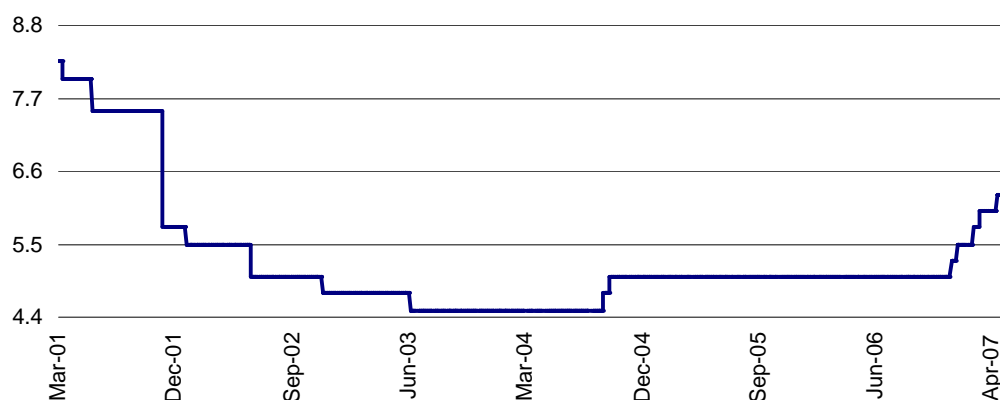
### Regulatory changes mark the quarter

The quarter is marked by a couple of far reaching regulatory changes. Concerns on mounting inflation, strong liquidity at the short end which is emanating from robust forex flows, and fast credit growth in some risky asset classes catapulted RBI to take stiff decisions.

#### The CRR hike

RBI hiked CRR twice by 50bp each (in addition to a 50bp hike in 3QFY07) to 6.5%. The first hike was in February 2007 while the second hike of 50bp would come in effect from April 2007. This move sucked Rs140b of liquidity in February 2007 and Rs155b of liquidity would be sucked in April 2007. Almost all banks announced hikes in lending rates ranging from 50-100bp after the first CRR hike of 50bp in February 2007. We expect a selective hike in lending rates (especially in all types of retail and real estate loans) to accommodate the impact of the recent CRR hike of 50bp (announced on 30 March 2007)

CRR HIKE



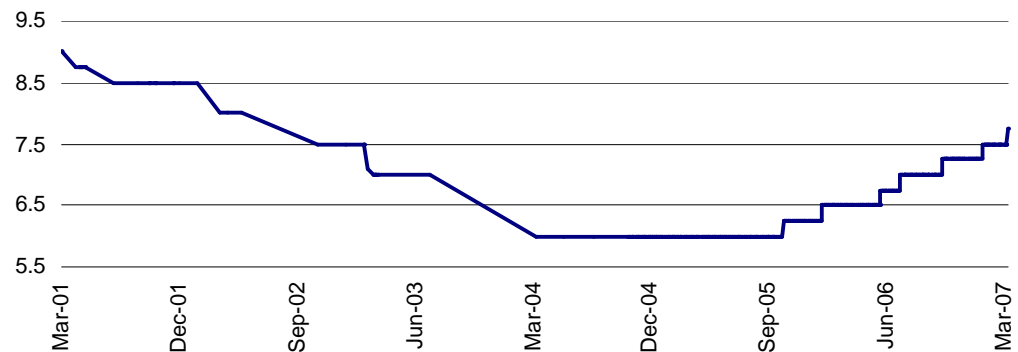
Source: Company/Motilal Oswal Securities

#### The reverse repo hike

RBI increased repo rate by another 50bp (two times by 25bp each) to 7.75%. This was another signal to banks for curtailing their dependence on borrowings from RBI to fund the credit growth.

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HIKE IN REVERSE REPO



Source: Company/Motilal Oswal Securities

### Provisioning requirements made stringent

RBI increased the provisioning requirements on standard assets for specified categories of loans like credit cards, personal loans, and capital market exposure etc from 1% to 2%. Though this would affect the profitability of almost all the banks in 4QFY07, ones like HDFC Bank, ICICI Bank, UTI Bank and SBI will be particularly impacted.

### RBI to pay interest on CRR balances

RBI decided to pay interest on CRR balances with retrospective effect from 24 June 2006. We estimate a total of Rs12.4b interest outgo for the RBI. The interest income for more than nine months will be booked in 4QFY07, which would improve the profits and NIMs of all the banks for the quarter. However, the RBI has slashed this interest rate to 0.5% (from 1%) effective from 14 April 2007.

### Conversion of recap bonds to SLR securities

The process of granting SLR status to recapitalization bonds (through issue of new bonds) issued to some PSU banks has begun. The initial beneficiaries have been BoI (Rs13b out of Rs18b), IOB (Rs9b out of Rs13b), Indian Bank (Rs4b out of Rs38b) and Uco Bank (Rs9b out of Rs23b). This would improve liquidity as well as margins for these banks in FY08. The balance recap bonds are expected to be granted status of SLR in FY08.

### Budget - Overall neutral

Overall, the annual fiscal budget was neutral for the banking sector. However, HDFC and IDFC would be affected FY08 onwards due to reduction in the tax exemptions. The Increase in dividend distribution tax on liquid mutual funds to 25% has narrowed the tax gap in dividend and interest income. This would benefit banks for mobilizing surplus corporate funds for short term durations.

### Concerns

#### Inflation becoming a key concern

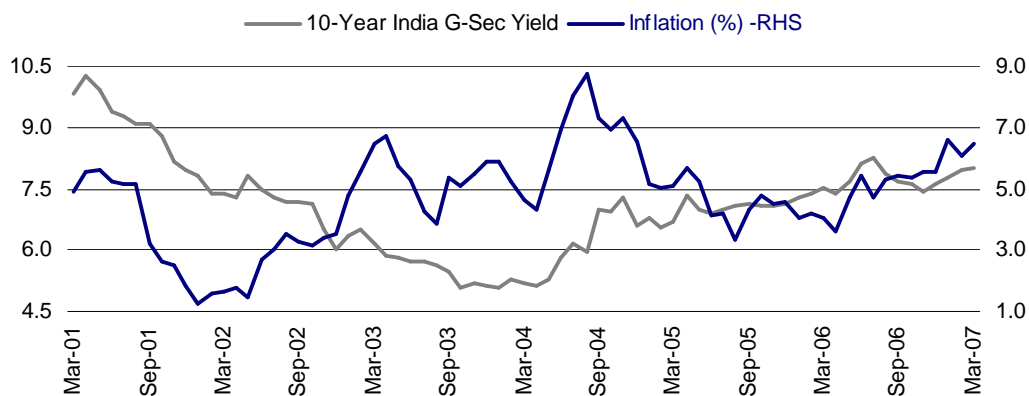
Inflation continued to remain high (6.5% in March 2007) despite a slew of monetary and fiscal measures adopted by the RBI. The central bank has been hawkish in bringing down

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the inflation to 5-5.5% for FY07. However, the monetary measures (CRR and repo hike) have failed to slow down the credit growth and money supply in the short-term.

While we believe that banks would maintain margins in the near term as they have been passing on the higher deposit costs by aggressively hiking lending rates as well, the slowdown in credit growth and rising NPAs due to high rates are emerging as key concerning factors.

#### INFLATION



Source: Company/Motilal Oswal Securities

However, on account of the base effect, we expect inflation to start moderating from current levels. Even during its recent statements, RBI has maintained its 5-5.5% inflation target.

#### ...resulting in monetary tightening and stock price corrections

Due to high inflation, RBI has resorted to monetary tightening by raising CRR and reverse repo rates. This has resulted in a sharp fall in banking stocks over the last quarter. From its peak in February 2007, Bankex have declined by 19%.

#### Deterioration in asset quality - more of a perceived risk

Mostly all the banks have been showing quarter on quarter improvement in asset quality barring a few exceptions. The gross NPAs of banks have come down below 3-4% while NNPA's range from 0.5-1.5%. We believe the asset quality has peaked and any further improvement would be marginal. Concerns arise over the runaway credit growth of 30% for three consecutive years and the sharp rise in interest rates in FY07 leading to higher slippages and defaults going forward. However, our interactions with various bankers make us believe that the risk of reversal of improving asset quality cycle is more perceived than factual. As long as the overall economic growth remains strong, the risk of material deterioration in asset quality remains far from reality.



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### Loan growth continues to remain strong

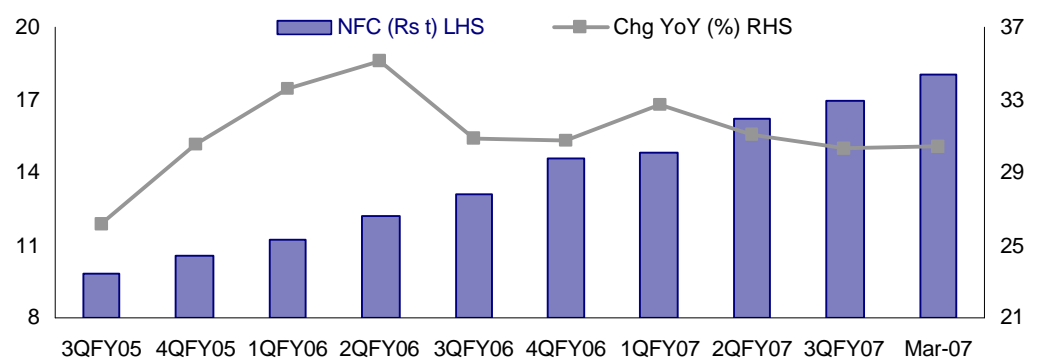
Credit offtake would clock a growth of close to 30% for the third consecutive year against RBI's target of 20% growth for FY07. The key drivers of the Indian credit growth story have been favorable macro environment with a strong GDP/industrial growth, de-leveraged corporate balance sheets at the time of capacity expansions, under leveraged consumers with rising disposable income, and lower interest rates; the last factor - interest rate – has reversed during the year. Barring the same, the fundamentals of Indian growth remain intact. However, leading private banks like HDFC Bank and ICICI Bank, which grew their advances at 40-50% p.a. in the last couple of years, have hinted at a slow down in advances growth to 20-30% p.a. going forward due to the higher base effect, tight monetary policy measures, and rising interest rates.

### Banks adopt different growth philosophies

Bank of Baroda, IOB and Allahabad Bank have grown advances at 35-40% during the year on account of comfortable liquidity. The big banks like SBI, Canara, and PNB have grown advances in line with the industry at 28-30%. SBI, PNB and BoI maintained comfortable liquidity and did not resort to aggressive bulk deposits till December 2006 while our discussions with a lot of market participants revealed that Canara Bank, OBC, Syndicate (slow down in 4Q), Corporation, and Vijaya Bank grew advances by resorting to bulk deposits during the period. However we understand that the bigger banks viz. SBI, Canara Bank and ICICI Bank remained aggressive in bulk deposit market in 4QFY07 offering rates as high as 12% on shorter term deposits. Notably, Andhra Bank, BoI, Union Bank (and J & K Bank from the private sector) preferred to grow advances below industry average but only through the core deposits growth and stayed away from bulk deposits, which could result in better margins and profitability for them.

Generally, in the last quarter of the fiscal, the bulk deposit market is heated as liquidity remains tight (ie available only at a premium) with balance sheet size, priority sector commitments and market share targets becoming prime mandate for banks. Even the large banks resort to bulk borrowing to meet the disbursement commitments including directed lending. This is an annual phenomenon.

NON- FOOD CREDIT GROWTH YOY



Source: Company/Motilal Oswal Securities



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However, higher cost of liquidity and tightening of RBI policies would force banks to slow down the asset growth to maintain profitability and margins in FY08. We believe 28-29% credit growth would be sustained in FY07 and it will come off to 20% in FY08.

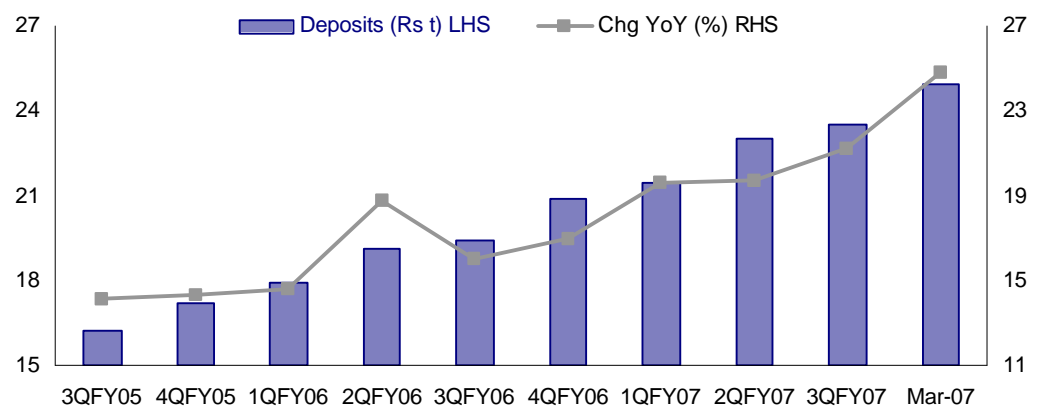
### ... we expect growth to moderate

We expect growth rates for the overall system to moderate in FY08 due to higher interest rates across products. Overall, we expect loan growth to be ~20% in FY08. Retail credit has already started to moderate and could possibly see the fastest slowdown over the medium term, despite retail under penetration in India.

### Deposits growth also picking up but...

Increasing interest rates on deposits have played their role in improving deposit mobilization for the banks. The deposit growth improved from 16-17% in FY05, 18-20% in 1HFY07 to 25% in March 2007. C-D ratio for the industry is ~74% (up from ~72% in the previous year) while SLR ratio has reduced from 30-32% to ~29%. Mobilizing deposits has been the prime focus area for banks during the year and the same would continue even in the next year. Overall, the deposits rate have gone up by ~250 basis and now stand in the range of 8-9.5% from 6-7% a year ago for 'one year and more' maturities.

DEPOSITS GROWTH YOY



Source: Company/Motilal Oswal Securities

As the differential between savings interest rate (3.5%) and term deposit rate has increased from ~2% to ~5% currently, there would be transfer of some funds from savings to term deposits. Though growing current account and savings account (CASA) is prime on the agenda for all banks, the widening interest rate differential would act as a major challenge. Banks with a large branch network and an efficient and cutting edge technology would have an edge in raising core deposits and thus containing increase in cost of deposits. Also, the banks with higher CASA ratio (like HDFC Bank, PNB, SBI, BoI, BoB) would be better placed to bear the increasing cost of deposits.

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### ...Interest rates are on rise

The deposits as well as lending rates are increasing for last 4-5 quarters and we expect them to peak in 4QFY07 as this is busiest period for lending operations. The interest on certificate of deposits (a proxy to bulk deposits market) has gone up from 7-7.5% in April 2006 to 8.5-9% in January 2007 and hovers around 9-10% in March 2007. Some of the bulk deposits have been contracted even at the rates of 11-12% during March 2007. The spiraling of interest rates in the bulk market has led to hikes in retail deposits also (Up ~250 basis YoY to 8-9.5% from 6-7% a year ago for 'one year and more' maturities).

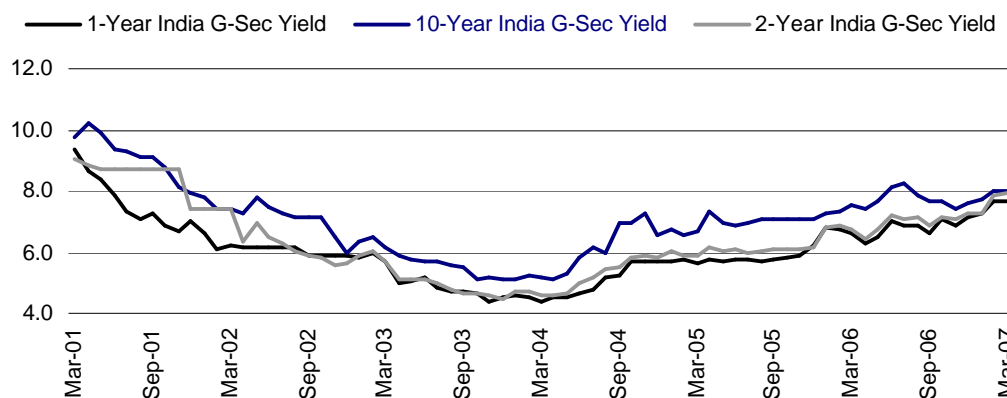
The pressure from increasing cost of funds was further compounded with RBI's policy decisions like increasing CRR and repo rates. So far, the banks have been able to pass on any hike in deposit cost to customers by increasing lending rates. For example, SBI and ICICI Bank have hiked their PLRs by 200bp and 300bp respectively since April 2006. However, advances repricing always lags the deposits repricing.

Bankers expect the liquidity crunch to resolve in 1QFY08 and thus see some softening of interest rates. We do not foresee any sharp decrease in deposit rates for the reasons discussed earlier. We maintain a stable outlook on interest rates with an upward bias for FY08.

### G-Sec yields increase...resulting in MTM losses for few banks in 4QFY07

G-Sec yields have increased during the quarter by 30-70bp across various maturities. Particularly, the increase in shorter term papers was higher than the longer term papers. Yield on 1-year and 2-year government paper increased by 45bp and 73bp respectively as against a 30bp increase in the 10-year paper. This improvement in yield implies a mark-to-market loss on AFS books for all the banks. Our workings show banks like SBI, Canara, OBC, and PNB would take a material mark-to-market hit on their profits during 4QFY07 as these banks have higher duration of AFS portfolio and/or have higher proportion of their investment book in AFS category.

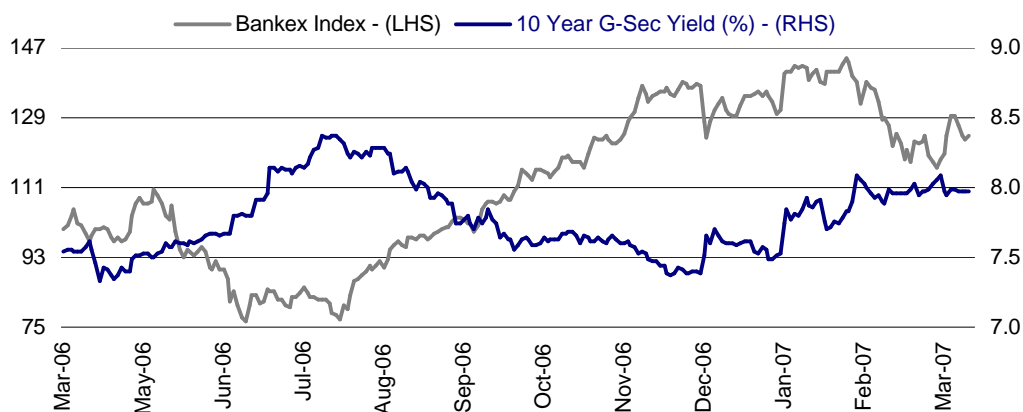
1-YEAR, 10-YEAR G SEC YIELD MOVEMENT



Source: Company/Motilal Oswal Securities

<http://deadpresident.blogspot.com>

MOVEMENT OF 10-YEAR YIELD VS BANKEX



Source: Company/Motilal Oswal Securities

### NIMs – banks have pricing power to maintain margins

We expect sequential improvement in NIMs for most of the banks in 4QFY07 on back of increased lending rates and interest on CRR balances for nine months getting accounted in 4QFY07. So far, the banks have been able to pass on any hike in deposit cost to customers by increasing lending rates. However, yields on investments would remain in the range of 7.5-8% for most of the banks. As this yield is not expected to go up even though deposit costs are going up, a dent on NIMs is expected for banks with higher cost of funds.

In our view, the banks with strong liability side (higher CASA and retail deposits) would be able to maintain or even improve margins as they remain relatively insulated from increase in cost of deposits but enjoy the benefit of increasing lending rates across industry. We like HDFC Bank, PNB, SBI, Andhra Bank for the same reasons.

### Current valuations factor near term risks

The Bankex has dropped 19% from its peak in February 2007. The valuations at 0.7-1.2x FY08 BV, with RoEs in the range of 17-25%, are very much attractive. Nevertheless, a tight monetary policy with an intention to bring down the money supply, credit growth and thus inflation are bound to slow down the asset growth for the banks.

The recent 0.5% hike in CRR to 6.5% effective April 2007 and increased cost of deposits are bound to put pressure on NIMs, especially the low CASA banks and those which have been aggressive in bulk deposits in 4QFY07. While we believe that banks would raise lending rates to maintain overall margins going forward, asset growth for the overall sector could come down. Among state-owned banks, we like banks which are strong on the liability franchise and are growing at a steady pace. We like PNB, BoI, and BoB among large cap banks while we like Union Bank, Andhra Bank, and Syndicate Bank among mid-cap banks. Among private banks, we like Federal Bank, HDFC Bank and ICICI Bank - especially after the recent fall in their stock prices.

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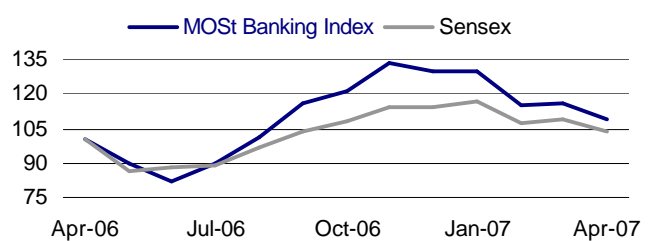
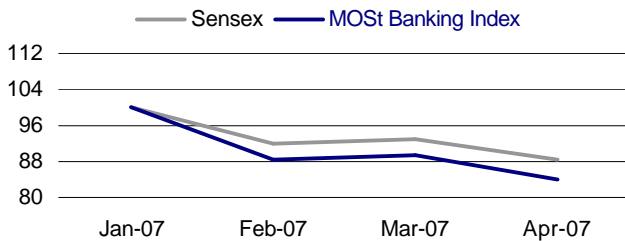
## Stock performance and valuations

### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Banking</b>						
Andhra Bank	-17	-14	-7	-22	-1	-20
Bank of Baroda	-17	-14	-6	-21	-1	-19
Bank of India	-26	16	-15	9	-10	11
Canara Bank	-34	-32	-23	-40	-18	-38
Corporation Bank	-26	-36	-16	-44	-10	-42
Federal Bank	-9	0	2	-8	8	-6
HDFC	-12	7	-1	-1	5	1
HDFC Bank	-16	17	-5	9	1	11
ICICI Bank	-10	33	0	25	6	28
Indian Overseas Bank	-15	-1	-4	-9	2	-7
J&K Bank	0	39	10	31	16	33
Karnataka Bank	9	63	20	55	26	57
Oriental Bank of Commerce	-26	-28	-15	-36	-10	-34
Punjab National Bank	-16	-8	-6	-16	0	-14
State Bank	-26	-5	-15	-13	-9	-11
Syndicate Bank	-21	-36	-11	-44	-5	-41
Union Bank	-21	-21	-11	-29	-5	-27
UTI Bank	-2	27	9	20	15	22
Vijaya Bank	-18	-29	-7	-36	-1	-34

### RELATIVE PERFORMANCE - 3 MONTH (%)

### RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Banks</b>														
Andhra Bank	72	Buy	11.2	12.9	14.5	6.4	5.5	4.9	1.1	1.0	0.9	17.9	18.5	18.5
Bank of Baroda	201	Buy	28.9	34.7	41.5	6.9	5.8	4.8	0.9	0.8	0.7	12.8	13.9	14.9
Bank of India	154	Buy	19.1	23.4	29.3	8.1	6.6	5.3	1.4	1.2	1.0	17.6	18.8	20.3
Canara Bank	183	Buy	31.2	34.5	40.9	5.9	5.3	4.5	0.9	0.8	0.7	16.8	16.5	17.3
Corporation Bank	259	Sell	37.1	42.0	46.8	7.0	6.2	5.5	1.0	0.9	0.8	14.8	15.0	14.8
Federal Bank	203	Buy	30.5	36.4	42.1	6.7	5.6	4.8	1.2	1.0	0.9	17.8	18.1	17.9
HDFC Bank	902	Buy	36.6	47.8	62.1	24.6	18.9	14.5	4.5	3.8	3.1	19.9	21.9	23.5
HDFC	1,433	Neutral	61.2	71.7	86.5	23.4	20.0	16.6	6.7	5.6	4.7	31.1	30.5	30.7
ICICI Bank	805	Buy	36.4	44.8	53.9	22.1	17.9	14.9	2.9	2.6	2.3	13.9	15.4	16.4
Indian Overseas Bank	96	Buy	17.5	20.3	23.8	5.5	4.7	4.0	1.4	1.1	0.9	26.8	25.3	24.3
J&K Bank	628	Buy	62.7	74.3	90.1	10.0	8.5	7.0	1.5	1.3	1.1	15.9	16.5	17.5
Karnataka Bank	166	Buy	16.7	19.4	22.1	10.0	8.6	7.5	1.6	1.4	1.2	17.0	17.3	17.1
Oriental Bank	169	Neutral	35.0	36.3	41.0	4.8	4.6	4.1	0.8	0.7	0.6	16.2	15.5	16.0
Punjab National Bank	428	Buy	53.9	69.8	85.8	7.9	6.1	5.0	1.3	1.1	0.9	16.9	19.0	20.0
State Bank	930	Buy	77.1	88.0	102.1	12.1	10.6	9.1	1.6	1.4	1.3	13.9	14.2	14.7
Syndicate Bank	59	Buy	13.9	15.5	17.1	4.2	3.8	3.4	1.0	0.8	0.7	23.3	21.9	20.5
Union Bank	96	Buy	16.1	18.9	22.3	6.0	5.1	4.3	1.0	0.9	0.8	16.8	17.6	18.3
UTI Bank	460	Buy	22.6	28.1	34.9	20.3	16.4	13.2	3.8	3.2	2.7	20.2	21.2	22.0
Vijaya Bank	39	Neutral	7.8	8.7	9.6	5.0	4.5	4.0	0.9	0.8	0.7	18.8	18.6	18.2
<b>Sector Aggregate</b>						<b>12.6</b>	<b>10.6</b>	<b>8.9</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>16.6</b>	<b>17.3</b>	<b>18.1</b>

<http://deadpresident.blogspot.com> Andhra Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ANDB IN
	REUTERS CODE
S&P CNX: 3,634	ADBK.BO
Equity Shares (m)	485.0
52-Week Range	99/57
1,6,12 Rel. Perf. (%)	-4/-25/-22
M.Cap. (Rs b)	34.8
M.Cap. (US\$ b)	0.8

2 April 2007

Buy

Rs72

Previous Recommendation: Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	19,089	5,453	11.2	12.3	6.4	1.1	11.8	17.9	1.2	1.1
3/08E	21,212	6,280	12.9	15.2	5.5	1.0	11.6	18.5	1.2	1.0
3/09E	23,761	7,034	14.5	12.0	4.9	0.9	12.0	18.5	1.2	0.9

- ✗ We expect NII to grow 22.2% YoY to Rs3.8b on back of ~20% loan growth.
- ✗ Margins are likely to stabilize at 3Q levels of ~3.6%. CASA deposit growth is likely to be around 15% YoY, while term deposit growth is likely to witness lower growth at 17%. The bank prefers to stay away from building up bulk deposits and tries to match the advances growth with deposit growth.
- ✗ Other income would remain almost flat on account of lower treasury gains. Core other income is expected to grow 18-20% YoY.
- ✗ With gross NPA at just 1.7% and net NPAs at 0.4%, incremental provisioning for NPA is expected to be low. Asset quality is expected to further improve as some recoveries and upgradations are expected for a few big accounts classified as NPAs during 3QFY07. However, we expect higher standard asset provisioning in 4QFY07.
- ✗ The bank is a play on healthy growth, clean books and a reasonable RoE. At CMP, the stock is trading at 5.5x FY08E EPS and 1x FY08E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	6,172	6,353	6,986	7,232	7,599	7,721	8,128	9,787	26,744	33,235
Interest Expense	3,429	3,468	4,028	4,130	4,247	4,412	4,493	5,997	15,054	19,148
<b>Net Interest Income</b>	<b>2,743</b>	<b>2,886</b>	<b>2,959</b>	<b>3,102</b>	<b>3,352</b>	<b>3,309</b>	<b>3,635</b>	<b>3,790</b>	<b>11,690</b>	<b>14,087</b>
% Change (Y-o-Y)	2.4	5.6	13.0	16.6	22.2	14.7	22.8	22.2	9.3	20.5
Other Income	772	1,179	1,189	1,441	1,018	1,287	1,327	1,371	4,581	5,003
<b>Net Income</b>	<b>3,515</b>	<b>4,065</b>	<b>4,148</b>	<b>4,543</b>	<b>4,371</b>	<b>4,596</b>	<b>4,962</b>	<b>5,161</b>	<b>16,270</b>	<b>19,089</b>
% Change (Y-o-Y)	-13.9	-24.0	1.6	8.9	24.3	13.1	19.6	13.6	-10.7	17.3
Operating Expenses	1,914	2,060	2,118	2,488	2,306	2,365	2,356	2,489	8,580	9,515
<b>Operating Profit</b>	<b>1,601</b>	<b>2,005</b>	<b>2,030</b>	<b>2,055</b>	<b>2,065</b>	<b>2,231</b>	<b>2,606</b>	<b>2,672</b>	<b>7,691</b>	<b>9,574</b>
Other Provisions	449	146	296	1,225	466	92	645	798	2,117	2,000
<b>Profit before Tax</b>	<b>1,152</b>	<b>1,859</b>	<b>1,734</b>	<b>830</b>	<b>1,599</b>	<b>2,140</b>	<b>1,961</b>	<b>1,874</b>	<b>5,574</b>	<b>7,574</b>
Tax Provisions	300	530	445	-556	435	675	600	411	719	2,121
<b>Net Profit</b>	<b>852</b>	<b>1,329</b>	<b>1,289</b>	<b>1,386</b>	<b>1,164</b>	<b>1,465</b>	<b>1,361</b>	<b>1,463</b>	<b>4,855</b>	<b>5,453</b>
% Change (Y-o-Y)	-43.3	21.5	5.8	-0.1	36.7	10.2	5.6	5.6	-6.7	12.3
Cost to Income Ratio (%)	54.5	50.7	51.1	54.8	52.8	51.5	47.5	48.2	52.7	49.8
Interest Exp./Interest Income (%)	55.6	54.6	57.6	57.1	55.9	57.1	55.3	61.3	56.3	57.6
Other Income/Net Income (%)	22.0	29.0	28.7	31.7	23.3	28.0	26.7	26.6	28.2	26.2

E: MOST Estimates

<http://deadpresident.blogspot.com> Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BOB IN
	REUTERS CODE
S&P CNX: 3,634	BOB.BO
Equity Shares (m)	365.5
52-Week Range	296/176
1,6,12 Rel. Perf. (%)	-3/-30/-21
M.Cap. (Rs b)	73.5
M.Cap. (US\$ b)	1.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs201

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	50,044	10,572	28.9	27.9	6.9	0.9	11.4	12.8	0.8	0.9
3/08E	56,005	12,676	34.7	19.9	5.8	0.8	10.8	13.9	0.8	0.8
3/09E	62,774	15,171	41.5	19.7	4.8	0.7	12.8	14.9	0.9	0.7

- Bank would continue to grow its asset book at much above industry average considering its current low leverage and comfortable liquidity situation. We expect a 38% YoY growth in advances.
- While wage cost growth is likely to be limited, we expect non-wage costs to grow fast due to aggressive implementation of the CBS network.
- Profit growth can be lower on account of provision for depreciation of investments ~Rs1.5b.
- BoB's asset quality has improved significantly over the last one year with coverage ratio at 78% and net NPAs at 0.7%. This would result in lower NPA provisions during the quarter.
- PAT growth is likely to be 32% YoY on back of strong NII growth and lower overall provisions.
- At 0.8x FY08E BV, the valuations are attractive for the bank. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	16,732	16,940	17,754	19,573	20,201	21,859	23,870	29,853	71,000	95,783
Interest Expense	9,145	9,123	9,599	10,883	11,378	12,952	14,262	19,913	38,751	58,505
<b>Net Interest Income</b>	<b>7,587</b>	<b>7,818</b>	<b>8,155</b>	<b>8,690</b>	<b>8,823</b>	<b>8,908</b>	<b>9,608</b>	<b>9,939</b>	<b>32,249</b>	<b>37,278</b>
% Change (YoY)	11.1	13.6	12.0	-1.2	16.3	13.9	17.8	14.4	8.2	15.6
Other Income	2,087	3,096	2,723	4,011	2,775	3,217	3,337	3,437	11,917	12,766
<b>Net Income</b>	<b>9,674</b>	<b>10,913</b>	<b>10,877</b>	<b>12,701</b>	<b>11,599</b>	<b>12,125</b>	<b>12,945</b>	<b>13,376</b>	<b>44,166</b>	<b>50,044</b>
% Change (YoY)	-10.2	4.2	7.4	10.8	19.9	11.1	19.0	5.3	3.1	13.3
Operating Expenses	5,118	5,960	6,102	6,667	6,040	5,968	6,375	6,747	23,847	25,130
<b>Operating Profit</b>	<b>4,556</b>	<b>4,953</b>	<b>4,775</b>	<b>6,035</b>	<b>5,559</b>	<b>6,157</b>	<b>6,569</b>	<b>6,629</b>	<b>20,319</b>	<b>24,914</b>
Provision & Contingencies	2,571	1,257	1,933	3,411	3,054	1,593	1,417	2,586	9,173	8,650
<b>PBT</b>	<b>1,985</b>	<b>3,696</b>	<b>2,842</b>	<b>2,624</b>	<b>2,504</b>	<b>4,564</b>	<b>5,153</b>	<b>4,044</b>	<b>11,146</b>	<b>16,264</b>
Tax Provisions	415	1,106	820	536	871	1,680	1,861	1,280	2,876	5,692
<b>Net Profit</b>	<b>1,570</b>	<b>2,591</b>	<b>2,022</b>	<b>2,088</b>	<b>1,633</b>	<b>2,884</b>	<b>3,292</b>	<b>2,763</b>	<b>8,270</b>	<b>10,572</b>
% Change (YoY)	-46.4	21.5	190.7	106.7	4.0	11.3	62.8	32.3	22.2	27.8
Cost to Income Ratio (%)	52.9	54.6	56.1	52.5	52.1	49.2	49.3	50.4	54.0	50.2
Int Exp/ Int Earned (%)	54.7	53.9	54.1	55.6	56.3	59.2	59.7	66.7	54.6	61.1
Other Income / Net Income (%)	21.6	28.4	25.0	31.6	23.9	26.5	25.8	25.7	27.0	25.5

E: MOST Estimates



<http://deadpresident.blogspot.com> Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BOI IN
	REUTERS CODE
S&P CNX: 3,634	BOI.BO
Equity Shares (m)	488.1
52-Week Range	214/80
1,6,12 Rel. Perf. (%)	-2/-5/9
M.Cap. (Rs b)	75.2
M.Cap. (US\$ b)	1.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs154

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	47,249	9,331	19.1	33.1	8.1	1.4	10.2	17.6	0.8	1.5
3/08E	52,395	11,418	23.4	22.4	6.6	1.2	10.2	18.8	0.8	1.2
3/09E	60,839	14,316	29.3	25.4	5.3	1.0	10.5	20.3	0.9	1.0

- ✗ We expect NII to grow 5% YoY on a reported basis. However, adjusting for the one-off income tax refund in 4QFY06 (Rs1b), NII growth for the bank is likely to be 19% YoY.
- ✗ Loan growth is likely to be 24% YoY matched by 21% deposits growth. Margins are likely to be stable QoQ.
- ✗ Fee income to grow 20% YoY on back of increased thrust on third-party distribution.
- ✗ Opex, ex wage costs will continue to be higher on account of aggressive CBS implementation. Bank expends the CBS cost instead of capitalizing the same.
- ✗ NPA provisions will continue to remain high, as the bank intends to bring up its coverage ratio to 75% from 66% currently. However, we expect provisions as well as CBS related costs to decline substantially from FY08.
- ✗ The bank continues to be the most consistent in terms of its improvement in core performance. At CMP, the stock is trading at 6.6x FY08E EPS and 1.2x FY08E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	15,645	16,614	18,006	20,022	20,211	22,582	23,187	23,884	70,287	89,863
Interest Expense	10,056	10,828	11,440	11,644	12,566	14,088	14,599	15,073	43,967	56,327
<b>Net Interest Income</b>	<b>5,590</b>	<b>5,786</b>	<b>6,566</b>	<b>8,378</b>	<b>7,644</b>	<b>8,494</b>	<b>8,588</b>	<b>8,811</b>	<b>26,320</b>	<b>33,536</b>
% Change (Y-o-Y)	3.8	-2.9	6.1	73.2	36.8	46.8	30.8	5.2	17.7	27.4
<b>NII Adj. for one-offs</b>	<b>5,590</b>	<b>5,786</b>	<b>6,566</b>	<b>7,378</b>	<b>7,644</b>	<b>8,494</b>	<b>8,588</b>	<b>8,811</b>	<b>25,320</b>	<b>33,536</b>
Other Income	2,944	3,031	2,625	3,244	3,107	3,533	3,223	3,852	11,844	13,714
<b>Net Income</b>	<b>8,533</b>	<b>8,818</b>	<b>9,191</b>	<b>11,622</b>	<b>10,751</b>	<b>12,026</b>	<b>11,811</b>	<b>12,662</b>	<b>38,164</b>	<b>47,249</b>
% Change (Y-o-Y)	4.9	3.1	7.8	33.4	26.0	36.4	28.5	8.9	12.5	23.8
Operating Expenses	4,867	5,517	5,444	5,324	6,075	7,236	6,279	6,501	21,151	26,090
<b>Operating Profit</b>	<b>3,666</b>	<b>3,301</b>	<b>3,747</b>	<b>6,298</b>	<b>4,676</b>	<b>4,791</b>	<b>5,532</b>	<b>6,161</b>	<b>17,012</b>	<b>21,159</b>
Other Provisions	1,392	1,521	1,804	3,140	1,685	1,587	2,286	2,643	7,856	8,200
<b>Profit before tax</b>	<b>2,275</b>	<b>1,780</b>	<b>1,943</b>	<b>3,159</b>	<b>2,991</b>	<b>3,204</b>	<b>3,246</b>	<b>3,518</b>	<b>9,157</b>	<b>12,959</b>
Tax Provisions	557	459	512	614	904	1,083	697	945	2,142	3,629
<b>Net Profit</b>	<b>1,717</b>	<b>1,322</b>	<b>1,431</b>	<b>2,544</b>	<b>2,087</b>	<b>2,121</b>	<b>2,549</b>	<b>2,573</b>	<b>7,014</b>	<b>9,331</b>
% Change (Y-o-Y)	5.6	166.8	90.7	381.9	21.5	60.5	78.1	1.1	106.1	33.0
Cost to Income Ratio (%)	57.0	62.6	59.2	45.8	56.5	60.2	53.2	51.3	55.4	55.2
Interest Exp./Interest Income (%)	64.3	65.2	63.5	58.2	62.2	62.4	63.0	63.1	62.6	62.7
Other Income/Net Income (%)	34.5	34.4	28.6	27.9	28.9	29.4	27.3	30.4	31.0	29.0

E: MSt Estimates

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<http://deadpresident.blogspot.com> Canara Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CBK IN
	REUTERS CODE
S&P CNX: 3,634	CNBK.BO
Equity Shares (m)	410.0
52-Week Range	320/165
1,6,12 Rel. Perf. (%)	-8/-36/-40
M.Cap. (Rs b)	75.1
M.Cap. (US\$ b)	1.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs183

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	52,704	12,798	31.2	-4.7	5.9	0.9	10.7	16.8	0.9	1.0
3/08E	58,397	14,157	34.5	10.6	5.3	0.8	10.3	16.5	0.9	0.9
3/09E	66,868	16,784	40.9	18.6	4.5	0.7	10.6	17.3	0.9	0.8

- NII growth is likely to be lower at 9% YoY. We expect margin pressure to continue owing to higher deposit costs. The bank has been active in bulk deposit market to fund the credit growth.
- Fee income growth has been dismal for the bank so far (YoY decline in 2Q and 3QFY07) and we do not expect any positive surprise on this count. Treasury profits are expected to remain lower.
- Operating expenses, ex staff expenses for Canara Bank is likely to grow aggressively going forward as the bank is planning to roll out 1,000 branches under CBS in the next one year. We expect ~20% YoY growth in opex, ex staff in 4Q.
- Higher MTM losses on AFS investment book (expected to be around Rs3.5b) would dent profitability of the bank in 4QFY07. We expect the PAT to decline 26% YoY in 4QFY07.
- At CMP, the stock is trading at 5.3x FY08E EPS and 0.8x FY08 BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Earned	19,795	21,013	22,401	23,906	25,128	26,800	29,614	31,506	87,115	113,046
Interest Expended	11,467	12,946	12,818	14,069	15,649	16,988	19,220	20,802	51,300	72,660
<b>Net Interest Income</b>	<b>8,328</b>	<b>8,067</b>	<b>9,582</b>	<b>9,838</b>	<b>9,478</b>	<b>9,811</b>	<b>10,394</b>	<b>10,703</b>	<b>35,815</b>	<b>40,386</b>
% Change (YoY)	11.6	10.6	26.7	7.1	13.8	21.6	8.5	8.8	13.7	12.8
Non Interest Income	2,591	3,928	3,112	4,145	2,582	3,133	2,993	3,610	13,775	12,318
<b>Net Income</b>	<b>10,919</b>	<b>11,995</b>	<b>12,694</b>	<b>13,982</b>	<b>12,060</b>	<b>12,944</b>	<b>13,387</b>	<b>14,314</b>	<b>49,590</b>	<b>52,704</b>
Operating Expenses	5,316	6,184	5,702	6,269	6,158	6,792	6,369	6,699	23,471	26,018
<b>Operating Profit</b>	<b>5,603</b>	<b>5,811</b>	<b>6,992</b>	<b>7,713</b>	<b>5,902</b>	<b>6,152</b>	<b>7,018</b>	<b>7,614</b>	<b>26,119</b>	<b>26,686</b>
% Change (YoY)	-13.1	1.1	14.6	2.0	5.3	5.9	0.4	-1.3	1.0	2.2
Other Provisions & Contingencies	3,034	2,026	2,449	3,178	3,743	1,534	2,630	3,493	10,687	11,400
<b>PBT</b>	<b>2,569</b>	<b>3,785</b>	<b>4,543</b>	<b>4,535</b>	<b>2,159</b>	<b>4,618</b>	<b>4,388</b>	<b>4,121</b>	<b>15,432</b>	<b>15,286</b>
Provision for Taxes	700	720	980	-400	250	1,000	750	488	2,000	2,488
<b>Net Profit</b>	<b>1,869</b>	<b>3,065</b>	<b>3,563</b>	<b>4,935</b>	<b>1,909</b>	<b>3,618</b>	<b>3,638</b>	<b>3,633</b>	<b>13,432</b>	<b>12,798</b>
% Change (YoY)	-44.4	-22.8	30.0	382.6	2.2	18.0	2.1	-26.4	21.1	-4.7
Cost / Income	48.7	51.6	44.9	44.8	51.1	52.5	47.6	46.8	47.3	49.4
Int Exp / Int Income	57.9	61.6	57.2	58.8	62.3	63.4	64.9	66.0	58.9	64.3
Other Income / Net Income	23.7	32.8	24.5	29.6	21.4	24.2	22.4	25.2	27.8	23.4

E: Most Estimates

<http://deadpresident.blogspot.com> Corporation Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CRPBK IN
	REUTERS CODE
S&P CNX: 3,634	CRBK.BO
Equity Shares (m)	143.4
52-Week Range	445/205
1,6,12 Rel. Perf. (%)	7/-38/-44
M.Cap. (Rs b)	37.1
M.Cap. (US\$ b)	0.9

2 April 2007

Sell

Previous Recommendation: Sell

Rs259

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	19,215	5,316	37.1	19.6	7.0	1.0	11.9	14.8	1.2	1.0
3/08E	21,621	6,022	42.0	13.3	6.2	0.9	10.6	15.0	1.1	0.9
3/09E	24,144	6,716	46.8	11.5	5.5	0.8	11.0	14.8	1.0	0.8

- ✗ We expect the bank to show margin improvement in 4QFY07 as yields on advances have improved more than offsetting the increased costs of deposits. We expect the NII to grow by 10% YoY.
- ✗ We expect the bank to post 32% YoY advances growth and 27% YoY deposits growth.
- ✗ Other income may decrease year on year on account of reduced treasury profits and recoveries.
- ✗ Overall, we expect a flat net income and operating profit for the bank. However, lower provisions on account of healthy asset quality would enable the bank to post 14% YoY growth in PAT during 4QFY07.
- ✗ Relative to its RoE, we believe that the current valuations are expensive. The stock trades at 6.2x FY08E EPS and 0.9x FY08E BV. We maintain **Sell**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	5,968	6,473	6,770	7,054	7,301	8,325	8,868	9,276	26,265	33,770
Interest Expense	3,159	3,407	3,485	3,945	4,053	5,158	5,536	5,863	13,997	20,609
<b>Net Interest Income</b>	<b>2,809</b>	<b>3,065</b>	<b>3,285</b>	<b>3,109</b>	<b>3,248</b>	<b>3,167</b>	<b>3,333</b>	<b>3,413</b>	<b>12,268</b>	<b>13,161</b>
% Change (Y-o-Y)	0.7	6.5	19.1	8.5	15.6	3.3	1.5	9.8	8.6	7.3
Other Income	1,696	1,380	1,065	1,574	1,875	1,131	1,593	1,456	5,715	6,054
<b>Net Income</b>	<b>4,505</b>	<b>4,445</b>	<b>4,349</b>	<b>4,683</b>	<b>5,123</b>	<b>4,297</b>	<b>4,926</b>	<b>4,869</b>	<b>17,983</b>	<b>19,215</b>
% Change (Y-o-Y)	18.8	8.6	-11.6	13.3	13.7	-3.3	13.2	4.0	6.2	6.9
Operating Expenses	1,735	1,806	1,935	1,992	1,883	1,941	1,995	1,952	7,468	7,770
<b>Operating Profit</b>	<b>2,770</b>	<b>2,639</b>	<b>2,415</b>	<b>2,692</b>	<b>3,240</b>	<b>2,357</b>	<b>2,931</b>	<b>2,917</b>	<b>10,515</b>	<b>11,444</b>
% Change (Y-o-Y)	21.6	9.6	-26.5	24.9	17.0	-10.7	21.4	8.4	3.8	8.8
Other Provisions	813	960	908	1,089	1,063	387	832	1,169	3,770	3,450
<b>PBT</b>	<b>1,957</b>	<b>1,679</b>	<b>1,507</b>	<b>1,602</b>	<b>2,177</b>	<b>1,970</b>	<b>2,099</b>	<b>1,748</b>	<b>6,745</b>	<b>7,994</b>
Tax Provisions	722	623	356	600	735	700	635	608	2,300	2,678
<b>Net Profit</b>	<b>1,235</b>	<b>1,056</b>	<b>1,151</b>	<b>1,003</b>	<b>1,442</b>	<b>1,270</b>	<b>1,464</b>	<b>1,140</b>	<b>4,445</b>	<b>5,316</b>
% Change (Y-o-Y)	17.1	285.5	-28.8	-6.8	16.8	20.3	27.2	13.6	10.5	19.6
Cost to Income Ratio (%)	38.5	40.6	44.5	42.5	36.8	45.2	40.5	40.1	41.5	40.4
Interest Exp./Interest Income (%)	52.9	52.6	51.5	55.9	55.5	62.0	62.4	63.2	53.3	61.0
Other Income/Net Income (%)	37.6	31.0	24.5	33.6	36.6	26.3	32.3	29.9	31.8	31.5

E: Most Estimates

<http://deadpresident.blogspot.com> Federal Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	FB IN
	REUTERS CODE
S&P CNX: 3,634	FED.BO
Equity Shares (m)	85.8
52-Week Range	274/137
1,6,12 Rel. Perf. (%)	-4/-4/-8
M.Cap. (Rs b)	17.4
M.Cap. (US\$ b)	0.4

2 April 2007

Buy

Previous Recommendation: Buy

Rs203

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	9,282	2,621	30.5	16.1	6.6	1.2	12.0	19.3	1.2	1.2
3/08E	10,680	3,108	36.2	18.6	5.6	1.0	12.0	19.5	1.2	1.0
3/09E	12,295	3,692	43.0	18.8	4.7	0.9	11.0	19.7	1.2	0.9

- ✍ We expect the loan growth to slow down to ~25% YoY due to tight liquidity situation and management's stance on not compromising on margins for balance sheet growth.
- ✍ We expect NIMs to be ~3.2-3.3% for FY07 and 3.4% for 4QFY07.
- ✍ We believe recovery of NPAs will be strong during the quarter - a traditional fourth quarter phenomenon. Therefore, positive surprises to earnings can be expected.
- ✍ However, depreciation on investments (expected to be Rs0.3b) on account of adverse G-Sec yield movement could dampen the PAT growth.
- ✍ Federal Bank is a play on improving asset quality, consolidations and attractive valuations. At CMP, the stock trades at 5.6x FY08E EPS and 1x FY08E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	3,473	3,365	3,625	3,903	4,083	4,337	4,441	4,589	14,365	17,449
Interest Expense	2,031	2,025	2,130	2,181	2,497	2,662	2,676	2,722	8,367	10,557
<b>Net Interest Income</b>	<b>1,442</b>	<b>1,340</b>	<b>1,494</b>	<b>1,722</b>	<b>1,586</b>	<b>1,675</b>	<b>1,766</b>	<b>1,867</b>	<b>5,998</b>	<b>6,893</b>
% Change (Y-o-Y)	12.4	0.3	16.0	54.2	10.0	25.0	18.1	8.4	19.4	14.9
Other Income	422	566	484	697	543	726	545	575	2,170	2,389
<b>Net Income</b>	<b>1,864</b>	<b>1,906</b>	<b>1,978</b>	<b>2,420</b>	<b>2,129</b>	<b>2,401</b>	<b>2,310</b>	<b>2,442</b>	<b>8,168</b>	<b>9,282</b>
% Change (Y-o-Y)	-4.3	7.2	14.3	43.5	14.2	26.0	16.8	0.9	14.4	13.6
Operating Expenses	913	888	853	992	991	1,011	973	1,028	3,646	4,003
<b>Operating Profit</b>	<b>951</b>	<b>1,018</b>	<b>1,126</b>	<b>1,427</b>	<b>1,137</b>	<b>1,390</b>	<b>1,337</b>	<b>1,414</b>	<b>4,522</b>	<b>5,278</b>
Prov for Tax	133	105	211	107	176	170	196	241	556	783
Provisions and Contingencies	332	371	199	813	559	526	321	469	1,714	1,875
<b>Net Profit</b>	<b>487</b>	<b>542</b>	<b>716</b>	<b>507</b>	<b>402</b>	<b>695</b>	<b>820</b>	<b>704</b>	<b>2,252</b>	<b>2,621</b>
% Change (Y-o-Y)	8.1	1,597.8	496.5	69.9	-17.5	28.2	14.5	38.7	150.0	16.4
Cost to Income Ratio (%)	49.0	46.6	43.1	41.0	46.6	42.1	42.1	42.1	44.6	43.1
Interest Exp./Interest Income (%)	58.5	60.2	58.8	55.9	61.2	61.4	60.2	59.3	58.2	60.5
Other Income/Net Income (%)	22.6	29.7	24.5	28.8	25.5	30.2	23.6	23.6	26.6	25.7

E: MOST Estimates

<http://deadpresident.blogspot.com> **HDFC**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HDFC IN
	REUTERS CODE
S&P CNX: 3,634	HDFC.BO
Equity Shares (m)	249.6
52-Week Range	1,825/962
1,6,12 Rel. Perf. (%)	-3/-4/-1
M.Cap. (Rs b)	357.5
M.Cap. (US\$ b)	8.2

2 April 2007

Neutral

Previous Recommendation: Buy

Rs1,433

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	21,777	15,269	61.2	21.4	23.4	6.7	13.0	31.1	2.7	6.8
3/08E	26,432	17,904	71.7	17.3	20.0	5.6	13.0	30.5	2.5	5.7
3/09E	31,698	21,589	86.5	20.6	16.6	4.7	13.0	30.7	2.4	4.8

- Despite concerns on growth in mortgages, we expect HDFC to maintain its traditional growth of 26-27% in disbursements and 25% in loans.
- As the market leader ICICI Bank and other PSU Banks slow down their disbursements owing to margin concerns, we expect HDFC to gain market share.
- While near term margin at 2.1% appears to be sustainable, higher deposit cost is likely to exert pressure on margins over the medium term.
- We expect a 19% earnings growth in 4QFY07. HDFC continues to be one of the most consistent performers in the sector and we expect sustained outperformance in future as well.
- Adjusting for the value of its subsidiaries, HDFC is available at 14x FY08E EPS. Though we are optimistic over the future earnings growth prospects of HDFC, valuations remain stretched. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Income from Operations	9,326	10,452	10,520	12,358	12,457	14,468	14,545	15,493	42,655	56,963
Other Income	22	33	33	41	28	95	39	27	129	190
<b>Total Income</b>	<b>9,348</b>	<b>10,485</b>	<b>10,553</b>	<b>12,399</b>	<b>12,485</b>	<b>14,563</b>	<b>14,585</b>	<b>15,520</b>	<b>42,784</b>	<b>57,153</b>
YoY Change (%)	22.5	24.3	24.4	29.7	33.6	38.9	38.2	25.2	25.4	33.6
Interest and Other Charges	5,669	6,072	6,398	6,773	8,014	9,137	9,475	8,750	24,911	35,376
Other Expenses	561	537	582	440	667	686	614	543	2,118	2,510
Total Expenses	6,229	6,608	6,979	7,213	8,681	9,823	10,089	9,293	27,030	37,886
<b>PBDT</b>	<b>3,118</b>	<b>3,876</b>	<b>3,574</b>	<b>5,186</b>	<b>3,805</b>	<b>4,740</b>	<b>4,495</b>	<b>6,227</b>	<b>15,754</b>	<b>19,267</b>
YoY Change (%)	23.5	23.0	23.4	24.0	22.0	22.3	25.8	20.1	23.5	22.3
Depreciation	42	48	51	47	37	39	47	57	187	180
<b>PBT</b>	<b>3,076</b>	<b>3,828</b>	<b>3,523</b>	<b>5,140</b>	<b>3,767</b>	<b>4,701</b>	<b>4,448</b>	<b>6,170</b>	<b>15,567</b>	<b>19,087</b>
Provision for Tax	604	839	678	874	799	1,021	886	1,112	2,994	3,817
<b>PAT</b>	<b>2,473</b>	<b>2,990</b>	<b>2,845</b>	<b>4,265</b>	<b>2,968</b>	<b>3,680</b>	<b>3,562</b>	<b>5,059</b>	<b>12,573</b>	<b>15,269</b>
YoY Change (%)	20.8	20.5	20.5	22.6	20.0	23.1	25.2	18.6	21.3	21.4

E: MOST Estimates

<http://deadpresident.blogspot.com> **HDFC Bank**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HDFCB IN
	REUTERS CODE
S&P CNX: 3,634	HDBK.BO
Equity Shares (m)	313.1
52-Week Range	1,150/620
1,6,12 Rel. Perf. (%)	-2/-3/9
M.Cap. (Rs b)	282.3
M.Cap. (US\$ b)	6.5

2 April 2007

Buy

Previous Recommendation: Buy

Rs902

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	52,003	11,468	36.6	31.7	24.6	4.5	11.0	19.9	1.4	4.6
3/08E	68,368	14,958	47.8	30.4	18.9	3.8	10.5	21.9	1.4	3.9
3/09E	87,417	19,450	62.1	30.0	14.5	3.1	10.5	23.5	1.4	3.2

- ✗ HDFC Bank is expected to maintain its trend of consistent PAT growth of ~30%. We expect margin improvement in 4QFY07 considering increased lending rates, interest on CRR, and relatively insulated cost of deposits for the bank.
- ✗ HDFC Bank has added 48 branches in 3QFY07 and is expected to add similar number of branches in 4QFY07. This makes us comfortable about the profitable and robust business growth for the bank going forward.
- ✗ Overall provisioning could go up as revised norms of 2% provisioning on standard assets for specified exposures would affect the bank materially (~ Rs 1.5 bn of incremental provisions expected in 4QFY07)
- ✗ We expect the bank to maintain strong growth going forward. The stock has underperformed the market for the last six months. The current valuations at 18.9x FY08E EPS and 3.8x FY08E BV look attractive. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	8,941	10,229	11,798	13,785	15,043	16,357	17,593	18,875	44,753	67,868
Interest Expense	3,704	4,108	5,092	6,391	6,867	7,901	8,307	8,741	19,295	31,815
<b>Net Interest Income</b>	<b>5,237</b>	<b>6,121</b>	<b>6,706</b>	<b>7,394</b>	<b>8,176</b>	<b>8,456</b>	<b>9,286</b>	<b>10,135</b>	<b>25,458</b>	<b>36,053</b>
Growth (%)	31.3	43.8	52.4	44.0	56.1	38.1	38.5	37.1	43.2	41.6
Other Income	2,636	2,602	2,961	3,042	3,508	3,977	3,733	4,682	11,240	15,900
<b>Net Income</b>	<b>7,872</b>	<b>8,723</b>	<b>9,667</b>	<b>10,436</b>	<b>11,684</b>	<b>12,433</b>	<b>13,019</b>	<b>14,817</b>	<b>36,698</b>	<b>51,953</b>
Growth (%)	55.3	59.1	50.9	42.2	48.4	42.5	34.7	42.0	51.1	41.6
Operating Expenses	3,580	4,016	4,491	4,823	5,527	5,791	6,050	6,322	16,911	23,691
<b>Operating Profit</b>	<b>4,292</b>	<b>4,706</b>	<b>5,176</b>	<b>5,612</b>	<b>6,157</b>	<b>6,642</b>	<b>6,969</b>	<b>8,495</b>	<b>19,787</b>	<b>28,263</b>
Provisions and Contingencies	1,659	1,806	1,972	1,816	2,639	3,057	2,664	3,640	7,252	12,000
<b>Profit before Tax</b>	<b>2,634</b>	<b>2,900</b>	<b>3,205</b>	<b>3,796</b>	<b>3,518</b>	<b>3,585</b>	<b>4,305</b>	<b>4,855</b>	<b>12,535</b>	<b>16,263</b>
Provision for Taxes	799	904	961	1,164	1,125	955	1,349	1,401	3,827	4,830
<b>Net Profit</b>	<b>1,835</b>	<b>1,996</b>	<b>2,244</b>	<b>2,632</b>	<b>2,393</b>	<b>2,629</b>	<b>2,956</b>	<b>3,454</b>	<b>8,708</b>	<b>11,433</b>
Growth (%)	31.1	31.1	31.3	30.1	30.4	31.7	31.7	31.2	30.8	31.3
Cost to Income Ratio (%)	45.5	46.0	46.5	46.2	47.3	46.6	46.5	42.7	46.1	45.6
Interest Exp./Interest Income (%)	41.4	40.2	43.2	46.4	45.6	48.3	47.2	46.3	43.1	46.9
Other Income/Total Income (%)	33.5	29.8	30.6	29.1	30.0	32.0	28.7	31.6	30.6	30.6

E: Most Estimates

<http://deadpresident.blogspot.com> ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ICICIBC IN
	REUTERS CODE
S&P CNX: 3,634	ICBK.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs805

Equity Shares (m)	889.8
52-Week Range	1,007/440
1,6,12 Rel. Perf. (%)	-2/15/25
M.Cap. (Rs b)	715.9
M.Cap. (US\$ b)	16.5

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	136,699	32,399	36.4	27.6	22.1	2.9	12.6	13.9	1.1	3.1
3/08E	172,865	39,899	44.8	23.1	17.9	2.6	10.6	15.4	1.0	2.8
3/09E	216,491	47,970	53.9	20.2	14.9	2.3	10.0	16.4	1.0	2.5

- ✗ We expect the loan growth to slow down to around 40% YoY (as against 60% in FY06, 41% as of Dec 2006) due to steep rise in lending rates across product categories. However, international and agricultural business would be the main driver for advances growth (50-60% growth YoY) while housing loan growth could come down to 25-30%. Overall, we expect loan growth to be 38-39% for FY07.
- ✗ The bank continues to be an aggressive bulk borrower, leading to rise in its cost of deposits. However, due to a recent hike of 100bp (effective 4QFY07) in lending rate, we believe the bank would be able to maintain its margins at 2.5% in 4QFY07. However, we expect some deterioration in margins in 1QFY08.
- ✗ Fee income would clock ~45% growth YoY driven by robust performance in its insurance, credit cards, and international business.
- ✗ Treasury profit of ~Rs5b on account of sale of its 5% stake in NSE would be a one-time gain. However, ICICI Bank will have to make higher provisions on account of revised 2% provisioning norms for specified standard assets (estimated impact Rs3.3b) and increasing NPAs of the bank over last 4-5 quarters.
- ✗ At CMP, excluding the subsidiaries, the stock trades at 13.5x FY08E EPS and 2x FY08 BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06*	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	31,160	33,333	37,106	41,478	50,386	54,694	58,247	64,439	143,075	227,766
Interest Expense	21,465	22,598	24,168	27,742	35,634	38,924	41,159	46,402	95,974	162,118
<b>Net Interest Income</b>	<b>9,695</b>	<b>10,735</b>	<b>12,938</b>	<b>13,736</b>	<b>14,753</b>	<b>15,770</b>	<b>17,088</b>	<b>18,037</b>	<b>47,100</b>	<b>65,647</b>
Growth (%)	53.7	56.7	76.5	73.8	52.2	46.9	32.1	31.3	46.5	39.4
Other Income	10,905	11,115	11,792	16,019	12,776	15,701	19,806	22,769	49,831	71,052
<b>Net Income</b>	<b>20,600</b>	<b>21,850</b>	<b>24,730</b>	<b>29,755</b>	<b>27,528</b>	<b>31,471</b>	<b>36,894</b>	<b>40,806</b>	<b>96,932</b>	<b>136,699</b>
Operating Expenses	10,892	11,410	12,784	14,942	15,215	15,352	17,133	18,229	50,025	65,929
<b>Operating Profit</b>	<b>9,708</b>	<b>10,440</b>	<b>11,946</b>	<b>14,813</b>	<b>12,314</b>	<b>16,119</b>	<b>19,761</b>	<b>22,576</b>	<b>46,907</b>	<b>70,770</b>
Growth (%)	74.7	38.9	54.9	68.9	26.8	54.4	65.4	52.4	58.7	50.9
Provisions and Contingencies	2,979	3,038	3,951	5,973	4,828	7,093	8,910	10,428	15,941	31,259
<b>Profit before Tax</b>	<b>6,729</b>	<b>7,402</b>	<b>7,995</b>	<b>8,840</b>	<b>7,486</b>	<b>9,025</b>	<b>10,852</b>	<b>12,148</b>	<b>30,966</b>	<b>39,512</b>
Provision for Taxes	1,429	1,602	1,593	941	1,286	1,475	1,751	2,600	5,565	7,112
<b>Net Profit</b>	<b>5,300</b>	<b>5,800</b>	<b>6,402</b>	<b>7,899</b>	<b>6,200</b>	<b>7,550</b>	<b>9,101</b>	<b>9,548</b>	<b>25,401</b>	<b>32,399</b>
Growth (%)	23.0	31.2	23.7	28.5	17.0	30.2	42.2	20.9	26.7	27.6
Interest Exp./Interest Income (%)	68.9	67.8	65.1	66.9	70.7	71.2	70.7	72.0	67.1	71.2
Other Income/Net Income (%)	52.9	50.9	47.7	53.8	46.4	49.9	53.7	55.8	51.4	52.0
Cost /Income (%)	52.9	52.2	51.7	50.2	55.3	48.8	46.4	44.7	51.6	48.2

E: MOST Estimates; \* Quarterly numbers adjusted for Auto DMA charges for FY06



<http://deadpresident.blogspot.com>  
Indian Overseas Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,455	IOB IN
	REUTERS CODE
S&P CNX: 3,634	IOBK.BO
Equity Shares (m)	544.8
52-Week Range	129/66
1,6, 12 Rel. Perf. (%)	-3/-12/-9
M.Cap. (Rs b)	52.5
M.Cap. (US\$ b)	1.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs96

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	32,087	9,555	17.5	22.0	5.5	1.4	13.5	26.8	1.4	1.4
3/08E	34,864	11,069	20.3	15.8	4.7	1.1	12.0	25.3	1.4	1.1
3/09E	40,127	12,977	23.8	17.2	4.0	0.9	11.7	24.3	1.4	0.9

- ✗ The bank would merge Bharat Overseas Bank during 4QFY07. Our forecasts do not include impact of BhOB acquisition due to lack of adequate information. In our opinion, BhOB acquisition is a strategic fit for the bank (~100 branches added at one go) and that too for a reasonable price. BhOB would add about 6% to the total assets of IOB.
- ✗ We expect some moderation in margins, as the investment yields decline. Nevertheless, NII growth for the bank is expected at 15% YoY in 4QFY07 and 17% in FY07.
- ✗ We expect non-interest income to decline YoY on back of lower treasury gains. Fee income growth is likely to be in the range of 20-25% YoY.
- ✗ Provisions are likely to decline YoY as NPAs are quite comfortable. However, depreciation on G-Secs in AFS and MTM losses on non-SLR investments would go up.
- ✗ PAT growth is likely to be 16% YoY in 4QFY07, driven by steady NII growth and robust fee income growth and lower provisions.
- ✗ At CMP, the stock is trading at 4.7x FY08E EPS and 1.1x FY08E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	10,254	10,758	11,433	11,618	12,409	13,721	14,737	15,567	44,063	56,434
Interest Expense	5,423	5,585	6,177	6,207	6,654	7,602	8,686	9,330	23,391	32,272
<b>Net Interest Income</b>	<b>4,831</b>	<b>5,173</b>	<b>5,256</b>	<b>5,411</b>	<b>5,755</b>	<b>6,119</b>	<b>6,051</b>	<b>6,237</b>	<b>20,672</b>	<b>24,162</b>
% Change (Y-o-Y)	10.5	11.2	10.7	13.1	19.1	18.3	15.1	15.3	11.4	16.9
Other Income	1,814	1,746	1,600	2,122	2,511	1,520	1,980	1,913	7,282	7,924
<b>Net Income</b>	<b>6,646</b>	<b>6,919</b>	<b>6,856</b>	<b>7,533</b>	<b>8,266</b>	<b>7,639</b>	<b>8,031</b>	<b>8,150</b>	<b>27,954</b>	<b>32,087</b>
% Change (Y-o-Y)	-0.8	3.8	7.0	38.5	24.4	10.4	17.1	8.2	12.0	14.8
Operating Expenses	2,913	3,085	3,194	3,424	3,302	3,491	3,116	3,407	12,616	13,316
<b>Operating Profit</b>	<b>3,732</b>	<b>3,834</b>	<b>3,663</b>	<b>4,110</b>	<b>4,965</b>	<b>4,148</b>	<b>4,916</b>	<b>4,743</b>	<b>15,338</b>	<b>18,771</b>
Other Provisions	1,415	912	869	2,285	2,299	541	1,251	1,408	5,482	5,500
Tax Provisions	485	937	821	-220	445	1,108	1,197	966	2,023	3,716
<b>Net Profit</b>	<b>1,832</b>	<b>1,985</b>	<b>1,972</b>	<b>2,044</b>	<b>2,220</b>	<b>2,499</b>	<b>2,468</b>	<b>2,369</b>	<b>7,834</b>	<b>9,555</b>
% Change (Y-o-Y)	4.9	25.4	22.3	30.0	21.2	25.9	25.1	15.9	20.3	22.0
Cost to Income Ratio (%)	43.8	44.6	46.6	45.4	39.9	45.7	38.8	41.8	45.1	41.5
Interest Exp./Interest Income (%)	52.9	51.9	54.0	53.4	53.6	55.4	58.9	59.9	53.1	57.2
Other Income/Net Income (%)	27.3	25.2	23.3	28.2	30.4	19.9	24.7	23.5	26.1	24.7

E: MOST Estimates; \* Quarterly nos might not tally with full years nos, as the bank has restated earlier nos.



<http://deadpresident.blogspot.com>  
Jammu & Kashmir Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	JKBK IN
	REUTERS CODE
S&P CNX: 3,634	JKBK.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs628

Equity Shares (m)	48.5
52-Week Range	703/306
1,6,12 Rel. Perf. (%)	2/34/31
M.Cap. (Rs b)	30.4
M.Cap. (US\$ b)	0.7

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	9,481	3,042	62.7	72.0	10.0	1.5	12.8	15.9	1.1	1.5
3/08E	11,370	3,601	74.3	18.4	8.5	1.3	10.6	16.5	1.2	1.3
3/09E	13,553	4,370	90.1	21.4	7.0	1.1	10.8	17.5	1.3	1.2

- ✦ NII is expected to grow 10% on a higher base to Rs2.1b in 4QFY07 on back of steady loan book growth and improved margins.
- ✦ We expect the bank to sustain its substantially improved 3Q margins on back of changing mix of high-yielding loans towards J&K state and near stable cost of deposits QoQ, as the bank continues to focus on low cost deposit mobilization and stays away from high cost bulk deposits.
- ✦ The prospect for the J&K state has been improving. Hence we expect a steady growth in the loan book at 20% YoY in 4QFY07 for J&K Bank.
- ✦ We expect the PAT to grow 224% YoY as 4QFY06 profits were subdued on account of high NPA provisions and MTM losses.
- ✦ The stock currently trades at 8.5x FY08E EPS and 1.3x FY08E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	4,278	4,168	4,148	4,468	4,547	4,621	4,631	5,349	17,063	19,148
Interest Expenses	2,773	2,532	2,538	2,582	2,760	2,688	2,680	3,273	10,425	11,402
<b>Net Interest Income</b>	<b>1,505</b>	<b>1,636</b>	<b>1,610</b>	<b>1,887</b>	<b>1,786</b>	<b>1,933</b>	<b>1,951</b>	<b>2,076</b>	<b>6,637</b>	<b>7,746</b>
% Change (Y-o-Y)	5.8	5.9	0.7	35.1	18.7	18.2	21.2	10.1	11.3	16.7
Other Income	225	267	319	522	272	404	379	681	1,332	1,735
<b>Net Income</b>	<b>1,730</b>	<b>1,903</b>	<b>1,929</b>	<b>2,408</b>	<b>2,058</b>	<b>2,337</b>	<b>2,329</b>	<b>2,757</b>	<b>7,970</b>	<b>9,481</b>
Operating Expenses	767	835	868	982	829	908	888	1,032	3,453	3,657
<b>Operating Profit</b>	<b>962</b>	<b>1,068</b>	<b>1,061</b>	<b>1,426</b>	<b>1,229</b>	<b>1,428</b>	<b>1,442</b>	<b>1,725</b>	<b>4,517</b>	<b>5,824</b>
% Change (Y-o-Y)	-16.5	37.8	8.3	95.2	27.7	33.8	35.9	21.0	22.2	28.9
Prov. & Contingencies	311	298	274	1,015	346	249	353	653	1,899	1,600
<b>Profit before Tax</b>	<b>651</b>	<b>770</b>	<b>787</b>	<b>411</b>	<b>884</b>	<b>1,180</b>	<b>1,089</b>	<b>1,072</b>	<b>2,619</b>	<b>4,224</b>
Provision for Taxes	167	220	280	183	260	340	250	333	850	1,183
<b>Net Profit</b>	<b>484</b>	<b>550</b>	<b>507</b>	<b>228</b>	<b>624</b>	<b>840</b>	<b>839</b>	<b>739</b>	<b>1,769</b>	<b>3,042</b>
% Change (Y-o-Y)	2.6	n.a.	-29.6	-50.3	28.8	52.8	65.6	224.3	53.7	72.0
Cost to Income	44.4	43.9	45.0	40.8	40.3	38.9	38.1	37.4	43.3	38.6
Int.Expense/Int. Earned	64.8	60.8	61.2	57.8	60.7	58.2	57.9	61.2	61.1	59.5
Cost to Net Int.Income	51.0	51.0	53.9	52.1	46.4	47.0	45.5	49.7	52.0	47.2

E: MOST Estimates

<http://deadpresident.blogspot.com> Karnataka Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	KBL IN
	REUTERS CODE
S&P CNX: 3,634	KNBK.BO
Equity Shares (m)	121.3
52-Week Range	193/74
1,6,12 Rel. Perf. (%)	-1/38/55
M.Cap. (Rs b)	20.1
M.Cap. (US\$ b)	0.5

2 April 2007

Buy

Previous Recommendation: Buy

Rs166

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	5,747	2,020	16.7	14.7	10.0	1.6	11.5	17.0	1.3	1.7
3/08E	6,650	2,357	19.4	16.7	8.6	1.4	10.0	17.3	1.3	1.4
3/09E	7,676	2,680	22.1	13.7	7.5	1.2	10.0	17.1	1.3	1.2

- ✗ We expect bank's NII to grow 8.2% YoY (QoQ improvement of 3%) to Rs1.09b as margin pressure would continue. NIMs are likely to be at 3Q levels, as costs remain high due to low CASA levels.
- ✗ Non-Interest income is expected to increase to Rs411m on back of higher recoveries. Core fee income growth is likely to be ~15% YoY.
- ✗ Asset quality is expected to improve QoQ as incremental slippages are likely to be low.
- ✗ Karnataka Bank is a play on improving asset quality, consolidation, and attractive valuations. At CMP, the stock trades at 8.6x FY08E EPS and 1.4x FY08E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q*	2Q	3Q	4QE		
Interest Income	2,406	2,400	2,664	2,709	2,858	2,953	3,220	3,465	10,180	12,496
Interest Expense	1,499	1,637	1,687	1,698	1,904	2,047	2,170	2,372	6,521	8,492
<b>Net Interest Income</b>	<b>908</b>	<b>763</b>	<b>978</b>	<b>1,011</b>	<b>953</b>	<b>906</b>	<b>1,050</b>	<b>1,093</b>	<b>3,659</b>	<b>4,003</b>
% Change (Y-o-Y)	67.9	-19.4	15.6	20.9	5.0	18.8	7.5	8.2	15.5	9.4
Other Income	477	452	367	372	449	487	397	411	1,668	1,743
<b>Net Income</b>	<b>1,385</b>	<b>1,215</b>	<b>1,345</b>	<b>1,383</b>	<b>1,402</b>	<b>1,393</b>	<b>1,448</b>	<b>1,504</b>	<b>5,327</b>	<b>5,747</b>
% Change (Y-o-Y)	-12.8	-3.4	2.5	13.2	1.2	14.7	7.7	8.8	-1.0	7.9
Operating Expenses	506	562	562	415	520	653	553	517	2,045	2,242
<b>Operating Profit</b>	<b>879</b>	<b>652</b>	<b>782</b>	<b>968</b>	<b>882</b>	<b>741</b>	<b>895</b>	<b>987</b>	<b>3,282</b>	<b>3,505</b>
Other Provisions	230	32	128	202	331	-163	62	260	592	490
Tax Provisions	233	203	240	256	183	308	294	210	931	995
<b>Net Profit</b>	<b>417</b>	<b>417</b>	<b>415</b>	<b>510</b>	<b>368</b>	<b>596</b>	<b>539</b>	<b>517</b>	<b>1,760</b>	<b>2,020</b>
% Change (Y-o-Y)	7.6	33.4	12.6	26.7	-11.8	42.8	29.8	1.4	19.6	14.8
Cost to Income Ratio (%)	36.5	46.3	41.8	30.0	37.1	46.8	38.2	34.3	38.4	39.0
Interest Exp./Interest Income (%)	62.3	68.2	63.3	62.7	66.6	69.3	67.4	68.4	64.1	68.0
Other Income/Net Income (%)	34.5	37.2	27.3	26.9	32.0	35.0	27.4	27.3	31.3	30.3

E: MOST Estimates; \* Restated

http://deadpresident.blogspot.com  
Oriental Bank of Commerce

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	OBC IN
	REUTERS CODE
S&P CNX: 3,634	ORBC.BO
Equity Shares (m)	250.5
52-Week Range	280/139
1,6,12 Rel. Perf. (%)	0/-38/-36
M.Cap. (Rs b)	42.3
M.Cap. (US\$ b)	1.0

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs169

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	22,926	8,772	35.0	9.2	4.8	0.8	12.0	16.2	1.4	0.8
3/08E	25,389	9,094	36.3	3.7	4.6	0.7	11.3	15.5	1.2	0.7
3/09E	29,470	10,265	41.0	12.9	4.1	0.6	10.5	16.0	1.2	0.7

- ✍ We expect NII growth of 8% to Rs4.4b in 4QFY07. Since the bank had raised its PLR by 100bp in 4QFY07, it shall result in better margins QoQ.
- ✍ We expect lower treasury profits though recoveries from written off accounts and core fee income growth is expected to remain robust for the bank.
- ✍ Total operating costs are expected to show decline on account of some exceptional items like employee separation costs included in 4QFY06 related to the integration process with GTB.
- ✍ Recoveries would continue to be robust and could provide upsides to our earnings estimates. Recoveries with strong asset quality would mean lower NPA provisioning even in 4QFY07. (OBC has made net reversals of NPA provisions for past five quarters).
- ✍ However, MTM losses on AFS book (estimated to be Rs1.8b) would adversely affect overall profitability of the bank.
- ✍ At CMP, the stock is trading at 4.6x FY08E EPS and 0.7x FY08E BV. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	9,876	10,069	10,499	10,747	11,353	12,822	13,137	13,436	41,189	50,749
Interest Expense	5,846	6,027	6,549	6,717	7,244	8,695	8,924	9,073	25,139	33,936
<b>Net Interest Income</b>	<b>4,030</b>	<b>4,042</b>	<b>3,950</b>	<b>4,030</b>	<b>4,110</b>	<b>4,128</b>	<b>4,213</b>	<b>4,363</b>	<b>16,051</b>	<b>16,814</b>
% Change (YoY)	6.8	4.7	5.4	3.9	2.0	2.1	6.7	8.3	5.3	4.8
Other Income	955	1,720	1,263	1,590	1,687	1,579	1,330	1,517	5,528	6,113
<b>Net Income</b>	<b>4,986</b>	<b>5,762</b>	<b>5,213</b>	<b>5,619</b>	<b>5,797</b>	<b>5,707</b>	<b>5,543</b>	<b>5,880</b>	<b>21,578</b>	<b>22,926</b>
% Change (YoY)	4.5	27.4	-1.1	-0.1	16.3	-1.0	6.3	4.6	6.4	6.2
Operating Expenses	2,136	2,503	2,225	2,795	2,287	2,566	2,476	2,694	9,659	10,023
<b>Operating Profit</b>	<b>2,850</b>	<b>3,259</b>	<b>2,988</b>	<b>2,824</b>	<b>3,510</b>	<b>3,141</b>	<b>3,067</b>	<b>3,186</b>	<b>11,919</b>	<b>12,904</b>
Provision & Contingencies	1,028	324	309	610	1,477	-737	81	980	2,271	1,800
<b>PBT</b>	<b>1,822</b>	<b>2,935</b>	<b>2,679</b>	<b>2,214</b>	<b>2,033</b>	<b>3,878</b>	<b>2,986</b>	<b>2,206</b>	<b>9,649</b>	<b>11,104</b>
Tax Provisions	775	670	633	-460	481	771	550	531	1,617	2,332
<b>Net Profit</b>	<b>1,048</b>	<b>2,265</b>	<b>2,047</b>	<b>2,673</b>	<b>1,553</b>	<b>3,108</b>	<b>2,437</b>	<b>1,675</b>	<b>8,031</b>	<b>8,772</b>
% Change (YoY)	-42.0	5.4	59.7	12.5	48.2	37.2	19.1	-37.3	5.6	9.2
Cost to Income Ratio (%)	42.8	43.4	42.7	49.7	39.4	43.4	44.7	45.8	44.8	43.7
Int Exp/ Int Earned (%)	59.2	59.9	62.4	62.5	63.8	59.9	67.9	67.5	61.0	66.9
Other Income / Net Income (%)	19.2	29.9	24.2	28.3	29.1	29.9	24.0	25.8	25.6	26.7

E: MOST Estimates

<http://deadpresident.blogspot.com> Punjab National Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	PNB IN
	REUTERS CODE
S&P CNX: 3,634	PNB.BO
Equity Shares (m)	315.3
52-Week Range	585/300
1,6, 12 Rel. Perf. (%)	3/-19/-16
M.Cap. (Rs b)	134.8
M.Cap. (US\$ b)	3.1

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs428

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	64,337	16,997	53.9	18.1	7.9	1.3	10.2	16.9	1.1	1.3
3/08E	75,835	21,996	69.8	29.4	6.1	1.1	10.1	19.0	1.2	1.1
3/09E	88,473	27,047	85.8	23.0	5.0	0.9	10.1	20.0	1.3	1.0

- PNB is likely to be a big beneficiary of the rising interest rate environment as it enjoys a strong resource base with 48% CASA ratio. NIMs have improved to 4.2% in 3QFY07 and we expect them to stabilize at the same level. We expect a strong NII growth of 24% YoY.
- Thrust on growing fee income, robust technology support, and widespread customer franchise would enable PNB to improve fee income by 20-25% in 4Q.
- 4QFY06 staff cost was exceptionally lower on account of reversal of excess provisioning of Rs 2.3b for pension obligations made during 2Q and 3QFY06. Hence a sharp rise (~41% YoY) in total operating expenses is expected in 4QFY07.
- Deterioration in asset quality was observed during 3QFY07 with sequential growth in absolute GNPA and NNPA. Management has indicated some further issues on asset quality in 4QFY07. Thus, some higher provisions for NPAs could be expected, though overall asset quality remains one of the best in the industry.
- In 4QFY06, MTM loss of AFS book was Rs6b. We expect a MTM loss of ~Rs2.3b in 4QFY07 on account of hardening of G-Sec yields. However, net profit is expected to show a jump of 38% YoY on account of the lower overall provisioning.
- At CMP, the stock is trading at 6.1x FY08E EPS and 1.1x FY08E BV. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	22,899	23,705	24,548	24,689	26,405	27,643	29,483	30,470	95,841	114,001
Interest Expense	12,016	11,797	12,474	12,887	13,476	14,015	15,024	15,893	49,174	58,408
<b>Net Interest Income</b>	<b>10,883</b>	<b>11,908</b>	<b>12,074</b>	<b>11,802</b>	<b>12,929</b>	<b>13,628</b>	<b>14,459</b>	<b>14,578</b>	<b>46,667</b>	<b>55,593</b>
% Change (YoY)	16.3	22.8	17.3	10.1	18.8	14.4	19.7	23.5	16.5	19.1
Other Income	2,528	3,123	2,445	4,215	-1,055	2,840	3,231	3,727	12,312	8,744
<b>Net Income</b>	<b>13,411</b>	<b>15,031</b>	<b>14,519</b>	<b>16,017</b>	<b>11,874</b>	<b>16,468</b>	<b>17,689</b>	<b>18,305</b>	<b>58,978</b>	<b>64,337</b>
% Change (YoY)	-3.2	-4.3	13.7	10.5	-11.5	9.6	21.8	14.3	3.8	9.1
Operating Expenses	6,966	8,195	9,036	6,034	6,969	7,580	8,123	8,484	30,231	31,156
<b>Operating Profit</b>	<b>6,445</b>	<b>6,836</b>	<b>5,484</b>	<b>9,983</b>	<b>4,906</b>	<b>8,888</b>	<b>9,567</b>	<b>9,821</b>	<b>28,748</b>	<b>33,181</b>
Provision & Contingencies	1,162	94	1,032	6,111	-230	1,018	3,577	4,535	8,399	8,900
<b>PBT</b>	<b>5,283</b>	<b>6,742</b>	<b>4,451</b>	<b>3,871</b>	<b>5,135</b>	<b>7,870</b>	<b>5,990</b>	<b>5,287</b>	<b>20,348</b>	<b>24,281</b>
Tax Provisions	1,701	2,522	747	985	1,460	2,820	1,691	1,313	5,955	7,284
<b>Net Profit</b>	<b>3,582</b>	<b>4,220</b>	<b>3,704</b>	<b>2,887</b>	<b>3,675</b>	<b>5,050</b>	<b>4,299</b>	<b>3,973</b>	<b>14,394</b>	<b>16,997</b>
% Change (YoY)	11.0	2.3	17.9	-19.9	2.6	19.7	16.0	37.6	2.1	18.1
Cost to Income Ratio (%)	51.9	54.5	62.2	37.7	58.7	46.0	45.9	46.3	51.3	48.4
Int Exp/ Int Earned (%)	52.5	49.8	50.8	52.2	51.0	50.7	51.0	52.2	51.3	51.2
Other Income / Net Income (%)	18.9	20.8	16.8	26.3	-8.9	17.2	18.3	20.4	20.9	13.6

E: MOST Estimates

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<http://deadpresident.blogspot.com> State Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SBIN IN
	REUTERS CODE
S&P CNX: 3,634	SBI.BO

2 April 2007

Buy

Rs930

Previous Recommendation: Buy

	YEAR END	NET INCOME (RS B)	PAT (RS B)	EPS (RS)	CON. EPS (RS)	CON. P/E (X)	P/BV (X)	CON. P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	
Equity Shares (m)	526.3											
52-Week Range	1,379/684											
1,6,12 Rel. Perf. (%)	-4/-11/-13											
M.Cap. (Rs b)	489.6	3/07E	231.2	40.6	77.1	103.8	9.0	1.6	1.2	10.1	13.9	0.8
M.Cap. (US\$ b)	11.3	3/08E	258.9	46.3	88.0	120.1	7.7	1.4	1.0	9.9	14.2	0.8
		3/09E	289.9	53.7	102.1	141.7	6.6	1.3	0.9	10.2	14.7	0.8

- ✗ We expect SBI's NII to grow 15% YoY as the bank had taken two PLR hikes (25bp in December 2006 and 75bp in February 2007).
- ✗ Loan growth is likely to be 25%. Deposit growth is expected to be ~15%. SBI has been aggressive in tapping deposits in 4Q in order to meet its disbursements.
- ✗ We expect stable margins in 4QFY07 at ~3.3%. However, we believe that margins might decline marginally over the next couple of quarters due to the higher deposit rates being offered currently (both on retail and bulk deposits).
- ✗ SBI has sold 1.5% of its stake in NSE in 4Q, which shall result in a gain of ~Rs1.5b. Fee income is expected to remain strong for SBI, even though it had a high base in 4QFY06.
- ✗ We expect higher MTM provisions as bond yields have increased sharply. At current yields, we estimate MTM loss of Rs5.5b during the current quarter. This, coupled with higher standard asset provisioning, would result in very high provisioning in the current quarter.
- ✗ At CMP, the stock is trading at 7.7x FY08E consolidated EPS and 1x FY08 consolidated BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	91,663	85,614	95,582	85,091	88,362	93,775	97,359	107,273	357,949	386,769
Interest Expenses	49,131	49,535	53,383	49,545	49,521	54,788	57,846	66,499	201,593	228,654
<b>Net Interest Income</b>	<b>42,532</b>	<b>36,079</b>	<b>42,199</b>	<b>35,546</b>	<b>38,841</b>	<b>38,987</b>	<b>39,513</b>	<b>40,774</b>	<b>156,356</b>	<b>158,115</b>
% Change (Y-o-Y)	44.0	6.8	15.3	-10.0	-8.7	8.1	-6.4	14.7	12.1	1.1
<b>NII, Adj. for One-off Items</b>	<b>35,412</b>	<b>36,079</b>	<b>29,669</b>	<b>35,546</b>	<b>38,841</b>	<b>38,987</b>	<b>39,513</b>	<b>40,774</b>	<b>136,706</b>	<b>158,115</b>
Other Income	15,766	12,946	18,404	26,770	17,626	14,338	18,110	23,015	73,886	73,089
<b>Net Income</b>	<b>58,298</b>	<b>49,026</b>	<b>60,603</b>	<b>62,316</b>	<b>56,467</b>	<b>53,324</b>	<b>57,623</b>	<b>63,789</b>	<b>230,242</b>	<b>231,204</b>
% Change (Y-o-Y)	29.8	-2.6	2.8	10.5	-3.1	8.8	-4.9	2.4	9.3	0.4
Operating Expenses	23,903	29,197	34,607	29,544	28,101	28,599	29,074	31,746	117,251	117,520
<b>Operating Profit</b>	<b>34,395</b>	<b>19,829</b>	<b>25,996</b>	<b>32,772</b>	<b>28,366</b>	<b>24,726</b>	<b>28,549</b>	<b>32,043</b>	<b>112,992</b>	<b>113,684</b>
% Change (Y-o-Y)	66.0	-23.9	-23.3	12.1	-17.5	24.7	9.8	-2.2	2.8	0.6
Other Provisions	17,666	8,175	4,698	13,391	12,820	6,813	11,662	16,979	43,930	48,274
Provision for Taxes	4,501	-500	10,147	10,847	7,559	6,067	6,237	4,992	24,995	24,856
<b>Net Profit</b>	<b>12,228</b>	<b>12,154</b>	<b>11,151</b>	<b>8,533</b>	<b>7,987</b>	<b>11,845</b>	<b>10,650</b>	<b>10,072</b>	<b>44,066</b>	<b>40,554</b>
% Change (Y-o-Y)	15.5	12.3	1.4	-19.9	-34.7	-2.5	-4.5	18.0	2.4	-8.0
Cost to Income Ratio	41.0	59.6	57.1	47.4	49.8	53.6	50.5	49.8	50.9	50.8
Interest Exp / Interest Earned	53.6	57.9	55.9	58.2	56.0	58.4	59.4	62.0	56.3	59.1
Other Income / Net Income	27.0	26.4	30.4	43.0	31.2	26.9	31.4	36.1	32.1	31.6

E: MOST Estimates

<http://deadpresident.blogspot.com> Syndicate Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SNDB IN
	REUTERS CODE
S&P CNX: 3,634	SBNK.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs59

Equity Shares (m)	522.0
52-Week Range	103/47
1,6,12 Rel. Perf. (%)	-11/-36/-44
M.Cap. (Rs b)	30.6
M.Cap. (US\$ b)	0.7

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	27,117	7,257	13.9	35.3	4.2	1.0	10.4	23.3	1.0	1.0
3/08E	31,279	8,109	15.5	11.7	3.8	0.8	10.0	21.9	0.9	0.9
3/09E	35,358	8,944	17.1	10.3	3.4	0.7	9.5	20.5	0.8	0.8

- ✘ We expect a very strong quarter of NII growth on a reported basis. NII is expected to increase 45% YoY, albeit on a lower base (4QFY06 was the quarter wherein the management had made interest reversals, resulting into a lower NII).
- ✘ On a QoQ, basis, we expect margins to improve on back of a slow down in the intake of bulk deposits, which were a drag on margins. Subsequently, we also believe that core earnings growth for the next couple of quarters shall also remain strong.
- ✘ Non-interest income is expected to decline due to lower trading gains in the current quarter and lower recoveries.
- ✘ As over 80% of the investment book is in HTM, we expect marginal provisions on account of MTM losses. Nevertheless, we are estimating higher provisions for NPAs and standard assets.
- ✘ The bank has carry forward losses to the extent of ~Rs6b due to which it continues to pay the MAT (minimum alternative tax). The management has stated that this benefit would continue through FY07 and FY08. However, we have factored in higher tax rate in FY07. This could result in earnings surprise if the bank continues to pay MAT for the next couple of quarters.
- ✘ The stock is trading at 3.8x FY08E EPS and 0.8x FY08E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	9,534	9,903	10,475	10,592	12,308	14,373	16,353	16,702	40,504	59,736
Interest Expense	4,810	5,103	5,127	6,655	7,249	9,527	10,794	10,976	21,696	38,546
<b>Net Interest Income</b>	<b>4,724</b>	<b>4,799</b>	<b>5,349</b>	<b>3,937</b>	<b>5,059</b>	<b>4,846</b>	<b>5,559</b>	<b>5,726</b>	<b>18,809</b>	<b>21,190</b>
% Change (Y-o-Y)	37.8	13.9	35.6	-26.4	7.1	1.0	3.9	45.4	11.0	12.7
Other Income	1,322	1,276	1,177	2,035	1,342	1,656	1,490	1,438	5,916	5,927
<b>Net Income</b>	<b>6,046</b>	<b>6,076</b>	<b>6,526</b>	<b>5,972</b>	<b>6,401</b>	<b>6,502</b>	<b>7,049</b>	<b>7,165</b>	<b>24,725</b>	<b>27,117</b>
% Change (Y-o-Y)	12.4	13.2	27.6	-11.2	5.9	7.0	8.0	20.0	9.5	9.7
Operating Expenses	3,242	3,911	3,618	3,577	3,382	3,471	3,768	4,004	14,348	14,625
<b>Operating Profit</b>	<b>2,803</b>	<b>2,165</b>	<b>2,908</b>	<b>2,395</b>	<b>3,019</b>	<b>3,031</b>	<b>3,281</b>	<b>3,161</b>	<b>10,376</b>	<b>12,492</b>
Other Provisions	729	243	879	2,905	963	730	1,478	1,257	4,861	4,428
Tax Provisions	444	170	150	-613	250	250	-458	764	150	806
<b>Net Profit</b>	<b>1,631</b>	<b>1,752</b>	<b>1,879</b>	<b>103</b>	<b>1,806</b>	<b>2,051</b>	<b>2,261</b>	<b>1,140</b>	<b>5,365</b>	<b>7,257</b>
% Change (Y-o-Y)	30.2	131.8	n.a.	-96.3	10.7	17.1	20.4	1,005.3	33.2	35.3
Cost to Income Ratio (%)	53.6	64.4	55.4	59.9	52.8	53.4	53.5	55.9	58.0	53.9
Interest Exp./Interest Income (%)	50.5	51.5	48.9	62.8	58.9	66.3	66.0	65.7	53.6	64.5
Other Income/Net Income (%)	21.9	21.0	18.0	34.1	21.0	25.5	21.1	20.1	23.9	21.9

E: MOST Estimates



<http://deadpresident.blogspot.com> Union Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	UNBK IN
	REUTERS CODE
S&P CNX: 3,634	UNBK.BO
Equity Shares (m)	505.1
52-Week Range	142/81
1,6,12 Rel. Perf. (%)	4/-29/-29
M.Cap. (Rs b)	48.5
M.Cap. (US\$ b)	1.1

2 April 2007

Buy

Previous Recommendation: Buy

Rs96

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	34,098	8,108	16.1	20.1	6.0	1.0	9.5	16.8	0.8	1.2
3/08E	37,939	9,548	18.9	17.8	5.1	0.9	9.3	17.6	0.9	1.0
3/09E	43,239	11,279	22.3	18.1	4.3	0.8	10.5	18.3	0.9	0.9

- ✘ We expect the margins to stabilize at 3QFY07 level of 2.95-3%. Bank would post a robust 19% NII growth as 4QFY06 was one of the worst quarters for the bank on account of acute liquidity crunch.
- ✘ Bank has consciously slowed down its balance sheet growth during the year after growing at a hectic pace in FY06. We expect the advances to grow at 18% YoY and deposits to grow at 15% for FY07.
- ✘ Core fee income is likely to continue to grow 22-25% YoY in 4QFY07 as the bank is one of the leaders in technology adoption and also has strong network of 2,200 branches across India. However, lower treasury gains could retard the YoY growth in other income.
- ✘ Net NPA for the bank still remains above 1%, one of the highest in its comparable PSU banks. This means the bank will continue to make higher NPA provisions. 4QFY06 contained a one-time provision on account of depreciation on non-SLR investments of Rs0.8b. We do not foresee material depreciation of investment book for the bank in 4QFY07 as large part of the book is under HTM.
- ✘ Lower provisions, robust NII, fee income growth, and lower base effect would bolster bank's PAT by 34% YoY in 4QFY07.
- ✘ At CMP, the stock is trading at 5.1x FY08E EPS and 0.9x FY08E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	13,578	14,202	15,135	15,723	16,657	17,724	18,492	19,175	58,638	72,048
Interest Expense	8,230	8,179	8,741	9,744	10,312	11,449	11,633	12,087	34,894	45,480
<b>Net Interest Income</b>	<b>5,347</b>	<b>6,023</b>	<b>6,394</b>	<b>5,979</b>	<b>6,345</b>	<b>6,276</b>	<b>6,859</b>	<b>7,088</b>	<b>23,743</b>	<b>26,567</b>
% Change (Y-o-Y)	14.6	31.9	10.3	6.5	18.7	4.2	7.3	18.6	15.0	11.9
Other Income	1,337	1,403	1,390	2,122	1,650	1,918	2,052	1,910	6,251	7,530
<b>Net Income</b>	<b>6,684</b>	<b>7,426</b>	<b>7,784</b>	<b>8,100</b>	<b>7,995</b>	<b>8,193</b>	<b>8,911</b>	<b>8,999</b>	<b>29,994</b>	<b>34,098</b>
% Change (Y-o-Y)	-4.7	20.2	1.0	9.4	19.6	10.3	14.5	11.1	6.0	13.7
Operating Expenses	3,153	3,855	3,501	3,515	3,730	3,910	3,860	4,096	14,024	15,596
<b>Operating Profit</b>	<b>3,531</b>	<b>3,571</b>	<b>4,283</b>	<b>4,585</b>	<b>4,265</b>	<b>4,283</b>	<b>5,051</b>	<b>4,903</b>	<b>15,970</b>	<b>18,501</b>
Other Provisions	647	2,690	1,302	2,384	1,579	1,220	1,426	2,176	7,024	6,400
Tax Provisions	480	270	690	755	1,018	1,122	1,067	787	2,195	3,993
<b>Net Profit</b>	<b>2,404</b>	<b>611</b>	<b>2,291</b>	<b>1,446</b>	<b>1,668</b>	<b>1,942</b>	<b>2,558</b>	<b>1,940</b>	<b>6,752</b>	<b>8,108</b>
% Change (Y-o-Y)	14.3	-71.0	287.8	-39.5	-30.6	217.8	11.7	34.1	-6.1	20.1
Cost to Income Ratio (%)	47.2	51.9	45.0	43.4	46.7	47.7	43.3	45.5	46.8	45.7
Interest Exp./Interest Income (%)	60.6	57.6	57.8	62.0	61.9	64.6	62.9	63.0	59.5	63.1
Other Income/Net Income (%)	20.0	18.9	17.9	26.2	20.6	23.4	23.0	21.2	20.8	22.1

E: MOST Estimates



<http://deadpresident.blogspot.com> UTI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	UTIB IN
	REUTERS CODE
S&P CNX: 3,634	UTBK.BO

2 April 2007

Buy

Rs460

Previous Recommendation: Buy

Equity Shares (m)	278.7
52-Week Range	615/222
1,6,12 Rel. Perf. (%)	1/20/20
M.Cap. (Rs b)	128.2
M.Cap. (US\$ b)	2.9

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07E	25,608	6,307	22.6	30.0	20.3	3.8	11.0	20.2	1.1	4.0
3/08E	32,888	7,822	28.1	24.0	16.4	3.2	10.5	21.2	1.0	3.4
3/09E	40,826	9,738	34.9	24.5	13.2	2.7	10.3	22.0	1.0	2.8

- ✍ We expect strong NII growth of 41% to continue in 4QFY07 on back of 50%+ loan growth in 4QFY07, higher yield on advances, and strong growth in CASA. We expect the NIMs to remain stable at 3QFY07 level of ~3% during 4QFY07.
- ✍ The bank continues to be in a rapid expansion phase. It would add ~80-85 branches (~50 branches likely to be added in 4QFY07) during FY07 (111 branches added in FY06). Opex growth likely to remain ~45% YoY.
- ✍ Another key driver for UTI Bank has been the sustained growth in its fee-based income. We expect the core fee income to maintain its trajectory of 50%+ growth in 4QFY07. Incremental fees are likely to come from credit cards and third party distribution.
- ✍ Earnings are expected to increase by 21% YoY to Rs1.8b in 4QFY07 supported by robust growth in NII and other income.
- ✍ The stock currently trades at 16.4x FY08E EPS and 3.2x FY08E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	6,218	6,876	7,467	8,327	9,539	10,501	11,896	12,336	28,888	44,272
Interest Expense	3,994	4,322	4,593	5,198	6,321	6,849	7,738	7,910	18,106	28,818
<b>Net Interest Income</b>	<b>2,225</b>	<b>2,555</b>	<b>2,874</b>	<b>3,129</b>	<b>3,218</b>	<b>3,652</b>	<b>4,158</b>	<b>4,426</b>	<b>10,782</b>	<b>15,454</b>
Y-o-Y Growth (%)	34.8	41.4	53.7	59.4	44.7	43.0	44.7	41.5	47.5	43.3
Other Income	1,500	1,781	1,734	2,281	2,245	2,048	2,797	3,063	7,296	10,153
<b>Net Income</b>	<b>3,725</b>	<b>4,336</b>	<b>4,609</b>	<b>5,409</b>	<b>5,463</b>	<b>5,699</b>	<b>6,956</b>	<b>7,489</b>	<b>18,079</b>	<b>25,607</b>
Operating Expenses	1,690	1,975	2,047	2,429	2,392	2,955	3,370	3,528	8,141	12,244
<b>Operating Profit</b>	<b>2,035</b>	<b>2,361</b>	<b>2,562</b>	<b>2,981</b>	<b>3,072</b>	<b>2,745</b>	<b>3,586</b>	<b>3,960</b>	<b>9,938</b>	<b>13,363</b>
Y-o-Y Growth (%)	39.6	515.0	42.8	49.1	51.0	16.3	40.0	32.9	75.7	34.5
Provision & Contingencies	635	716	592	682	1,248	588	763	1,352	2,625	3,950
<b>Profit before Tax</b>	<b>1,399</b>	<b>1,645</b>	<b>1,970</b>	<b>2,299</b>	<b>1,824</b>	<b>2,157</b>	<b>2,824</b>	<b>2,609</b>	<b>7,313</b>	<b>9,413</b>
Tax Provisions	473	555	653	782	618	738	977	773	2,462	3,106
<b>Net Profit</b>	<b>926</b>	<b>1,090</b>	<b>1,317</b>	<b>1,517</b>	<b>1,206</b>	<b>1,420</b>	<b>1,846</b>	<b>1,836</b>	<b>4,851</b>	<b>6,307</b>
Y-o-Y Growth (%)	31.0	135.9	30.2	30.2	30.1	30.2	40.2	21.0	45.0	30.0
Int Exp/ Int Earned (%)	64.2	62.8	61.5	62.4	66.3	65.2	65.0	64.1	62.7	65.1
Other Income / Net Income (%)	40.3	41.1	37.6	42.2	41.1	35.9	40.2	40.9	40.4	39.7
Cost to Income Ratio (%)	45.4	45.6	44.4	44.9	43.8	51.8	48.4	47.1	45.0	47.8

E: MOST Estimates

<http://deadpresident.blogspot.com> **Vijaya Bank**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	VJYBK IN
	REUTERS CODE
S&P CNX: 3,634	VJBK.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs39

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV	
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO	
Equity Shares (m)	433.5											
52-Week Range	59/33											
1,6,12 Rel. Perf. (%)	-4/-32/-36											
M.Cap. (Rs b)	16.8	3/07E	13,791	3,363	7.8	165.1	5.0	0.9	11.1	18.8	1.0	0.9
M.Cap. (US\$ b)	0.4	3/08E	15,472	3,770	8.7	12.1	4.5	0.8	10.3	18.6	0.9	0.8
		3/09E	17,073	4,170	9.6	10.6	4.0	0.7	10.5	18.2	0.9	0.7

- ✍ We expect the bank to post 12% YoY growth in NII to Rs2.7b. Interest on CRR balances and a few exceptional interest income items would help the NII to post robust growth.
- ✍ 4Q margins are likely to be stable QoQ, as higher advances yields are likely to be offset by higher deposit costs.
- ✍ Advances are expected to show 25% YoY growth while deposits are likely to post 20% growth YoY.
- ✍ The bank has one of the best asset quality in the industry with gross NPA ratio at 2.5% and net NPA ratio at 0.5%. With strong recoveries during the quarter, we expect further improvement in these ratios.
- ✍ However, depreciation on investments (equity as well as bonds) and incremental provisions for standard assets under revised RBI requirements would increase overall provisioning level. However, 4QFY06 had exceptionally high provisions on account of NPAs and investments depreciation, which resulted in bank posting a net loss of Rs345m. We expect the 4QFY07 PAT to be Rs687m.
- ✍ At, CMP, the stock trades at 4.5x FY08E EPS and 0.8x FY08E BV. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	5,550	5,715	5,953	5,900	6,134	6,742	7,319	7,541	23,118	27,737
Interest Expense	3,178	3,386	3,362	3,464	3,551	4,144	4,669	4,806	13,390	17,170
<b>Net Interest Income</b>	<b>2,372</b>	<b>2,329</b>	<b>2,591</b>	<b>2,436</b>	<b>2,583</b>	<b>2,598</b>	<b>2,650</b>	<b>2,735</b>	<b>9,728</b>	<b>10,566</b>
% Change (Y-o-Y)	1.5	-4.5	3.4	-5.0	8.9	11.6	2.3	12.3	-1.2	8.6
Other Income	1,027	941	731	992	866	718	730	911	3,690	3,225
<b>Net Income</b>	<b>3,399</b>	<b>3,269</b>	<b>3,322</b>	<b>3,428</b>	<b>3,450</b>	<b>3,316</b>	<b>3,379</b>	<b>3,647</b>	<b>13,418</b>	<b>13,791</b>
% Change (Y-o-Y)	-2.3	-0.1	4.0	-0.2	1.5	1.4	1.7	6.4	0.4	2.8
Operating Expenses	1,376	1,634	1,612	1,613	1,498	1,550	1,657	1,751	6,235	6,457
<b>Operating Profit</b>	<b>2,023</b>	<b>1,635</b>	<b>1,710</b>	<b>1,815</b>	<b>1,951</b>	<b>1,766</b>	<b>1,722</b>	<b>1,895</b>	<b>7,182</b>	<b>7,335</b>
Other Provisions	1,944	536	731	2,177	1,105	475	535	735	5,388	2,850
Tax Provisions	-196	348	390	-17	120	268	260	474	526	1,121
<b>Net Profit</b>	<b>275</b>	<b>751</b>	<b>588</b>	<b>-345</b>	<b>726</b>	<b>1,023</b>	<b>927</b>	<b>687</b>	<b>1,269</b>	<b>3,363</b>
% Change (Y-o-Y)	-71.8	5.2	5.7	-122.1	163.7	36.3	57.7	NA	-66.6	165.1
Cost to Income Ratio (%)	40.5	50.0	48.5	47.1	43.4	46.7	49.0	48.0	46.5	46.8
Interest Exp./Interest Income (%)	57.3	59.3	56.5	58.7	57.9	61.5	63.8	63.7	57.9	61.9
Other Income/Net Income (%)	30.2	28.8	22.0	28.9	25.1	21.7	21.6	25.0	27.5	23.4

E: Most Estimates

<http://deadpresident.blogspot.com> **Cement**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
ACC	92
Birla Corporation	93
Grasim Industries	94
Gujarat Ambuja	95
India Cements	96
Shree Cement	97
UltraTech Cement	98

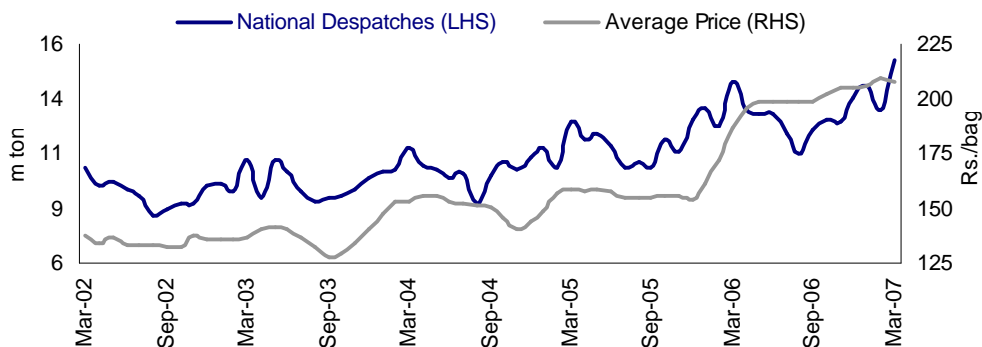
**4QFY07: Key highlights****YoY Comparative (v/s 4QFY06)**

- Volumes expected to be higher by 6.9%
- Prices expected to be higher by 20.6%

**QoQ Comparative (v/s 3QFY07)**

- Volumes expected to be higher by 9.8%
- Prices expected to be higher by 2.3%

## CEMENT INDUSTRY DYNAMICS: DEMAND AND PRICE



Source: CMA/MOST

## MOST CEMENT UNIVERSE: 4QFY07 PERFORMANCE AT A GLANCE

	VOLUME (M TON)		GR. (%)	REALIZATION
	4QFY07	4QFY06		YOY (%)
ACC	5.3	5.1	4.7	30.8
Birla Corp	1.51	1.50	0.7	21.9
Grasim	3.90	3.87	0.8	37.3
Guj Ambuja	4.4	3.7	NA	NA
India Cements	2.1	2.0	3.5	31.1
Shree Cement	1.3	0.9	43.8	18.6
UltraTech Cement	4.7	4.6	3.6	26.7
<b>Industry Average</b>	<b>42.3</b>	<b>39.6</b>	<b>6.9</b>	<b>20.6</b>

Source: CMA/Motilal Oswal Securities

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO		SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Cement</b>							
ACC	Neutral	18,131	37.2	5,838	85.3	4,043	58.4
Birla Corporation	Buy	4,665	18.4	1,950	139.2	1,196	78.2
Grasim Industries	Buy	23,412	29.0	7,194	77.0	4,390	67.1
Gujarat Ambuja	Buy	14,544	57.4	5,968	85.8	4,218	59.4
India Cements	Buy	5,762	36.3	1,859	143.5	947	250.2
Shree Cement	Buy	3,848	70.6	1,771	111.8	815	34.3
UltraTech Cement	Buy	13,413	31.2	4,390	128.9	2,450	200.6
<b>Sector Aggregate</b>		<b>83,775</b>	<b>36.8</b>	<b>28,972</b>	<b>96.3</b>	<b>18,059</b>	<b>77.3</b>

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

<http://deadpresident.blogspot.com>

**Pricing: Booming cement prices under government scanner**

**4QFY07 highlights**

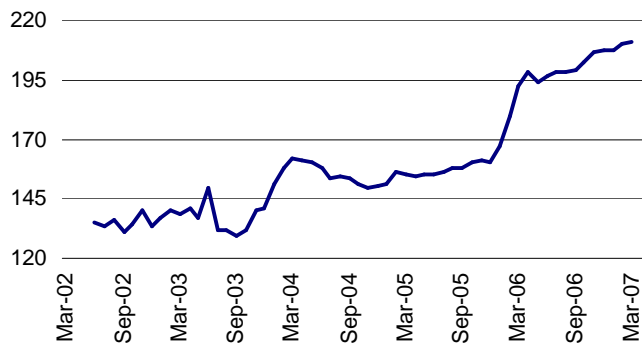
- ✦ **YoY Comparative:** higher by 20.6%
- ✦ **QoQ Comparative:** higher by 2.3%

4QFY07: SUMMARY PRICING TREND

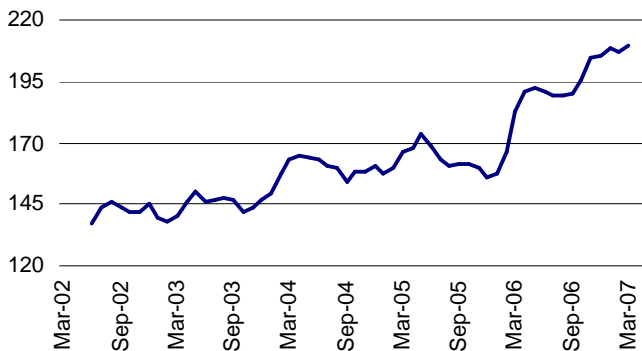
	PRICE CHANGE (%)	
	YOY	QOQ
North	16.5	2.0
East	23.5	3.1
West	20.3	2.8
South	22.9	2.6
Central	19.6	0.6
<b>National Average</b>	<b>20.6</b>	<b>2.3</b>

Source: Industry/MOSI

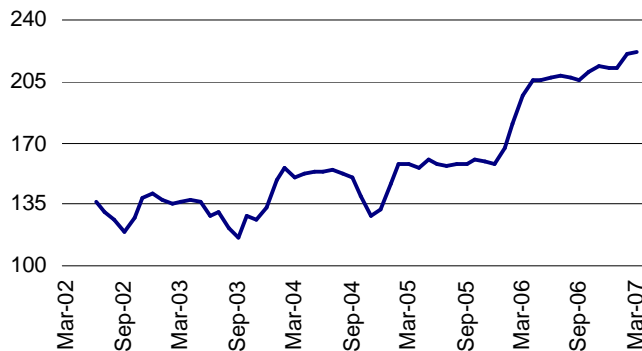
PRICE TREND – NORTH (RS/BAG)



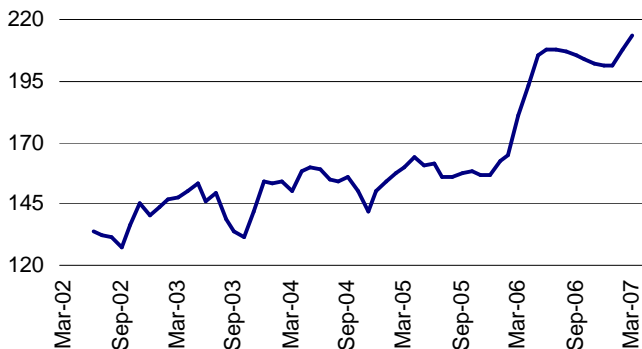
PRICE TREND – EAST (RS/BAG)



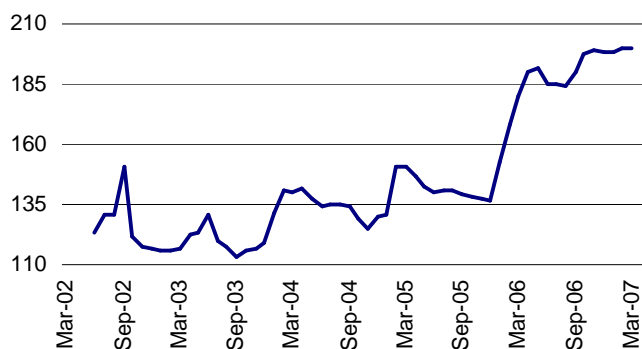
PRICE TREND – WEST (RS/BAG)



PRICE TREND – SOUTH (RS/BAG)



PRICE TREND – CENTRAL (RS/BAG)



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### **Pressure from the government to check cement price hikes**

The government has been pressurizing cement producers to control prices in order to curb the rising inflation. Though it has already taken several initiatives (cement price cap, differential excise duty and abolition of import duty/CVD/SAD on cement) to check higher cement prices, there has been no moderation in prices. In case cement manufacturers do agree to lower prices, every Re1/bag cut in prices will impact our FY08E earnings by 1.5-2.7%.

### **Following are the key initiatives taken by the government in 4QFY07 to check cement prices:**

#### **Differential excise duty structure to encourage lower prices**

The Union Budget 2007-08 introduced differential excise duty structure on cement. It will change excise from Rs408/ton to differential rate of either Rs360/ton at retail price of Rs190/bag or lower, or Rs618/ton for cement sold above Rs190/bag. Since the cement prices across all markets are higher than Rs190/bag, there would be added burden of Rs210/ton (~51.5% increase in excise). As a result, the industry immediately announced price hikes of around Rs12/bag to pass on the higher incidence of tax. This move by the government reduces scope for increase in cement prices, as it would narrow differential between domestic and import parity prices (Rs237-242/bag). The Rs12/bag cement price increase would only compensate for higher excise burden and not help net realizations of the producers.

#### **Price cap for 1 year at current levels**

The cement producers have assured Ministry of Commerce & Industry of not hiking prices from the current levels for the next one year even if input costs rise. Also, cement companies will pass on any benefits from roll back of excise to consumers.

We believe this solution to the imbroglio over pricing is relatively positive, contrary to any harsh measures by the government, viz ban on cement exports and/or roll-back of price hikes. This would result in status quo on pre-budget cement realizations for the industry (subject to no price cuts).

#### **Import duty on cement abolished, but viability still in doubt**

The government recently abolished all duties on import of portland (ordinary) cement. It fully exempted the basic customs duty of 12.5% in January 2007 and removed countervailing duty (CVD) of Rs408/ton and 4% special additional duty (SAD) in April 2007. The rate cut is applicable only on import of portland cement and not on blended cement and clinker. The move will reduce bagged imported cement price by around Rs53/bag to Rs210/bag as against the current national average retail price of Rs218/bag (post the hike of Rs12/bag to pass on the impact of higher excise duty in the recent Union Budget). Also, direct import by user would now cost around Rs180/bag, as against around Rs200/bag for a bulk consumer in the Chennai market.

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However, our interaction with the industry participants suggests that this move would not have a material impact on the fundamentals of the industry, as any significant import of cement would not be possible. Key takeaways from the interaction were:

- ✍ Tight supply-demand scenario in the global markets has resulted in higher cement prices for import. Our calculations factor in cost of imported cement at US\$42/ton *f.o.b.*, which is the most competitive quotation available to companies from potential exporters in Indonesia. Also, freight rates for dry bulk segment have been tightening, as indicated by 20% QoQ and 114% YoY increase in the Baltic Dry index. Our working factors in US\$25/ton freight cost.
- ✍ Imported cement would require the Bureau of Industrial Standards (BIS) approval for quality, which would take at least three months for the initial consignments, thereby pushing back possibility of imports at least by three months to around July 2007, at the earliest. Also, imports during the four monsoon months would be tough, as witnessed in a significant drop in exports during the monsoons. As a result, effective import of cement would be pushed back by at least seven months to November 2007.
- ✍ A major hurdle to import of cement is infrastructure bottlenecks/congestion in the form of handling capacities at Indian ports for such voluminous commodity (minimum economic quantity of import being ~25,000 ton), which is perishable in nature (50-60 days of shelf life). As a result, large scale import of cement is anyway ruled out.
- ✍ Although, the five Indian ports (Paradip, Vizag, Haldia, Chennai, and Mumbai) are capable of handling such voluminous imports, current domestic prices at Paradip (~Rs211/bag), Vizag (~Rs200/bag) and Haldia (~Rs210/bag) are ruling lower than the pan-India average prices and are far from the main consumption centers. Hence, imports only at Chennai (~Rs225/bag) and Mumbai (~Rs255/bag) ports would be profitable.
- ✍ This action from the government effectively provides the industry with the flexibility to renege on its earlier understanding of freezing cement prices at current levels, notwithstanding cost hikes. Further, the industry also seems to have come together as far as pricing decisions are concerned. In fact, most leading players were anticipating such a move from the government after their unwillingness to moderate prices.
- ✍ Given significantly high prices in Mumbai, we believe price cuts may be undertaken in the Mumbai market. However, with potential freedom to increase cement prices, national average cement prices are not expected to come down.
- ✍ Imports are also unlikely, as the three major parties viz. trader, manufacturer, and consumer, who can import cement would not have adequate incentives to do so. While cement traders would not like to face the wrath of the manufacturer by importing cement, manufacturers themselves are unlikely to import cement, given the strong understanding among industry participants. Although direct import by bulk consumers (~2-3% of total demand) appears viable, cement manufacturers would negotiate with such bulk consumers and offer them discounts to prevent any meaningful imports of cement in India.

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We maintain our earnings estimates based on the earlier cement price assumption of Rs5/bag increase in FY08E (i.e. current prices sustaining for the year) and Rs5/bag decline in FY09E. While inflation may continue to impact performance of the cement sector in the short term, it is the only sector which continues to enjoy strong profitability despite significant negative protection against imports.

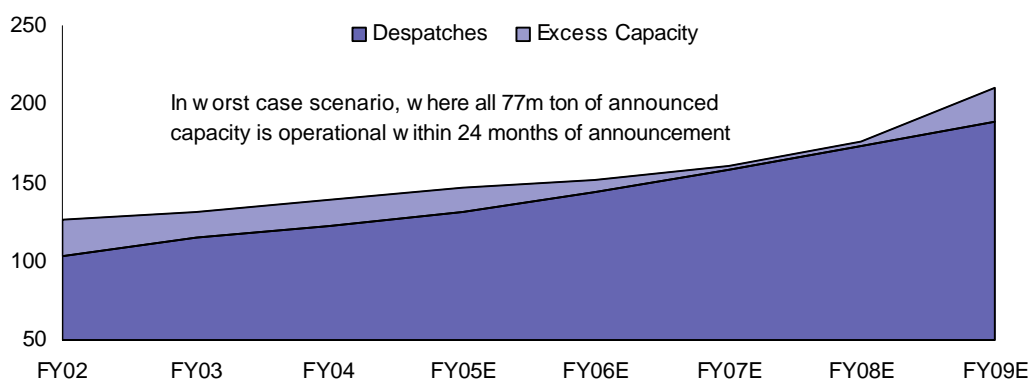
### Prices firm up, albeit lower due to the government intervention

Strong volume growth (~7% YoY in 4QFY07), logistical constraints (wagon/truck availability) and limited capacity addition has improved the demand-supply scenario significantly, which is reflected in the price hike of Rs5/bag QoQ in 4QFY07. Cement price hikes would have been higher, but for intervention from the government (custom duty abolition, higher excise and cement price freeze). Also, demand growth at 7% YoY is on a high base (~16% YoY growth in 4QFY06) and was impacted by logistical constraint.

### High capacity utilization, delay in capacity addition to prolong cycle

Although up to 77m ton of capacity addition has been already announced, adjusting for non-operative capacity (~5.5m ton) and timing of capacity additions after taking into account likely delay, effective capacity utilization for FY08E and FY09E would be 99% and 90% respectively. Also, the new capacities would take around 3-6 months to stabilize operations, which would further push back impact of these new capacities, thus prolonging the current upturn in the cement cycle. The ongoing upturn in the cement cycle is expected to be sustained at least for another 18 months (till 2QFY09).

#### CAPACITY UTILIZATION TO REMAIN HIGH



Source: CMA/Motilal Oswal Securities



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#### **Valuation and view**

High volume growth and limited capacity addition has improved demand-supply situation for the industry significantly, and as a result, cement is going through a cyclical upturn, which is likely to continue at least for the next 18 months. Although the uncertainty on cement prices (due to government intervention) is expected to prevail in the near term, the outlook for the Indian cement sector remains positive.

Over the last couple of months, cement stocks are down 25-50% from their highs and may continue to underperform in the near term. We would view the weakness as a buying opportunity. Given the strong earnings that the companies will deliver, we see value at current levels (especially in mid-caps). Our top picks among large caps are Gujarat Ambuja and Grasim. Among mid caps, we like Birla Corp and Kesoram.

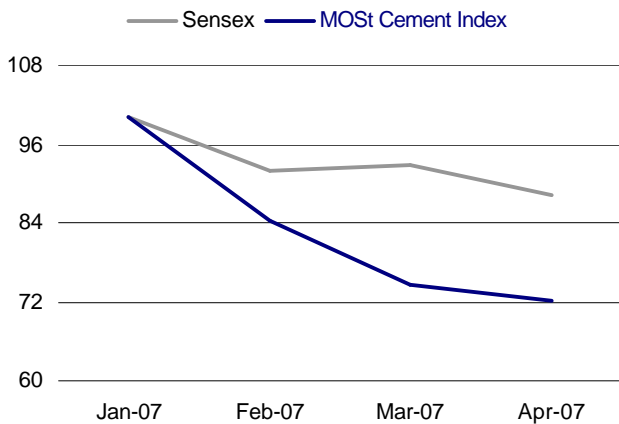
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## Stock performance and valuations

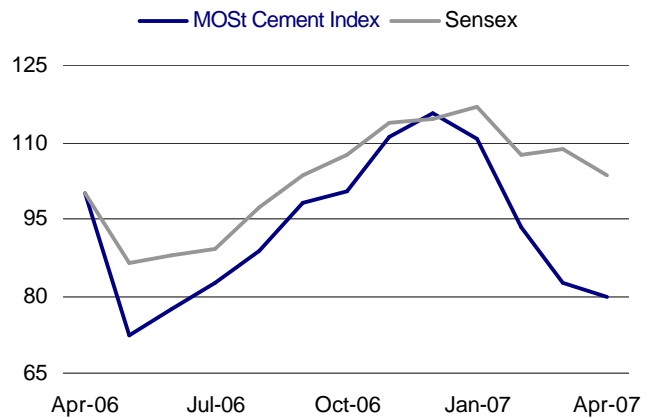
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Cement</b>						
ACC	-35	-11	-25	-19	-3	-8
Birla Corporation	-44	-46	-33	-54	-12	-43
Grasim Industries	-28	-4	-17	-12	5	-1
Gujarat Ambuja	-28	-2	-17	-10	4	1
India Cements	-36	-10	-25	-18	-4	-7
Shree Cement	-39	-3	-28	-11	-7	0
UltraTech Cement	-36	3	-25	-4	-4	6

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	2.4.07													
<b>Cement</b>														
ACC	705	Neutral	58.7	80.2	75.1	12.0	8.8	9.4	8.0	5.7	5.5	35.1	35.3	26.7
Birla Corporation	187	Buy	44.8	50.0	47.9	4.2	3.7	3.9	2.2	1.6	1.2	51.0	38.4	28.1
Grasim Industries	2,055	Buy	207.8	231.3	226.6	9.9	8.9	9.1	7.1	6.4	6.1	29.5	25.7	20.8
Gujarat Ambuja	104	Buy	9.5	11.6	10.6	11.0	8.9	9.8	8.0	5.8	5.4	45.5	38.2	27.8
India Cements	154	Buy	19.5	19.7	19.2	7.9	7.8	8.0	7.3	5.6	5.3	47.0	31.6	23.4
Shree Cement	910	Buy	101.6	139.4	165.6	9.0	6.5	5.5	6.0	3.8	2.8	78.1	58.6	44.2
UltraTech Cement	722	Buy	63.9	74.5	82.1	11.3	9.7	8.8	6.8	5.8	5.0	56.5	42.0	32.8
<b>Sector Aggregate</b>						<b>10.8</b>	<b>9.0</b>	<b>9.3</b>	<b>7.0</b>	<b>5.5</b>	<b>5.1</b>	<b>37.5</b>	<b>32.8</b>	<b>25.5</b>

<http://deadpresident.blogspot.com> ACC

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,455	ACC IN
	REUTERS CODE
S&P CNX: 3,634	ACC.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs705

Equity Shares (m)	187.8
52-Week Range	1,192/625
1,6,12 Rel. Perf. (%)	-14/-30/-19
M.Cap. (Rs b)	132.3
M.Cap. (US\$ b)	3.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	57,170	11,031	58.7	160.2	12.0	4.2	35.1	31.3	2.3	8.0
12/07E	69,685	15,063	80.2	36.6	8.8	3.1	35.3	37.1	1.8	5.7
12/08E	72,750	14,118	75.1	-6.3	9.4	2.5	26.7	28.6	1.6	5.5

\* Fully Diluted EPS

- Dispatches during 1QCY07 are expected to grow 4.7% to 5.3m ton as the company is currently facing capacity constraint. Average realization is expected to be higher by 31% YoY (~1.3% QoQ) to Rs3,231/ton.
- Net sales are expected to grow 37% YoY to Rs18.1b, driven by significant improvement in realizations. On account of significant increase in realization, EBITDA margin is likely to improve by 840bp to 32.2%. EBITDA is likely to grow 85% YoY to Rs5.8b. However, lower other income (down 40% at Rs320m) and higher tax provisioning (at 25.3% of PBT v/s 12% in 1QCY06) are likely to restrict PAT to Rs4b, up 58% YoY.
- ACC is divesting its 40% stake in joint venture Almatris ACC to Almatris for an undisclosed amount. Almatris ACC processes Tabular Alumina from Europe for the Indian refractory market. Our estimate for CY07E does not include any gains arising out of this.
- We have revised our estimates downwards marginally for CY07 by 3.3% to Rs80.2/share to factor in the lower-than-expected dispatches in February 2007. The stock currently trades at 8.8x CY07E EPS and 5.7x CY07E EV/EBITDA. Considering the stretched valuations, we reiterate **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Cement Sales (m ton)	5.06	4.63	4.27	4.85	5.30	5.00	4.65	5.29	18.86	20.25
YoY Change (%)	12.7	5.0	8.4	6.1	4.7	8.0	9.0	9.2	9.1	7.3
Cement Realization (Rs/ton)	2,470	2,985	3,053	3,191	3,231	3,247	3,247	3,247	2,914	3,243
YoY Change (%)	13.0	34.2	37.4	47.3	30.8	8.8	6.4	1.8	32.8	11.3
QoQ Change (%)	14.0	20.8	2.3	4.5	1.3	0.5	0.0	0.0		
<b>Net Sales</b>	<b>13,218</b>	<b>14,247</b>	<b>13,577</b>	<b>15,923</b>	<b>18,131</b>	<b>17,244</b>	<b>16,121</b>	<b>18,188</b>	<b>57,170</b>	<b>69,685</b>
YoY Change (%)	19.0	29.9	37.1	46.0	37.2	21.0	18.7	14.2	34.9	21.9
<b>EBITDA</b>	<b>3,151</b>	<b>4,556</b>	<b>3,660</b>	<b>4,685</b>	<b>5,838</b>	<b>5,595</b>	<b>4,983</b>	<b>5,918</b>	<b>16,232</b>	<b>22,334</b>
Margins (%)	23.8	32.0	27.0	29.4	32.2	32.4	30.9	32.5	28.4	32.1
Depreciation	594	579	585	771	625	700	725	723	2,543	2,773
Interest	194	147	144	41	125	115	110	110	520	460
Other Income	537	156	217	580	320	200	200	330	1,329	1,050
<b>PBT before EO Item</b>	<b>2,900</b>	<b>3,985</b>	<b>3,148</b>	<b>4,453</b>	<b>5,408</b>	<b>4,980</b>	<b>4,348</b>	<b>5,415</b>	<b>14,498</b>	<b>20,151</b>
EO Income/(Expense)	0	1,464	1	153	0	0	0	0	1,711	0
<b>PBT after EO Item</b>	<b>2,900</b>	<b>5,449</b>	<b>3,149</b>	<b>4,606</b>	<b>5,408</b>	<b>4,980</b>	<b>4,348</b>	<b>5,415</b>	<b>16,209</b>	<b>20,151</b>
Tax	348	1,393	894	1,021	1,366	1,258	1,098	1,367	3,877	5,088
Rate (%)	12.0	25.6	28.4	22.2	25.3	25.3	25.3	25.3	23.9	25.3
<b>Reported PAT</b>	<b>2,552</b>	<b>4,056</b>	<b>2,255</b>	<b>3,584</b>	<b>4,043</b>	<b>3,723</b>	<b>3,250</b>	<b>4,048</b>	<b>12,332</b>	<b>15,063</b>
<b>Adjusted PAT</b>	<b>2,552</b>	<b>2,966</b>	<b>2,254</b>	<b>3,466</b>	<b>4,043</b>	<b>3,723</b>	<b>3,250</b>	<b>4,048</b>	<b>11,031</b>	<b>15,063</b>
Margins (%)	19.3	20.8	16.6	21.8	22.3	21.6	20.2	22.3	19.3	21.6
YoY Change (%)	54.2	118.9	164.7	280.4	58.4	25.5	44.2	16.8	162.2	36.6

E: MOST Estimates; Note: The quarterly results are not strictly comparable due to amalgamation of Bargarh Cement and Tarmac (I) Ltd.

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<http://deadpresident.blogspot.com> Birla Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BJUT IN
	REUTERS CODE
S&P CNX: 3,634	BRLC.BO
Equity Shares (m)	77.0
52-Week Range	413/164
1,6,12 Rel. Perf. (%)	-17/-45/-54
M.Cap. (Rs b)	14.4
M.Cap. (US\$ b)	0.3

2 April 2007

Buy

Previous Recommendation: Buy

Rs187

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	15,893	3,447	44.8	174.1	4.2	2.1	51.0	51.8	0.8	2.2
3/08E	17,461	3,849	50.0	11.7	3.7	1.4	38.4	37.8	0.6	1.6
3/09E	18,631	3,686	47.9	-4.2	3.9	1.1	28.1	30.0	0.4	1.2

- During 4QFY07, Birla Corp's revenues are expected to grow 18.4% to Rs4.7b. Revenue growth will be driven by higher realizations in the cement division. Cement realization is likely to be up 22% YoY (~1.4% QoQ) at Rs2,835 per ton. However, sales volume is likely to be muted at 1.51m ton, a marginal growth of 0.7%.
- Higher realizations and savings on account of captive power plant will result in EBITDA margin expanding 21.1bp YoY to 41.8%. EBITDA is likely to grow 139% to Rs1.95b.
- Higher interest cost (up 43%), lower other income (down 45%) and higher tax provisioning (at 33.5% of PBT v/s 3.8% in 4QFY06) are likely to curtail PAT to Rs1.2b, up 78% YoY.
- The new grinding unit at Durgapur is expected to stabilize operations and operate at optimum level of production within two months. This would drive volume growth through higher throughput, impact of which would be felt only in FY08.
- At current prices, the stock is trading at 3.7x FY08E EPS and 1.6x FY08E EV/EBITDA. Its EV/ton (at 5.8m ton capacity) works out to US\$39/ton, which is at a discount to comparable peers. We believe the discount is not justified and valuations, based on earnings as well as replacement cost, are compelling. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Cement Sales (m ton)	1.27	1.18	1.26	1.50	1.27	1.25	1.32	1.51	5.21	5.35
YoY Change (%)	-4.5	-2.0	3.2	18.7	0.0	6.1	4.9	0.7	3.8	2.7
Cement Realization (Rs/ton)	1,993	1,928	1,929	2,325	2,517	2,621	2,795	2,835	2,058	2,700
YoY Change (%)	5.1	1.2	-2.8	11.8	26.3	36.0	44.9	21.9	4.6	31.2
QoQ Change (%)	-4.2	-3.3	0.0	20.5	8.3	4.1	6.6	1.4		
<b>Net Sales</b>	<b>2,791</b>	<b>2,606</b>	<b>2,814</b>	<b>3,941</b>	<b>3,489</b>	<b>3,647</b>	<b>4,093</b>	<b>4,665</b>	<b>12,155</b>	<b>15,893</b>
YoY Change (%)	0.4	-1.0	3.4	14.5	25.0	39.9	45.4	18.4	6.7	30.8
Total Expenditure	2,358	2,340	2,541	3,125	2,462	2,668	2,689	2,715	10,367	10,533
<b>EBITDA</b>	<b>433</b>	<b>266</b>	<b>273</b>	<b>815</b>	<b>1,027</b>	<b>979</b>	<b>1,404</b>	<b>1,950</b>	<b>1,787</b>	<b>5,360</b>
Margins (%)	15.5	10.2	9.7	20.7	29.4	26.8	34.3	41.8	14.7	33.7
Depreciation	73	76	89	104	97	96	96	106	342	394
Interest	30	27	37	43	43	31	35	61	136	170
Other Income	35	50	19	29	39	53	55	16	131	162
<b>Profit before Tax</b>	<b>366</b>	<b>212</b>	<b>165</b>	<b>698</b>	<b>927</b>	<b>905</b>	<b>1,328</b>	<b>1,799</b>	<b>1,441</b>	<b>4,959</b>
Tax	133	31	-7	26	303	229	377	603	183	1,512
Rate (%)	36.4	14.5	-4.1	3.8	32.7	25.3	28.4	33.5	12.7	30.5
<b>Adjusted PAT</b>	<b>232</b>	<b>182</b>	<b>172</b>	<b>671</b>	<b>624</b>	<b>675</b>	<b>951</b>	<b>1,196</b>	<b>1,258</b>	<b>3,447</b>
Margins (%)	8.3	7.0	6.1	17.0	17.9	18.5	23.2	25.6	10.3	21.7
YoY Change (%)	-21.2	35.7	189.4	76.0	168.3	271.9	452.5	78.2	44.8	174.1

E: MOST Estimates

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<http://deadpresident.blogspot.com> **Grasim Industries**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GRASIM IN
	REUTERS CODE
S&P CNX: 3,634	GRAS.BO

2 April 2007

Buy

Rs2,055

Previous Recommendation: Buy

Equity Shares (m)	91.7
52-Week Range	2,908/1,462
1,6,12 Rel. Perf. (%)	1/-19/-12
M.Cap. (Rs b)	188.4
M.Cap. (US\$ b)	4.3

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	132,950	19,051	207.8	83.6	9.9	2.9	29.5	36.9	1.8	6.1
3/08E	146,546	21,210	231.3	11.3	8.9	2.3	25.7	33.0	1.7	5.4
3/09E	156,908	20,779	226.6	-2.0	9.1	1.9	20.8	31.3	1.4	5.0

\* Consolidated

- Grasim (standalone) is expected to post sales growth of 29% YoY to Rs23.4b in 4QFY07. Strong performance of cement and VSF division will drive Grasim's overall operating performance and lead to margin expansion of 830bp to 30.7%, translating into PAT growth of 67% to Rs4.4b.
- The cement volumes are expected to grow marginally at 0.8% YoY to 3.9m ton and realizations are expected to improve by 37% YoY to Rs 2,958/ton. Higher realizations will result in the cement division's operating margin expanding by 530bp YoY to 33.4%.
- VSF volumes are likely to increase 11% YoY and realizations 18% to Rs 91,139/ton, resulting in VSF operating margins improving 440bp YoY to 35.5%.
- The chemical business, which was impacted due to shutdown of captive power plant, is expected to return to normalcy pursuant to restoration of captive power plant.
- With two core business (cement and VSF) in an upturn, Grasim is likely to post impressive growth in earnings. Earnings quality is also likely to improve (higher profits from cement division), which will result in PE expansion. The stock is trading at P/E of 8.9x FY08E and 5.4x FY08E EV/EBITDA (consolidated). We maintain **Buy** on the stock.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>15,533</b>	<b>16,492</b>	<b>16,482</b>	<b>18,151</b>	<b>18,770</b>	<b>20,108</b>	<b>22,794</b>	<b>23,412</b>	<b>66,557</b>	<b>85,084</b>
YoY Change (%)	2.4	7.5	5.7	10.5	20.8	21.9	38.3	29.0	6.4	27.8
<b>EBITDA</b>	<b>3,744</b>	<b>3,218</b>	<b>3,191</b>	<b>4,065</b>	<b>5,133</b>	<b>5,322</b>	<b>6,661</b>	<b>7,194</b>	<b>14,218</b>	<b>24,309</b>
Margins (%)	24.1	19.5	19.4	22.4	27.3	26.5	29.2	30.7	21.4	28.6
Depreciation	705	720	733	759	741	756	807	839	2,916	3,142
Interest	265	237	235	236	235	241	240	222	973	938
Other Income	201	308	152	575	375	502	444	343	1,691	1,663
<b>PBT before EO Items</b>	<b>2,975</b>	<b>2,570</b>	<b>2,376</b>	<b>3,645</b>	<b>4,532</b>	<b>4,827</b>	<b>6,058</b>	<b>6,476</b>	<b>12,019</b>	<b>21,892</b>
Extraordinary Inc/(Exp)	454	0	0	0	0	0	0	0	41	0
<b>PBT after EO Items</b>	<b>3,429</b>	<b>2,570</b>	<b>2,376</b>	<b>3,645</b>	<b>4,532</b>	<b>4,827</b>	<b>6,058</b>	<b>6,476</b>	<b>12,060</b>	<b>21,892</b>
Tax	919	693	757	1,019	1,413	1,467	1,942	2,086	3,428	6,907
Rate (%)	26.8	27.0	31.9	28.0	31.2	30.4	32.1	32.2	28.4	31.6
<b>Reported PAT</b>	<b>2,510</b>	<b>1,877</b>	<b>1,619</b>	<b>2,627</b>	<b>3,119</b>	<b>3,360</b>	<b>4,116</b>	<b>4,390</b>	<b>8,632</b>	<b>14,985</b>
<b>Adj. PAT</b>	<b>2,056</b>	<b>1,877</b>	<b>1,619</b>	<b>2,627</b>	<b>3,119</b>	<b>3,360</b>	<b>4,116</b>	<b>4,390</b>	<b>8,591</b>	<b>14,985</b>
YoY Change (%)	-6.2	-14.7	-21.5	-3.3	51.7	79.1	154.3	67.1	-8.7	74.4

E: MOST Estimates

<http://deadpresident.blogspot.com> Gujarat Ambuja

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GAMB IN
	REUTERS CODE
S&P CNX: 3,634	GACM.BO
Equity Shares (m)	1,516.9
52-Week Range	150/77
1,6,12 Rel. Perf. (%)	-2/-12/-10
M.Cap. (Rs b)	157.4
M.Cap. (US\$ b)	3.6

2 April 2007

Buy

Rs104

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	49,258	14,352	9.5	129.9	11.0	4.0	45.7	42.1	2.8	8.0
12/07E	57,320	17,643	11.6	22.9	8.9	3.0	38.3	42.9	2.4	5.8
12/08E	60,593	16,115	10.6	-8.7	9.8	2.5	27.9	34.3	2.1	5.4

- ✗ Gujarat Ambuja's 1QCY07 results are not comparable with previous year due to merger of Ambuja Cements Eastern Ltd. All growth numbers are approximate.
- ✗ Gujarat Ambuja's (consolidated) 1QCY07 sales are expected to be Rs14.5b (up ~35% YoY). Dispatches are expected to be 4.43m ton (up ~6% YoY), whereas average realization is expected to be Rs3,282/ton (up ~27.8% YoY or 1.7% QoQ).
- ✗ EBITDA margin to increase 490bp YoY to 41%, driven by higher realizations. EBITDA is likely to move up 54% YoY to Rs6b, translating into PAT of Rs6.4b. However, adjusting for profit on sale of partial stake in ACIL, recurring profit would be around Rs4.5b.
- ✗ During the quarter, GACL sold 11% stake in ACIL (of 33% total holding) to Holcim for Rs5.27b. It gained Rs2.41b from the sale. The company has also sold its two acre land in Mumbai to Orbit Corporation for Rs3.3b. We expect this sale to be completed by 2QCY07 and profit on sale of land to be accounted for in the same quarter.
- ✗ We have revised our CY07E EPS downwards marginally by 4% to Rs11.6 to factor in lower than expected volume growth. Considering its reasonable valuation of 18.9x CY07E EPS and 5.8x CY07E EV/EBITDA, we maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q <sup>^</sup>	1Q	2Q	3Q	4Q		
Sales Volume (m ton)	3.65	3.77	3.21	4.12	4.43	4.57	3.88	4.50	16.30	17.38
YoY Change (%)	14.8	14.9	9.0	NA	NA	NA	NA	NA	NA	6.6
Realization (Rs/ton)	2,532	3,009	3,066	3,226	3,282	3,306	3,305	3,303	2,974	3,299
YoY Change (%)	20.7	37.0	39.5	42.7	NA	NA	NA	NA	NA	10.9
<b>Net Sales</b>	<b>9,243</b>	<b>11,342</b>	<b>9,841</b>	<b>13,291</b>	<b>14,544</b>	<b>15,108</b>	<b>12,814</b>	<b>14,854</b>	<b>48,479</b>	<b>57,320</b>
YoY Change (%)	38.5	57.4	52.0	71.9	57.4	33.2	30.2	11.8	24.0	314.1
<b>EBITDA</b>	<b>3,213</b>	<b>4,433</b>	<b>3,556</b>	<b>4,791</b>	<b>5,968</b>	<b>6,289</b>	<b>5,192</b>	<b>6,147</b>	<b>17,608</b>	<b>23,596</b>
Margins (%)	34.8	39.1	36.1	36.0	41.0	41.6	40.5	41.4	36.3	41.2
Depreciation	-509	-497	-500	-572	-644	-649	-650	-652	-2,269	-2,595
Interest	-105	-123	-85	-45	-67	-67	-67	-67	-377	-268
Other Income	180	-100	258	403	442	467	481	642	1,199	2,033
<b>PBT before EO Item</b>	<b>2,779</b>	<b>3,714</b>	<b>3,230</b>	<b>4,576</b>	<b>5,699</b>	<b>6,040</b>	<b>4,956</b>	<b>6,070</b>	<b>16,160</b>	<b>22,766</b>
Extraordinary Inc/(Exp)	358	0	0	0	2,405	2,500	0	0	0	4,905
<b>PBT after EO Exp/(Inc)</b>	<b>3,137</b>	<b>3,714</b>	<b>3,230</b>	<b>4,576</b>	<b>8,104</b>	<b>8,540</b>	<b>4,956</b>	<b>6,070</b>	<b>16,160</b>	<b>27,671</b>
Tax	152	675	783	1,199	1,670	1,778	1,244	1,534	2,760	6,226
Rate (%)	4.8	18.2	24.2	26.2	20.6	20.8	25.1	25.3	17.1	22.5
<b>Reported Profit</b>	<b>2,986</b>	<b>3,039</b>	<b>2,447</b>	<b>3,378</b>	<b>6,435</b>	<b>6,763</b>	<b>3,711</b>	<b>4,536</b>	<b>13,401</b>	<b>21,445</b>
<b>Adj PAT</b>	<b>2,645</b>	<b>3,039</b>	<b>2,447</b>	<b>3,378</b>	<b>4,218</b>	<b>4,470</b>	<b>3,711</b>	<b>4,536</b>	<b>13,401</b>	<b>16,935</b>
YoY Change (%)	84.8	109.3	225.0	227.7	NA	NA	NA	NA	NA	26.4

E: Most Estimates; \* Standalone results (excl ACIL); ^ including ACIL

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<http://deadpresident.blogspot.com> India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ICEM IN
	REUTERS CODE
S&P CNX: 3,634	ICMN.BO

2 April 2007

Buy

Rs154

Previous Recommendation: Buy

Equity Shares (m)	260.4
52-Week Range	255/103
1,6,12 Rel. Perf. (%)	-6/-32/-18
M.Cap. (Rs b)	40.1
M.Cap. (US\$ b)	0.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	23,705	5,313	19.5	999.7	7.9	2.8	47.0	25.5	2.3	7.3
3/08E	26,542	5,382	19.7	1.3	7.8	2.0	31.6	27.0	2.0	5.6
3/09E	28,788	5,248	19.2	-2.5	8.0	1.6	23.4	24.5	1.8	5.3

- India Cement (excl Visaka) is expected to report 36% YoY growth in sales to Rs5.8b, driven by 31% YoY higher realizations of Rs2,796/ton. However, volume growth is expected to remain muted at 3.5% to 2.05m ton as it is already operating at optimum capacity.
- Higher realization would translate into EBITDA margin expansion of 14.2pp YoY to 32.3%. However, higher tax provisioning (at 30% of PBT v/s 9.7% in 4QFY06) would restrict PAT to Rs947m, a growth of 250%.
- The company has decided to merge its associate company Visaka Cement (1.4m ton capacity) from 1 July 2006 for consideration of 1 share of India Cement for every 5 share in Visaka. This would result in equity dilution of 17%. However, India Cement would stand to save tax due to accumulated losses of Visaka. Adjusting for these tax savings, this merger is expected to be earnings neutral.
- Given its high leverage and relatively low cost timely capacity additions, India Cement would be one of the biggest beneficiaries of any further price increase in South India. At current valuations of 7.8x FY08E EPS and 5.6x FY08E EBITDA, valuations appear attractive. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Dispatches (m ton)	1.90	1.91	1.68	1.98	1.85	1.88	1.74	2.05	7.47	7.52
YoY Change (%)	35.9	17.3	8.3	10.1	-2.6	-1.6	3.2	3.5	303.3	300.4
Realization (Rs/ton)	2,004	2,051	2,058	2,133	2,606	2,733	2,716	2,796	2,064	2,710
YoY Change (%)	6.6	10.6	21.7	14.8	30.1	33.2	31.9	31.1	-20.8	-0.8
QoQ Change (%)	7.8	2.4	0.3	3.6	22.2	4.9	-0.6	2.9	-26.2	31.3
<b>Net Sales</b>	<b>3,810</b>	<b>3,914</b>	<b>3,466</b>	<b>4,228</b>	<b>4,852</b>	<b>5,164</b>	<b>4,724</b>	<b>5,762</b>	<b>15,418</b>	<b>20,502</b>
YoY Change (%)	44.8	29.8	31.8	26.3	27.4	31.9	36.3	36.3	32.7	33.0
Total Expenditure	3,111	3,235	2,999	3,464	3,197	3,438	3,394	3,903	12,808	13,931
<b>EBITDA</b>	<b>698</b>	<b>680</b>	<b>468</b>	<b>764</b>	<b>1,655</b>	<b>1,726</b>	<b>1,331</b>	<b>1,859</b>	<b>2,610</b>	<b>6,571</b>
Margins (%)	18.3	17.4	13.5	18.1	34.1	33.4	28.2	32.3	16.9	32.1
Depreciation	202	197	197	197	192	193	198	202	789	785
Interest	401	427	296	314	389	364	347	350	1,489	1,450
Other Income	5	9	37	47	54	83	17	46	168	200
<b>PBT</b>	<b>101</b>	<b>64</b>	<b>12</b>	<b>299</b>	<b>1,129</b>	<b>1,252</b>	<b>803</b>	<b>1,352</b>	<b>500</b>	<b>4,536</b>
Tax	0	6	-6	6	3	4	5	406	23	418
Deferred Tax	0	0	0	23	0	0	0	0	23	0
Rate (%)	0.0	9.2	-51.3	9.7	0.2	0.3	0.6	30.0	9.3	9.2
<b>Reported PAT</b>	<b>101</b>	<b>58</b>	<b>18</b>	<b>270</b>	<b>1,126</b>	<b>1,248</b>	<b>798</b>	<b>947</b>	<b>453</b>	<b>4,118</b>
EO Exp	0	0	-109	27	0	0	0	0	0	0
<b>PAT</b>	<b>101</b>	<b>58</b>	<b>18</b>	<b>270</b>	<b>1,126</b>	<b>1,248</b>	<b>798</b>	<b>947</b>	<b>453</b>	<b>4,118</b>
YoY Change (%)	-155.6	-133.0	-105.3	-63.3	1,018.1	2,033.2	4,407.3	250.2	889.5	808.7
Margins (%)	2.6	1.5	0.5	6.4	23.2	24.2	16.9	16.4	2.9	20.1

E: MOST Estimates

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<http://deadpresident.blogspot.com> Shree Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SRCM IN
	REUTERS CODE
S&P CNX: 3,634	SHCM.BO

2 April 2007

Buy

Rs910

Previous Recommendation: Buy

Equity Shares (m)	34.8
52-Week Range	1,592/650
1,6,12 Rel. Perf. (%)	-20/-13/-11
M.Cap. (Rs b)	31.7
M.Cap. (US\$ b)	0.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	13,747	3,538	101.6	1,822.5	9.0	5.2	78.1	54.7	2.7	6.0
3/08E	18,795	4,856	139.4	37.2	6.5	3.0	58.6	51.1	1.7	3.8
3/09E	22,934	4,856	165.6	18.8	5.5	2.0	44.2	45.9	1.2	2.8

- ✂ Sales in 4QFY07 are expected to grow 71% YoY to Rs3.9b driven by volume growth of 44% YoY to 1.34m ton and realizations growth of 19% YoY (~2.3% QoQ) to Rs2,880/ton.
- ✂ Higher realization would translate into EBITDA margin expansion of 890bp YoY to 46%, resulting in EBITDA being higher by 112% YoY to Rs1.8b. However, higher depreciation (by 133% due to new plant) and higher tax (at 37.7% of PBT v/s zero tax in 4QFY06) would restrict PAT to Rs815m, up 34% YoY.
- ✂ However, our estimates do not factor in any one-time depreciation and deferred tax, which the company may provide at the end of the year.
- ✂ Shree Cement's new 1.5m ton capacity has started trial run and is on course to commence commercial production from 1QFY08.
- ✂ Given its favorable location (North) and potential volume growth supported by its new greenfield plant, the stock is trading at very attractive valuations of 9.4x FY07E EPS and 7.1x FY06E EBITDA. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Dispatches (m ton)	0.73	0.77	0.72	0.93	1.14	1.11	1.30	1.34	3.28	4.88
YoY Change (%)	1.0	2.1	-1.4	6.9	56.2	44.0	81.1	43.8	6.6	49.0
Realization (Rs/ton)	1,952	2,018	2,018	2,427	2,714	2,849	2,815	2,880	2,039	2,817
YoY Change (%)	-1.1	8.3	8.8	29.1	39.0	41.2	39.5	18.6	7.6	38.2
QoQ Change (%)	3.9	3.4	0.0	20.3	11.8	5.0	-1.2	2.3	0.6	-12.1
<b>Net Sales</b>	<b>1,425</b>	<b>1,554</b>	<b>1,443</b>	<b>2,255</b>	<b>3,094</b>	<b>3,160</b>	<b>3,645</b>	<b>3,848</b>	<b>6,677</b>	<b>13,747</b>
YoY Change (%)	-0.1	10.6	7.4	38.0	117.1	103.3	152.7	70.6	14.7	105.9
<b>EBITDA</b>	<b>443</b>	<b>522</b>	<b>549</b>	<b>836</b>	<b>1,375</b>	<b>1,427</b>	<b>1,601</b>	<b>1,771</b>	<b>2,217</b>	<b>6,174</b>
Margins (%)	31.1	33.6	38.0	37.1	44.4	45.2	43.9	46.0	33.2	44.9
Depreciation	123	123	123	207	263	338	263	483	1,852	1,347
Interest	39	33	33	23	54	27	7	30	128	118
Other Income	3	8	7	17	30	43	47	51	35	171
<b>PBT</b>	<b>284</b>	<b>374</b>	<b>400</b>	<b>624</b>	<b>1,088</b>	<b>1,104</b>	<b>1,379</b>	<b>1,309</b>	<b>271</b>	<b>4,880</b>
Tax	24	0	3	-3	184	326	338	372	29	1,220
Deferred Tax	0	0	0	0	0	0	0	122	59	122
Rate (%)	8.4	0.0	0.8	-0.5	16.9	29.6	24.5	37.7	32.2	27.5
<b>Reported PAT</b>	<b>260</b>	<b>374</b>	<b>397</b>	<b>628</b>	<b>904</b>	<b>778</b>	<b>1,041</b>	<b>815</b>	<b>184</b>	<b>3,538</b>
<b>Adj PAT</b>	<b>260</b>	<b>374</b>	<b>397</b>	<b>607</b>	<b>904</b>	<b>778</b>	<b>1,041</b>	<b>815</b>	<b>184</b>	<b>3,538</b>
YoY Change (%)	0.3	119.8	140.6	112.4	247.6	108.2	162.5	34.3	-48.0	1,822.5
Margins (%)	18.2	24.0	27.5	26.9	29.2	24.6	28.6	21.2	2.8	25.7

E: MOST Estimates; Quarterly results do not add up with full year results as it provides addl. depreciation and deferred tax at the end of the year

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<http://deadpresident.blogspot.com> UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	UTCEM IN
	REUTERS CODE
S&P CNX: 3,634	ULTC.BO

2 April 2007

Buy

Rs722

Previous Recommendation: Buy

Equity Shares (m)	124.4
52-Week Range	1,205/501
1,6,12 Rel. Perf. (%)	-15/-18/-4
M.Cap. (Rs b)	89.8
M.Cap. (US\$ b)	2.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	47,866	7,958	63.9	253.7	11.3	5.1	56.5	48.4	2.1	6.8
3/08E	53,468	9,279	74.5	16.6	9.7	3.4	42.0	47.3	1.8	5.8
3/089E	56,361	10,225	82.1	10.2	8.8	2.5	32.8	42.3	1.6	5.0

- Volume growth is expected to be 3.6% YoY to 4.7m ton (incl clinker exports), driven primarily by around 13% growth in domestic dispatches and 20% growth in exports. Realizations are expected to be higher by 26.7% YoY (~1.4% QoQ) to Rs2,847/ton.
- Net sales are expected to grow 31% YoY to Rs13.4b driven by 27% YoY (~1.4% QoQ) higher realizations.
- Higher realizations would drive EBITDA margin expansion of 13.9pp YoY to 32.7% and 129% YoY higher EBITDA at Rs4.4b. Also, higher income of Rs100m (up ~45% YoY) would boost PAT to Rs2.45b, up 201%.
- At 9.7x FY08E EPS and 5.8x FY08E EV/EBITDA, valuations do not fully reflect improving operating performance and organic growth visibility at a low cost of expansion. **Maintain Buy.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q*	2Q*	3Q*	4Q	1Q	2Q	3Q	4QE		
Sales (m ton)	3.99	2.95	3.94	4.55	4.45	3.61	4.49	4.71	15.38	17.26
YoY Change (%)	8.3	-11.7	-3.4	17.9	11.5	22.4	14.0	3.6	1.4	12.2
Realization (Rs/ton)	1,989	2,169	2,001	2,247	2,652	2,783	2,807	2,847	2,099	2,773
YoY Change (%)	7.8	26.9	23.8	24.2	33.4	28.3	40.3	26.7	23.1	32.1
QoQ Change (%)	10.0	9.1	-7.7	12.3	18.0	4.9	0.9	1.4		
<b>Net Sales</b>	<b>7,934</b>	<b>6,400</b>	<b>7,886</b>	<b>10,224</b>	<b>11,803</b>	<b>10,045</b>	<b>12,605</b>	<b>13,413</b>	<b>32,277</b>	<b>47,866</b>
YoY Change (%)	16.7	12.1	19.5	46.5	48.8	57.0	59.8	31.2	24.8	48.3
Total Expenditure	6,442	5,749	6,783	8,305	8,057	7,501	8,802	9,023	27,113	33,383
<b>EBITDA</b>	<b>1,492</b>	<b>650</b>	<b>1,103</b>	<b>1,918</b>	<b>3,746</b>	<b>2,545</b>	<b>3,802</b>	<b>4,390</b>	<b>5,164</b>	<b>14,483</b>
Margins (%)	18.8	10.2	14.0	18.8	31.7	25.3	30.2	32.7	16.0	30.3
Depreciation	509	521	515	550	544	547	571	579	2,095	2,241
Interest	221	224	228	222	226	237	202	220	894	885
Other Income	111	80	71	69	134	119	167	100	331	520
<b>PBT after EO Expense</b>	<b>874</b>	<b>-14</b>	<b>431</b>	<b>1,216</b>	<b>3,110</b>	<b>1,879</b>	<b>3,196</b>	<b>3,691</b>	<b>2,506</b>	<b>11,877</b>
Tax	273	-15	192	401	1,002	605	1,072	1,241	851	3,919
Rate (%)	31.3	106.9	44.6	33.0	32.2	32.2	33.5	33.6	34.0	33.0
<b>Reported PAT</b>	<b>600</b>	<b>1</b>	<b>238</b>	<b>815</b>	<b>2,108</b>	<b>1,274</b>	<b>2,125</b>	<b>2,450</b>	<b>1,655</b>	<b>7,958</b>
<b>Adj PAT</b>	<b>600</b>	<b>1</b>	<b>238</b>	<b>815</b>	<b>2,108</b>	<b>1,274</b>	<b>2,125</b>	<b>2,450</b>	<b>1,655</b>	<b>7,958</b>
YoY Change (%)	434	-99	-627	188	251	-	791	201	194	381

E: MOST Estimates; \* Does not include results of Narmada Cements

<http://deadpresident.blogspot.com> Engineering

BSE Sensex: 12,455

S&amp;P CNX: 3,634

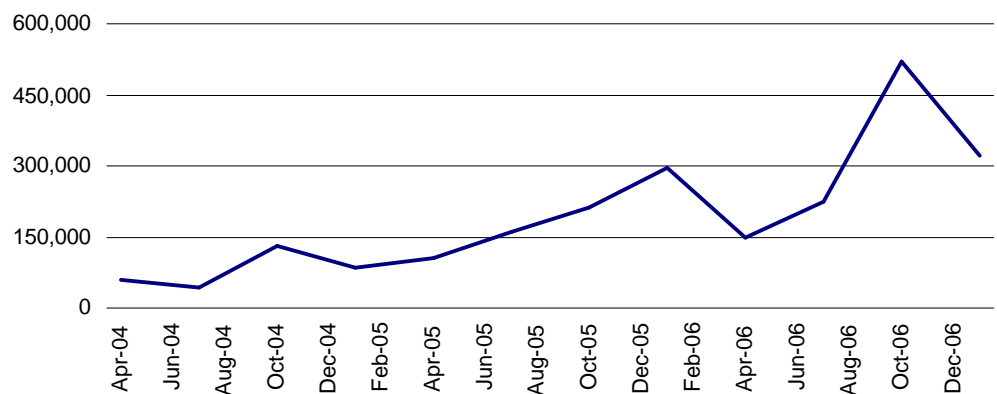
2 April 2007

COMPANY NAME	PG.
ABB	104
Alstom Projects	105
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Cummins India	109
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Siemens	111
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### Strong industrial capex

The outlook for the capital goods sector is encouraging with a strong industrial capex. Since January 2005, there has been a sustained increase in actual and intended investments in the corporate capex, fuelled by a buoyant growth in domestic and industrial demand. The 48th CMIE capex survey indicated that 1,406 new projects were announced during the quarter ended January 2007, involving an investment of Rs321b. Excluding construction segment (SEZ projects), the number stands at Rs266b as against Rs263b during quarter ended January 2006 and Rs365b during quarter ended October 2006. The growth is primarily driven by key sectors like hydro-carbons where upstream and mid-stream oil companies are making large investments. Further, various companies in the commodities, mining and electricity segments have announced massive capex plans.

TREND IN QUARTERLY FRESH CAPEX



Source: CMIE

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Engineering</b>							
ABB	Neutral	10,036	25.0	928	33.7	650	26.8
Alstom Projects	Neutral	2,746	9.9	222	23.8	207	0.2
Bharat Electronics	Buy	19,811	25.7	5,261	26.0	3,181	13.2
BHEL	Buy	70,328	27.5	15,477	29.5	11,005	26.8
Crompton Greaves	Buy	10,452	30.9	1,199	59.4	662	-11.6
Cummins India	Neutral	4,939	27.4	700	20.0	623	15.2
Larsen & Toubro	Buy	61,085	33.0	6,742	6.9	4,520	-1.4
Siemens	Neutral	18,241	60.9	1,950	60.7	1,632	38.5
Thermax	Buy	6,397	34.3	1,084	52.9	695	62.8
<b>Sector Aggregate</b>		<b>204,035</b>	<b>31.3</b>	<b>33,564</b>	<b>26.4</b>	<b>23,176</b>	<b>17.7</b>

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INDUSTRIAL PROJECTS INVESTMENTS (RS B)

	FY02-FY06	FY07-FY11	% INCREASE
Oil and Gas	1,203	2,364	96
Automobiles	274	417	52
Textiles	253	904	257
Steel	148	2,016	1,265
Cement	84	348	312
Petrochem	42	209	394
Aluminium	21	556	2,535
Others	84	139	65
<b>Total</b>	<b>2,111</b>	<b>6,953</b>	<b>229</b>

Source: CMIE

### Budget impact: Neutral, underlying momentum strong

The underlying momentum remained strong in Union budget 2007-08 as depicted by increased allocation to schemes like Accelerated Power Development and Reforms Programme (APDRP), Rajiv Gandhi Gram Vidyutikaran Yojana, etc.

The budget 2007-08 provides significant impetus to the pace of capacity addition in the power sector through accelerated reforms and new initiatives like award of coal blocks, merchant power capacity, etc, which is positive for engineering companies. The government is also working on seven more ultra mega power projects, of which two are likely to be awarded before July 2007. The focus towards strengthening transmission and distribution network too has been among the top priorities of the government. In the budget, the government has extended the APDRP scheme beyond FY07. The budgetary allocation towards APDRP scheme too was increased from Rs6.5b in FY07 to Rs8b for FY08 and the coverage was extended to district headquarters and towns with a population of more than 50,000. The government is also encouraging building up renewable portfolio and has retained the accelerated depreciation benefits for wind energy.

Besides this, the budgetary allocation for the defense sector has been increased in FY08 to Rs960b, which includes Rs420b for capital expenditure, as against Rs890b (including Rs375b for capital expenditure) during FY07. **We believe the higher allocation and increased thrust towards mega projects would be key growth drivers for the capital goods sector.**

### Strong order book position

Increasing investments in the manufacturing sector, thrust on accelerated infrastructure development, and continuation of power reforms are the key domestic demand drivers for the capital goods sector. The order intake in FY07 continued to be strong on back of the rising spend in infrastructure and industrial sectors. Most of the companies in the capital goods segment have a robust order backlog. Companies like Siemens, ABB, Thermax, BHEL and L&T witnessed robust growth in order backlog during 3QFY07.

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ORDER BACKLOG (RS B AND % YOY)

	DEC-05	DEC-06	% GR. YOY	SEP-05	SEP-06	% GR. YOY
Siemens	70.6	110.4	56	38.1	75.3	98
ABB	21.0	33.7	60	20.8	35.6	71
Thermax	15.1	19.8	31	12.3	25.0	103
L&T (E&C Div)	229.2	341.4	49	193.0	292.7	52
Crompton Greaves	21.2	15.0	41	18.0	15.0	20
BHEL	338.0	467.0	38	322.0	457.0	42

Source: Motilal Oswal Securities

The exports market has also started opening up with large opportunities emerging in the Middle East and Africa for home grown players (viz. BHEL, L&T and Thermax), and with some MNCs (viz. ABB, Cummins, Siemens) being developed as exclusive sourcing bases for their parents' global / regional requirements. Since most of the MNCs have already set up R&D centers in India, the outsourcing opportunity seems to be a sustainable trend. At the same time, the capital goods manufacturers themselves have firmed up robust capex plans to expand capacities in order to meet the growing demand.

We remain positive on the order-booking trend in FY08, which would translate into robust topline growth. The following factors will drive the demand growth in the sector:

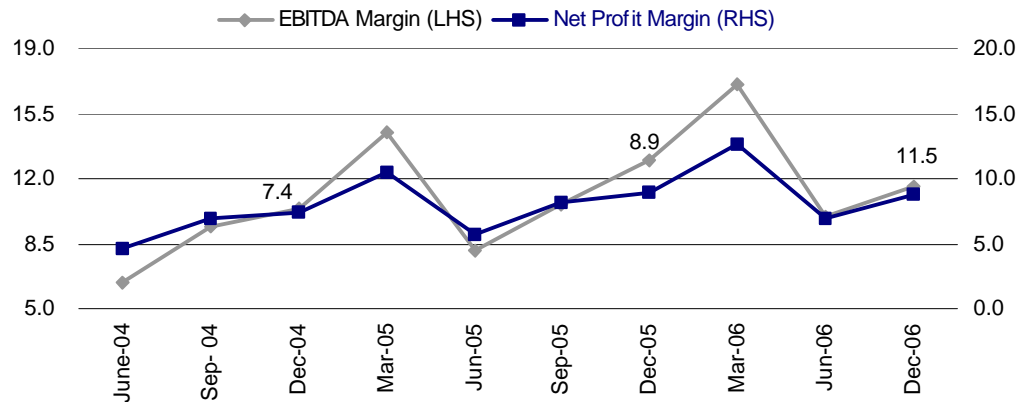
- ✍ **Capacity expansion:** With the growth in the economy, all industry players are operating at close to or above optimum capacity utilization, thus requiring fresh investments.
- ✍ **Strong commodity prices:** Higher profitability and increasing cash flows will lead to players going in for major capex programs.
- ✍ **Fast growing exports:** India's cost efficiency and innovative skills will fuel exports to the developed nations (often to global parent).
- ✍ **Infrastructure spending:** Government spending on infrastructure development is having a multiplier effect on the economy and attracting public and private investments.
- ✍ **Investments in hydrocarbon sector:** Surge in investments in hydrocarbons has emerged as a big demand generator for the capital goods sector.
- ✍ **Power sector reforms:** Given the deficit scenario, the power sector is expected to witness accelerated pace of capacity addition. Efforts to improve transmission network and curtail distribution losses would drive investment in the sector.

### EBITDA margin shows an increasing trend

The capital goods companies witnessed severe pressure on margins during FY03-04, due to spiraling raw material prices, fixed priced long-term agreements, strong competitive pressures, and low-margin export orders. However, favorable demand-supply scenario, long-term supply contracts for raw materials, flexible priced work contracts, implementation of cost-cutting programs like Six Sigma, Turbokeizen etc. enabling effective material handling, rationalization of processes etc have enabled these companies to expand margins.

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TREND IN EBITDA AND PAT MARGINS



Source: Motilal Oswal Securities

With the demand picking up, companies have been able to take some price hikes and incorporate price escalation clauses into new contracts. Companies have also reported an improvement in margins in 3QFY07, despite the recent increase in non-ferrous metal and steel prices, because of in-built price variation clauses for most orders (especially from SEBs/ utilities), operational efficiencies, economies of scale, better sourcing and enrichment in product mix.

### **We remain positive on the sector**

We remain positive on the capital goods sector. Earnings visibility, based on the current order book-to-bill ratio, is high for most of these companies. They will now have to focus on efficient execution and timely delivery.

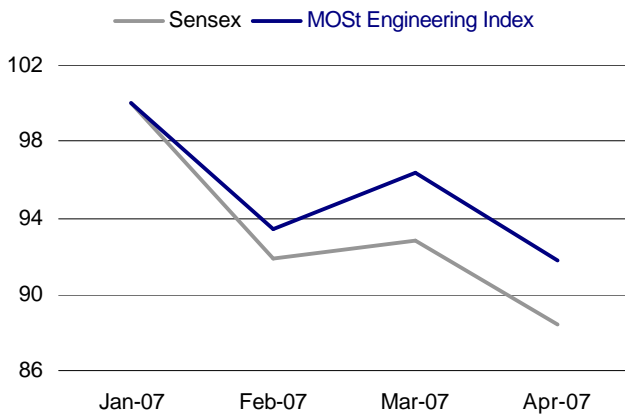
<http://deadpresident.blogspot.com>

## Stock performance and valuations

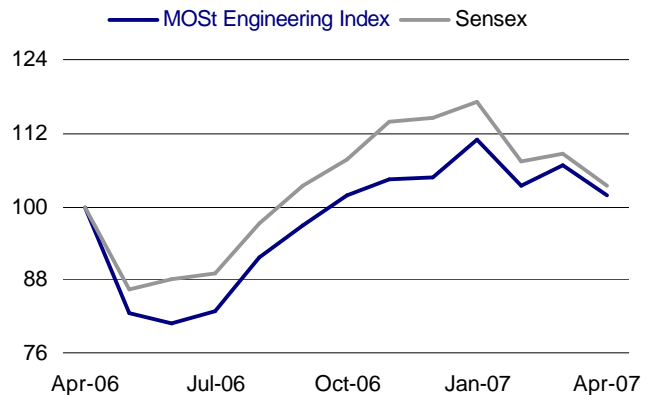
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Engineering</b>						
ABB	-8	11	2	3	-5	7
Alstom Projects	-18	-2	-8	-9	-14	-6
Bharat Electron	7	8	18	0	11	4
BHEL	-6	-6	4	-14	-3	-11
Crompton Greaves	-12	21	-2	13	-8	17
Cummins India	-9	3	1	-5	-6	-2
Larsen & Toubro	5	22	15	15	8	18
Siemens	-10	-15	1	-22	-6	-19
Thermax	-6	17	5	9	-2	13

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	2.4.07													
<b>Engineering</b>														
ABB**	3,399	Neutral	80.3	110.7	135.0	42.3	30.7	25.2	28.5	19.4	15.2	32.6	33.9	31.3
Alstom Projects	371	Neutral	14.0	16.2	19.0	26.5	23.0	19.5	23.6	20.0	16.1	28.9	28.9	29.0
Bharat Electronics	1,456	Buy	84.4	103.2	123.4	17.3	14.1	11.8	8.6	6.7	5.3	26.4	25.8	24.7
BHEL	2,154	Buy	96.6	118.3	141.2	22.3	18.2	15.3	13.2	10.6	8.6	28.6	27.8	26.6
Crompton Greaves	191	Buy	7.7	9.7	11.9	24.8	19.6	16.1	20.6	15.9	13.0	32.2	32.7	45.8
Cummins India	256	Neutral	12.0	14.6	17.4	21.4	17.5	14.7	-1.5	-1.4	-1.3	26.0	27.5	27.7
Larsen & Toubro	1,525	Buy	57.7	71.3	88.2	26.4	21.4	17.3	25.1	20.3	16.9	22.3	22.9	36.3
Siemens*	1,036	Neutral	33.8	47.8	60.3	30.7	21.7	17.2	19.6	14.7	12.7	45.9	50.2	47.7
Thermax	370	Buy	16.1	23.0	30.5	23.0	16.1	12.1	14.2	10.5	7.4	39.7	40.4	42.1
<b>Sector Aggregate</b>						<b>24.0</b>	<b>19.0</b>	<b>15.6</b>	<b>16.3</b>	<b>12.9</b>	<b>10.6</b>	<b>31.0</b>	<b>31.6</b>	<b>31.3</b>

\*\* Year end December, \* Year end September



<http://deadpresident.blogspot.com> **ABB**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ABB IN
	REUTERS CODE
S&P CNX: 3,634	ABB.BO
Equity Shares (m)	42.4
52-Week Range	4,000/1,920
1,6,12 Rel. Perf. (%)	-1/15/3
M.Cap. (Rs b)	144.0
M.Cap. (US\$ b)	3.3

2 April 2007

**Neutral***Previous Recommendation: Neutral***Rs3,399**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	42,740	3,403	80.3	55.6	42.3	12.1	32.6	49.7	3.2	28.5
12/07E	57,181	4,690	110.7	37.8	30.7	9.1	33.9	52.8	2.3	19.4
12/08E	70,899	5,723	135.0	22.0	25.2	6.9	31.3	48.7	1.8	15.2

*Pre-exceptionals*

- During 1QCY07, we expect revenue to grow 25% YoY to Rs10b, EBITDA by 33.7% YoY to Rs928m and net profit by 26.8% YoY to Rs650m. ABB reported strong CY06 performance: revenue grew 44.2% to Rs42.7b, EBITDA grew 50% to Rs4.8b and net profit was up 55.6% to Rs3.4b.
- The order backlog as of December 2006 was up 60% YoY at Rs33.7b and order intake was Rs14.2b in 4QCY06. The order intake for CY06 increased to 56.3b v/s Rs37.6b in CY05, a jump of ~50%.
- We expect trend in order intake to be buoyant during CY07 too with significant orders from power utilities (for rural electrification and substation projects and for distribution products and solutions), industrial customers (turnkey orders for automation solutions) and for standard products.
- EBITDA margin for the company improved 42bp YoY during CY06. We believe the sustained momentum in order intake, rapid conversion of the existing strong order backlog and increased share of high margin standard products and services should lead to further margin expansion for the company.
- ABB India is focused on its Indian operations and has announced capacity and range expansion program, wherein it will establish a new low voltage distribution electricals unit in Haridwar and a vacuum interrupter plant in Nashik.
- We believe ABB's rich valuations already discount its buoyant growth prospects. It trades at 42.3x CY06, 30.7x CY07E and 25.2x CY08E earnings. We remain **Neutral** on the stock.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Sales</b>	<b>8,029</b>	<b>9,742</b>	<b>10,706</b>	<b>14,263</b>	<b>10,036</b>	<b>12,665</b>	<b>14,453</b>	<b>20,027</b>	<b>42,740</b>	<b>57,181</b>
Change (%)	32.1	47.9	50.6	44.7	25.0	30.0	35.0	40.4	44.2	33.8
<b>EBITDA</b>	<b>695</b>	<b>1,020</b>	<b>1,106</b>	<b>1,947</b>	<b>928</b>	<b>1,361</b>	<b>1,518</b>	<b>3,034</b>	<b>4,767</b>	<b>6,841</b>
Change (%)	87.1	68.8	35.7	39.9	33.7	33.5	37.2	55.8	49.8	43.5
As % of Sales	8.7	10.5	10.3	13.6	9.3	10.8	10.5	15.1	11.2	12.0
Depreciation	62	65	66	71	70	75	80	87	265	312
Interest	2	2	2	1	2	3	3	2	7	10
Other Income	180	153	230	174	160	180	220	250	737	810
<b>PBT</b>	<b>810</b>	<b>1,106</b>	<b>1,267</b>	<b>2,049</b>	<b>1,016</b>	<b>1,463</b>	<b>1,655</b>	<b>3,194</b>	<b>5,232</b>	<b>7,329</b>
Tax	297	387	446	699	366	527	571	1,175	1,829	2,638
Effective Tax Rate (%)	36.7	35.0	35.2	34.1	36.0	36.0	34.5	36.8	35.0	36.0
<b>Reputed PAT</b>	<b>513</b>	<b>719</b>	<b>821</b>	<b>1,350</b>	<b>650</b>	<b>937</b>	<b>1,084</b>	<b>2,020</b>	<b>3,403</b>	<b>4,690</b>
<b>Adj. PAT</b>	<b>513</b>	<b>719</b>	<b>821</b>	<b>1,350</b>	<b>650</b>	<b>937</b>	<b>1,084</b>	<b>2,020</b>	<b>3,403</b>	<b>4,690</b>
Change (%)	86.5	64.9	55.1	42.6	26.8	30.3	31.9	49.7	55.6	37.8

E: MOST Estimates

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<http://deadpresident.blogspot.com> Alstom Projects

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ABBAP IN
	REUTERS CODE
S&P CNX: 3,634	ABBP.BO
Equity Shares (m)	67.0
52-Week Range	515/180
1,6,12 Rel. Perf. (%)	-14/4/-9
M.Cap. (Rs b)	24.9
M.Cap. (US\$ b)	0.6

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs371

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	10,637	939	14.0	99.6	26.5	7.1	28.9	35.2	1.9	23.6
3/08E	12,531	1,084	16.2	15.4	23.0	6.2	28.9	34.0	1.6	20.0
3/09E	14,916	1,274	19.0	17.6	19.5	5.2	29.0	34.6	1.4	16.1

\* Pre-exceptionals; Consolidated Numbers

- During 4QFY07, we expect revenue to grow 9.9% YoY to Rs2.8b, EBITDA to grow 24% YoY to Rs222m and the net profit to remain flat at Rs207m. The growth in net profit is slower on account of lower revenue growth and lesser other income.
- The company has launched a global engineering centre in Kolkata to support Alstom's global environment control systems business which specializes in air quality control systems for power generation and the industrial process market. The unit will primarily cater to the company's international projects in the US and Europe and will derive 70% of its total work from the same.
- The current order backlog of the company stands at Rs21b. It received orders worth Rs7.5b for URI Stage-II, Chamera Stage-III and Chuzachen. The orders for URI Stage-II (4 x 60 MW) and Chamera (3 x 77MW) are awarded by NHPC while order for Chuzachen (2 x 55 MW) was awarded by Gati Infrastructure. The hydro power segment contributes Rs10b to its current order book.
- The transport division is also poised for buoyant order intake with the Railways increasing focus on safety measures and also due to plans by various states to set up metros in cities.
- At CMP of Rs371, the stock trades at a P/E of 26.5x FY07E, 23x FY08E and 19.5x FY08E. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06*	FY07E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>1,795</b>	<b>2,262</b>	<b>2,900</b>	<b>2,499</b>	<b>2,237</b>	<b>2,677</b>	<b>2,977</b>	<b>2,746</b>	<b>9,456</b>	<b>10,637</b>
Change (%)	41.4	19.1	53.4	-22.6	24.6	18.3	2.7	9.9	14.1	12.5
<b>EBITDA</b>	<b>41</b>	<b>116</b>	<b>101</b>	<b>179</b>	<b>90</b>	<b>322</b>	<b>242</b>	<b>222</b>	<b>452</b>	<b>876</b>
Change (%)	-35.9	118.9	13.5	19.3	119.5	177.6	139.6	23.8	26.7	93.6
As of % Sales	2.3	5.1	3.5	7.2	4.0	12.0	8.1	8.1	4.8	8.2
Depreciation	33	35	36	37	34	36	40	39	154	149
Interest	0	1	0	1	0	1	1	0	2	2
Other Income	67	51	30	92	68	102	169	41	247	380
Extra-ordinary income	0	0	0	9	0	0	0	0	9	0
<b>PBT</b>	<b>75</b>	<b>131</b>	<b>95</b>	<b>242</b>	<b>124</b>	<b>387</b>	<b>370</b>	<b>224</b>	<b>553</b>	<b>1,105</b>
Tax	8	16	20	27	8	74	67	17	73	166
Effective Tax Rate (%)	10.7	12.2	21.1	11.2	6.5	19.1	18.1	7.5	13.3	15.0
<b>Reported PAT</b>	<b>67</b>	<b>115</b>	<b>75</b>	<b>215</b>	<b>116</b>	<b>313</b>	<b>303</b>	<b>207</b>	<b>479</b>	<b>939</b>
<b>Adj PAT</b>	<b>67</b>	<b>115</b>	<b>75</b>	<b>207</b>	<b>116</b>	<b>313</b>	<b>303</b>	<b>207</b>	<b>472</b>	<b>939</b>
Change (%)	19.3	82.5	10.3	18.3	73.1	172.2	304.0	0.2	34.6	99.1

E: MOST Estimates; \* Full year nos are consolidated

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<http://deadpresident.blogspot.com> Bharat Electronics

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BHE IN
	REUTERS CODE
S&P CNX: 3,634	BAJE.BO
Equity Shares (m)	80.0
52-Week Range	1,794/815
1,6,12 Rel. Perf. (%)	1/26/0
M.Cap. (Rs b)	116.5
M.Cap. (US\$ b)	2.7

2 April 2007

Buy

Rs1,456

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	41,623	6,749	84.4	15.8	17.3	4.6	19.9	31.4	2.2	8.6
3/08E	49,551	8,257	103.2	22.3	14.1	3.6	19.2	30.3	1.8	6.7
3/09E	59,461	9,873	123.4	19.6	11.8	2.9	18.2	28.6	1.3	5.3

- During 4QFY07, we expect Bharat Electronics to report revenues of Rs19.8b, up 25.7% YoY, EBITDA of Rs5.3b, up 26% YoY and net profit of Rs3.2b, up 13.2% YoY.
- The company announced provisional numbers for the year ended FY07, which are largely in line with our expectations. Revenue was up 12.7% YoY at Rs39.6b (expected Rs41.6b) and PBT was Rs10.4b, up 22% YoY (expected Rs10.2b).
- The company reported exports revenue of US\$11.6m and expects to ramp up the same to 10% of the revenue by FY08. Earlier, BEL had guided for revenue of Rs50b by FY08 and Rs100m by FY12.
- BEL and Lockheed Martin signed an MoU to explore business opportunities for co-production of domestic aerospace and defense electronics needs. This would also cover Lockheed Martin's export needs.
- The company signed another MoU with Elbit Systems Electro Optics ELOP Ltd, Israel, for setting up a joint venture company for development, production and marketing of Thermal Imaging Cameras and Forward Looking Infra Red (FLIRs) for the Indian and global markets.
- It also signed an MoU with Northrop Grumman Corp to explore business opportunities for co-production in current and future aerospace and defense needs of India and international markets of Northrop Grumman's.
- Though these are currently enabling MoUs, we believe the company would be able to leverage its competitive positioning with the JV partners over a longer period due to the offset clause.
- We expect the company to post earnings CAGR of 19% from FY06-09E. At CMP of Rs1,456, the stock quotes at a P/E of 17.3x FY07E, 14.1x FY08E and 11.8x FY09E. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>4,791</b>	<b>8,288</b>	<b>6,772</b>	<b>15,757</b>	<b>4,831</b>	<b>8,343</b>	<b>8,638</b>	<b>19,811</b>	<b>35,608</b>	<b>41,623</b>
Change (%)	-22.4	2.2	2.3	39.0	0.8	0.7	27.5	25.7	11.4	16.9
<b>EBITDA</b>	<b>751</b>	<b>2,053</b>	<b>1,447</b>	<b>4,174</b>	<b>721</b>	<b>1,865</b>	<b>1,976</b>	<b>5,261</b>	<b>8,424</b>	<b>9,824</b>
Change (%)	-4.5	9.2	15.9	53.7	-4.0	-9.1	36.6	26.0	21.1	16.6
As of % Sales	15.7	24.8	21.4	26.5	14.9	22.4	22.9	26.6	23.7	23.6
Depreciation	193	176	181	228	208	198	205	235	778	846
Interest	4	6	13	250	3	1	2	162	273	167
Other Income	298	240	217	353	384	508	407	100	1,108	1,400
<b>PBT</b>	<b>852</b>	<b>2,111</b>	<b>1,470</b>	<b>4,049</b>	<b>894</b>	<b>2,175</b>	<b>2,177</b>	<b>4,963</b>	<b>8,481</b>	<b>10,210</b>
Tax	286	644	499	1,239	291	692	696	1,782	2,669	3,461
Effective Tax Rate (%)	33.6	30.5	34.0	30.6	32.6	31.8	31.9	35.9	31.5	33.9
<b>Reported PAT</b>	<b>566</b>	<b>1,467</b>	<b>970</b>	<b>2,809</b>	<b>603</b>	<b>1,483</b>	<b>1,482</b>	<b>3,181</b>	<b>5,812</b>	<b>6,749</b>
Change (%)	-2.6	32.7	17.9	57.0	6.5	1.1	52.7	13.2	30.2	16.1
<b>Adj PAT</b>	<b>566</b>	<b>1,467</b>	<b>970</b>	<b>2,809</b>	<b>603</b>	<b>1,483</b>	<b>1,482</b>	<b>3,181</b>	<b>5,812</b>	<b>6,749</b>

E: MOST Estimates

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<http://deadpresident.blogspot.com> **BHEL**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BHEL IN
	REUTERS CODE
S&P CNX: 3,634	BHEL.BO
Equity Shares (m)	244.8
52-Week Range	2,668/1,531
1,6,12 Rel. Perf. (%)	6/-10/-14
M.Cap. (Rs b)	527.1
M.Cap. (US\$ b)	12.1

2 April 2007

Buy

Rs2,154

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	177,217	23,649	96.6	41.0	22.3	5.7	28.6	43.8	2.7	13.2
3/08E	212,028	28,965	118.3	22.5	18.2	4.5	27.8	41.7	2.2	10.6
3/09E	243,311	34,554	141.2	19.3	15.3	3.7	26.6	40.1	1.9	8.6

- During 4QFY07, we expect revenue to grow 27.5% YoY to Rs70.3b, EBITDA to grow 29.5% YoY to Rs15.5b and net profit to grow 26.8% YoY to Rs11b.
- BHEL's order backlog as at end of March 2007 was Rs540b (3x FY07 revenue), up 44% YoY, with order intake at Rs356.3b. The order intake from the power division stands at Rs127b.
- The recent orders received by BHEL are (1) Rs35b from Damodar Valley Corporation, (2) Rs39b from Maharashtra Genco for 1,500 MW power project and (3) Rs4b from NHPC for 520MW project.
- The company announced provisional numbers for the year ended FY07, which are largely in line with our expectation. The gross revenue for the company was up 37% YoY at Rs187b and profit after tax was Rs23.85b, up 42% YoY (expected Rs23.64b).
- The company has guided for a revenue of US\$10b by FY12 both through organic or inorganic route, a revenue CAGR of 19%.
- BHEL is also seeking opportunities in nuclear energy production and is in talks with global nuclear players like Alstom, GE Energy, and Siemens for possible tie-ups. The tie up is intended for 700MW and 1,000MW technology.
- At the CMP of Rs2,230, the stock trades at a P/E of 22.3x FY07E, 18.2x FY08E and 15.3x FY09E. **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>19,365</b>	<b>25,103</b>	<b>33,267</b>	<b>55,157</b>	<b>26,564</b>	<b>33,412</b>	<b>43,397</b>	<b>70,328</b>	<b>132,892</b>	<b>173,701</b>
Change (%)	65.4	45.2	45.5	23.5	37.2	33.1	30.5	27.5	40.0	30.7
<b>EBITDA</b>	<b>1,715</b>	<b>3,689</b>	<b>6,029</b>	<b>11,949</b>	<b>3,182</b>	<b>4,563</b>	<b>9,292</b>	<b>15,477</b>	<b>23,382</b>	<b>32,514</b>
Change (%)	332.0	66.0	70.8	37.0	85.5	23.7	54.1	29.5	65.4	39.1
As a % Sales	8.9	14.7	18.1	21.7	12.0	13.7	21.4	22.0	17.6	18.7
Depreciation	576	624	620	640	639	667	662	657	2,459	2,624
Interest	123	133	136	195	131	136	120	159	587	545
Other Income	931	1,057	1,187	2,133	1,201	1,699	1,855	2,284	5,308	7,038
<b>PBT</b>	<b>1,947</b>	<b>3,989</b>	<b>6,460</b>	<b>13,247</b>	<b>3,613</b>	<b>5,460</b>	<b>10,365</b>	<b>16,945</b>	<b>25,644</b>	<b>36,383</b>
Tax	668	1,388	2,229	4,567	1,246	1,860	3,688	5,940	8,852	12,734
Effective Tax Rate (%)	34.3	34.8	34.5	34.5	34.5	34.1	35.6	35.1	34.5	35.0
<b>Reported PAT</b>	<b>1,279</b>	<b>2,602</b>	<b>4,232</b>	<b>8,680</b>	<b>2,367</b>	<b>3,600</b>	<b>6,677</b>	<b>11,005</b>	<b>16,792</b>	<b>23,649</b>
Change (%)	444.3	64.4	78.3	48.5	85.1	38.4	57.8	26.8	76.1	40.8
<b>Adj. PAT</b>	<b>1,279</b>	<b>2,602</b>	<b>4,232</b>	<b>8,680</b>	<b>2,367</b>	<b>3,600</b>	<b>6,677</b>	<b>11,005</b>	<b>16,792</b>	<b>23,649</b>
Change (%)	266.8	64.4	78.3	48.5	85.1	38.4	57.8	26.8	74.1	40.8

E: MSt Estimates; Other Income includes Operational Other Income

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<http://deadpresident.blogspot.com>  
Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CRG IN
	REUTERS CODE
S&P CNX: 3,634	CROM.BO
Equity Shares (m)	366.6
52-Week Range	234/103
1,6,12 Rel. Perf. (%)	-1/10/13
M.Cap. (Rs b)	69.9
M.Cap. (US\$ b)	1.6

2 April 2007

Buy

Previous Recommendation: Buy

Rs191

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	34,229	2,817	7.7	-13.3	24.8	10.7	32.2	39.1	2.1	20.6
3/08E	43,056	3,574	9.7	26.9	19.6	8.4	32.7	41.3	1.7	15.9
3/09E	51,092	4,346	11.9	21.6	16.1	6.5	31.7	42.1	1.4	13.0

\* Consolidated; pre-exceptionals

- During 4QFY07, we expect Crompton to report standalone revenue of Rs10.5b, up 30.9% YoY, EBITDA of Rs1.2b, up 59.4% YoY, and net profit of Rs662m.
- As of December 2006, unexecuted order book of Crompton (standalone) stood at Rs21.2b, up 41% YoY, and the consolidated order book stood at Rs24.2b (Pauwels order book of Euro 416m).
- During 3QFY07, Pauwels reported revenues of Euro108m and PBT of Euro4.3m while Genz reported revenue of Euro4.7m and loss at PBT level of Euro4.1m.
- The management has indicated a capex of Rs1.7b in FY07 on a consolidated basis. A significant part of this capex is intended towards the 765KV transformer factory at Manideep, to be commissioned by FY07 (Rs1b). The capacity in power transmission is being expanded to 25,000MVA from the current 19,000MVA and in power distribution to 3,000MVA from 2,000MVA. Pauwels would incur a capex of Rs700m.
- It acquired the transformer, gas insulated switchgear, rotating machine and contracting businesses of Ganz Transelektro Villamossagi Zrt and the design, erection and commissioning unit of Transverticum Kft, both based in Hungary at an EV of Euro35m. The management has guided for revenue of Euro70m for CY07 (revenue of Euro35m during CY05). The revenue potential at 100% capacity utilization would be Euro100m. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>5,198</b>	<b>5,546</b>	<b>6,479</b>	<b>7,983</b>	<b>7,406</b>	<b>8,240</b>	<b>8,130</b>	<b>10,452</b>	<b>25,206</b>	<b>34,229</b>
Change (%)	22.8	22.4	37.3	27.8	42.5	48.6	25.5	30.9	27.8	35.8
<b>EBITDA</b>	<b>455</b>	<b>529</b>	<b>590</b>	<b>752</b>	<b>722</b>	<b>736</b>	<b>818</b>	<b>1,199</b>	<b>2,326</b>	<b>3,474</b>
Change (%)	61.1	34.0	25.0	54.8	58.7	39.1	38.5	59.4	42.3	49.3
As of % Sales	8.7	9.5	10.9	11.8	9.7	8.9	10.1	11.5	10.4	10.1
Depreciation	105	104	104	129	100	81	100	121	442	401
Interest	75	59	66	64	53	72	78	84	264	287
Other Income	77	65	66	119	49	94	72	90	327	306
<b>PBT</b>	<b>352</b>	<b>431</b>	<b>487</b>	<b>679</b>	<b>618</b>	<b>677</b>	<b>713</b>	<b>1,084</b>	<b>1,948</b>	<b>3,092</b>
Tax	39	106	55	118	254	270	258	423	318	1,206
Effective Tax Rate (%)	11.1	24.6	11.2	17.3	41.1	39.9	36.3	39.0	16.3	39.0
<b>Reported PAT</b>	<b>313</b>	<b>325</b>	<b>432</b>	<b>561</b>	<b>364</b>	<b>407</b>	<b>454</b>	<b>662</b>	<b>1,631</b>	<b>1,886</b>
<b>Adj PAT</b>	<b>313</b>	<b>325</b>	<b>548</b>	<b>748</b>	<b>364</b>	<b>387</b>	<b>454</b>	<b>662</b>	<b>1,934</b>	<b>1,886</b>
Change (%)	78.3	30.4	73.3	82.0	16.4	18.9	-17.0	-11.6	38.1	-2.5

E: MOSt Estimates



<http://deadpresident.blogspot.com> Cummins India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	KKC IN
	REUTERS CODE
S&P CNX: 3,634	CUMM.BO
Equity Shares (m)	198.0
52-Week Range	306/143
1,6,12 Rel. Perf. (%)	5/11/-5
M.Cap. (Rs b)	50.6
M.Cap. (US\$ b)	1.2

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs256

YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	21,852	2,368	12.0	28.9	21.4	5.2	26.0	38.2	2.1	13.6
3/08E	26,461	2,896	14.6	22.3	17.5	4.5	27.5	41.0	1.7	10.8
3/09E	31,503	3,439	17.4	18.8	14.7	3.7	27.7	41.3	1.4	8.7

\* Consolidated

- During 4QFY07, we expect revenue growth of 27.4% YoY to Rs5b, EBITDA growth of 20% YoY to Rs700m and net profit growth of 15.2% YoY to Rs623m.
- While the domestic sales are expected to grow ~13-15% on back of a strong demand for stand-by gensets from the services sector, the exports are expected to grow by ~20%. The progress on new product launches is as per schedule and these products are expected to contribute 15-20% to FY07 revenue.
- The EBITDA margin for the company is expected to improve to 15% in FY07 from 14% in FY06, because of better working capital management, improvement in supply-chain management, ERP upgradation, higher level of indigenization in certain categories of products and better product mix.
- Cummins Diesel Sales and Services (FY06 revenue Rs4.6b), a 100% subsidiary of Cummins India, is expected to continue growing at 10-11% pa.
- The Rs150m facility being set up near Pune, to assemble HP engines and generator sets will be fully operational by September-October 2007. The other capex plans of the company amount to Rs200-250m for FY08.
- The board has approved the acquisition of High Pressure Common Rail Technology from Cummins Inc, USA for a consideration of US\$3.6m. This technology will make the company's K-38 and K-50 models of engines emission compliant for the export market post 2007.
- At the CMP of Rs256, the stock trades at 21.4x FY07E, 17.5x FY08E and 14.7x FY09E consolidated earnings. We remain **Neutral** on the stock.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>3,280</b>	<b>3,573</b>	<b>3,898</b>	<b>3,877</b>	<b>3,914</b>	<b>4,674</b>	<b>4,770</b>	<b>4,939</b>	<b>14,628</b>	<b>18,297</b>
Change (%)	16.5	20.4	31.3	22.4	19.3	30.8	22.4	27.4	22.7	25.1
<b>EBITDA</b>	<b>439</b>	<b>422</b>	<b>587</b>	<b>583</b>	<b>619</b>	<b>786</b>	<b>719</b>	<b>700</b>	<b>2,032</b>	<b>2,823</b>
Change (%)	15.3	24.3	123.1	25.7	41.0	86.2	22.3	20.0	40.4	38.9
As of % Sales	13.4	11.8	15.1	15.0	15.8	16.8	15.1	14.2	13.9	15.4
Depreciation	83	83	88	82	81	94	77	99	336	352
Interest	2	2	1	5	0	0	2	9	9	12
Other Income	161	216	198	197	163	195	260	333	772	950
<b>PBT</b>	<b>516</b>	<b>553</b>	<b>696</b>	<b>694</b>	<b>700</b>	<b>886</b>	<b>899</b>	<b>924</b>	<b>2,459</b>	<b>3,410</b>
Tax	162	175	212	153	192	259	270	301	702	1,023
Effective Tax Rate (%)	31.4	31.7	30.4	22.0	27.4	29.2	30.1	32.6	28.5	30.0
<b>Reported PAT</b>	<b>354</b>	<b>378</b>	<b>485</b>	<b>541</b>	<b>508</b>	<b>627</b>	<b>629</b>	<b>623</b>	<b>1,757</b>	<b>2,387</b>
<b>Adj PAT</b>	<b>354</b>	<b>421</b>	<b>485</b>	<b>541</b>	<b>508</b>	<b>627</b>	<b>629</b>	<b>623</b>	<b>1,801</b>	<b>2,387</b>
Change (%)	18.2	42.6	47.5	16.6	43.6	48.8	29.7	15.2	29.7	32.5

E: MOST Estimates

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<http://deadpresident.blogspot.com> Larsen & Toubro

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	LT IN
	REUTERS CODE
S&P CNX: 3,634	LART.BO
Equity Shares (m)	286.8
52-Week Range	1,778/903
1,6,12 Rel. Perf. (%)	7/21/15
M.Cap. (Rs b)	437.3
M.Cap. (US\$ b)	10.1

2 April 2007

Buy

Previous Recommendation: Buy

Rs1,525

YEAR END	NET SALES (RS M)	PAT * (RS M)	EPS* (RS)	EPS GR. (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	176,224	16,552	57.7	58.7	26.4	7.6	22.3	26.4	2.5	25.1
3/08E	214,798	20,434	71.3	23.5	21.4	6.7	22.9	26.8	2.1	20.3
3/09E	257,608	25,291	88.2	23.8	17.3	5.9	24.1	26.7	1.7	16.9

\* Consolidated; EPS is fully diluted

- During 4QFY07, we expect revenue of Rs61.1b, up 33% YoY, EBITDA of Rs6.7b, up 6.9% YoY, and net profit of Rs4.5b.
- L&T received big ticket size orders in the recent past which include: 1) Rs54b order from consortium led by GMR group for modernization of Delhi International airport. It involves design and construction of a passenger terminal, runway, cargo terminal, aircraft maintenance facility, etc 2) Rs3.8b order from Chinese petrochemical company Sinopec and 3) Rs1.4b order from Rashtriya Ispat Nigam Limited
- L&T's order backlog at end of December 2006 stood at Rs357b, 52% higher YoY. The order book to bill ratio for the company has improved from 1.5x as of March 2006 to around 2x as of December 2006 (FY07E revenues).
- L&T Infotech too has been on the growth trajectory. The subsidiary has signed a definitive agreement to acquire GDA Technologies and all of its design centers in the US and India.
- Recently, L&T acquired 61% stake in International Seaport Dredging. L&T formed a JV with SapuraCrest Petroleum Berhad to build, own, and operate derrick cum pipe laying barge valued at US\$100m. L&T also signed a JV with Kuwait-based Bader Al Mulla group.
- At CMP of Rs1,525, the stock trades at a P/E of 26.4x FY07E, 21.4x FY08E and 17.3x FY09E. Adjusted for the value of UltraTech Cement and L&T IDPL, the stock trades at a P/E of 25x FY07E, 20.2x FY08 and 16.3x FY09. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>31,111</b>	<b>33,457</b>	<b>36,664</b>	<b>45,943</b>	<b>34,689</b>	<b>37,361</b>	<b>41,184</b>	<b>61,085</b>	<b>146,529</b>	<b>174,319</b>
Change (%)	15.9	12.0	12.2	7.1	11.5	11.7	12.3	33.0	12.5	19.0
<b>EBITDA</b>	<b>1,758</b>	<b>1,407</b>	<b>3,182</b>	<b>6,304</b>	<b>2,698</b>	<b>3,062</b>	<b>5,185</b>	<b>6,742</b>	<b>12,653</b>	<b>17,688</b>
Change (%)	38.9	15.5	81.4	45.5	53.5	117.6	63.0	6.9	46.4	64.8
As of % Sales	5.5	7.9	8.3	13.2	9.2	8.9	11.8	10.9	8.3	9.9
Depreciation	294	260	266	324	309	336	357	365	1,145	1,367
Interest	98	147	225	281	158	106	12	370	751	646
Other Income	227	1,309	206	638	216	437	350	779	2,379	1,782
Gains from Divestures	382	0	235	81	0	0	0	0	698	0
<b>Reported PBT</b>	<b>1,975</b>	<b>2,308</b>	<b>3,131</b>	<b>6,418</b>	<b>2,448</b>	<b>3,057</b>	<b>5,166</b>	<b>6,787</b>	<b>13,834</b>	<b>17,458</b>
Tax	545	878	557	1,752	877	1,046	1,727	2,266	3,713	5,923
Effective Tax Rate (%)	27.6	38.0	17.8	27.3	35.8	34.2	33.4	33.4	26.8	33.9
<b>Reported Profit</b>	<b>1,430</b>	<b>1,431</b>	<b>2,593</b>	<b>4,666</b>	<b>1,571</b>	<b>2,011</b>	<b>3,440</b>	<b>4,520</b>	<b>10,121</b>	<b>11,535</b>
<b>Adjusted PAT</b>	<b>971</b>	<b>1,197</b>	<b>1,878</b>	<b>4,585</b>	<b>1,571</b>	<b>1,831</b>	<b>3,440</b>	<b>4,520</b>	<b>8,702</b>	<b>11,535</b>
Change (%)	21.1	58.0	41.9	37.4	61.9	53.0	83.1	-1.4	39.9	32.5

E: MOSt Estimates

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<http://deadpresident.blogspot.com> **Siemens**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SIEM IN
	REUTERS CODE
S&P CNX: 3,634	SIEM.BO
Equity Shares (m)	165.7
52-Week Range	1,408/741
1,6,12 Rel. Perf. (%)	-2/-3/-22
M.Cap. (Rs b)	171.7
M.Cap. (US\$ b)	3.9

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs1,036

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
9/06A	60,586	3,974	23.6	29.7	43.9	16.1	42.6	62.8	2.7	25.8
9/07E	84,448	5,696	33.8	43.3	30.7	12.5	45.9	67.0	2.1	19.9
9/08E	119,685	8,063	47.8	41.5	21.7	9.6	50.2	73.0	1.5	14.9

Consolidated

- Siemens reported healthy numbers for the year ended September 2006. The revenue for the company grew 62% YoY while net profit was up 43.8% YoY to Rs3.7b. It had an unexecuted order book of Rs75.3b as of December, 2006.
- During 2QFY07, we expect it to report revenue of Rs18.2b, up 60.9% YoY, EBITDA of Rs2b, and net profit of Rs1.6m, up 38.5% YoY.
- Siemens has decided to divest its 100% stake in Siemens Public Communication Networks (SPCNL) to its JV partner Nokia Siemens Networks India. The decision is on back of Siemens AG's plans to merge Nokia and Siemens' network and carrier operations for fixed and mobile networks worldwide.
- The move is favorable to Siemens as the dismal performance of both its subsidiary SPCNL and SISL impacted its consolidated financial performance for FY06.
- Siemens and BHEL have signed an MOU for the supply and installation of steam turbines for 800MW power projects in India, involving supercritical steam conditions.
- Given its diversified exposure to the Indian manufacturing industry, power, transport, healthcare, communication and IT segments, we believe Siemens will report steady growth in the coming years. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E SEPTEMBER	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Total Revenues</b>	<b>8,601</b>	<b>11,334</b>	<b>10,465</b>	<b>14,997</b>	<b>16,331</b>	<b>18,241</b>	<b>16,748</b>	<b>21,590</b>	<b>45,397</b>	<b>72,910</b>
Change (%)	62.1	57.6	70.8	59.2	89.9	60.9	60.0	44.0	61.9	60.6
<b>EBITDA</b>	<b>791</b>	<b>1,214</b>	<b>792</b>	<b>1,244</b>	<b>1,234</b>	<b>1,950</b>	<b>1,094</b>	<b>2,012</b>	<b>4,041</b>	<b>6,291</b>
Change (%)	76.1	34.8	44.1	34.3	56.1	60.7	38.0	61.7	43.0	57.1
As % of Revenues	9.2	10.7	7.6	8.3	7.6	10.7	6.5	9.3	8.9	8.6
Depreciation	150	81	90	122	103	120	140	175	442	537
Interest Income	54	79	117	116	126	65	95	79	367	0
Other Income	9	419	24	637	152	470	80	758	1,089	1,824
<b>PBT</b>	<b>705</b>	<b>1,630</b>	<b>844</b>	<b>1,875</b>	<b>1,409</b>	<b>2,365</b>	<b>1,129</b>	<b>2,674</b>	<b>5,055</b>	<b>7,578</b>
Tax	215	452	279	508	426	733	339	844	1,454	2,342
Effective Tax Rate (%)	30.5	27.7	33.1	27.1	30.2	31.0	30.0	31.6	28.8	30.9
<b>Reported PAT</b>	<b>490</b>	<b>1,178</b>	<b>565</b>	<b>1,367</b>	<b>984</b>	<b>1,632</b>	<b>790</b>	<b>1,830</b>	<b>3,601</b>	<b>5,237</b>
<b>Adjusted PAT</b>	<b>551</b>	<b>1,178</b>	<b>565</b>	<b>1,367</b>	<b>984</b>	<b>1,632</b>	<b>790</b>	<b>1,830</b>	<b>3,662</b>	<b>5,237</b>
Change (%)	75.7	48.4	42.9	30.9	78.4	38.5	39.8	33.8	43.8	43.0

E: MOST Estimates

<http://deadpresident.blogspot.com> **Thermax**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TMX IN
	REUTERS CODE
S&P CNX: 3,634	THMX.BO
Equity Shares (m)	119.2
52-Week Range	447/206
1,6,12 Rel. Perf. (%)	1/20/9
M.Cap. (Rs b)	44.1
M.Cap. (US\$ b)	1.0

2 April 2007

Buy

Rs370

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	19,945	1,919	16.1	87.2	23.0	7.6	39.7	57.0	2.1	14.2
3/08E	26,073	2,739	23.0	42.7	16.1	6.0	40.4	60.4	1.6	10.5
3/09E	34,188	3,634	30.5	32.7	12.1	4.5	41.2	61.8	1.1	7.4

\* Consolidated

- During 4QFY07, we expect revenue of Rs6.4b, up 34.3% YoY, EBITDA of Rs1.1b and net profit of Rs695m, a jump of 62.8% YoY. The management has guided for revenue growth of 30% YoY during FY07.
- EBITDA margin is expected to be higher YoY backed by buoyant demand, successful implementation of cost-cutting initiatives, gains from the transformation process, improvement of asset productivity, inclusion of price escalation clauses and cost savings due to the integration with Thermax Babcox. Thermax would also benefit from the increased sourcing of materials from China (15-20% in FY07), which would save costs up to 10% and add 1.5-2% to the operating margins.
- The order backlog for the company stood at ~Rs20. The company has indicated commissioning of ~150MW by end FY07.
- Thermax has planned a capex of Rs1b for capacity expansion of the captive power segment, entry into higher range boilers and heat recovery systems and new range of absorption chillers. The company would also invest Rs1.8b in de-bottlenecking. Recently, the company announced its plans to invest Rs1.75b at Salvi in Gujarat to increase its manufacturing capacity.
- At the CMP of Rs370, the stock trades at a P/E of 23x FY07E, 16.1x FY08E and 12.1x FY09E consolidated earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07*				FY06*	FY07E*
	1Q	2Q	3Q*	4Q*	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>2,265</b>	<b>3,078</b>	<b>3,594</b>	<b>4,762</b>	<b>3,226</b>	<b>4,823</b>	<b>5,499</b>	<b>6,397</b>	<b>14,834</b>	<b>19,945</b>
Change (%)	79.7	40.1					53.0	34.3		34.5
<b>EBITDA</b>	<b>225</b>	<b>395</b>	<b>466</b>	<b>709</b>	<b>383</b>	<b>758</b>	<b>760</b>	<b>1,084</b>	<b>2,000</b>	<b>2,985</b>
Change (%)	225.1	101.7					63.2	31.1		49.3
As of % Sales	9.9	12.8	13.0	14.9	11.9	15.7	13.8	17.0	13.5	15.0
Depreciation	25	27	34	52	38	50	47	15	152	150
Interest	1	1	3	4	0	2	5	2	9	10
Other Income	30	36	30	39	65	88	83	9	146	244
Extra-ordinary Items	-26	-18	-8	-7	0	-231	0	0	-59	-231
<b>PBT</b>	<b>203</b>	<b>384</b>	<b>451</b>	<b>685</b>	<b>410</b>	<b>562</b>	<b>790</b>	<b>1,076</b>	<b>1,925</b>	<b>2,838</b>
Tax	70	131	157	265	135	211	236	381	693	962
Effective Tax Rate (%)	34.4	34.1	34.7	38.7	32.8	37.6	29.8	35.4	36.0	33.9
<b>Reported PAT</b>	<b>133</b>	<b>253</b>	<b>295</b>	<b>420</b>	<b>275</b>	<b>351</b>	<b>555</b>	<b>695</b>	<b>1,233</b>	<b>1,876</b>
<b>Adj PAT</b>	<b>159</b>	<b>271</b>	<b>302</b>	<b>427</b>	<b>275</b>	<b>582</b>	<b>555</b>	<b>695</b>	<b>1,291</b>	<b>2,107</b>
Change (%)	183.7	93.4					83.5	62.8		63.2

E: MOST Estimates; \*Nos include results of Thermax Babcock and Wilcox Ltd and Thermax Capital Ltd. and hence not comparable yoy

<http://deadpresident.blogspot.com> **FMCG**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
Asian Paints	119
Britannia Industries	120
Colgate Palmolive	121
Dabur India	122
GSK Consumer	123
Godrej Consumer Products	124
Hindustan Lever	125
ITC	126
Marico	127
Nestle India	128
Tata Tea	129

The FMCG sector continued to record double-digit growth although the effect of steadily growing per capita income and rising consumer confidence has not translated to acceleration in demand growth to the expected levels. Commodity prices exhibited a mixed trend with the price of inputs such as wheat, sugar and LAB declining whilst that of palm oil and milk remained steady. Pricing power has shown improvement with several large product categories witnessing a 3-5% price increase. Our interaction with the companies also indicates consumer uptrading in select skin care and food products. We expect double-digit growth to continue but margins will likely be under pressure for some of the companies like GSK Consumer and Nestle - as the price increases are inadequate to counter the entire inflationary impact in commodity prices.

### FMCG - moving toward inflexion point

We expect consumer demand to remain steady due to sustained growth in both farm incomes and job opportunities. Higher production of rabi crops such as wheat, pulses and cereals are expected to boost farm incomes. We note employment generation and salary levels are rising on the back of the strong economic growth and manpower shortages in the Retail, IT, Construction and Power sectors. The increasing employment opportunities could result in a strong surge in consumer demand, as 50% of the population currently is below 25 years of age. In addition, infrastructure development is creating employment opportunity at the bottom end of the pyramid, which could act as a big growth catalyst in the coming years.

#### EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>FMCG</b>							
Asian Paints	Buy	6,887	22.0	1,071	31.9	662	23.3
Britannia	Buy	5,722	26.0	407	80.9	373	63.0
Colgate	Neutral	3,369	11.5	539	37.6	491	32.7
Dabur	Neutral	5,325	19.3	927	18.2	743	17.3
GSK Consumer	Buy	3,198	15.5	598	3.2	380	10.4
Godrej Consumer	Neutral	2,457	28.8	445	13.2	334	17.0
HLL	Buy	30,800	10.1	3,900	18.0	3,497	17.2
ITC	Buy	34,690	24.6	9,998	23.8	6,967	22.9
Marico	Buy	3,860	29.7	604	66.2	391	55.6
Nestle	Neutral	8,184	13.5	1,559	14.2	934	23.0
Tata Tea	Neutral	9,856	20.7	1,537	26.9	606	7.3
<b>Sector Aggregate</b>		<b>114,349</b>	<b>18.5</b>	<b>21,585</b>	<b>23.3</b>	<b>15,379</b>	<b>21.8</b>

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### Low product penetration indicates long term potential

Product penetration in most of the FMCG categories is low. Some of the large categories such as Detergents, Washing Powder and Toilet Soaps have high penetration levels by Indian standards. But even in these categories, per capita spend is significantly lower versus most countries in Asia and South East Asia.

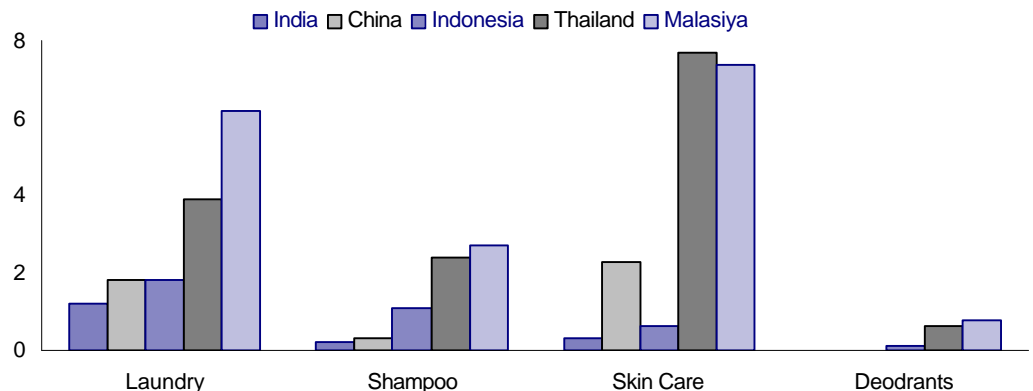
FMCG PRODUCTS PENETRATION (%)

	ALL INDIA	URBAN	RURAL
Deodorants	2.1	5.5	0.6
Instant Coffee	6.6	15.5	2.8
Skin Cream	22.0	31.5	17.8
Utensil Cleaner	28.0	59.9	14.6
Toothpastes	48.6	74.9	37.6
Shampoo	38.0	52.1	31.9
Washing Powder	86.1	90.7	84.1
Detergent Bar	88.6	91.4	87.4
Toilet Soap	91.5	97.4	88.9

Source: HLL Presentation/Motilal Oswal Securities

This indicates substantial long-term growth potential in the FMCG sector. Categories which have penetration of less than 25% are expected to grow volumes by more than 15-20% per annum over the coming 8-10 years.

PER CAPITA CONSUMPTION (US\$)



Source: HLL Presentation/Motilal Oswal Securities

### Budget announcements - sector positive but not for ITC

Budget has been a mixed bag for the FMCG sector with additional concessions for food processing sector and higher excise on cigarettes. Cost of packaging and imported petro-based material will show a small decline due to cut in peak rate of import duty.

- ✍ Excise duty exempt on instant foods like soups, gulab jamun and sambhar mixes
- ✍ Excise exemption on biscuits whose retail sales price is below Rs50 per kg.
- ✍ Import duty on packaging machines for foods processing industry reduced from 15% to 5%.

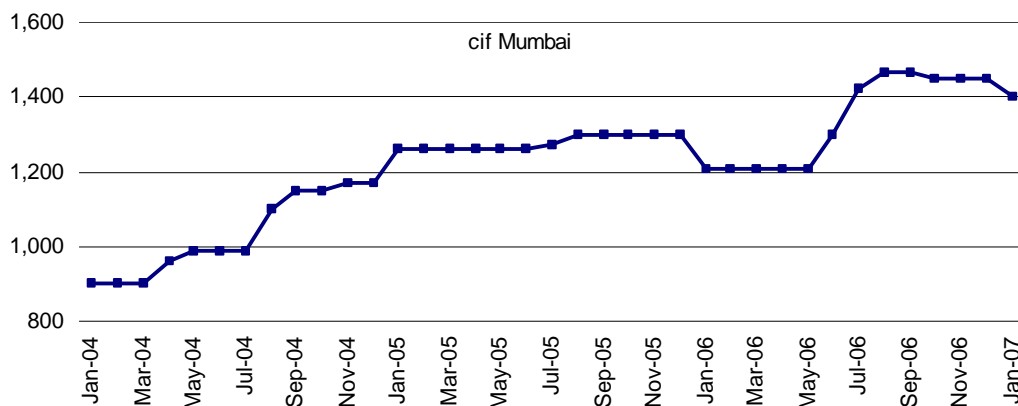
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- ✍ Excise exemption on water filters not using electricity
- ✍ Increased thrust on agriculture and infrastructure development. Outlay on irrigation increased.
- ✍ Excise duty on cigarettes increased to the extent of 5%. Implementation of VAT on cigarettes - a reality.

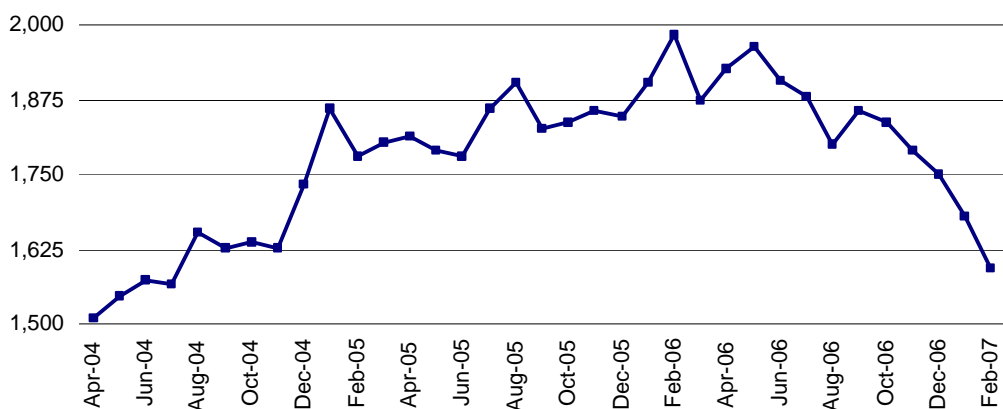
**Input costs show mixed trend**

Price of key inputs for FMCG companies has been showing a mixed trend. While prices of certain inputs like sugar, wheat and LAB have softened; the prices of other inputs like milk, coffee, palm oil continue to be steady. LAB prices have declined by 3.5% from US\$1,450 to US\$1,400 per ton (*c.i.f.* India), in the last one month, while the price of palm oil continues to hover around RM1900-1930/ton. Prices of coffee are likely to stay firm due to a production shortfall in Brazil. Among others, adspends of companies are likely to be lower, as most FMCG companies have decided not to advertise aggressively during the ongoing Cricket World Cup owing to the high advertising rates.

PRICES OF LAB (RS/TON)



PRICES OF SUGAR (RS/QUINTAL)



Source: Cris Infac

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### **Price increases insufficient; margin pressure to sustain for some companies**

Companies have been taking selective price increases to counter inflationary pressures. HLL has hiked the prices of detergents by 3-5% in the past few months; GSK Consumer has increased the prices of malt beverages by 1.5% in January 2007. Britannia has reduced the pack sizes of biscuits by 10% in most of the brands such as Goodday, Tiger etc. instead of reducing the prices. GCPL has increased the prices of powder hair dye by 12.5%. Asian Paints had another round of price increase of 1.3% in January 2007. Such increases in product prices at regular intervals is a pointer to the much improved pricing power. Despite that recent price increases have been insufficient to fully neutralize the impact of cost increases. We expect companies such as GCPL, HLL, Britannia, and Asian Paints to benefit from lower input costs while companies such as Nestle, GSK Consumer and Dabur are likely to be impacted from increasing input costs.

### **Consumers upgrading - rush to launch new variants**

Rising per capita income and consumers upgrading in select product categories have enthused industry majors to come forth with an increasing number of new products and variants, which are being launched from time to time. The skin care market (especially the top end) has been recording robust growth. To get a pie of the fast growing market HLL has launched a slew of products at the top end such as Ponds top-end range of creams, Men's Fairness cream and Sunsilk (hair color shampoos, conditioners and leave-ons).

Rising disposable incomes in the hands of urban Indians and the evolving modern retail chain structure is increasing demand for processed and ready-to-eat foods (RTF), although the base is small. In order to capitalize on growing demand, companies such as HLL and Nestle are getting aggressive with their new launches in the food segment. Recently, HLL launched its Chinese range under the Knorr brand and has big plans for its food category for the current year. Nestle's new launches in recent months include Maggi Rice Mania, Maggi Dal Atta Noodles, Slim Dahi, Everyday Slim and KIT KAT Lite. Other new launches include Britannia's new 50:50 Chutkule and ITC's entry into the Rs25b market with its Bingo brand.

### **Modern trade likely to transform sector dynamics**

Modern trade is quickly gaining market share in sales of FMCG products. It accounts for 10% of sales in the metros, 20% in southern India and 4% for the FMCG sector as a whole. Our interaction with leading FMCG and retail companies indicates that the share of modern trade is likely to significantly increase in the coming years. Both retailers and FMCG companies appear willing to realize the importance of working together in the long term due to following benefits:

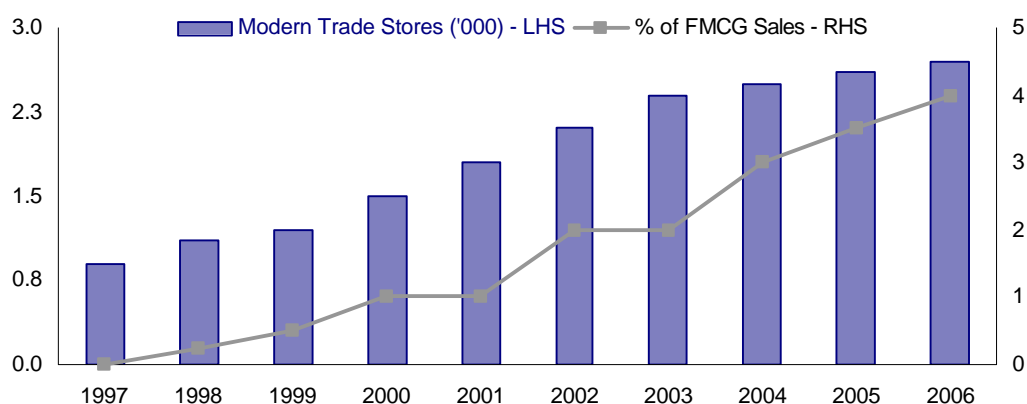
- ✍ Market share and sales mix of leading FMCG companies is higher in organized retail than the traditional distribution system.
- ✍ Modern trade does not include low-priced sachets and there is a tilt in favor of premium products, thereby improving the margin profile of companies

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- ✍ FMCG companies are showing a willingness to share the savings in logistics and distribution costs with the retailers. FMCG companies appear confident that the unfolding of modern trade will not affect their profit margins.
- ✍ Growth of a vibrant processed food sector has been languishing due to poor infrastructure and absence of a cold (refrigerated) chain. With these issues likely to be addressed now, we expect processed food companies to grow much faster, albeit with a time lag. Nestle, ITC and HLL are expected to be the biggest beneficiaries of this move.

We believe that fears of a significant squeeze in profit margins of FMCG companies are unfounded, as global majors have been able to expand their profit margins in the past 15-20 years while modern trade has thrived in those economies.

MODERN TRADE STORES ('000)



Source: HLL Presentation/Motilal Oswal Securities

### Valuation and top picks

The FMCG sector continued to move steadily although the impact of steadily growing per capita income and rising consumer confidence are not highlighted in the demand growth to the expected extent. FMCG companies have been mostly range-bound in the recent past. Margin expansion has been lower than expectation mainly due to a sharp increase in commodity-based raw materials. Long term potential appears favorable due to low penetration and rising per capita incomes but short term pressures are likely to sustain. We maintain a positive view on the sector, despite stretched valuations and short-term cost pressures. We rate ITC and HLL as our top picks among the large caps and Asian Paints and Marico among mid caps.



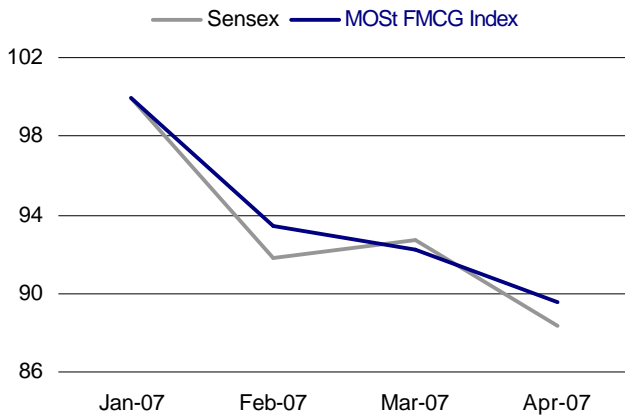
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## Stock performance and valuations

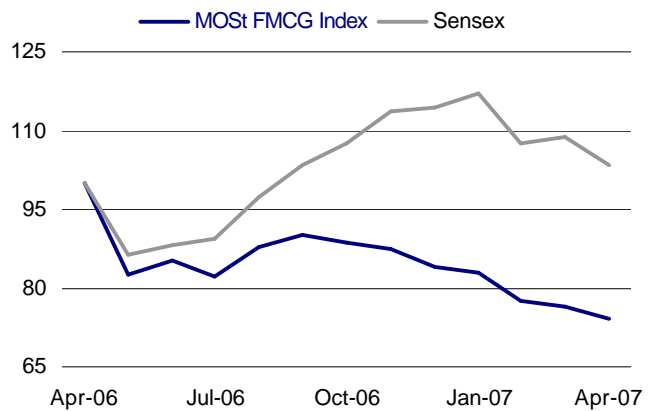
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>FMCG</b>						
Asian Paints	0	15	11	7	12	38
Britannia	11	-36	21	-44	23	-12
Colgate	-15	-24	-4	-31	-3	0
Dabur	-5	11	5	4	7	35
Godrej Consumer	-5	-25	6	-33	7	-1
GSK	-2	-19	8	-27	10	4
HLL	-10	-30	1	-38	3	-6
ITC	-17	-26	-6	-34	-5	-3
Marico	9	7	20	0	21	31
Nestle	-18	-22	-7	-30	-6	1
Tata Tea	-17	-32	-7	-40	-5	-8

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>FMCG</b>														
Asian Paints	741	Buy	27.8	33.4	40.9	26.6	22.2	18.1	16.0	13.1	10.8	35.6	35.1	34.5
Britannia	1,215	Buy	43.7	63.2	86.4	27.8	19.2	14.1	18.8	11.2	7.8	18.4	21.8	23.7
Colgate	333	Neutral	14.2	15.8	18.8	23.4	21.0	17.7	20.9	17.5	14.5	64.3	63.3	66.1
Dabur	93	Neutral	3.3	4.0	4.9	28.1	23.1	18.8	22.5	18.3	15.0	46.1	45.1	43.8
GSK Consumer	537	Buy	30.2	34.5	39.1	17.8	15.6	13.7	11.8	9.7	8.3	22.9	22.7	22.2
Godrej Consumer	143	Neutral	5.9	7.7	9.4	24.4	18.5	15.1	18.7	14.7	12.2	136.9	155.0	151.4
HLL	196	Buy	7.0	8.2	9.4	28.0	24.0	20.8	24.5	20.5	17.7	58.9	65.6	68.9
ITC	147	Buy	7.3	7.5	9.0	20.0	19.6	16.3	12.5	12.3	9.8	26.5	24.0	25.5
Marico	60	Buy	2.2	3.1	3.8	27.7	19.4	15.9	16.4	12.5	10.3	82.3	71.3	57.9
Nestle	940	Neutral	33.9	39.7	48.5	27.7	23.7	19.4	16.5	15.0	12.2	52.6	55.0	59.7
Tata Tea	593	Neutral	51.2	42.5	56.2	11.6	14.0	10.6	10.6	8.5	7.0	13.6	9.6	11.6
<b>Sector Aggregate</b>						<b>23.2</b>	<b>21.0</b>	<b>17.5</b>	<b>16.0</b>	<b>14.2</b>	<b>11.7</b>	<b>32.7</b>	<b>31.7</b>	<b>33.3</b>

<http://deadpresident.blogspot.com> Asian Paints

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	APNT IN
	REUTERS CODE
S&P CNX: 3,634	ASPN.BO
Equity Shares (m)	95.9
52-Week Range	835/501
1,6,12 Rel. Perf. (%)	8/10/7
M.Cap. (Rs b)	71.0
M.Cap. (US\$ b)	1.6

2 April 2007

Buy

Previous Recommendation: Buy

Rs741

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	27,830	2,669	27.8	20.6	26.6	9.5	35.6	50.8	2.4	16.0
3/08E	32,283	3,204	33.4	20.0	22.2	7.8	35.1	50.8	2.0	13.2
3/09E	37,125	3,920	40.9	22.3	18.1	6.2	34.5	49.1	1.7	10.8

\* Pre-exceptionals

- ✍ We expect Asian Paints to register 22% growth in revenues to Rs6.9b driven by strong volumes and price increases taken during the year.
- ✍ Volume growth is expected to remain strong due to heightened activity in the construction sector. As more and more new houses use paints in comparison to cheaper alternatives, demand growth is expected to remain strong.
- ✍ EBITDA margins are expected to expand 108bp to 15.6% in 4QFY07 due to 3.5% price increase adopted in the last nine months. Prices of key raw materials like titanium dioxide and crude-based materials are now moderating.
- ✍ PAT at Rs662m would grow by 23%. The stock is currently trading at 22.2x FY08E earnings and 18.1x FY09E earnings. Decline in crude oil prices will enable the company to expand its margins further. We expect valuation premium to sustain due to steady growth and good track record of investor friendly policies. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>5,106</b>	<b>6,192</b>	<b>6,255</b>	<b>5,645</b>	<b>6,034</b>	<b>7,849</b>	<b>7,060</b>	<b>6,887</b>	<b>23,192</b>	<b>27,830</b>
Change (%)	27.1	19.6	7.9	27.7	18.2	26.8	12.9	22.0	19.5	20
Total Expenditure	4,378	5,186	5,282	4,832	5,095	6,646	6,049	4,832	19,672	23,606
<b>EBITDA</b>	<b>728</b>	<b>1,006</b>	<b>973</b>	<b>812</b>	<b>939</b>	<b>1,203</b>	<b>1,010</b>	<b>1,071</b>	<b>3,519</b>	<b>4,224</b>
Margin (%)	14.3	16.2	15.6	14.4	15.6	15.3	14.3	15.6	15.2	15.2
Change (%)	18.1	24.2	7.8	33.4	29.0	19.6	3.8	31.9	19.8	20
Interest	5.5	9	17	7	13.0	18	23	11	38	65
Depreciation	111	113	112	120	110	115	112	178	455	515
Other Income	60	71	83	145	64	101	108	128	359	401
<b>Operational PBT</b>	<b>672</b>	<b>956</b>	<b>927</b>	<b>830</b>	<b>880</b>	<b>1,171</b>	<b>983</b>	<b>1,010</b>	<b>3,385</b>	<b>4,045</b>
Non Recurring Items	0	-17	3	-334	0.4	-2	2	0	-346	1
<b>PBT</b>	<b>672</b>	<b>938</b>	<b>930</b>	<b>496</b>	<b>881</b>	<b>1,170</b>	<b>985</b>	<b>1,010</b>	<b>3,039</b>	<b>4,046</b>
Tax	229	326	327	310	299	401	331	387	1,192	1,419
Deferred Tax	1	0	-6	-16	1	-7	0	-39	-21	-45.0
Effective Tax Rate (%)	34	34.8	34.4	59.1	34	33.7	33.7	34.4	38.5	34
<b>PAT</b>	<b>442</b>	<b>612</b>	<b>610</b>	<b>203</b>	<b>580</b>	<b>776</b>	<b>653</b>	<b>662</b>	<b>1,868</b>	<b>2,672</b>
<b>Adjusted PAT</b>	<b>442</b>	<b>629</b>	<b>606</b>	<b>537</b>	<b>580</b>	<b>777</b>	<b>651</b>	<b>662</b>	<b>2,214</b>	<b>2,671</b>
Change (%)	32	27.9	11.4	31.3	31	23.6	7.4	23	24	20.6

E: MOST Estimates

<http://deadpresident.blogspot.com> Britannia Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BRIT IN
	REUTERS CODE
S&P CNX: 3,634	BRIT.BO
Equity Shares (m)	23.9
52-Week Range	1,955/1,025
1,6,12 Rel. Perf. (%)	-3/10/-44
M.Cap. (Rs b)	29.0
M.Cap. (US\$ b)	0.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs1,215

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	21,720	1,045	43.7	-28.6	27.8	4.7	18.4	19.6	1.1	18.8
3/08E	26,372	1,509	63.2	44.5	19.2	4.0	21.8	27.6	0.9	11.2
3/09E	30,558	2,065	86.4	36.8	14.1	3.3	23.7	31.3	0.7	7.8

\* Pre-exceptionals

- ✍ We expect Britannia to report revenues of Rs5.7b in 4QFY07, a growth of 26% YoY. Strong consumer demand and focus on innovation will continue to drive topline growth, even in the wake of rising competition.
- ✍ EBITDA margins are expected to increase by 200bp YoY to 7.1% in 4QFY07, following benefits from savings in excise related to Tiger biscuits, which contributes 33% to total biscuit volumes, and reduction in prices of key inputs such as sugar and wheat.
- ✍ Higher production at its Uttaranchal tax-free facility will result in decline in YoY effective tax rate from 19.4% to 12.3% in 4QFY07. As a result, YoY PAT would increase by 63% to Rs373m in 4QFY07.
- ✍ The company has reduced its pack sizes of its brands such as Goodday and Tiger by 10% which should boost profitability going forward.
- ✍ The stock is currently trading at 19.2x FY08E earnings and 14.1x FY09E earnings. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>3,856</b>	<b>4,441</b>	<b>4,498</b>	<b>4,540</b>	<b>4,828</b>	<b>5,497</b>	<b>5,673</b>	<b>5,722</b>	<b>17,133</b>	<b>21,720</b>
YoY Change (%)		9.5	17.5	24.6	25.2	23.8	26.1	26.0	13.5	26.8
Total Exp	3,284	3,809	3,956	4,315	4,502	5,209	5,412	3,284	15,154	20,438
<b>EBITDA</b>	<b>572</b>	<b>632</b>	<b>542</b>	<b>225</b>	<b>326</b>	<b>288</b>	<b>261</b>	<b>407</b>	<b>1,979</b>	<b>1,282</b>
Margins (%)	14.8	14.2	12.0	5.0	6.8	5.2	4.6	7.1	11.6	5.9
Depreciation	-53	-50	-57	-57	-57	-64	-65	-73	-217	-259
Interest	-8	-4	-11	-6	-7	-16	-23	10	-21	-36
Other Income	32	62	17	122	119	27	50	82	217	278
<b>PBT</b>	<b>543</b>	<b>640</b>	<b>491</b>	<b>284</b>	<b>381</b>	<b>235</b>	<b>223</b>	<b>426</b>	<b>1,958</b>	<b>1,265</b>
Tax	-186	-201	-101	-55	-55	3	-22	-52	-543	-126
Rate (%)	34.3	31.4	20.6	19.4	14.4	-1.3	9.9	12.3	27.7	10.0
<b>PAT</b>	<b>357</b>	<b>439</b>	<b>390</b>	<b>229</b>	<b>326</b>	<b>238</b>	<b>201</b>	<b>373</b>	<b>1,415</b>	<b>1,138</b>
YoY Change (%)		-15.4	18.5	3.2	-8.7	-45.8	-48.5	63.0	-17.1	-19.6
Extraordinary Expenses	34	-1	-33	49	-23	-26	-37	0	49	0
<b>Reported PAT</b>	<b>391</b>	<b>438</b>	<b>357</b>	<b>278</b>	<b>303</b>	<b>212</b>	<b>164</b>	<b>373</b>	<b>1,464</b>	<b>1,138</b>

E: MOST Estimates

<http://deadpresident.blogspot.com> Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CLGT IN
	REUTERS CODE
S&P CNX: 3,634	COLG.BO
Equity Shares (m)	136.0
52-Week Range	464/275
1,6,12 Rel. Perf. (%)	12/-11/-31
M.Cap. (Rs b)	45.3
M.Cap. (US\$ b)	1.0

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs333

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	12,888	1,936	14.2	25.1	23.4	15.0	54.7	66.9	3.3	20.9
3/08E	14,833	2,153	15.8	11.2	21.0	13.3	52.7	66.4	2.8	17.5
3/09E	16,744	2,556	18.8	18.7	17.7	11.7	54.6	69.7	2.5	14.5

\* Pre-exceptionals

- ✘ We expect Colgate to report 11.5% YoY growth in sales for 4QFY07. Lower growth in the toothpowder segment is likely to impact overall revenue growth.
- ✘ We expect EBITDA to expand by 300bp to 16% in 4QFY07 on YoY basis, aided by lower advertising expenses.
- ✘ PAT is expected to increase by 32.7%, driven by higher other income.
- ✘ Colgate has decided to close down the Sewri facility; the move will reduce the cost of production and boost profitability of the company in the long term. We have not factored in the profit that could accrue from sale of the Sewri facility.
- ✘ The stock is currently trading at 23.4x FY07E earnings, 21x FY08E earnings and 17.7x FY09E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>2,583</b>	<b>2,781</b>	<b>2,857</b>	<b>3,021</b>	<b>3,096</b>	<b>3,200</b>	<b>3,223</b>	<b>3,369</b>	<b>11,242</b>	<b>12,888</b>
YoY Change (%)	6.4	13.2	21.2	25.8	19.9	15.1	12.8	11.5	16.6	14.6
Total Exp	-2,201	-2,396	-2,203	-2,629	-2,695	-2,642	-2,679	-2,831	-9,387	-10,846
<b>EBITDA</b>	<b>382</b>	<b>385</b>	<b>654</b>	<b>392</b>	<b>401</b>	<b>558</b>	<b>544</b>	<b>539</b>	<b>1,855</b>	<b>2,042</b>
Margins (%)	14.8	13.9	22.9	13.0	12.9	17.4	16.9	16.0	16.5	15.8
Depreciation	-26	-39	-47	-37	-37	-36	-44	-44	-260	-160
Interest	-2	-1	-1	-2	-2	-2	-3	1	-6	-6
Other Income	140	98	109	115	148	122	166	160	461	597
<b>PBT</b>	<b>494</b>	<b>443</b>	<b>715</b>	<b>467</b>	<b>509</b>	<b>643</b>	<b>664</b>	<b>656</b>	<b>2,050</b>	<b>2,472</b>
Tax	-140	-134	-132	-97	-149	-137	-161	-165	-503	-612
Rate (%)	28.2	30.2	18.5	20.8	29.2	21.4	24.2	25.1	24.5	24.7
<b>Adjusted PAT</b>	<b>355</b>	<b>309</b>	<b>583</b>	<b>370</b>	<b>361</b>	<b>505</b>	<b>503</b>	<b>491</b>	<b>1,548</b>	<b>1,861</b>
YoY Change (%)	39	14	69	11	1.6	63.7	-13.6	32.7	28.5	20.2
Extraordinary Expenses	-75	0	-165	0	0	-274	0	0	-172	-274
<b>Reported PAT</b>	<b>280</b>	<b>309</b>	<b>417</b>	<b>370</b>	<b>361</b>	<b>232</b>	<b>503</b>	<b>491</b>	<b>1,376</b>	<b>1,587</b>
YoY Change (%)	10	14	46	14	29	-25	21	33	173	15

E: MOST Estimates

<http://deadpresident.blogspot.com> Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	DABUR IN
	REUTERS CODE
S&P CNX: 3,634	DABU.BO
Equity Shares (m)	860.0
52-Week Range	118/71
1,6,12 Rel. Perf. (%)	-1/0/4
M.Cap. (Rs b)	80.0
M.Cap. (US\$ b)	1.8

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs93

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	3/07E	21,897	2,784	3.3	22.9	28.1	13.2	46.1	49.9	3.6	22.5
	3/08E	24,809	3,463	4.0	21.6	23.1	10.4	45.1	49.6	3.1	18.3
	3/09E	27,894	4,248	4.9	22.7	18.8	8.3	43.8	48.6	2.7	15.0

- ✗ Dabur is expected to report sales of Rs5.32b in 4QFY07, a growth of 19.5% YoY.
- ✗ EBITDA margins are expected to dip marginally by 20bp to 17.4% YoY in 4QFY07. Prices of inputs such as honey, glucose, sorbitol, and orange concentrate are on an uptrend. The company had adopted an average price hike of around 4% on its portfolio in the last quarter.
- ✗ Adjusted PAT before minority interest is expected to be Rs723m, a 17% growth YoY in 4QFY07 driven by double-digit sales growth.
- ✗ We expect growth in juices and Sanifresh to be lackluster.
- ✗ The company has announced its aggressive foray into retail with specialty beauty and health stores. The long breakeven period of four years appears unattractive, despite likely increase in topline growth rates. The company plans to launch new skincare products by next year which also includes soaps under the Dabur brand.
- ✗ The stock is currently trading at 23.1x FY08E earnings and 18.8x FY09E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>4,147</b>	<b>4,675</b>	<b>5,374</b>	<b>4,462</b>	<b>4,755</b>	<b>5,641</b>	<b>6,176</b>	<b>5,325</b>	<b>18,658</b>	<b>21,897</b>
YoY Change (%)	20.4	26.0	26.0	13.0	14.7	20.7	14.9	19.3	21.4	17.4
Total Exp	3,655	3,870	4,547	3,678	4,116	4,668	5,172	4,398	15,750	18,354
<b>EBITDA</b>	<b>492</b>	<b>805</b>	<b>827</b>	<b>784</b>	<b>639</b>	<b>973</b>	<b>1,004</b>	<b>927</b>	<b>2,908</b>	<b>3,543</b>
Margins (%)	11.9	17.2	15.4	17.6	13.4	17.3	16.3	17.4	15.6	16.2
Depreciation	-76	-84	-83	-69	-97	-106	-115	-87	-312	-404
Interest	-40	-47	-53	-24	-41	-55	-31	-24	-164	-150
Other Income	18	38	56	22	53	38	33	33	134	156
<b>PBT</b>	<b>394</b>	<b>713</b>	<b>747</b>	<b>713</b>	<b>554</b>	<b>851</b>	<b>891</b>	<b>849</b>	<b>2,566</b>	<b>3,145</b>
Tax	-50	-85	-86	-80	-80	-123	-115	-106	-300	-425
Rate (%)	12.6	12.0	11.5	11.2	14.5	14.5	12.9	12.5	11.7	13.5
<b>PAT</b>	<b>345</b>	<b>627</b>	<b>661</b>	<b>633</b>	<b>474</b>	<b>727</b>	<b>776</b>	<b>743</b>	<b>2,266</b>	<b>2,719</b>
YoY Change (%)	55.6	41.3	40.0	46.4	37	16	17	17	44.3	20.0
Minority Interest	4	17	-12	-6	9	-6	17	-20	3.2	0.0
Extraordinary Inc/(Exp)	0	0	0	-127	0	65	0	0	0	65
<b>Reported PAT</b>	<b>349</b>	<b>644</b>	<b>649</b>	<b>500</b>	<b>482</b>	<b>787</b>	<b>793</b>	<b>723</b>	<b>2,269</b>	<b>2,784</b>

E: MOST Estimates

<http://deadpresident.blogspot.com>  
GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SKB IN
	REUTERS CODE
S&P CNX: 3,634	GLSM.BO
Equity Shares (m)	45.4
52-Week Range	710/403
1,6,12 Rel. Perf. (%)	0/-3/-27
M.Cap. (Rs b)	24.4
M.Cap. (US\$ b)	0.6

2 April 2007

Buy

Previous Recommendation: Buy

Rs537

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	11,119	1,268	30.2	18.4	17.8	4.1	22.9	35.1	1.8	10.8
12/07E	12,628	1,451	34.5	14.4	15.6	3.5	22.7	35.9	1.5	8.9
12/08E	13,916	1,642	39.1	13.2	13.7	3.1	22.2	35.1	1.3	7.5

- ✦ We expect GSK Consumer to register sales of Rs3.2b in 1QCY07 against Rs2.8b in 1QCY06, a growth of 16%. Strong volume growth and price increases by 3.5% will be the growth drivers.
- ✦ EBITDA margins are expected to decline by 220bp in 1QCY07 primarily due to higher prices of milk and wheat. We expect raw material pricing pressure to remain in key input materials such as milk for a couple of quarters.
- ✦ GSK is expected to report PAT of Rs380m in 1QCY07 compared with Rs345m in 1QCY06, a growth of 10.4%.
- ✦ The stock is currently trading at 15.6x CY07E earnings and 13.7x CY08E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>2,769</b>	<b>2,688</b>	<b>3,015</b>	<b>2,647</b>	<b>3,198</b>	<b>3,064</b>	<b>3,406</b>	<b>2,959</b>	<b>11,119</b>	<b>12,628</b>
YoY Change (%)	24.2	10.7	16.5	9.2	15.5	14.0	13.0	11.8	29.0	13.6
Total Exp	2,189	2,157	2,486	2,372	2,600	2,550	2,800	2,556	9,274	10,506
<b>EBITDA</b>	<b>580</b>	<b>531</b>	<b>528</b>	<b>275</b>	<b>598</b>	<b>514</b>	<b>606</b>	<b>403</b>	<b>1,845</b>	<b>2,122</b>
Margins (%)	20.9	19.8	19.5	10.4	18.7	16.8	17.8	13.6	16.6	16.8
Depreciation	-104	-105	-109	-108	-102	-104	-107	-118	-427	-431
Interest	-8	-9	-10	-8	-9	-10	-9	-7	-35	-35
Other Income	72	72	139	169	107	125	162	214	522	608
<b>PBT</b>	<b>540</b>	<b>490</b>	<b>548</b>	<b>328</b>	<b>594</b>	<b>525</b>	<b>652</b>	<b>492</b>	<b>1,904</b>	<b>2,264</b>
Tax	-196	-181	-185	-76	-214	-185	-240	-174	-637	-813
Rate (%)	36.2	37	33.8	23.2	36.0	35	36.8	35.3	33.5	35.9
<b>PAT</b>	<b>345</b>	<b>309</b>	<b>362</b>	<b>252</b>	<b>380</b>	<b>340</b>	<b>412</b>	<b>318</b>	<b>1,267</b>	<b>1,451</b>
YoY Change (%)	67.9	6.3	19.7	17.9	10.4	10.1	13.8	26.1	75.2	14.5

E: MOST Estimates

<http://deadpresident.blogspot.com>  
Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GCPL IN
	REUTERS CODE
S&P CNX: 3,634	GOCP.BO
Equity Shares (m)	226.4
52-Week Range	200/122
1,6,12 Rel. Perf. (%)	0/-20/-33
M.Cap. (Rs b)	32.4
M.Cap. (US\$ b)	0.7

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs143

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	9,532	1,323	5.9	10.9	24.4	33.5	136.9	81.7	3.6	19.8
3/08E	11,291	1,745	7.7	31.9	18.5	28.8	155.0	105.0	3.0	15.4
3/09E	12,895	2,133	9.4	22.2	15.1	23.0	151.4	116.0	2.5	12.1

- GCPL is expected to report growth of 28.8% YoY in 4QFY07 driven by strong growth across product segments like soaps and toiletries.
- EBITDA margins are expected to be 18.1% against 20.6% in 4QFY06, on account of higher input prices. Palm oil prices have risen by 15% since the company had last adopted a price increase in soaps and powder hair dye.
- We expect toiletries business to report yet another quarter of high double-digit growth due to volume growth in Cinthol talc, Snuggly and Deluxe shaving cream in the VFM segment.
- We expect the company to report PAT of Rs334m, a growth of 17% YoY.
- We expect the 50:50 JV with SCA for Baby diaper's and Feminine care to contribute meaningfully after 2-3 years only, due to long gestation period in establishing new brands.
- The stock is currently trading at 18.5x FY08E consolidated earnings and 15.1x FY09E consolidated earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>1,677</b>	<b>1,571</b>	<b>1,841</b>	<b>1,908</b>	<b>2,376</b>	<b>2,318</b>	<b>2,380</b>	<b>2,457</b>	<b>6,997</b>	<b>9,532</b>
YoY Change (%)	22.8	17.1	20.0	37.8	41.7	47.6	29.3	28.8	24.4	36.2
Total Exp	1,346	1,300	1,423	1,515	1,955	1,922	1,865	2,012	5,585	7,754
<b>EBITDA</b>	<b>331</b>	<b>271</b>	<b>418</b>	<b>393</b>	<b>421</b>	<b>397</b>	<b>516</b>	<b>445</b>	<b>1,412</b>	<b>1,778</b>
Margins (%)	19.7	17.2	22.7	20.6	17.7	17.1	21.7	18.1	20.2	18.7
Depreciation	-27	-27	-29	-31	-31	-31	-36	-49	-115	-146
Interest	-9	-9	-26	-25	-18	-26	-33	-14	-69	-90
Other Income	3	60	30	-17	8	28	17	10	77	19
<b>PBT</b>	<b>298</b>	<b>295</b>	<b>393</b>	<b>320</b>	<b>381</b>	<b>369</b>	<b>464</b>	<b>392</b>	<b>1,306</b>	<b>1,560</b>
Tax	-27	-17	-35	-34	-53	-59	-68	-58	-113	-237
Rate (%)	9.0	8.0	8.9	10.7	13.9	15.9	14.6	14.8	8.6	15.2
<b>PAT</b>	<b>271</b>	<b>278</b>	<b>358</b>	<b>285</b>	<b>328</b>	<b>310</b>	<b>396</b>	<b>334</b>	<b>1,193</b>	<b>1,323</b>
YoY Change (%)	56.6	59.6	37.7	12.8	21.0	11.5	10.5	17.0	43.9	10.9
Extraordinary Expenses	0	0	0	3	13	0	0	0	3	0
<b>Reported PAT</b>	<b>271</b>	<b>278</b>	<b>358</b>	<b>288</b>	<b>341</b>	<b>310</b>	<b>396</b>	<b>334</b>	<b>1,196</b>	<b>1,323</b>

E: M0St Estimates



<http://deadpresident.blogspot.com> Hindustan Lever

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HLVR IN
	REUTERS CODE
S&P CNX: 3,634	HLL.BO
Equity Shares (m)	2,201.2
52-Week Range	296/166
1,6,12 Rel. Perf. (%)	13/-22/-38
M.Cap. (Rs b)	431.0
M.Cap. (US\$ b)	9.9

2 April 2007

Buy

Previous Recommendation: Buy

Rs196

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	121,034	15,397	7.0	17.5	31.1	18.0	58.9	71.6	3.7	26.5
12/07E	133,847	17,941	8.2	16.5	25.2	15.6	65.6	80.6	3.3	21.2
12/08E	146,700	20,717	9.4	15.5	20.8	14.3	68.9	84.6	2.7	17.7

\* Pre-exceptionals

- ✂ We expect HLL to report 10.1% YoY increase in sales for 1QCY07 to Rs30.8b. HPC will be the main growth driver for the company with detergents and personal care leading the growth momentum, after subdued performance in 4QCY06.
- ✂ EBITDA margins are expected to increase by 90bp to 12.7%. The margin expansion factors in a 2.5-3% increase in price of detergents adopted toward the end of the last quarter. Although HLL had increased the Rs5 SKU of Lux, Fair & Lovely and Ponds to Rs6, the impact of strong palm oil prices will be visible in the margins of soaps and detergents.
- ✂ Food products are expected to record another quarter of 20% growth, mainly due to ice creams which are growing due to impulse purchases.
- ✂ Beverages, led by Bru Coffee, are likely to report single-digit growth.
- ✂ Adjusted PAT at Rs3.49b is expected to grow 17.8% YoY.
- ✂ The stock is currently trading 25.2x CY07E earnings and 20.8x CY08E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales (incl service inc)</b>	<b>27,981</b>	<b>30,832</b>	<b>30,660</b>	<b>31,561</b>	<b>30,800</b>	<b>33,916</b>	<b>33,879</b>	<b>35,253</b>	<b>121,034</b>	<b>133,847</b>
YoY Change (%)	11.6	8.7	12.2	6.1	10.1	10.0	10.5	11.7	9.4	10.6
Total Expenditure	24,675	26,686	26,631	26,561	26,900	29,200	29,100	29,181	104,553	114,381
<b>EBITDA</b>	<b>3,306</b>	<b>4,146</b>	<b>4,029</b>	<b>5,000</b>	<b>3,900</b>	<b>4,716</b>	<b>4,779</b>	<b>6,072</b>	<b>16,481</b>	<b>19,467</b>
YoY Change (%)	35.8	19.9	17.0	3.8	18.0	13.7	18.6	21.4	14.2	18.1
Margins (%)	11.8	13.4	13.1	15.8	12.7	13.9	14.1	17.2	13.6	14.5
Depreciation	-339	-301	-320	-342	-345	-335	-335	-337	-1,302	-1,352
Interest	-21	-34	-34	-18	-25	-35	-38	-12	-107	-110
Other Income	694	814	968	1,070	812	900	1,050	1,174	3,545	3,936
<b>PBT</b>	<b>3,640</b>	<b>4,625</b>	<b>4,643</b>	<b>5,709</b>	<b>4,342</b>	<b>5,246</b>	<b>5,456</b>	<b>6,897</b>	<b>18,617</b>	<b>21,941</b>
Tax	-655	-833	-812	-875	-845	-855	-1,025	-1,275	-3,220	-4,000
Rate (%)	18.0	18.0	17.5	15.3	19.5	18.5	18.8	18.5	17.3	18.2
<b>Adjusted PAT</b>	<b>2,985</b>	<b>3,793</b>	<b>3,830</b>	<b>4,834</b>	<b>3,497</b>	<b>4,391</b>	<b>4,431</b>	<b>5,622</b>	<b>15,397</b>	<b>17,941</b>
YoY Change (%)	34.5	26.2	17.7	10.2	17.2	15.8	15.7	16.3	17.5	16.5
Extraordinary Inc/(Exp)	1,444	13	1,377	278	0	0	0	0	3,157	0
<b>Reported Profit</b>	<b>4,429</b>	<b>3,806</b>	<b>5,208</b>	<b>5,112</b>	<b>3,497</b>	<b>4,391</b>	<b>4,431</b>	<b>5,622</b>	<b>18,554</b>	<b>17,941</b>
YoY Change (%)	77.0	35.1	59.8	-1.9	-21.0	15.4	-14.9	10.0	31.8	-3.3

E: MOST Estimates

<http://deadpresident.blogspot.com> ITC

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ITC IN
	REUTERS CODE
S&P CNX: 3,634	ITC.BO
Equity Shares (m)	3,755.2
52-Week Range	213/140
1,6,12 Rel. Perf. (%)	-9/-23/-34
M.Cap. (Rs b)	550.5
M.Cap. (US\$ b)	12.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs147

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	123,719	27,460	7.3	20.4	20.0	5.3	26.5	37.2	4.1	12.5
3/08E	139,164	28,083	7.5	2.3	19.6	4.7	24.0	34.0	3.6	12.3
3/09E	170,720	33,846	9.0	20.5	16.3	4.1	25.5	36.1	2.9	9.8

\* Pre-exceptionals

- ✎ We expect ITC to deliver a 24.6% YoY growth in revenues in 4QFY07 driven by strong growth momentum in all its businesses.
- ✎ EBITDA margins are expected to decline by 20bp YoY to 28.8% in 4QFY07, mainly due to rising sales proportion of lower margin businesses.
- ✎ VAT is likely to be implemented soon. We expect ITC to increase prices by 16% of average portfolio to neutralize 12.5% VAT, excise and cess. We expect sharp price increase to result in 7% decline in volume growth of cigarettes in FY08.
- ✎ Other income is expected to increase to Rs895m in 4QFY07 from Rs785m in 4QFY06. Reported PAT should increase by 29.8% YoY to Rs6,967m.
- ✎ The stock is currently trading at 19.6x FY08E earnings and 16.3x FY09E earnings. Although stock might underperform in the immediate term, long term outlook seems encouraging. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>22,669</b>	<b>21,832</b>	<b>25,560</b>	<b>27,845</b>	<b>28,498</b>	<b>28,876</b>	<b>31,656</b>	<b>34,690</b>	<b>97,905</b>	<b>123,719</b>
YoY Change (%)	24.7	22.2	37.5	27.9	25.7	32.3	23.8	24.6	28.2	26.4
Total Exp	14,401	13,633	16,777	19,768	18,792	19,149	20,828	24,692	64,579	83,460
<b>EBITDA</b>	<b>8,268</b>	<b>8,198</b>	<b>8,783</b>	<b>8,077</b>	<b>9,706</b>	<b>9,727</b>	<b>10,828</b>	<b>9,998</b>	<b>33,326</b>	<b>40,259</b>
Margins (%)	36.5	37.6	34.4	29.0	34.1	33.7	34.2	28.8	34.0	32.5
Depreciation	-801	-830	-831	-862	-876	-910	-921	-895	-3,323	-3,602
Interest	-11	3	-15	-188	-7	-35	9	8	-211	-25
Other Income	845	781	489	785	849	795	698	852	2,899	3,194
<b>PBT</b>	<b>8,301</b>	<b>8,152</b>	<b>8,426</b>	<b>7,811</b>	<b>9,672</b>	<b>9,578</b>	<b>10,614</b>	<b>9,963</b>	<b>32,691</b>	<b>39,826</b>
Tax	-2,718	-2,429	-2,603	-2,138	-3,149	-2,782	-3,440	-2,996	-9,888	-12,366
Rate (%)	32.7	29.8	30.9	27.4	32.6	29.0	32.4	30.1	30.2	31.1
<b>Reported PAT</b>	<b>5,583</b>	<b>5,723</b>	<b>5,823</b>	<b>5,674</b>	<b>6,523</b>	<b>6,796</b>	<b>7,174</b>	<b>6,967</b>	<b>22,803</b>	<b>27,460</b>
YoY Change (%)	20.1	17.3	24.8	35.9	16.8	18.7	23.2	19.7	24.1	20.4
Extraordinary Inc/(Exp)	195	0	454	4	0	0	0	0	450	0
<b>Adjusted PAT</b>	<b>5,388</b>	<b>5,723</b>	<b>5,368</b>	<b>5,670</b>	<b>6,523</b>	<b>6,796</b>	<b>7,174</b>	<b>6,967</b>	<b>22,353</b>	<b>27,460</b>
YoY Change (%)	15.9	17.3	15.0	-26.5	21.1	18.7	33.6	29.8	2.0	22.8

E: MOST Estimates

<http://deadpresident.blogspot.com> **Marico**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	MRCO IN
	REUTERS CODE
S&P CNX: 3,634	MRCO.BO
Equity Shares (m)	609.0
52-Week Range	68/33
1,6,12 Rel. Perf. (%)	6/13/0
M.Cap. (Rs b)	36.3
M.Cap. (US\$ b)	0.8

2 April 2007

Buy

Previous Recommendation: Buy

Rs60

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	15,459	1,277	2.2	19.7	27.7	23.4	82.3	46.1	2.5	16.4
3/08E	18,801	1,890	3.1	42.4	19.4	13.7	71.3	57.1	2.0	12.5
3/09E	21,564	2,313	3.8	22.4	15.9	9.1	57.9	61.6	1.7	10.3

- ✎ We expect Marico to report sales of Rs.3.86b in 4QFY07 against Rs2.98b in 4QFY06, a growth of 29.7%.
- ✎ Contribution from new acquisitions in Egypt and rising sales growth momentum in Kaya Skin Care are likely to be growth drivers.
- ✎ EBITDA margins are expected to be 15.7% for 4QFY07 against 12.2% in 4QFY06.
- ✎ PAT is expected to be Rs.379m in 4QFY07 against Rs.240m in 4QFY06, a growth of 58% YoY, even as tax rate is expected to increase from 2.7% to 17.6%.
- ✎ We have factored in the benefits of acquisition of Fiancée and Hair Code as well as the financial restructuring. We expect depreciation to decline, which will boost reported profits. The restructuring is applicable from February 2007.
- ✎ The stock is currently trading at 19.4x FY08E earnings and 15.9x FY09E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>2,708</b>	<b>2,750</b>	<b>3,005</b>	<b>2,977</b>	<b>3,728</b>	<b>3,780</b>	<b>4,092</b>	<b>3,860</b>	<b>11,439</b>	<b>15,459</b>
YoY Change (%)	11.0	7.6	15.8	18.9	37.7	37.5	36.2	29.7	13.6	35.1
Total Exp	2,412	2,448	2,531	2,613	3,165	3,174	3,541	3,256	9,997	13,136
<b>EBITDA</b>	<b>296</b>	<b>302</b>	<b>474</b>	<b>364</b>	<b>563</b>	<b>605</b>	<b>551</b>	<b>604</b>	<b>1,443</b>	<b>2,324</b>
Margins (%)	10.9	11.0	15.8	12.2	15.1	16.0	13.5	15.7	12.6	15.0
Depreciation	-41	-77	-71	-84	-112	-127	-168	-103	-307	-510
Interest	-8	-6	-13	-23	-48	-57	-54	-72	-64	-231
Other Income	18	8	8	2	11	1	3	45	49	60
<b>PBT</b>	<b>265</b>	<b>227</b>	<b>398</b>	<b>258</b>	<b>414</b>	<b>422</b>	<b>332</b>	<b>474</b>	<b>1,121</b>	<b>1,642</b>
Tax	-33	-24	-39	-7	-111	-116	-55	-83	-77	-365
Rate (%)	12.5	10.6	9.8	2.7	26.8	27.5	16.6	17.6	6.9	22.3
<b>Adjusted PAT</b>	<b>232</b>	<b>203</b>	<b>359</b>	<b>251</b>	<b>303</b>	<b>306</b>	<b>277</b>	<b>391</b>	<b>1,044</b>	<b>1,277</b>
YoY Change (%)	42.1	30.1	98.6	50.2	30.6	50.7	-22.8	55.6	51.4	22.3
Minority Interest	0	0	0	0	0	0	0	-12	0	-12
Exceptional Items	-23	0	-140	-12	0	-45	7	0	-175	0
<b>Reported PAT</b>	<b>209</b>	<b>203</b>	<b>219</b>	<b>240</b>	<b>303</b>	<b>261</b>	<b>284</b>	<b>379</b>	<b>870</b>	<b>1,265</b>

E: MOST Estimates

<http://deadpresident.blogspot.com> Nestle India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,455	NEST IN
	REUTERS CODE
S&P CNX: 3,634	NEST.BO
Equity Shares (m)	96.4
52-Week Range	1,387/800
1,6,12 Rel. Perf. (%)	4/-10/-30
M.Cap. (Rs b)	90.7
M.Cap. (US\$ b)	2.1

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs940

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	28,161	3,270	33.9	-0.6	27.7	14.6	52.6	77.5	3.1	16.5
12/07E	31,998	3,825	39.7	17.0	23.7	13.0	55.0	77.3	2.8	15.0
12/08E	36,066	4,680	48.5	22.3	19.4	11.6	59.7	84.3	2.4	12.2

\* excluding extraordinary items and provisions

- ✗ Nestle is expected to report net sales growth of 16.3% YoY in 1QCY07. Domestic revenues are expected to grow by 14% YoY while exports revenue growth has been assumed at 7%.
- ✗ EBITDA margins at 19.8% are expected to decline 40bp YoY. Higher milk and coffee prices are expected to drag the company's operating margins as the company had passed on the entire excise benefit from the Baddi plant to the consumer.
- ✗ Adjusted PAT is expected to increase 23% YoY to Rs934m, partly aided by decline in tax rates due to commissioning of the Maggi noodles plant in a tax-free zone.
- ✗ The trend in milk prices would be a key to profitability. We expect steady volume growth in the domestic business. The stock is currently trading 23.7x CY07E earnings and 19.4x CY08E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Domestic Sales	6,703	6,328	6,687	6,928	7,641	7,150	7,556	7,984	26,646	30,332
YoY Change (%)	13.5	10.1	10.1	14.1	14.0	13.0	13.0	15.2	11.7	13.8
Exports	508	709	819	760	543	759	876	822	2,796	3,000
YoY Change (%)	-21.7	-9.2	34.8	36.8	7.0	7.0	7.0	8.1	7.9	7.3
<b>Gross Sales (incl Excise)</b>	<b>7,210</b>	<b>7,037</b>	<b>7,506</b>	<b>7,688</b>	<b>8,184</b>	<b>7,909</b>	<b>8,432</b>	<b>8,806</b>	<b>29,442</b>	<b>33,332</b>
YoY Change (%)	10.0	7.8	12.4	15.1	13.5	12.4	12.3	14.5	11.4	13.2
Less: Excise	-451	-225	-279	-378	-325	-325	-315	-368	-1,281	-1,333
<b>Net Sales</b>	<b>6,759</b>	<b>6,812</b>	<b>7,227</b>	<b>7,310</b>	<b>7,859</b>	<b>7,584</b>	<b>8,117</b>	<b>8,438</b>	<b>28,161</b>	<b>31,998</b>
Total Exp	-5,394	-5,530	-5,802	-6,160	-6,300	-6,200	-6,700	-6,868	-22,776	-26,068
<b>EBITDA</b>	<b>1,365</b>	<b>1,282</b>	<b>1,425</b>	<b>1,150</b>	<b>1,559</b>	<b>1,384</b>	<b>1,417</b>	<b>1,569</b>	<b>5,385</b>	<b>5,930</b>
Margins (%)	20.2	18.8	19.7	15.0	19.8	18.3	17.5	18.6	19.1	18.5
Depreciation	-157	-161	-168	-177	-180	-162	-170	-197	-663	-709
Interest	0	-2	0	-1.4	-2.0	-4	-4	-4	-4	-14
Other Income	50	146	47	73	52	148	45	21	206	266
<b>PBT</b>	<b>1,258</b>	<b>1,265</b>	<b>1,303</b>	<b>1,044</b>	<b>1,429</b>	<b>1,366</b>	<b>1,288</b>	<b>1,389</b>	<b>4,924</b>	<b>5,472</b>
Tax	-499	-421	-431	-303	-495	-350	-275	-527	-1,654	-1,647
Rate (%)	39.6	33	33	29	35	26	21	38	33.6	30.1
<b>Adjusted PAT</b>	<b>760</b>	<b>844</b>	<b>872</b>	<b>741</b>	<b>934</b>	<b>1,016</b>	<b>1,013</b>	<b>861</b>	<b>3,270</b>	<b>3,825</b>
YoY Change (%)	-11.0	-4.4	9.9	-4.9	23.0	20.4	16.2	16.2	-0.7	17.0
Extraordinary Inc/(Exp)	127	-34	-42	-169	-125	-30	-40	-61	-119	-256
<b>Reported PAT</b>	<b>886</b>	<b>810</b>	<b>830</b>	<b>572</b>	<b>809</b>	<b>986</b>	<b>973</b>	<b>800</b>	<b>3,151</b>	<b>3,569</b>
YoY Change (%)	13.5	-2.1	11.3	-22.9	-8.7	21.7	17.3	40.0	1.8	13.3

E: MOST Estimates

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<http://deadpresident.blogspot.com> Tata Tea

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TT IN
	REUTERS CODE
S&P CNX: 3,634	TTTE.BO
Equity Shares (m)	56.0
52-Week Range	918/558
1,6,12 Rel. Perf. (%)	3/-21/-40
M.Cap. (Rs b)	33.2
M.Cap. (US\$ b)	0.8

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs593

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	38,711	2,869	51.2	-1.7	11.6	1.6	13.6	9.7	1.0	5.8
3/08E	41,011	2,381	42.5	-17.0	14.0	1.5	9.6	11.1	0.9	4.5
3/09E	43,822	2,947	56.2	32.2	10.6	1.3	11.6	12.4	0.7	3.5

\* Pre-exceptionals

- ✍ We expect Tata Tea to report sales of Rs9.85b in 4QFY07, a growth of 20.7% YoY. Our estimates include the numbers from the Eight O' clock and Gleaceu acquisition.
- ✍ EBITDA margins are expected to increase by 76bp to 15.6% in 4QFY07.
- ✍ Higher interest cost to result in an adjusted PAT growth of just 7.3% to Rs606m for 4QFY07 compared with Rs565m in 4QFY06.
- ✍ The stock is currently trading at 14x FY08E earnings and 10.6x FY09E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>7,167</b>	<b>7,788</b>	<b>8,117</b>	<b>8,167</b>	<b>7,989</b>	<b>9,740</b>	<b>11,126</b>	<b>9,856</b>	<b>31,239</b>	<b>38,711</b>
YoY Change (%)	1.5	3.0	0.7	3.2	11.5	25.1	37.1	20.7	2.1	23.9
Total Exp	5,785	6,173	6,701	6,956	6,412	7,938	9,120	8,319	25,615	31,790
<b>EBITDA</b>	<b>1,382</b>	<b>1,616</b>	<b>1,416</b>	<b>1,211</b>	<b>1,577</b>	<b>1,801</b>	<b>2,005</b>	<b>1,537</b>	<b>5,625</b>	<b>6,920</b>
Margins (%)	19.3	20.7	17.4	14.8	19.7	18.5	18.0	15.6	18.0	17.9
Depreciation	-178	-184	-184	-210	-202	-258	-262	-210	-758	-933
Interest	-260	-244	-244	-237	-274	-472	-909	-742	-1,024	-2,397
Other Income	26	190	190	50	75	210	398	17	269	700
<b>PBT</b>	<b>970</b>	<b>1,379</b>	<b>1,179</b>	<b>814</b>	<b>1,175</b>	<b>1,282</b>	<b>1,232</b>	<b>602</b>	<b>4,111</b>	<b>4,290</b>
Tax	-326	-384	-384	-246	-322	-268	-393	-68	-1,179	-1,051
Rate (%)	33.6	27.9	32.6	30.2	27.4	20.9	31.9	11.3	28.7	24.5
<b>PAT</b>	<b>645</b>	<b>995</b>	<b>795</b>	<b>568</b>	<b>853</b>	<b>1,014</b>	<b>839</b>	<b>533</b>	<b>2,933</b>	<b>3,239</b>
YoY Change (%)	15.8	35.5	-1.7	7.7	32.3	2.0	5.5	-6.1	11.6	10.4
Minority Interest/ Share of Associate	-20	37	37	-3	-34	57	-91	73	-14	-370
<b>Adjusted PAT</b>	<b>625</b>	<b>1,032</b>	<b>833</b>	<b>565</b>	<b>819</b>	<b>1,071</b>	<b>748</b>	<b>606</b>	<b>2,919</b>	<b>2,869</b>
YoY Change (%)	14.6	35.5	12.5	9.1	31.0	3.8	-10.1	7.3	13.8	-1.7
Extraordinary Gains	239	-20	-20	0	-18	870	424	0	73	1,076
<b>Reported PAT</b>	<b>864</b>	<b>1,012</b>	<b>813</b>	<b>565</b>	<b>801</b>	<b>1,941</b>	<b>1,172</b>	<b>606</b>	<b>2,992</b>	<b>3,945</b>
YoY Change (%)	57.3	32.9	-1.3	2,710	-7.3	91.8	44.2	7.3	38.8	31.9

E: MOSt Estimates

<http://deadpresident.blogspot.com> Information Technology

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
Geometric Software	137
HCL Technologies	138
Hexaware Technologies	139
i-flex solutions	140
Infosys	141
Infotech Enterprises	142
KPIT Cummins	143
MphasiS	144
Patni Computer	145
Sasken Communication	146
Satyam Computer	147
TCS	148
Tech Mahindra	149
Wipro	150

We believe with the growing concerns over a possible slow down in the US economy, the key factor in 4QFY07 results will be Infosys' guidance for FY08. Our recent interaction with most of the top IT vendors concluded that there is no change in the robust business outlook with clients due to increasing offshoring demand.

**No signs of slowdown in spending and client traction, though concerns towards US economy increasing:** Indian IT vendors continue to witness strong client traction despite growing concerns of a possible slowdown in the US economy. Currently, companies are not witnessing any slowdown in IT spending growth for CY07. In addition to demand sustenance, the Indian IT industry today is fairly poised to address offshore demand for wider service portfolio from wider base of clients across geographies. Clients are now viewing offshore vendors as not only cost savers but also as business transformation partners, which has created higher demand towards offshore infrastructure management and business process reengineering. Additionally, clients are increasingly adopting a best-of-breed, multi-vendor approach, which would ensure the presence of offshore players in almost all large deals. This has increased the total addressable pie for Indian IT vendors, and led to increase in offshore IT spending by a large number of clients.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY (YOY)

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Information Technology</b>							
Geometric Software	Buy	1,250	17.1	181	6.1	103	-2.1
Hexaware	Buy	2,691	12.0	373	4.4	353	4.5
HCL Technologies	Buy	15,492	5.7	3,481	7.4	2,936	2.6
i-flex solutions	Neutral	6,360	15.6	1,495	40.5	1,157	49.7
Infosys	Buy	39,173	7.2	12,900	7.9	10,508	6.9
Infotech Enterpr	Buy	1,524	6.5	323	0.2	218	16.2
KPIT Cummins Inf	Buy	1,240	5.9	209	17.0	140	2.1
MphasiS	Buy	3,235	5.7	655	11.4	432	20.7
Patni Computer	Neutral	6,843	0.6	1,422	-3.1	1,030	-9.2
Sasken Comm	Buy	1,486	13.4	290	54.0	170	42.8
Satyam Computer	Buy	17,552	5.7	4,095	-0.1	3,571	5.9
TCS	Buy	51,954	6.9	14,977	8.9	11,924	7.9
Tech Mahindra	Buy	8,370	8.7	2,213	6.8	1,776	6.5
Wipro	Buy	42,272	6.7	9,308	4.1	7,672	3.0
<b>Sector Aggregate</b>		<b>199,442</b>	<b>6.9</b>	<b>51,923</b>	<b>7.3</b>	<b>41,990</b>	<b>6.6</b>



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TOP VENDORS SEE NO DIP IN FY08 IT SPENDING AND OFFSHORING MOMENTUM

COMPANY	COMMENTS
Infosys	Incremental caution towards US economy. However, no dip in client spending and traction at present.
TCS	No slowdown in offshore demand foreseen in FY08, even in the event of a US slowdown. Expects 4 quarter lag in demand slowdown in case of any US slowdown.
Wipro	Expects robust traction in both Enterprise and Technology businesses in FY08. Increased offshoring in business transformation deals to help increase addressable pie for offshore vendors.
Cognizant	No slowdown in client spending. No downside to FY08 guidance (Sales growth 43%, EPS growth of 35%) despite concerns on US economy

Source: Company/Motilal Oswal Securities

With respect to Infosys, TCS and Wipro, we expect volume growth of 36-37% with onsite bill rate improvement of 0.5-0.75%, offshore bill rate improvement of 1.5-2% and average rupee appreciation of ~3% in FY08. As a result, we expect sales growth of ~32-33%, EBIDTA margin fall of 40-60bp and PAT growth of 29-31%.

### Infosys FY08 guidance may be muted due to fears of US slowdown

Despite strong traction with clients, Infosys is cautious about the incremental US economic data, including recent sub prime lending issues. In the worst case scenario of a US slowdown, FY08 sales growth of Infosys could slowdown to 25-30% (dollar terms). To factor in the worst fears, Infosys may choose to offer a muted FY08 sales growth guidance (rupee terms) of ~25% or even lower. EPS growth guidance is likely to be lower than sales growth guidance due to expected margin pressure from wage inflation, rupee appreciation as well as likely equity dilution in 4QFY07.

Further, any slowdown in the US economy will also impact the ability of Indian IT vendors to raise bill rates. This, coupled with rupee appreciation, will adversely impact margins, forcing companies to announce measures to control operating costs. Slowdown in the US economy will also lead to deferral in new project spending. However, we believe deferral in new projects/IT spending could be temporary as over a longer period of time more offshoring will emerge. Unlike 2001-02 US slowdown (which was precipitated to a large extent by 9/11), we believe that this would be more of a structural slowdown and therefore throw up more offshoring opportunities. Besides this, Indian IT vendors are much better positioned this time due to higher penetration of Europe and wider service offerings.

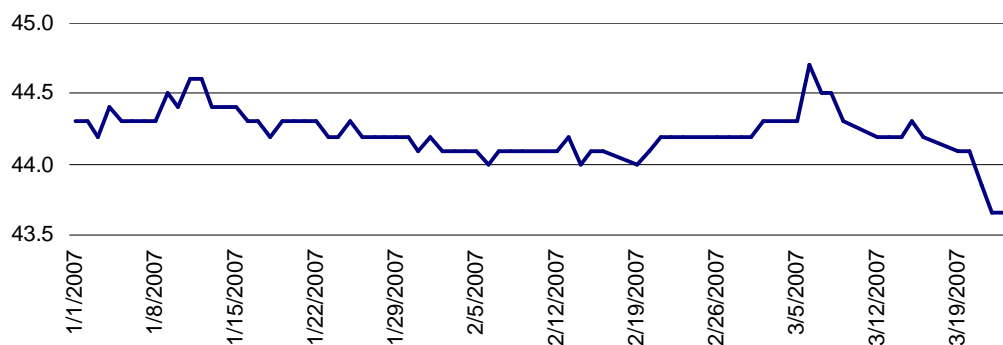
### Rupee continues to be a cause for worry

The rupee continues to strengthen against the US dollar quarter after quarter, rising to 43.7 against the dollar (23 March 2007) from Rs44.3 at the end of 3QFY07, an appreciation of 1.4% QoQ (after 3.3% appreciation in 3QFY07).



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RUPEES VS USD



Source: Company/Motilal Oswal Securities

We have assumed average realized Rs/US\$ rate of Rs44.1 for 4QFY07 and we believe average realized rate for 4QFY07 will not be materially different than our estimate, therefore the impact on margins through rupee dollar will not be materially different than estimates for 4QFY07. However, we have assumed average realized Rs/US\$ rate of around Rs43.8 for FY08 versus current rate of around Rs43.75 (as on 23 March 2007). Therefore, we believe that there could be downside risk to our estimates for FY08 and FY09.

If we assume further appreciation of around 2% for our average realized Rs/\$ rate for FY08 and FY09, then there would be downgrade in FY08 and FY09 EPS estimates by 2.6%-3.9% for Infosys, TCS, Wipro, and Satyam. We believe that impact of rupee appreciation will be relatively lower for TCS due to higher concentration of revenues from Europe and lower dollar billings. We expect higher impact for Satyam, considering higher exposure to the US.

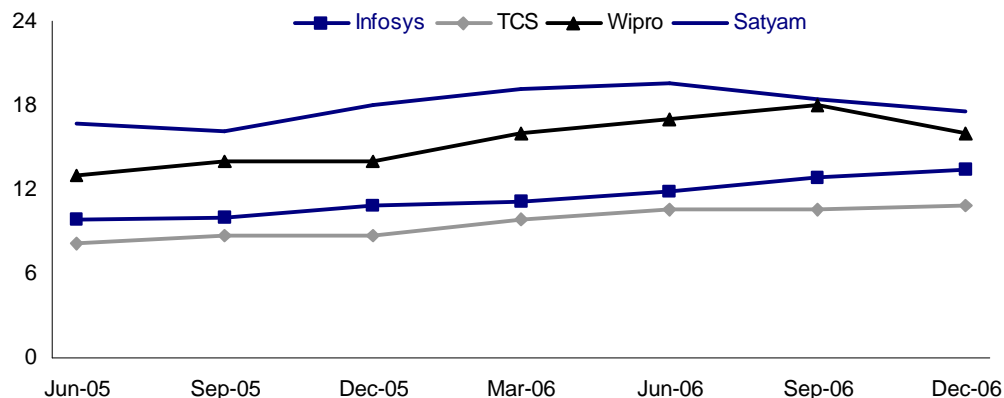
### **Wage pressures to continue into FY08; no signs of incremental hikes yet**

With demand at high levels, the primary concern for the IT industry continues to be supply of manpower. In FY07, the average salary hikes were 3-4% onsite and 13-15% offshore. Certain players such as Satyam, Hexaware etc. (which either had greater exposure to in-demand technologies skills sets such as ERP, or were below industry average in salaries) offered higher hikes than industry averages. Infosys, during its 3QFY07 results, indicated that salary hikes for FY08 are likely to be in line with FY07. However, we believe for players like Satyam, salary hikes for FY08 will be again higher than the industry average to bridge the gap in the salary levels.

In FY07, most of the industry players have increased the salary for freshers joining in FY08 by 10-15%. Any such increment in FY08 (for employees to be joining in FY09) will lead to margin pressure of 20-40bp. Our interaction with most of the leaders also indicated that increasing focus towards employing science graduates and non-IT engineers is likely to increase the available pool of engineers and will mitigate the risk of shortage of manpower for IT services.

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ATTRITION LEVELS ARE ON AN UPWARD TREND



Source: Company/Motilal Oswal Securities

With the recent imposition of FBT on ESOPs making it a less attractive option, some of the smaller companies might be facing higher salary hikes in FY08 than FY07. We believe that FBT on ESOP is also likely to result into some equity dilution in 4QFY07 as most of the companies will be urging their employees to exercise the ESOP in 4QFY07 to avoid the FBT.

### Pricing to act as significant lever against margin pressure in FY08

Companies across the board are witnessing continued billing rate increases with their existing clients. Infosys is witnessing 2-3% increase with some of their existing clients, while TCS is witnessing 3-5% billing rate increase with many clients. 70% of Wipro's Top 100 clients were up for renewals recently and 70% of those have given 3-5% increase in billing rates. Besides this, new clients are coming at higher billing rates with some companies like TCS reporting as much as 5-10% higher rates in new contracts. Cognizant has witnessed 1.5% increase in like-to-like billing rates in CY06 and is expecting little more than 1.5% increase in the billing rates for CY07E (on like-to-like basis)

While most of the price hikes achieved by Indian IT vendors in FY07 are resultant from the improvement in service mix, we believe that high demand coupled with resource scarcity is starting to play a significant role as well. Most companies have seen rate hikes in existing clients in 2HFY07 (notably TCS, which has had most of its hikes with existing clients post October 2006), which is likely to show up more significantly in the FY08 financials. Therefore, we believe pricing would be a key factor that would help industry players combat margin pressures in FY08. However, any slowdown in the US economy could result into temporary deferral in client spending and offshoring, in which case, we believe that billing rate increase foreseen for FY08 will not be achievable.

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#### **Valuation and view**

With the likelihood of a muted guidance from Infosys for FY08 due to its increasing concern towards US economy despite client traction remaining strong, we believe tech sector valuations will be under pressure in the short term. This would in turn rule out any upgrades in EPS expectations. However, we would like to indicate that any muted guidance by Infosys will be just due to a cautious outlook towards the US economy. At present, we see no change in robustness of business outlook even for Infosys. Our interaction with Wipro, TCS have also indicated no signs of slowdown. Cognizant's confidence of achieving CY07 guidance of sales growth of 43% with EPS growth of 35% also indicates bullish outlook towards IT spending and offshoring.

We believe that 1HFY08 performance of tech companies (1H seasonally being high growth period for the sector) will be closely observed for any signs of reversal of demand growth trajectories. However, if cautious outlook towards the US economy is reversed, there could be significant upward revision in FY08 guidance as well as EPS expectation in 1HFY08. Based on our interaction with industry players, we reiterate that there is no change in the business outlook as of now. We have not downgraded our estimates and target price for the same reason. We continue to remain positive on Infosys, TCS, and Wipro in the large cap and on Infotech, Sasken, Subex, and Geometric Software in the midcap space.

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## KEY INDUSTRY METRICS

	FY06				FY07			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE
<b>Services Revenue (INR m)</b>								
TCS (Consolidated)	27,094	29,513	34,527	37,234	41,443	44,822	48,605	51,954
Wipro (Global IT Business)	17,430	18,876	21,528	22,892	24,513	27,179	28,873	30,854
Infosys (Consolidated)	20,716	22,940	25,320	26,240	30,150	34,510	36,550	39,173
Satyam (Consolidated)	10,587	11,550	12,653	13,136	14,429	16,019	16,611	17,552
HCL Tech. (Consolidated)*	9,276	9,709	10,542	11,220	12,538	13,794	14,651	15,479
<b>Net Profit (INR m)</b>								
TCS (Consolidated)	6,187	6,731	7,511	7,725	8,626	9,915	11,047	11,924
Wipro (Consolidated)	4,267	4,704	5,323	5,976	6,120	6,963	7,450	7,673
Infosys (Consolidated)	5,330	6,060	6,490	6,730	8,000	9,290	9,830	10,508
Satyam (Consolidated)	1,902	2,373	2,697	2,847	3,541	3,198	3,372	3,571
HCL Tech. (Consolidated)	1,620	1,675	1,811	1,929	2,331	2,501	2,863	2,760
<b>EBITDA Margin (%)</b>								
TCS (Consolidated)	29.4	28.8	28.3	26.4	24.4	27.4	28.3	28.8
Wipro (Global IT Business)	31.6	27.3	28.9	27.1	27.6	26.8	27.4	26.9
Infosys (Consolidated)	32.0	32.0	34.0	31.7	29.5	32.1	32.7	32.9
Satyam (Consolidated)	22.7	23.9	24.9	25.5	24.6	22.6	24.7	23.3
HCL Tech. (Consolidated)	22.8	22.2	22.5	22.3	22.5	21.7	22.1	22.8
<b>Volumes Growth (%)</b>								
Wipro (Global IT Services only)	6.1	11.0	12.7	7.4	5.5	7.9	9.3	7.8
Infosys (Consolidated)	5.4	10.4	7.9	6.6	7.5	11.0	9.7	8.0
Satyam (Unconsolidated)	9.5	8.0	6.4	6.1	7.0	10.7	8.1	7.0
<b>Recruitment</b>								
Wipro (Global IT Services only)	2,097	4,575	3,770	1,029	2,841	5,328	3,489	2,304
Infosys (Consolidated)	3,056	6,390	3,226	3,293	5,694	7,741	3,282	4,322
Satyam (Unconsolidated)	1,341	1,977	950	3,079	1,123	4,025	2,746	1,267
<b>Utilization Rates (%)</b>								
Wipro (Global IT Services only)	72.3	70.3	67.6	69.9	71.8	68.9	66.5	68.5
Infosys (Consolidated)	74.1	72.9	70.0	69.7	71.1	67.5	67.5	71.5
Satyam (Uncon-offsh + trainees)	74.2	74.7	74.3	72.2	71.2	71.1	68.5	72.0
<b>Billing Rates (US\$/employee p.a) Onsite</b>								
Wipro (Global IT Serv. only)	132,684	131,676	126,924	130,728	131,748	132,696	132,144	132,673
Infosys (Consolidated)	129,326	130,627	130,853	131,548	133,157	134,968	137,063	137,063
Satyam (Unconsolidated)	112,347	112,493	112,533	112,614	112,952	113,460	113,868	113,868
<b>Billing Rates (US\$/employee p.a) Offshore</b>								
Wipro (Global IT Serv. only)	51,780	50,676	50,640	50,748	51,012	50,472	50,268	50,469
Infosys (Consolidated)	50,200	49,267	48,655	47,854	49,172	50,249	50,896	50,896
Satyam (Unconsolidated)	46,227	46,308	46,328	46,388	46,472	46,569	46,625	46,718
<b>Billing Rates Onsite Change (%)</b>								
Wipro (Global IT Services only)	1.4	-0.8	-3.6	3.0	0.8	0.7	-0.4	0.4
Infosys (Consolidated)	-1.7	1.0	0.2	0.5	1.2	1.4	1.6	0.0
Satyam (Unconsolidated)	0.1	0.1	0.0	0.1	0.3	0.4	0.4	0.0
<b>Billing Rate (Offshore) Change (%)</b>								
Wipro (Global IT Services only)	2.2	-2.1	-0.1	0.2	0.5	-1.1	-0.4	0.4
Infosys (Consolidated)	-0.4	-1.9	-1.2	-1.6	2.8	2.2	1.3	0.0
Satyam (Unconsolidated)	0.6	0.2	0.0	0.1	0.2	0.2	0.1	0.2

Note: \*HCL Tech's year end is June; # Offshore with trainees

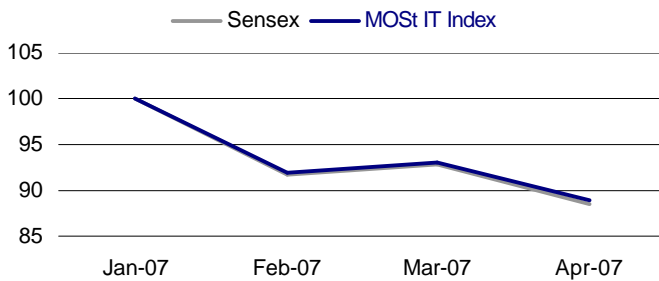
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## Stock performance and valuations

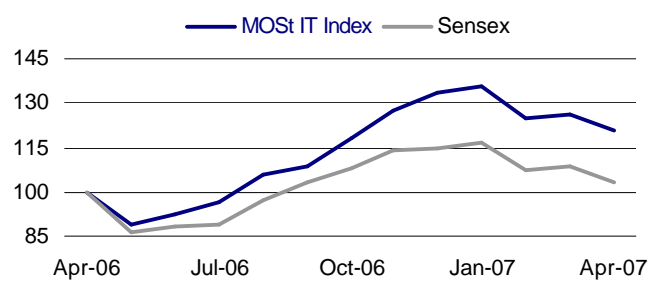
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Information Technology</b>						
Geometric Software	-20	-6	-10	-14	-10	-19
HCL Technologies	-15	-18	-4	-26	-4	-31
Hexaware	-14	-2	-3	-9	-3	-14
i-flex solutions	5	52	16	44	16	39
Infosys	-15	22	-5	15	-5	9
Infotech Enterprises	6	98	16	90	16	85
KPIT Cummins	-7	66	4	59	4	53
MphasiS	-9	27	1	20	1	14
Patni Computer	-10	-17	1	-25	1	-30
Satyam Computer	-12	1	-2	-7	-2	-12
TCS	-5	22	6	14	6	9
Tech Mahindra	-20	-	-9	-	-9	-
Sasken Comm. Tech.	-12	33	-1	26	-1	21
Wipro	-15	-7	-5	-15	-5	-20

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Information Technology</b>														
Geometric Software	99	Buy	6.1	10.1	15.6	16.3	9.8	6.3	10.1	5.6	3.7	20.8	25.5	31.1
Hexaware	168	Buy	9.4	12.9	15.7	17.9	13.1	10.7	14.4	10.6	8.0	22.7	20.8	21.3
HCL Technologies	272	Buy	15.4	18.5	22.4	17.7	14.8	12.2	11.7	8.8	6.9	26.1	28.2	30.3
i-flex solutions	2,057	Neutral	38.7	56.8	72.7	53.2	36.2	28.3	39.6	25.4	20.2	17.6	19.1	20.7
Infosys	1,921	Buy	67.3	87.2	103.4	28.6	22.0	18.6	22.9	17.0	13.5	43.3	39.4	34.6
Infotech Enterprises	351	Buy	17.2	23.7	30.3	20.4	14.8	11.6	13.6	9.6	7.3	31.4	32.0	30.6
KPIT Cummins	131	Buy	6.8	9.1	12.1	19.3	14.4	10.8	14.2	9.9	7.2	29.6	29.5	29.9
MphasiS	275	Buy	7.2	11.6	13.5	38.0	23.7	20.3	21.3	14.7	12.0	26.8	34.1	31.2
Patni Computer	375	Neutral	25.8	30.9	36.9	14.5	12.1	10.2	7.9	6.1	4.6	16.8	17.6	17.9
Sasken Comm	475	Buy	17.5	30.4	39.4	27.1	15.6	12.0	16.8	9.8	7.1	12.1	18.3	20.2
Satyam Computer	446	Buy	20.9	25.6	30.1	21.4	17.4	14.9	16.5	12.8	10.2	27.7	27.1	25.6
TCS	1,189	Buy	42.4	55.0	66.6	28.0	21.6	17.9	22.6	17.1	13.8	54.3	46.9	39.9
Tech Mahindra	1,342	Buy	45.0	60.9	85.2	29.8	22.0	15.8	21.6	15.6	10.9	46.2	42.3	36.3
Wipro	518	Buy	19.6	25.7	30.5	26.4	20.1	17.0	20.6	15.0	11.7	31.1	31.5	29.3
<b>Sector Aggregate</b>						<b>26.6</b>	<b>20.4</b>	<b>16.8</b>	<b>20.7</b>	<b>15.3</b>	<b>12.1</b>	<b>35.9</b>	<b>34.7</b>	<b>32.2</b>

<http://deadpresident.blogspot.com> Geometric Software

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GMSS IN
	REUTERS CODE
S&P CNX: 3,634	GEOM.BO
Equity Shares (m)	61.3
52-Week Range	145/73
1,6,12 Rel. Perf. (%)	-3/-9/-14
M.Cap. (Rs b)	6.1
M.Cap. (US\$ b)	0.1

2 April 2007

Buy

Previous Recommendation: Buy

Rs99

YEAR END *	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	3,838	373	6.1	52.9	16.3	2.8	20.8	16.1	1.8	10.4
3/08E	6,653	617	10.1	65.5	9.8	2.3	25.5	18.5	1.0	5.9
3/09E	9,285	957	15.6	55.1	6.3	1.7	31.1	24.6	0.7	4.0

\* Including Modern Engineering

- ✗ We expect Geometric to report consolidated revenue growth (including Modern Engineering) of 17.1% QoQ on the strength of full quarter integration of Modern Engineering (Consolidated w.e.f. November 2006). We expect Modern Engineering also to post good sequential growth in revenue following a slow quarter due to holiday season in 3QFY07.
- ✗ Consolidated EBITDA margin is expected to decline 150bp due to full quarter integration of low margin business of Modern Engineering, likely investment in strengthening of senior / middle level management and impact of rupee appreciation. However, we expect this to be a short term phenomenon and expect margins to benefit from higher billing rates, greater offshoring in engineering and cross selling over the longer term.
- ✗ Consolidated net profit, which increased 4.5% QoQ in 3QFY07, is expected to decline 2.1% in 4QFY07 due to margin pressures during the quarter.
- ✗ The stock is currently trading at 9.8x FY08E and 6.3x FY09E earnings (including Modern Engineering and likely dilution). We remain positive on the improved revenue and earnings visibility for Geometric due to change in business strategies, expected strengthening of execution and sales and marketing capabilities. Maintain **Buy**.
- ✗ **Key issues:** Modern integration, margins, attrition rates.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q*	4QE*		
<b>Revenues</b>	<b>486</b>	<b>510</b>	<b>599</b>	<b>639</b>	<b>721</b>	<b>800</b>	<b>1,067</b>	<b>1,250</b>	<b>2,234</b>	<b>3,838</b>
Q-o-Q Change (%)	-2.6	5.0	17.4	6.7	12.8	10.9	33.5	17.1	32.9	71.8
Total Operating Exps	403	413	448	478	558	649	897	1,070	1,741	3,174
<b>Operating Profit</b>	<b>83</b>	<b>98</b>	<b>151</b>	<b>162</b>	<b>163</b>	<b>151</b>	<b>170</b>	<b>181</b>	<b>493</b>	<b>664</b>
Margins (%)	17.2	19.1	25.2	25.3	22.6	18.8	15.9	14.4	22.1	17.3
Other Income	31	-2	-40	39	-29	29	49	47	28	95
Interest	0	0	0	0	0	0	16	20	0	36
Depreciation	37	41	46	49	49	50	57	61	172	216
<b>PBT bef. Extra-ordinary</b>	<b>78</b>	<b>55</b>	<b>65</b>	<b>152</b>	<b>85</b>	<b>130</b>	<b>146</b>	<b>147</b>	<b>350</b>	<b>507</b>
Provision for Tax	14	8	12	27	10	14	22	21	61	67
Rate (%)	17.4	14.3	19.1	17.9	11.8	10.6	15.0	14.5	17.5	13.2
Minority Interest	19	13	13	18	11	15	19	22	64	67
<b>Net Income bef. Extra-ordinary</b>	<b>45</b>	<b>34</b>	<b>39</b>	<b>107</b>	<b>63</b>	<b>101</b>	<b>105</b>	<b>103</b>	<b>225</b>	<b>373</b>
Q-o-Q Change (%)	-45.1	-24.5	16.0	172.2	-40.6	59.0	4.5	-2.1	-18.2	65.9

E: MOST Estimates; \* Including Modern Engineering

<http://deadpresident.blogspot.com> HCL Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HCLT IN
	REUTERS CODE
S&P CNX: 3,634	HCLT.BO
Equity Shares (m)	653.6
52-Week Range	358/181
1,6,12 Rel. Perf. (%)	-10/-2/-26
M.Cap. (Rs b)	178.0
M.Cap. (US\$ b)	4.1

2 April 2007

Buy

Previous Recommendation: Buy

Rs272

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
6/07E	60,371	10,125	15.4	40.6	17.7	4.0	26.1	28.5	2.6	11.7
6/08E	80,036	12,414	18.5	20.0	14.8	3.6	28.2	31.6	1.9	8.8
6/09E	103,395	15,352	22.4	21.3	12.2	3.3	30.3	34.5	1.4	6.9

\* After ESOP charges

- ✂ We expect HCL Technologies to post 5.7% QoQ growth in consolidated revenue led by strong growth in infrastructure services.
- ✂ We expect infrastructure services to lead growth at 9.1% QoQ, while software services are likely to grow 5.4% QoQ. BPO is expected to grow slower at 4% QoQ due to restructuring.
- ✂ We expect consolidated EBITDA margin to increase 40bp despite rupee appreciation due to improved price realizations, ramp ups in large deals post knowledge transfer and improvement in utilization rates during the quarter.
- ✂ Due to anticipation of lower other income and higher tax rates (at 9% for 3QFY07 vs 6.6% in 2QFY07), we expect net profit (after ESOP charges) to grow at lower pace 2.2% QoQ to Rs2.65b.
- ✂ The stock trades at 14.8x FY08E and 12.2x FY09E earnings (after ESOP charges). We remain positive on the potential for further traction from HCL Tech's expanded service portfolio and believe that the potential for positive surprises is high. We reiterate **Buy**.
- ✂ **Key issues:** Margins, attrition rates.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Revenues</b>	<b>9,709</b>	<b>10,542</b>	<b>11,220</b>	<b>12,538</b>	<b>13,794</b>	<b>14,651</b>	<b>15,492</b>	<b>16,434</b>	<b>43,882</b>	<b>60,371</b>
Q-o-Q Change (%)	4.7	8.6	6.4	11.7	10.0	6.2	5.7	6.1	30.5	37.6
Direct Expenses	6,093	6,564	6,979	7,946	8,709	9,107	9,597	10,217	27,571	37,631
Sales, General & Admin. Expenses	1,458	1,601	1,743	1,777	2,098	2,303	2,413	2,501	6,582	9,315
<b>Operating Profit</b>	<b>2,158</b>	<b>2,377</b>	<b>2,498</b>	<b>2,815</b>	<b>2,987</b>	<b>3,241</b>	<b>3,481</b>	<b>3,716</b>	<b>9,729</b>	<b>13,426</b>
Margins (%)	22.2	22.5	22.3	22.5	21.7	22.1	22.5	22.6	22.2	22.2
Other Income	124	143	255	56	290	481	400	225	573	1,396
Depreciation	447	493	530	562	556	623	654	709	1,916	2,541
<b>PBT bef. Extra-ordinary</b>	<b>1,835</b>	<b>2,027</b>	<b>2,223</b>	<b>2,309</b>	<b>2,721</b>	<b>3,099</b>	<b>3,228</b>	<b>3,233</b>	<b>8,386</b>	<b>12,280</b>
Provision for Tax	169	203	277	-23	219	206	258	339	632	1,023
Rate (%)	9.2	10.0	12.5	-1.0	8.0	6.6	8.0	10.5	7.5	8.3
Share of Income from Eq. Investees	0	-7	-6	7	4	-7	-8	-9	-6	-20
Minority Interest	-9	6	11	8	5	23	25	28	16	81
<b>PAT bef. EO &amp; ESOP Charges</b>	<b>1,675</b>	<b>1,811</b>	<b>1,929</b>	<b>2,331</b>	<b>2,501</b>	<b>2,863</b>	<b>2,936</b>	<b>2,856</b>	<b>7,732</b>	<b>11,156</b>
Q-o-Q Change (%)	3.4	8.1	6.5	20.8	7.3	14.5	2.6	-2.7	27.0	44.3

E: MOST Estimates



<http://deadpresident.blogspot.com>  
Hexaware Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HEXW IN
	REUTERS CODE
S&P CNX: 3,634	HEXT.BO
Equity Shares (m)	132.2
52-Week Range	205/110
1,6,12 Rel. Perf. (%)	11/-1/-9
M.Cap. (Rs b)	22.2
M.Cap. (US\$ b)	0.5

2 April 2007

Buy

Previous Recommendation: Buy

Rs168

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	8,482	1,242	9.4	29.8	17.9	3.0	22.7	24.8	2.2	14.4
12/07E	12,213	1,698	12.9	36.8	13.1	2.5	20.8	23.2	1.6	10.6
12/08E	15,601	2,071	15.7	22.0	10.7	2.1	21.3	23.6	1.2	8.0

\*Including Focus Frame

- ✂ We expect Hexaware to post growth of 12% (guided growth of 9.7-11.6%) in revenue backed by full quarter integration of Focus Frame (Consolidated w.e.f 28 November 2006).
- ✂ Margins, which declined 110bp in 3QFY07, are expected to slide further by 100bp due to lower margin business from Focus Frame, one-time business restructuring expenses (around US\$1m), and rupee appreciation. However, we expect the higher utilisation rates to ease pressure on margins during 1QCY07.
- ✂ Net profit is expected to grow at 4.5% QoQ to US\$8m (versus guided PAT of US\$7.8-8m) due to decline in margins during the quarter.
- ✂ Outstanding order book increased to US\$250m (US\$170m for CY07) with US\$40m new business won during 4QCY06. We expect good traction in its existing business (non Focus Frame) as well as Focus Frame.
- ✂ The stock is currently trading at 13.1x CY07E and 10.7x CY08E earnings (including Focus Frame) at which valuations appear attractive. Maintain **Buy**.
- ✂ **Key issues:** Margins, organic growth, attrition rates.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06*	CY07E
	1Q	2Q	3Q	4Q*	1Q	2Q	3Q	4Q		
<b>Revenues</b>	<b>1,762</b>	<b>2,069</b>	<b>2,250</b>	<b>2,402</b>	<b>2,691</b>	<b>2,919</b>	<b>3,184</b>	<b>3,420</b>	<b>8,482</b>	<b>12,213</b>
Q-o-Q Change (%)	1.2	17.4	8.7	6.8	12.0	8.5	9.1	7.4	25.0	44.0
Direct Expenses	1,080	1,324	1,412	1,501	1,692	1,922	2,064	2,212	5,318	7,890
Sales, General & Admin. Expenses	388	434	477	544	626	607	630	643	1,842	2,506
<b>Operating Profit</b>	<b>294</b>	<b>311</b>	<b>361</b>	<b>357</b>	<b>373</b>	<b>390</b>	<b>489</b>	<b>565</b>	<b>1,322</b>	<b>1,817</b>
Margins (%)	16.7	15.0	16.0	14.9	13.9	13.4	15.4	16.5	15.6	14.9
Other Income	35	46	80	79	83	87	92	96	241	358
Depreciation	46	46	55	53	62	67	73	79	200	281
<b>PBT bef. Extra-ordinary</b>	<b>282</b>	<b>311</b>	<b>385</b>	<b>384</b>	<b>394</b>	<b>410</b>	<b>507</b>	<b>583</b>	<b>1,363</b>	<b>1,894</b>
Provision for Tax	22	13	39	46	41	43	52	58	120	195
Rate (%)	7.8	4.3	10.0	12.0	10.5	10.5	10.3	10.0	8.8	10.3
<b>Net Income</b>	<b>260</b>	<b>298</b>	<b>347</b>	<b>338</b>	<b>353</b>	<b>367</b>	<b>455</b>	<b>524</b>	<b>1,242</b>	<b>1,699</b>
Q-o-Q Change (%)	5.1	14.4	16.5	-2.7	4.5	4.0	24.1	15.2	35.8	36.8

E: MOST Estimates, \* Including Focus Frame for 1 month

<http://deadpresident.blogspot.com>  
i-flex solutions

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	IFLEX IN
	REUTERS CODE
S&P CNX: 3,634	IFLX.BO
Equity Shares (m)	81.3
52-Week Range	2,174/840
1,6,12 Rel. Perf. (%)	12/43/44
M.Cap. (Rs b)	167.3
M.Cap. (US\$ b)	3.8

2 April 2007

Neutral

Previous Recommendation: Buy

Rs2,057

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	20,947	3,149	38.7	34.7	53.2	7.5	17.6	19.9	7.5	39.6
3/08E	28,600	4,619	56.8	46.7	36.2	6.4	19.1	22.6	5.5	25.9
3/09E	35,225	5,916	72.7	28.1	28.3	5.4	20.7	24.8	4.5	21.1

- ✎ We expect i-flex solutions to report revenue growth of 15.6% QoQ on back of continued growth in product revenue and expected strong growth in services revenues.
- ✎ We expect the products to grow 16.8% boosted by recent deal wins for both FLEXCUBE, Reveleus and resulting higher growth in license revenues. Services, which declined 4.2% in 3QFY07, is expected to grow 14% QoQ due to booking of milestone payments during the quarter (deferred during 3QFY07). KPO is expected to grow 12% QoQ.
- ✎ EBITDA margin is expected to improve 415bp to 23.5% due to strong product growth as well as revival in the services business.
- ✎ Net profit is expected to increase 49.7% QoQ to Rs1.15b due to strong revenue growth and improvement in margins during the quarter.
- ✎ The stock currently trades at 36.2x FY08E and 28.3x FY09E earnings, which do not offer any major room for upside. Maintain **Neutral**.
- ✎ **Key issues:** License revenue growth, growth in tank, service revenue.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>2,701</b>	<b>3,593</b>	<b>3,965</b>	<b>4,577</b>	<b>4,075</b>	<b>5,009</b>	<b>5,502</b>	<b>6,360</b>	<b>14,835</b>	<b>20,947</b>
Q-o-Q Change (%)	-22.5	33.1	10.3	15.4	-11.0	22.9	9.8	15.6	30.1	41.2
Direct Expenses	1,743	2,074	2,051	2,279	2,605	2,735	3,092	3,369	8,148	11,801
Sales, General & Admin. Expenses	822	968	963	985	1,012	1,304	1,346	1,496	3,738	5,158
<b>Operating Profit</b>	<b>135</b>	<b>551</b>	<b>950</b>	<b>1,313</b>	<b>458</b>	<b>970</b>	<b>1,064</b>	<b>1,495</b>	<b>2,950</b>	<b>3,988</b>
Margins (%)	5.0	15.3	24.0	28.7	11.2	19.4	19.3	23.5	19.9	19.0
Other Income	70	115	-12	105	200	124	-2	130	277	452
Depreciation	113	113	127	152	160	166	260	297	505	883
Share of Associate Company Loss	3	-2	-3	-1	-2	-2	-3	-2	-3	-9
<b>PBT</b>	<b>90</b>	<b>555</b>	<b>814</b>	<b>1,267</b>	<b>500</b>	<b>931</b>	<b>806</b>	<b>1,330</b>	<b>2,726</b>	<b>3,567</b>
Provision for Tax	31	151	255	98	85	127	33	173	535	418
Rate (%)	34.5	27.2	31.4	7.8	17.1	13.6	4.1	13.0	19.6	11.7
<b>PAT</b>	<b>59</b>	<b>404</b>	<b>559</b>	<b>1,169</b>	<b>415</b>	<b>804</b>	<b>773</b>	<b>1,157</b>	<b>2,190</b>	<b>3,149</b>
Q-o-Q Change (%)	-92.8	589.0	38.3	109.3	-64.5	93.9	-3.8	49.7	7.8	43.7

E: Most Estimates; include Mantas

<http://deadpresident.blogspot.com> Infosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	INFO IN
	REUTERS CODE
S&P CNX: 3,634	INFY.BO
Equity Shares (m)	557.8
52-Week Range	2,439/1,225
1,6,12 Rel. Perf. (%)	-5/5/15
M.Cap. (Rs b)	1,071.7
M.Cap. (US\$ b)	24.7

2 April 2007

Buy

Rs1,921

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07E*	140,383	37,568	67.3	50.7	28.6	10.3	43.3	48.9	7.3	22.9
3/08E	186,547	48,707	87.2	29.7	22.0	7.5	39.4	44.7	5.3	17.1
3/09E	234,677	57,751	103.4	18.6	18.6	5.6	34.6	40.0	4.1	13.5

\* 1:1 bonus in FY07, accordingly ratios are adjusted, PAT figures are adjusted PAT

- ✂ We expect Infosys to report revenue growth of 7.2% QoQ (dollar revenue growth of 8.1% against guided growth of 4.4-4.6%) backed by 8% growth in consolidated volumes during the quarter.
- ✂ We expect EBITDA margin to improve 20bp to 32.9% during 4QFY07. Expected higher utilization rates, SG&A leverage would serve to combat rupee appreciation. PAT is expected to grow 6.9% QoQ (guided EPS growth 1.5%, equity likely to be diluted during 4QFY07 due to exercise of ESOPs) in 4QFY07.
- ✂ Infosys' guidance for FY08 would be a key factor in the results, since it would set the tone for expectations of growth in FY08. We believe that the guidance is likely to be muted due to conservative outlook towards US economy (expect sales guidance (rupee terms) of around 25% growth or even lower) despite business outlook with clients remaining strong. EPS growth guidance is likely to be lower than sales growth guidance due to expected margin pressure from wage inflation, rupee appreciation as well as likely equity dilution in 4QFY07.
- ✂ The stock currently trades at 22x FY08E and 18.6x FY09E earning. We remain positive over long term fundamentals of the stock despite likely pressure on near term valuation, due to expected muted FY08 guidance. Maintain **Buy**.
- ✂ **Key issues:** Margins, other income, FY08 guidance.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>20,716</b>	<b>22,940</b>	<b>25,320</b>	<b>26,240</b>	<b>30,150</b>	<b>34,510</b>	<b>36,550</b>	<b>39,173</b>	<b>95,216</b>	<b>140,383</b>
Q-o-Q Change (%)	4.2	10.7	10.4	3.6	14.9	14.5	5.9	7.2	33.5	47.4
Direct Expenses	11,044	12,120	13,270	14,220	16,660	18,330	19,380	20,750	50,654	75,120
Sales, General & Admin. Exp.	3,033	3,480	3,440	3,690	4,600	5,090	5,210	5,523	13,643	20,423
<b>Operating Profit</b>	<b>6,638</b>	<b>7,340</b>	<b>8,610</b>	<b>8,330</b>	<b>8,890</b>	<b>11,090</b>	<b>11,960</b>	<b>12,900</b>	<b>30,918</b>	<b>44,840</b>
Margins (%)	32.0	32.0	34.0	31.7	29.5	32.1	32.7	32.9	32.5	31.9
Other Income	286	440	-50	720	1,250	660	590	705	1,396	3,205
Depreciation	801	960	1,170	1,440	1,060	1,220	1,410	1,704	4,371	5,394
<b>PBT bef. Extra-ordinary</b>	<b>6,123</b>	<b>6,820</b>	<b>7,390</b>	<b>7,610</b>	<b>9,080</b>	<b>10,530</b>	<b>11,140</b>	<b>11,900</b>	<b>27,943</b>	<b>42,650</b>
Provision for Tax	802	690	830	810	1,060	1,230	1,300	1,392	3,132	4,982
Rate (%)	13.1	10.1	11.2	10.6	11.7	11.7	11.7	11.7	11.2	11.7
<b>PAT bef. Minority</b>	<b>5,331</b>	<b>6,130</b>	<b>6,560</b>	<b>6,800</b>	<b>8,020</b>	<b>9,300</b>	<b>9,840</b>	<b>10,508</b>	<b>24,811</b>	<b>37,668</b>
Minority Interest	-2	-60	-70	-70	-80	-10	-10	0	-210	-100
Extra-ordinary Items	0	-10	0	0	60	0	0	0	-18	60
<b>PAT aft. Minority and Ext-ord</b>	<b>5,330</b>	<b>6,060</b>	<b>6,490</b>	<b>6,730</b>	<b>8,000</b>	<b>9,290</b>	<b>9,830</b>	<b>10,508</b>	<b>24,583</b>	<b>37,628</b>
Q-o-Q Change (%)	3.8	13.7	7.1	3.7	18.9	16.1	5.8	6.9	33.1	53.1

E: MOST Estimates

<http://deadpresident.blogspot.com>  
Infotech Enterprises

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	INFTC IN
	REUTERS CODE
S&P CNX: 3,634	INFE.BO
Equity Shares (m)	45.8
52-Week Range	447/127
1,6,12 Rel. Perf. (%)	3/66/90
M.Cap. (Rs b)	16.0
M.Cap. (US\$ b)	0.4

2 April 2007

Buy

Previous Recommendation: Buy

Rs351

YEAR END *	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	5,438	786	17.2	69.4	20.4	5.6	31.4	28.9	2.9	13.6
3/08E	7,506	1,083	23.7	37.8	14.8	4.1	32.0	29.2	2.0	9.6
3/09E	10,078	1,385	30.3	27.8	11.6	3.1	30.6	28.6	1.4	7.3

\* 1:2 bonus and split of Rs10 share into 2 shares of Rs5 each in FY07, ratios accordingly adjusted

- ✗ We expect Infotech Enterprises to report revenue growth of 6.5% QoQ driven by 8% growth in engineering services (ES) due to continued offshoring momentum and ramp ups from top clients.
- ✗ We expect Geospatial Services (GS) to grow slower at 4.2% QoQ due to continued restructuring in the VARGIS subsidiary in the US. However, Europe is expected to perform better within the GS geographies.
- ✗ EBITDA margin, which increased to 22.6% in 3QFY07, is expected to decline 140bp in 4QFY07 due to investments in building new competencies, revival in lower margin GS revenue and rupee appreciation during the quarter.
- ✗ IASI, the 49% subsidiary in Puerto Rico reported one-time losses in 3QFY07, which impacted overall profit by Rs12.3m in 3QFY07. In 4QF07, we expect profit share from IASI to return to normal, which will add Rs22m to the bottomline.
- ✗ Following strong revenue growth and turnaround in IASI, we expect PAT to grow at 16.2% QoQ to Rs218m.
- ✗ The stock currently trades at 14.8x FY08E and 11.6x FY09E earning. Infotech continues to be a preferred bet in the mid cap IT space, given the high revenue visibility and presence in a high growth domain. We reiterate **Buy**.
- ✗ **Key issues:** GS revenue, margins, IASI profits.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>782</b>	<b>824</b>	<b>941</b>	<b>1,078</b>	<b>1,170</b>	<b>1,313</b>	<b>1,430</b>	<b>1,524</b>	<b>3,625</b>	<b>5,438</b>
Q-o-Q Change (%)	20.0	5.3	14.2	14.6	8.6	12.2	9.0	6.5	41.0	50.0
Direct Expenses	365	394	443	495	569	621	656	708	1,696	2,554
Sales, General & Admin. Expenses	281	269	320	385	382	409	452	492	1,256	1,734
<b>Operating Profit</b>	<b>136</b>	<b>160</b>	<b>178</b>	<b>199</b>	<b>219</b>	<b>284</b>	<b>323</b>	<b>323</b>	<b>673</b>	<b>1,149</b>
Margins (%)	17.4	19.5	18.9	18.4	18.7	21.6	22.6	21.2	18.6	21.1
Other Income	-12	7	12	14	43	5	0	5	21	53
Depreciation	45	44	49	48	54	63	66	73	186	256
Interest	2	1	2	6	3	4	5	5	11	17
<b>PBT bef. Extra-ordinary</b>	<b>78</b>	<b>122</b>	<b>139</b>	<b>158</b>	<b>206</b>	<b>222</b>	<b>252</b>	<b>250</b>	<b>498</b>	<b>930</b>
Provision for Tax	11	25	21	36	42	49	52	54	93	197
Rate (%)	14.2	20.8	15.1	22.6	20.3	22.1	20.7	21.5	18.8	21.2
<b>PAT bef. JV P/L</b>	<b>67</b>	<b>97</b>	<b>118</b>	<b>123</b>	<b>164</b>	<b>173</b>	<b>200</b>	<b>196</b>	<b>404</b>	<b>733</b>
Q-o-Q Change (%)	-12.4	44.5	22.3	3.6	34.0	5.2	15.8	-1.9	62.2	81.2
Share of Profit from JV (IASI)	30	12	15	43	14	30	-12	22	59	53
<b>PAT bef. Extra-ordinary</b>	<b>97</b>	<b>109</b>	<b>133</b>	<b>166</b>	<b>178</b>	<b>203</b>	<b>188</b>	<b>218</b>	<b>463</b>	<b>786</b>
Q-o-Q Change (%)	9.0	12.0	22.2	24.6	7.1	14.1	-7.4	16.2	69.1	69.7

E: MOST Estimates

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<http://deadpresident.blogspot.com>  
KPIT Cummins Infosystems

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	NKIPT IN
	REUTERS CODE
S&P CNX: 3,634	KPIT.BO
Equity Shares (m)	74.5
52-Week Range	181/66
1,6,12 Rel. Perf. (%)	8/41/59
M.Cap. (Rs b)	9.7
M.Cap. (US\$ b)	0.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs131

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	4,574	504	6.8	51.4	19.3	4.9	29.6	21.6	2.2	14.2
3/08E	6,107	677	9.1	34.2	14.4	3.7	29.5	23.0	1.6	9.9
3/09E	7,956	904	12.1	33.5	10.8	2.8	29.9	25.7	1.2	7.2

- ✍ We expect KPIT Cummins to report revenue growth of 5.9% QoQ driven by pick up in volume growth. Advance Technology Solutions (ATS), Business Intelligence (BI) and BPO are expected to be the growth drivers. We expect Cummins and other star customers to register good growth during the quarter.
- ✍ We anticipate 160bp improvement in EBITDA margin during the quarter despite the rupee appreciation. This is on account of higher composition of growth from ATS and BI (which are high margin businesses), higher utilization rates and expected SG&A leverage due to stronger sales traction during the quarter.
- ✍ We expect interest and depreciation to increase sequentially due to full quarter operations of Hinjawadi Phase II facility. Tax rate in 3QFY07 was low at 3.2% account of deferred tax credits during the quarter. In 4QFY07, we expect tax rate to increase to 11%. Therefore, we expect lower profit growth at 2.1% to Rs140m.
- ✍ We expect the growth momentum to sustain post FY07 driven by KPIT's better positioning in the manufacturing segment and strong traction from its star customers. We expect management to guide for strong financial growth post FY07.
- ✍ The stock currently trades at 14.4x FY08E and 10.8x FY09E earnings. We maintain **Buy**.
- ✍ **Key issues:** Growth in non star customers, margins.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>700</b>	<b>777</b>	<b>804</b>	<b>902</b>	<b>1,023</b>	<b>1,140</b>	<b>1,171</b>	<b>1,240</b>	<b>3,182</b>	<b>4,574</b>
Q-o-Q Change (%)	4.0	11.0	3.5	12.1	13.4	11.5	2.7	5.9	26.0	43.7
Direct Expenses	236	371	402	426	530	577	570	619	1,435	2,296
Sales, General & Admin. Expenses	377	300	286	325	340	384	423	412	1,288	1,559
<b>Operating Profit</b>	<b>87</b>	<b>106</b>	<b>116</b>	<b>150</b>	<b>152</b>	<b>179</b>	<b>178</b>	<b>209</b>	<b>459</b>	<b>719</b>
Margins (%)	12.5	13.6	14.5	16.7	14.9	15.7	15.2	16.8	14.4	15.7
Other Income	4	0	0	0	1	0	1	1	4	2
Depreciation	17	20	22	23	25	30	30	38	82	124
Interest	5	3	5	9	11	7	9	13	23	41
<b>PBT bef. Extra-ordinary</b>	<b>69</b>	<b>83</b>	<b>89</b>	<b>119</b>	<b>117</b>	<b>141</b>	<b>140</b>	<b>158</b>	<b>359</b>	<b>556</b>
Provision for Tax	5	7	6	16	13	18	4	17	33	53
Rate (%)	6.7	7.9	6.8	13.3	11.3	12.5	3.2	11.0	9.2	9.5
<b>PAT bef. MI and EO</b>	<b>64</b>	<b>76</b>	<b>83</b>	<b>103</b>	<b>104</b>	<b>124</b>	<b>135</b>	<b>141</b>	<b>326</b>	<b>503</b>
Minority Interest (MI)					0	0	-2	0	0	-1
<b>PAT aft. MI and before EO</b>	<b>64</b>	<b>76</b>	<b>83</b>	<b>103</b>	<b>103</b>	<b>123</b>	<b>137</b>	<b>140</b>	<b>326</b>	<b>504</b>
Q-o-Q Change (%)	-14.9	19.2	8.6	24.2	0.7	19.3	11.1	2.1	16.0	54.9

E: Most Estimates



<http://deadpresident.blogspot.com> Mphasis

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BFL IN
	REUTERS CODE
S&P CNX: 3,634	MBFL.BO
Equity Shares (m)	162.4
52-Week Range	329/121
1,6,12 Rel. Perf. (%)	8/42/20
M.Cap. (Rs b)	44.6
M.Cap. (US\$ b)	1.0

2 April 2007

Buy

Previous Recommendation: Buy

Rs275

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	11,820	1,174	7.2	-22.3	38.0	9.1	26.8	30.7	3.7	21.3
3/08E	14,965	1,886	11.6	60.6	23.7	7.1	34.1	39.3	2.8	14.7
3/09E	18,605	2,200	13.5	16.6	20.3	5.6	31.2	36.2	2.2	12.0

Does not include EDS India financials

- ✘ We expect Mphasis to report consolidated revenue growth of 5.7% in 4QFY07 (without including EDS India) with 6.2% growth in IT services and 4.6% in BPO services.
- ✘ Mphasis has started tapping top 17 clients of EDS Global, and we expect EDS driven revenue to contribute significantly during the quarter.
- ✘ BPO operations, which returned to the black in 3QFY07, are expected to be muted due to ongoing restructuring exercise.
- ✘ EBITDA margin expanded by 260bp to 19.2% in 3QFY07, driven by higher realized billing rates, improved utilization in IT services and breakeven in India operations of the BPO business. In 4QFY07, we expect a further increase of 110bp due to higher realizations in both BPO and IT services, economies of scale and SG&A leverage.
- ✘ Other income in 3QFY07 was negative Rs50m due to higher forex losses. In 4QFY07, we expect other income to turn positive at Rs13m on expected reduction due to lower mark-to-mark appreciation for industry players.
- ✘ Tax rate was low at 5.3% in 3QFY07 due to deferred tax credit of Rs8m during 3QFY07. In 4QFY07, we expect tax rate to increase to 13% levels.
- ✘ Due to the recovery in margins and higher other income, net profit is expected to grow at 20.7% QoQ to Rs432m.
- ✘ The stock is currently trading at 18.7x FY08E and 15.2x FY09E earnings (on a diluted basis including EDS (I) and full upside through EDS Global). Maintain **Buy**.
- ✘ **Key issues:** Revenue growth through EDS, BPO revenue, margins.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>2,197</b>	<b>2,274</b>	<b>2,425</b>	<b>2,505</b>	<b>2,607</b>	<b>2,919</b>	<b>3,060</b>	<b>3,235</b>	<b>9,401</b>	<b>11,821</b>
Q-o-Q Change (%)	7.1	3.5	6.6	3.3	4.1	12.0	4.8	5.7	22.8	25.7
Direct Expenses	1,468	1,439	1,529	1,620	1,858	1,935	1,982	2,068	6,043	7,844
Sales, General & Admin. Expenses	338	340	333	372	434	499	489	511	1,378	1,933
<b>Operating Profit</b>	<b>391</b>	<b>495</b>	<b>562</b>	<b>513</b>	<b>315</b>	<b>485</b>	<b>588</b>	<b>655</b>	<b>1,981</b>	<b>2,044</b>
Margins (%)	17.8	21.8	23.2	20.5	12.1	16.6	19.2	20.3	21.1	17.3
Other Income	58	30	-16	22	42	-56	-50	13	94	-50
Depreciation	118	123	139	140	150	157	161	171	518	640
<b>PBT bef. Extra-ordinary</b>	<b>332</b>	<b>402</b>	<b>408</b>	<b>394</b>	<b>207</b>	<b>273</b>	<b>378</b>	<b>496</b>	<b>1,557</b>	<b>1,354</b>
Provision for Tax	-5	1	-1	43	55	39	20	65	58	178
Rate (%)	-1.6	0.3	-0.2	10.8	26.7	14.2	5.3	13.0	3.7	13.2
<b>PAT bef. Extra-ordinary</b>	<b>337</b>	<b>401</b>	<b>408</b>	<b>352</b>	<b>152</b>	<b>234</b>	<b>358</b>	<b>432</b>	<b>1,499</b>	<b>1,175</b>
Q-o-Q Change (%)	9.2	19.1	1.8	-13.9	-56.8	54.0	52.9	20.7	20.4	-21.6

E: Most Estimates; Does not include EDS India financials, and upside through EDS Global

<http://deadpresident.blogspot.com>  
Patni Computer Systems

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	PATNI IN
	REUTERS CODE
S&P CNX: 3,634	PTNI.BO
Equity Shares (m)	138.2
52-Week Range	511/251
1,6,12 Rel. Perf. (%)	-7/-3/-25
M.Cap. (Rs b)	51.9
M.Cap. (US\$ b)	1.2

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs375

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	26,112	3,572	25.8	18.8	14.5	2.3	16.8	21.2	1.5	7.9
12/07E	31,000	4,272	30.9	19.6	12.1	2.0	17.6	22.0	1.2	6.1
12/08E	39,359	5,100	36.9	19.4	10.2	1.7	17.9	22.4	0.8	4.6

\* reflects adjusted PAT

- ✘ We expect revenue to increase marginally by 0.6% (Expect 1% growth in dollar terms versus guided growth of 0.5%) in 1QCY07, primarily due to vendor consolidation in a top client where work is being transitioned to another vendor.
- ✘ Margins (EBIT) are expected to decline 100bp in 1QCY07 due to investments in sales and marketing, increased depreciation, lower utilization and rupee appreciation during the quarter.
- ✘ Other income was high at Rs172m in 4QCY06 due to US\$1.7m worth of one time gain. In 1QCY07, we expect other income to be lower at Rs127m due to the absence of one-time benefits.
- ✘ Effective tax rate, which was lower at 18.9% in 4QCY06, is also expected to increase to 20.5%.
- ✘ We expect decline of 9.2% in net profit for the quarter (guided for 10.5%-12.5% decline excluding forex gain/loss).
- ✘ The stock trades at 12.1x CY07E and 10.2x CY08E earnings. We maintain **Neutral** despite attractive valuations as we remain unconvinced on Patni's organic growth prospects over the near term.
- ✘ **Key issues:** Ramp ups in top clients, margins, attrition rates.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Revenues</b>	<b>5,776</b>	<b>6,561</b>	<b>6,971</b>	<b>6,805</b>	<b>6,843</b>	<b>7,288</b>	<b>8,095</b>	<b>8,774</b>	<b>26,112</b>	<b>31,000</b>
Q-o-Q Change (%)	3.7	13.6	6.3	-2.4	0.6	6.5	11.1	8.4	29.0	18.7
Direct Expenses	3,593	4,273	4,344	4,215	4,256	4,798	5,318	5,689	16,424	20,061
Sales, General & Admin. Expenses	1,160	1,298	1,215	1,123	1,165	1,166	1,253	1,335	4,796	4,919
<b>Operating Profit</b>	<b>1,022</b>	<b>990</b>	<b>1,413</b>	<b>1,467</b>	<b>1,422</b>	<b>1,324</b>	<b>1,524</b>	<b>1,750</b>	<b>4,893</b>	<b>6,021</b>
Margins (%)	17.7	15.1	20.3	21.6	20.8	18.2	18.8	19.9	18.7	19.4
Other Income	11	187	77	172	127	102	121	140	446	490
Depreciation	193	205	202	239	253	270	300	325	839	1,147
<b>PBT bef. Extra-ordinary</b>	<b>840</b>	<b>972</b>	<b>1,288</b>	<b>1,400</b>	<b>1,296</b>	<b>1,157</b>	<b>1,346</b>	<b>1,566</b>	<b>4,500</b>	<b>5,364</b>
Provision for Tax	197	201	264	265	266	237	273	317	928	1,092
Rate (%)	23.5	20.7	20.5	18.9	20.5	20.5	20.3	20.3	20.6	20.4
<b>Net Income bef. Extra-ordinary</b>	<b>642</b>	<b>770</b>	<b>1,024</b>	<b>1,135</b>	<b>1,030</b>	<b>920</b>	<b>1,073</b>	<b>1,249</b>	<b>3,572</b>	<b>4,272</b>
Q-o-Q Change (%)	-2.8	19.9	32.9	10.9	-9.2	-10.7	16.7	16.3	30.6	19.6
Extra-ordinary Items	0	917	0	0	0	0	0	0	917	0
<b>Net Income aft. Extra-ordinary</b>	<b>642</b>	<b>-147</b>	<b>1,024</b>	<b>1,135</b>	<b>1,030</b>	<b>920</b>	<b>1,073</b>	<b>1,249</b>	<b>2,654</b>	<b>4,272</b>
Q-o-Q Change (%)	-2.8	-122.9	-796.6	10.9	-9.2	-10.7	16.7	16.3	-3.0	61.0

E: MOST Estimates

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<http://deadpresident.blogspot.com>  
Sasken Communication Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SACT IN
	REUTERS CODE
S&P CNX: 3,634	SKCT.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs475

Equity Shares (m)	28.1
52-Week Range	624/240
1,6,12 Rel. Perf. (%)	-2/19/26
M.Cap. (Rs b)	13.4
M.Cap. (US\$ b)	0.3

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	4,883	494	17.5	65.2	27.1	3.1	12.1	11.7	2.8	16.8
3/08E	6,976	865	30.4	73.1	15.6	2.6	18.3	16.6	2.0	9.9
3/09E	8,858	1,133	39.4	29.8	12.0	2.2	20.2	18.8	1.5	7.2

- ✘ We expect Sasken to report revenue growth of 13.4% QoQ in 4QFY07. We expect product revenues to grow 153% due to royalty income from shipments of the NEC903i phones, which started in December 2006 as well as higher license revenue bookings. Services business is expected to grow 8.8% QoQ following pick up in offshoring with top clients and higher growth in Botnia (growth impacted during 3QFY07 due to holiday season).
- ✘ EBITDA margin is expected to improve 520bp during the quarter due to expected robust growth in products, revival of margins in Botnia post the holiday season and SG&A leverage.
- ✘ Tax rates are expected to go up to 24% during the quarter from 22.8% in 3QFY07 due to increased royalty revenue during the quarter and higher profitability in Botnia.
- ✘ Net profit is expected to grow robustly at 42.8% QoQ to Rs170m due to expected ramp up in revenue and improvement in margins.
- ✘ The stock is currently trading at 15.6x FY08E and 12x FY09E earnings. We continue to remain positive on both the products and services business and anticipate strong ramp ups post FY07. Maintain **Buy**.
- ✘ **Key issues:** Margins, attrition rates, client win for E-Series product.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>677</b>	<b>864</b>	<b>759</b>	<b>781</b>	<b>911</b>	<b>1,175</b>	<b>1,310</b>	<b>1,486</b>	<b>3,081</b>	<b>4,883</b>
Q-o-Q Change (%)	-9.1	27.5	-12.1	2.8	16.7	29.0	11.5	13.4	27.4	58.5
Direct Expenses	466	569	524	536	628	751	877	939	2,095	3,194
Sales, General & Admin. Expenses	134	161	159	139	157	211	245	256	594	869
<b>Operating Profit</b>	<b>77</b>	<b>134</b>	<b>77</b>	<b>105</b>	<b>126</b>	<b>214</b>	<b>189</b>	<b>290</b>	<b>393</b>	<b>819</b>
Margins (%)	11.4	15.5	10.1	13.5	13.9	18.2	14.4	19.6	12.7	16.8
Other Income	20	20	7	17	8	12	31	10	64	60
Depreciation & Amortization	35	3	3	48	43	49	55	62	90	210
Interest	0	0	0	0	0	24	10	15	1	49
<b>PBT bef. Extra-ordinary</b>	<b>61</b>	<b>150</b>	<b>80</b>	<b>73</b>	<b>91</b>	<b>152</b>	<b>154</b>	<b>223</b>	<b>365</b>	<b>621</b>
Provision for Tax	14	34	11	11	5	33	35	54	69	127
Rate (%)	22.3	22.4	13.2	14.5	5.4	21.9	22.8	24.0	18.8	20.5
<b>PAT bef. Extra-ordinary</b>	<b>48</b>	<b>117</b>	<b>69</b>	<b>63</b>	<b>86</b>	<b>119</b>	<b>119</b>	<b>170</b>	<b>297</b>	<b>494</b>
Q-o-Q Change (%)	-56.4	144.6	-40.5	-9.5	37.6	37.5	-0.1	42.8	30.3	66.3
Extra-ordinary	0	0	68	0	0	0	0	0	68	0
<b>Net Profit after Extra-ordinary</b>	<b>48</b>	<b>117</b>	<b>2</b>	<b>63</b>	<b>86</b>	<b>119</b>	<b>119</b>	<b>170</b>	<b>229</b>	<b>494</b>
Q-o-Q Change (%)	-56.4	144.6	-98.4	3,318.7	37.6	37.5	-0.1	42.8	0.6	115.4

E: MOST Estimates

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<http://deadpresident.blogspot.com> Satyam Computer

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SCS IN
	REUTERS CODE
S&P CNX: 3,634	SATY.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs446

Equity Shares (m)	657.1
52-Week Range	525/271
1,6,12 Rel. Perf. (%)	8/8/-7
M.Cap. (Rs b)	293.3
M.Cap. (US\$ b)	6.7

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	64,612	13,683	20.9	37.9	21.4	5.3	27.7	30.3	3.9	16.5
3/08E	86,736	16,999	25.6	22.8	17.4	4.2	27.1	30.7	2.8	12.8
3/09E	108,298	20,131	30.1	17.3	14.9	3.4	25.6	30.0	2.2	10.2

\* PAT figures reflects adjusted PAT; FY06 figures adjusted to reflect 1:1 bonus

- ✍ We expect Satyam to report consolidated revenue growth of 5.7% QoQ in 4QFY07 (guided growth 4-4.5%) on the strength of 7% volume growth (Unconsolidated).
- ✍ RSU charges, which were deferred from 3QFY07 to 4QFY07, are estimated at US\$4.5m in 4QFY07, which will affect margins by 115bp QoQ. This coupled with the absence of some of one-time personnel cost benefits accrued in the last quarter and rupee appreciation is expected to result in a 145bp decline in EBITDA margin during the quarter (guided EBITDA margin decline of 170bp).
- ✍ Other income, which was low at Rs102m in 3QFY07 due to forex loss of Rs350m, is expected to recover to Rs383m during the quarter due to lower forex losses in 4QFY07.
- ✍ Net profit is expected to grow 5.9% QoQ during 4QFY07 despite the lower margins due to higher other income during the quarter.
- ✍ The stock is currently trading at 17.4x FY08E and 14.9x FY09E earnings. Valuations remain attractive. We maintain **Buy**.
- ✍ **Key issues:** Margins, attrition rates.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>10,587</b>	<b>11,550</b>	<b>12,653</b>	<b>13,136</b>	<b>14,429</b>	<b>16,019</b>	<b>16,611</b>	<b>17,552</b>	<b>47,926</b>	<b>64,612</b>
Q-o-Q Change (%)	9.0	9.1	9.6	3.8	9.8	11.0	3.7	5.7	36.1	34.8
Direct Expenses	6,391	6,779	7,374	7,500	8,316	9,827	9,674	10,645	28,044	38,462
Sales, General & Admin. Expenses	1,789	2,007	2,133	2,291	2,563	2,567	2,838	2,813	8,220	10,780
<b>Operating Profit</b>	<b>2,407</b>	<b>2,764</b>	<b>3,146</b>	<b>3,345</b>	<b>3,550</b>	<b>3,625</b>	<b>4,100</b>	<b>4,095</b>	<b>11,662</b>	<b>15,369</b>
Margins (%)	22.7	23.9	24.9	25.5	24.6	22.6	24.7	23.3	24.3	23.8
Other Income	234	316	330	289	745	282	102	383	1,168	1,512
Depreciation	313	347	341	372	362	375	394	430	1,373	1,561
Interest	5	8	27	17	26	27	32	35	55	120
<b>PBT bef. Extra-ordinary</b>	<b>2,323</b>	<b>2,725</b>	<b>3,108</b>	<b>3,246</b>	<b>3,908</b>	<b>3,505</b>	<b>3,776</b>	<b>4,013</b>	<b>11,402</b>	<b>15,201</b>
Provision for Tax	392	333	386	397	368	307	403	441	1,508	1,519
Rate (%)	16.9	12.2	12.4	12.2	9.4	8.8	10.7	11.0	13.2	10.0
Share of (P)/L in Associate Cos.	29	19	24	2	0	0	0	0	73	0
Minority Interest	0	0	0	0	-1	0	0	0	0	-1
<b>PAT bef. Extra-ordinary</b>	<b>1,902</b>	<b>2,373</b>	<b>2,697</b>	<b>2,847</b>	<b>3,541</b>	<b>3,198</b>	<b>3,372</b>	<b>3,571</b>	<b>9,820</b>	<b>13,683</b>
Q-o-Q Change (%)	-7.7	24.7	13.7	5.5	24.4	-9.7	5.4	5.9	38.0	39.3

E: MOSt Estimates

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<http://deadpresident.blogspot.com>  
Tata Consultancy Services

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,455	TCS IN
	REUTERS CODE
S&P CNX: 3,634	TCS.BO
Equity Shares (m)	978.6
28-Week Range	1,399/728
1,6,12 Rel. Perf. (%)	2/16/14
M.Cap. (Rs b)	1,163.3
M.Cap. (US\$ b)	26.8

2 April 2007

Buy

Previous Recommendation: Buy

Rs1,189

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E*	186,824	41,512	42.4	42.1	28.0	12.9	54.3	61.1	6.1	22.3
3/08E	245,206	53,859	55.0	29.7	21.6	8.7	46.9	54.0	4.5	16.6
3/09E	307,581	65,169	66.6	21.0	17.9	6.3	39.9	46.9	3.5	13.1

\* 1:1 bonus in FY07, accordingly ratios are adjusted

- ✎ We expect TCS to report 6.9 % QoQ growth in 4QFY07 on back of consistent robust increase in the employee base in the past few quarters. Ramp ups in large deals won over the last few quarters and faster growth in new services as well as products are expected to fuel growth during the quarter.
- ✎ Margins are expected to improve by 50bp QoQ, thereby ending FY07 at 27.4%, down 50bp YoY. Margin improvement during the quarter would be aided by expected higher product growth, improvement in price realization, higher offshore composition, and profitability improvement in subsidiaries.
- ✎ TCS has guided that EBITDA margin for FY07 will be near FY06 levels of 27.9%. To attain FY06 margin, TCS needs to register nearly 200bp expansion in 4QFY07 margin, which looks steep. However, we believe that any significant license revenue booking in the product space would lead to considerable margin improvement.
- ✎ We expect net profit to grow 7.9% QoQ to Rs11.9b in 4QFY07 aided by strong volume growth and margin expansion.
- ✎ The stock trades at 21.6x FY08E and 17.9x FY09E earnings. We maintain **Buy**.
- ✎ **Key issues:** Offshore revenue contribution, product revenue, margins.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07*				FY06*	FY07E*
	1Q	2Q	3Q*	4Q*	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>27,094</b>	<b>29,513</b>	<b>34,527</b>	<b>37,234</b>	<b>41,443</b>	<b>44,822</b>	<b>48,605</b>	<b>51,954</b>	<b>132,550</b>	<b>186,824</b>
Q-o-Q Change (%)	4.8	8.9	17.0	7.8	11.3	8.2	8.4	6.9	36.3	40.9
Direct Expenses	13,621	15,428	18,064	19,897	22,989	23,880	25,758	27,158	69,746	99,785
Sales, General & Admin. Expenses	5,515	5,573	6,696	7,507	8,327	8,648	9,094	9,819	25,797	35,888
<b>Operating Profit</b>	<b>7,958</b>	<b>8,513</b>	<b>9,767</b>	<b>9,830</b>	<b>10,128</b>	<b>12,294</b>	<b>13,753</b>	<b>14,977</b>	<b>37,008</b>	<b>51,151</b>
Margins (%)	29.4	28.8	28.3	26.4	24.4	27.4	28.3	28.8	27.9	27.4
Other Income	98	170	-154	-40	668	77	300	300	257	1,345
Depreciation	540	592	738	865	863	958	1,080	1,247	2,806	4,148
<b>PBT bef. Extra-ordinary</b>	<b>7,517</b>	<b>8,091</b>	<b>8,875</b>	<b>8,919</b>	<b>9,932</b>	<b>11,414</b>	<b>12,973</b>	<b>14,030</b>	<b>34,459</b>	<b>48,348</b>
Provision for Tax	1,247	1,317	1,319	898	1,238	1,447	1,828	1,978	4,984	6,491
Rate (%)	16.6	16.3	14.9	10.1	12.5	12.7	14.1	14.1	14.5	13.4
Minority Interest	83	43	45	70	69	52	98	128	280	346
<b>Net Income bef. Extra-ordinary</b>	<b>6,187</b>	<b>6,731</b>	<b>7,511</b>	<b>7,951</b>	<b>8,626</b>	<b>9,915</b>	<b>11,047</b>	<b>11,924</b>	<b>29,211</b>	<b>41,512</b>
Q-o-Q Change (%)	9.0	8.8	11.6	5.9	8.5	14.9	11.4	7.9	29.6	42.1
<b>PAT aft Extra-ordinary</b>	<b>6,187</b>	<b>6,731</b>	<b>7,511</b>	<b>7,725</b>	<b>8,626</b>	<b>9,915</b>	<b>11,047</b>	<b>11,924</b>	<b>28,968</b>	<b>41,512</b>

E: MOST Estimates; \* Consolidated numbers that include Tata Infotech

<http://deadpresident.blogspot.com> Tech Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TECHM IN
	REUTERS CODE
S&P CNX: 3,634	TEML.BO
Equity Shares (m)	116.2
28-Week Range	2,050/521
1,6,12 Rel. Perf. (%)	-5/116/-
M.Cap. (Rs b)	155.9
M.Cap. (US\$ b)	3.6

2 April 2007

Buy

Rs1,342

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	28,915	5,940	45.0	99.0	29.8	12.1	46.2	35.5	5.5	21.6
3/08E	45,190	8,031	60.9	35.2	22.0	8.0	42.3	38.5	3.5	15.6
3/09E	59,469	11,229	85.2	39.8	15.8	5.4	36.3	36.3	2.5	10.9

EPS is diluted

- ✎ We expect Tech Mahindra to report 8.7% QoQ revenue growth during 3QFY07, driven by continued ramp ups in BT account. We also expect growth from top 2-5 clients, which slowed down to 4.2% in 3QFY07, to pick up during the quarter.
- ✎ We expect EBITDA margin to decline 50bp during the quarter. Interest costs are expected to increase to Rs61m (Rs12m in 3QFY07) on account of the debt of US\$90m taken for the US\$115m upfront payment to BT. Therefore, we expect PAT to grow slower at 6.5% to Rs1.76b during the quarter.
- ✎ Tech Mahindra has outstanding ESOPs amounting to 13.5% of present equity. The impact of FBT on Tech Mahindra could therefore be very significant. Management clarity on this as well as on accounting of one-time payment of US\$115m to BT will be a key issue to watch for in the results. We expect some equity dilution during 4QFY07 on account of urging for ESOP exercise to save FBT.
- ✎ The stock trades at 22x FY08E and 15.8x FY09E earnings. We remain positive on the long-term prospects of the company, given its leadership position in a high growth domain. We maintain **Buy**.
- ✎ **Key issues:** Accounting treatment of the up-front payment to BT, FBT impact, non-BT growth

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>2,419</b>	<b>2,469</b>	<b>3,326</b>	<b>4,212</b>	<b>5,871</b>	<b>6,976</b>	<b>7,698</b>	<b>8,370</b>	<b>12,427</b>	<b>28,915</b>
Q-o-Q Change (%)	2.1	2.1	34.7	26.6	39.4	18.8	10.3	8.7	31.4	132.7
Direct Cost	1,494	1,606	1,919	2,377	3,724	4,149	4,527	5,027	7,396	17,427
Other Operating Exps	502	448	547	855	840	1,058	1,098	1,130	2,352	4,126
<b>Operating Profit</b>	<b>423</b>	<b>415</b>	<b>860</b>	<b>980</b>	<b>1,307</b>	<b>1,769</b>	<b>2,073</b>	<b>2,213</b>	<b>2,679</b>	<b>7,362</b>
Margins (%)	17.5	16.8	25.9	23.3	22.3	25.4	26.9	26.4	21.6	25.5
Other Income	36	108	70	127	11	-57	-32	17	340	-61
Interest	0	0	0	0	0	0	12	61	0	73
Depreciation	91	93	103	111	108	113	137	151	397	509
<b>PBT bef. Extra-ordinary</b>	<b>368</b>	<b>430</b>	<b>827</b>	<b>996</b>	<b>1,210</b>	<b>1,599</b>	<b>1,892</b>	<b>2,019</b>	<b>2,621</b>	<b>6,720</b>
Provision for Tax	30	55	76	106	144	169	224	242	268	780
Rate (%)	8.2	12.8	9.2	10.6	11.9	10.6	11.8	12.0	10.2	11.6
<b>Net Income bef. Extra-ordinary</b>	<b>338</b>	<b>375</b>	<b>751</b>	<b>890</b>	<b>1,066</b>	<b>1,430</b>	<b>1,668</b>	<b>1,776</b>	<b>2,354</b>	<b>5,940</b>
Q-o-Q Change (%)	-4.0	10.9	100.3	18.5	19.7	34.2	16.6	6.5	130.1	152.4

E: MOST Estimates

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<http://deadpresident.blogspot.com> Wipro

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	WPRO IN
	REUTERS CODE
S&P CNX: 3,634	WIPR.BO
Equity Shares (m)	1,439.8
52-Week Range	690/383
1,6,12 Rel. Perf. (%)	-6/-1/15
M.Cap. (Rs b)	746.2
M.Cap. (US\$ b)	17.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs518

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	148,359	28,205	19.6	38.1	26.4	7.3	31.1	35.3	4.7	20.6
3/08E	198,573	37,500	25.7	31.0	20.1	5.5	31.5	36.2	3.4	15.0
3/09E	248,620	45,053	30.5	18.7	17.0	4.3	29.3	34.1	2.6	11.8

\* reflects adjusted PAT

- ✎ We expect Wipro to report 6.7% QoQ growth in consolidated revenues during 4QFY07. Global IT business is expected to register 6.9% growth backed by 6.8% growth expected in IT services. We expect Global IT business to register \$691m revenues versus guided growth of US\$685m for 4QFY07.
- ✎ Consolidated EBITDA margin is expected to decline 60bp due to onsite salary hikes in Global IT (~120bp impact) and rupee appreciation. On the margin positives, we expect pricing improvement (average realisation declined in 3QFY07 due to holiday season), higher utilisation rates and further improvement in subsidiary performance.
- ✎ We expect Wipro's enterprise services to continue strong growth, while growth might be muted in the technology segment. Faster pick up in the telecom OEM space would be a potential upside to guided growth in 4QFY07.
- ✎ We expect consolidated net profit to grow 3% QoQ due to impact of margin decline and higher tax rates (13.5% vs 12.8% in 3QFY07) during the quarter.
- ✎ At CMP, the stock is trading at 20.1x FY08E and 17x FY09E earnings, which looks attractive. We reiterate **Buy**.
- ✎ **Key issues:** Technology services revenue, margins, attrition.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Global IT Services incl Spectramind	17,430	18,876	21,528	22,892	24,513	27,179	28,873	30,854	80,726	111,418
Other Businesses	5,435	6,090	6,206	7,651	6,800	7,959	10,763	11,418	25,382	36,940
<b>Revenues</b>	<b>22,865</b>	<b>24,966</b>	<b>27,734</b>	<b>30,543</b>	<b>31,312</b>	<b>35,138</b>	<b>39,636</b>	<b>42,272</b>	<b>106,108</b>	<b>148,359</b>
Q-o-Q Change (%) - Global IT	5.8	8.3	14.0	6.3	7.1	10.9	6.2	6.9	33.0	38.0
Total Expenses	17,414	19,146	20,712	23,435	23,849	26,896	30,691	32,965	80,706	114,401
<b>EBITDA</b>	<b>5,451</b>	<b>5,819</b>	<b>7,022</b>	<b>7,108</b>	<b>7,463</b>	<b>8,242</b>	<b>8,945</b>	<b>9,308</b>	<b>25,401</b>	<b>33,957</b>
Margins (%)	23.8	23.3	25.3	23.3	23.8	23.5	22.6	22.0	23.9	22.9
Depreciation	738	770	777	926	941	1,058	1,096	1,164	3,211	4,259
<b>EBIT</b>	<b>4,714</b>	<b>5,049</b>	<b>6,245</b>	<b>6,205</b>	<b>6,522</b>	<b>7,184</b>	<b>7,849</b>	<b>8,144</b>	<b>22,190</b>	<b>29,699</b>
Margins (%)	20.6	20.2	22.5	20.3	20.8	20.4	19.8	19.3	20.9	20.0
Other Income	84	349	-40	614	512	756	559	572	1,007	2,398
<b>PBT</b>	<b>4,798</b>	<b>5,398</b>	<b>6,205</b>	<b>6,819</b>	<b>7,033</b>	<b>7,939</b>	<b>8,408</b>	<b>8,715</b>	<b>23,197</b>	<b>32,096</b>
Provision for Tax	586	791	990	898	979	1,068	1,080	1,177	3,265	4,304
Rate (%)	12.2	14.7	16.0	13.2	13.9	13.5	12.8	13.5	14.1	13.4
<b>Net Income before EO*</b>	<b>4,267</b>	<b>4,704</b>	<b>5,323</b>	<b>5,976</b>	<b>6,120</b>	<b>6,963</b>	<b>7,450</b>	<b>7,672</b>	<b>20,269</b>	<b>28,205</b>
Q-o-Q Change (%)	-4.6	10.3	13.2	12.3	2.4	13.8	7.0	3.0	28.0	39.1

E: Most Estimates; \* after minority interest and share in earnings from affiliates

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<http://deadpresident.blogspot.com> Infrastructure

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
BL Kashyap	156
Gammon India	157
GMR Infrastructure	158
Hindustan Construction	159
IVRCL	160
Jaiprakash Associates	161
Nagarjuna Construction	162
Patel Engineering	163

### Budget 2007-2008: A shock, but no business impact

Withdrawal of the Section 80(IA) benefit for construction profits, with retrospective effect from FY00 has resulted in increased tax rates for the sector and led to earnings downgrades. The Union Budget 2007-2008 however has laid significant thrust on infrastructure development and increased budgetary allocation for most of the segments.

### Withdrawal of income tax benefits (Sec 80IA) for construction profits

The Union Budget 2007-2008 has clarified that the purpose of tax benefit under Sec 80-IA has been to encourage private sector participation by way of investments in development of the infrastructure sector and not for the persons who merely execute the civil construction work or any other works contract. The amendment is effective from 1 April 2000. The clarification states that in a case where the company makes the investment and executes the civil construction work, it will be eligible for tax benefits under section 80 (IA). As companies had already paid taxes (under protest) based on the corporate tax rates, we believe that impact on funds flow towards arrears would be marginal.

#### IMPACT ANALYSIS: TAX ARREARS FOR FY01-FY06 (RS M)

Gammon	350
Hindustan Construction	450
IVRCL	579
Jaiprakash	-
L&T	-
Nagarjuna Construction	158
Patel Engineering	376

Source: Motilal Oswal Securities

#### EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Infrastructure</b>							
BL Kashyap	Neutral	1,942	28.7	200	27.4	113	21.1
GMR Infrastructure	Buy	4,289	-	1,767	-	610	-
Gammon India	Buy	6,518	36.7	710	101.0	177	-38.6
Hindustan Construction	Buy	8,953	16.6	918	36.1	244	-42.8
IVRCL Infra.	Buy	8,157	38.1	833	49.2	371	-15.4
Jaiprakash Associates	Buy	8,667	1.4	2,507	62.8	1,211	73.0
Nagarjuna Construction	Buy	9,466	47.8	946	78.0	192	-45.1
Patel Engineering	Buy	3,882	28.8	399	48.1	34	-84.2
<b>Sector Aggregate</b>		<b>47,585</b>	<b>25.8</b>	<b>6,512</b>	<b>59.5</b>	<b>2,341</b>	<b>-6.7</b>



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### Infrastructure spending continues to be a focus area

The Budget 2007-2008 has increased the allocations towards various ongoing schemes. The government has also outlined initiatives to improve project financing for mega projects being set up on a public private partnership (PPP) basis. Mutual funds have been permitted to set up dedicated schemes towards Infrastructure projects. Besides this, the committee headed by Mr. Deepak Parekh, to suggest measures for improving financing of infrastructure projects, has made certain recommendations including utilization of foreign exchange reserves. The committee has also suggested formation of two subsidiaries of the India Infrastructure Finance Company Ltd. (IIFCL):

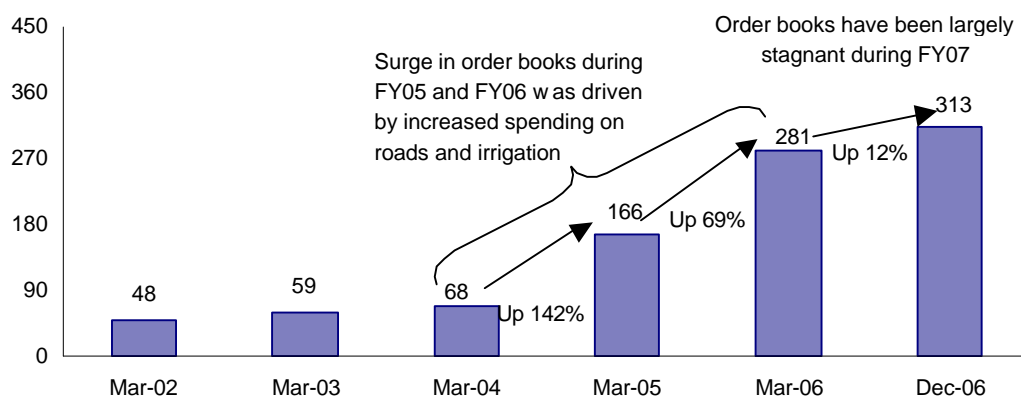
- ✎ To borrow funds from the RBI and lend to Indian companies implementing infrastructure projects in India, or to co-finance their ECBs for such projects, solely for capital expenditure outside India
- ✎ To borrow funds from the RBI, invest such funds in highly rated collateral securities, and provide 'credit wrap' insurance to infrastructure projects in India for raising resources in international markets.

### Post hibernation, expect pick up in order intake

In the first nine months of FY07, infrastructure companies witnessed a slowdown in order intake after the 142% YoY increase in FY05 and 69% YoY increase in FY06. The growth in FY05 and FY06 was driven by increased spending by the NHAI and Andhra Pradesh government (on irrigation).

In FY07, there is a slowdown in both these segments. The delay in highway construction was primarily a result of the restructuring of NHAI as envisaged in Budget 2006, which intended to transform the NHAI into a multi-disciplinary body with capacity to handle large number of public private partnership (PPP) projects. Also, formation of PPP Advisory Committee (PPP AC) and New Model Concession Agreement (MCA), which had certain contentious issues, led to delays in the award of contracts. In irrigation, several projects were delayed due to environmental issues and paucity of funds.

TREND IN ORDER BOOK (RS B) \*



\* Includes HCC, Gammon, NCC and IVRCL

Source: Company/Motilal Oswal Securities



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Going forward, we expect acceleration in order intake. In the roads sector, the deadlock in terms of contract award has been broken as: ( 1) PPP AC approved 9 road projects for award in November 2006; (2) MCA has been approved, and RFQ invited for the first project (6-laning of Delhi border — Roktak) to be awarded under the new MCA; (3) RFQ for 8 projects under NHDP Phase V have been invited; and (4) tolling policy has been finalized. Further, the Cabinet Committee on Economic Affairs (CCEA) has approved Phase V (6-laning of GQ, Rs412b) and Phase VI (Expressways, Rs167b) of the NHDP program.

Besides this, several other sectors like urban infrastructure, hydro power, railways, nuclear power, irrigation etc. would witness increased contract awards. This we believe should drive the order intake for the construction companies beginning FY08.

### Order book-to-bill ratio continues to be healthy

The order intake for most of the construction companies during 9MFY07 has been very low compared with March 2006. The order book for four large construction companies grew merely 12% from March 2006. Despite slower order intake, the infrastructure companies still have strong revenue visibility given the high book-to-bill ratio. The order book-to-bill ratio for most companies are in the range of 3.5-4.0x their respective FY07E revenue viz. Gammon at 3.5x, Hindustan Construction at 4x, IVRCL 3.2x and Jaiprakash at 3.6x. The highest order book-to-bill ratio in our Universe is for Patel Engineering at 4.4x while Nagarjuna and B.L. Kashyap are at around 2x FY07E revenue. The large order wins for Larsen & Toubro have helped its order book-to-bill ratio move up from 1.5x in March 2006 to around 2x as of December 2006.

TREND IN ORDER INTAKE FOR CONSTRUCTION COMPANIES (RS M)

	ORDER BOOK	ORDER INTAKE			DEC.06	REVENUES	BOOK TO BILL
	(MAR 06)	(1QFY07)	(2QFY07)	(3QFY07)	ORDER BOOK	(FY07)	RATIO (X)
Gammon	68,000	13,185	10,830	-	75,000	21,493	3.5
Hindustan Construction	96,720	450	10,420	-	96,000	24,260	4.0
IVRCL	62,000	13,399	3,151	16,606	72,200	22,384	3.2
Jaiprakash Associates*	82,000	-	-	-	70,000	19,309	3.6
Nagarjuna Construction	54,278	14,880	10,597	9,837	70,250	29,498	2.4
Larsen and Toubro*	241,690	73,560	60,910	94,970	357,100	178,884	2.0
Patel Engineering	39,381	5,518	9,979	184	48,000	10,944	4.4
BL Kashyap	8,500	3,639	2,207	4,362	13,500	7,650	1.8

\* Engineering and Construction Business

Source: Company/Motilal Oswal Securities

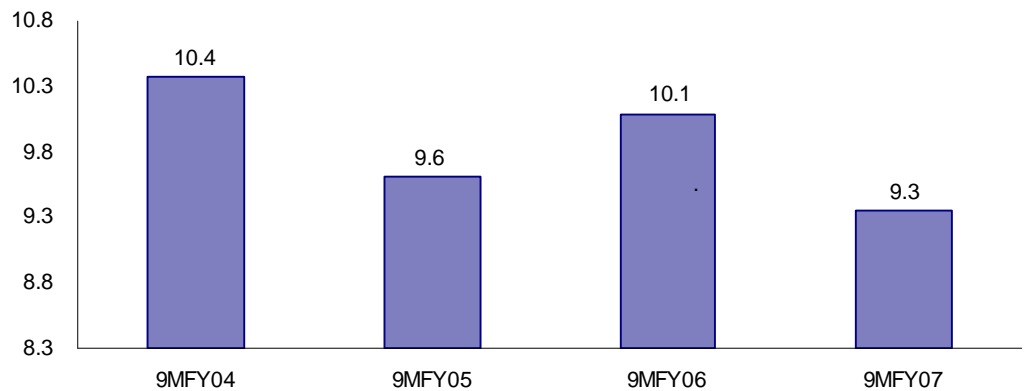
### Accounting policies impact FY07 EBITDA margin

The constraint in terms of margin recognition dampened the EBITDA margin of various players in FY07. To illustrate, on the back of 142% YoY increase in order book during FY05 and 69% YoY increase during FY06, the construction companies have witnessed a 48% YoY increase in revenues during April–December 2006. This is because there is a time lag of 12-18 months for the increased order book to translate into higher revenues. As

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several projects have not crossed the margin recognition threshold, companies could not account for profits on a part of the incremental revenues, which impacted profitability.

TREND IN EBITDA MARGINS (%)



Margins impacted due to mismatch in accounting for revenue booking and costs

Includes HCC, Gammon, NCC and IVRCL

Source: Company/Motilal Oswal Securities

Gammon and Hindustan Construction were particularly impacted due to the accounting policy, as they could not account for the margin on 15-20% of total revenues. We expect the companies to report improved EBITDA margins from 2QFY08, as the project crosses the margin recognition threshold.

### Disparity in accounting norms for project revenue

The construction companies follow the percentage completion method for accounting of revenue and profitability. However, the threshold level adopted for recognizing the revenue by different companies varies, creating a hindrance in the relative comparison of growth. The divergent performance trend has largely been a result of the difference in accounting policies adopted by various companies:

- ✎ **Mismatch in accounting for revenues and margins:** Companies have different profit recognition thresholds, resulting in a mismatch in terms of accounting for revenues and margins.

#### MARGIN RECOGNITION THRESHOLD

Larsen and Toubro (L&T)	Projects with execution more than 30 months - 25%; others - 50%
Gammon	Projects more than Rs2.5b – 15%; others – 25%
Hindustan Construction	10%
Jaiprakash	Proportionate
Nagarjuna Construction	Proportionate
IVRCL	Proportionate
Patel Engineering	5%
BL Kashyap	Proportionate

Source: Companies

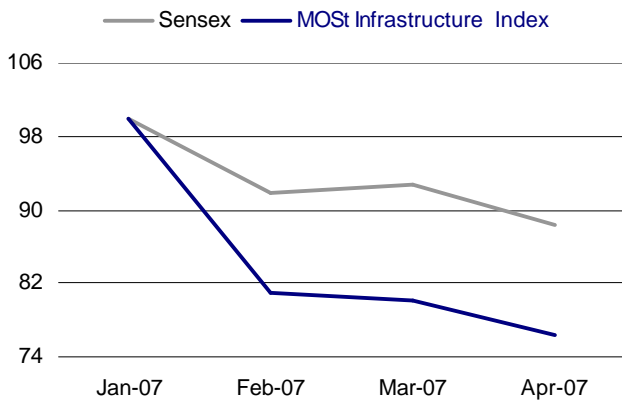
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## Stock performance and valuations

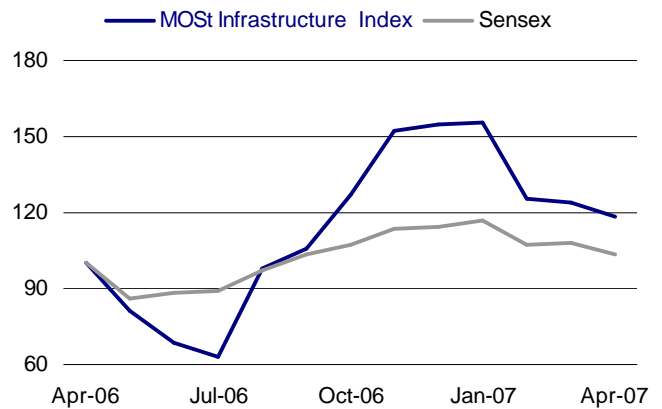
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Infrastructure</b>						
BL Kashyap	-23	1	-12	-7	3	-28
Gammon India	-32	-46	-21	-54	-7	-75
GMR Infrastructure	-9		2		17	
Hindustan Construction	-44	-53	-33	-61	-19	-82
IVRCL	-35	-8	-25	-16	-10	-37
Jaiprakash Associates	-27	11	-17	3	-2	-18
Nagarjuna Construction	-33	-22	-22	-29	-7	-50
Patel Engineering	-30	-33	-19	-41	-5	-61

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Infrastructure</b>														
BL Kashyap	1,145	Neutral	46.4	70.0	101.5	24.7	16.4	11.3	18.3	12.2	8.8	16.7	20.6	23.5
GMR Infrastructure	341	Buy	5.1	4.8	5.8	66.9	71.0	58.3	24.2	25.0	17.4	9.8	8.5	9.6
Gammon India	292	Buy	10.5	15.2	21.0	27.7	19.2	13.9	13.2	9.5	7.1	9.4	12.3	15.0
Hindustan Construction	84	Buy	2.7	4.4	6.6	31.2	19.0	12.8	13.1	8.2	6.4	7.7	10.3	11.9
IVRCL Infra.	258	Buy	7.9	12.7	18.4	32.8	20.3	14.1	15.6	11.3	8.4	7.8	11.4	14.4
Jaiprakash Associates	534	Buy	17.2	18.7	26.0	31.1	28.6	20.5	17.2	15.3	11.6	12.1	10.5	13.2
Nagarjuna Construction	147	Buy	6.9	9.3	13.2	21.5	15.8	11.2	13.5	10.3	8.1	14.3	17.4	21.0
Patel Engineering	316	Buy	13.0	18.4	24.3	24.3	17.2	13.0	13.0	9.5	7.8	18.4	15.8	17.9
<b>Sector Aggregate</b>						<b>34.6</b>	<b>27.4</b>	<b>19.8</b>	<b>17.4</b>	<b>14.6</b>	<b>11.1</b>	<b>11.1</b>	<b>11.7</b>	<b>14.2</b>

<http://deadpresident.blogspot.com> BL Kashyap

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	KASH IN
	REUTERS CODE
S&P CNX: 3,634	BLKS.BO
Equity Shares (m)	10.3
52-Week Range	1,595/755
1,6,12 Rel. Perf. (%)	4/9/-7
M.Cap. (Rs b)	11.8
M.Cap. (US\$ b)	0.3

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs1,145

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	7,650	477	46.4	73.7	24.7	4.1	18.2	26.7	1.4	13.1
3/08E	12,150	719	70.0	50.8	16.4	3.4	22.6	33.1	0.9	8.4
3/09E	17,618	1,043	101.5	45.0	11.3	2.7	26.3	38.3	0.6	5.7

- During 4QFY07, we expect BL Kashyap to report revenue of Rs1.9b, up 28.7% YoY, and a net profit of Rs113m, up 21.1% YoY.
- BL Kashyap has a niche positioning in the rather unorganized civil construction space with proven track record of timely execution and quality. It has association with prominent names in segments like industrial (Hero Honda, Maruti, etc), residential (Sheth group, DLF, etc) and commercial (Claridges, etc). Increased investments in the respective segments will ensure strong order intake for BL Kashyap.
- Currently, the company has an order book position of Rs13.5b to be executed over a period of 12-15 months ensuring strong near term growth while the robust order pipeline ensures long term growth.
- During 9MFY07, it reported revenue of Rs5.7b and net profit of Rs364m as against revenue of Rs4.7b and net profit of Rs275m for FY06.
- The company has taken several initiatives to further leverage its execution skills including formation of a wholly-owned subsidiary - Soulspace Projects - for undertaking joint or co-development of real estate projects. It is currently executing three projects (Two in Pune and one in Bikaner).
- We expect BL Kashyap to report a net profit CAGR of 56% over FY06-09. At the CMP of Rs1,145, the stock trades at a reported P/E of 24.7x FY07E, 16.4x FY08E and 11.3x FY09E.
- We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	-	-	<b>1,077</b>	<b>1,510</b>	<b>1,639</b>	<b>1,707</b>	<b>2,362</b>	<b>1,942</b>	<b>4,655</b>	<b>7,650</b>
Change (%)	-	-	-	-	-	-	119.3	28.7	48.8	64.3
<b>EBITDA</b>	-	-	<b>97</b>	<b>157</b>	<b>177</b>	<b>182</b>	<b>250</b>	<b>200</b>	<b>476</b>	<b>809</b>
Change (%)	-	-	-	-	-	-	156.2	27.4	-	70.1
As of % Sales	-	-	9.0	10.4	10.8	10.7	10.6	10.3	10.2	10.6
Depreciation	-	-	10	15	23	24	26	27	43	100
Interest	-	-	10	11	7	12	12	11	41	41
Other Income	-	-	5	8	9	16	23	9	33	56
<b>PBT</b>	-	-	<b>82</b>	<b>139</b>	<b>156</b>	<b>162</b>	<b>234</b>	<b>171</b>	<b>425</b>	<b>723</b>
Tax	-	-	28	46	52	56	80	58	143	246
Effective Tax Rate (%)	-	-	34.2	32.8	33.4	34.3	34.3	33.9	33.7	34.0
<b>Reported PAT</b>	-	-	<b>54</b>	<b>93</b>	<b>104</b>	<b>106</b>	<b>154</b>	<b>113</b>	<b>282</b>	<b>477</b>
<b>Adj PAT</b>	-	-	<b>54</b>	<b>93</b>	<b>104</b>	<b>106</b>	<b>154</b>	<b>113</b>	<b>275</b>	<b>477</b>
Change (%)	-	-	-	-	-	-	185.5	21.1	128.8	73.7

E: MOST Estimates

<http://deadpresident.blogspot.com> Gammon India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GMON IN
	REUTERS CODE
S&P CNX: 3,634	GAMM.BO
Equity Shares (m)	86.7
52-Week Range	575/258
1,6,12 Rel. Perf. (%)	-1/-23/-54
M.Cap. (Rs b)	25.3
M.Cap. (US\$ b)	0.6

2 April 2007

Buy

Previous Recommendation: Buy

Rs292

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	21,493	914	10.5	9.6	27.7	2.6	9.4	13.3	1.2	13.2
3/08E	30,665	1,315	15.2	43.9	19.2	2.4	12.3	18.0	0.9	9.5
3/09E	45,665	1,821	21.0	38.5	13.9	2.1	15.0	23.1	0.7	7.1

- During 4QFY07, we expect Gammon to report revenue of Rs6.5b, up 36.7% YoY, and net profit of Rs177m, down 35.4% YoY, due to higher tax provisioning.
- A Gammon India-led consortium has received the letter of intent for Rs12b offshore container terminal at Mumbai Port Trust with a revenue sharing ratio of 35.1%. Gammon Infra will have 50% stake in the project, with Dragados SPL, Spain holding the balance.
- Gammon accounts for the revenue and recognizes the margin post 15% completion for projects of Rs2.5b plus and at 25% plus levels for projects below the amount. During 9MFY07, the company did not recognize margins on revenue of Rs1.5-Rs1.6b.
- Order intake during the 9MFY07 stood at Rs24b. The order backlog for the company as of December 2006 stood at Rs75b, representing 3.5x FY07 revenue.
- SEBI has barred Gammon from accessing the capital market for a period of one year and selling or divesting its stake in GIPL for a period of three years post its IPO. SEBI, in a clarification issued in January 2007, also barred GIPL from accessing the capital market through an IPO for a period of one year.
- However, recently, the SAT (Securities Appellate Tribunal) directed SEBI to expedite the process of clearing the draft red herring prospectus of GIPL, which means that the ban will not be applicable on IPO of GIPL.
- At the CMP of Rs292, the stock trades at reported P/E of 27.7x FY07E, 19.2x FY08E and 13.9x FY09E. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	JANUARY '05 - MARCH '06					FY07				JAN.05-MAR.06	FY07E
	1Q	2Q	3Q	4Q	5Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>2,806</b>	<b>2,862</b>	<b>2,891</b>	<b>3,350</b>	<b>4,767</b>	<b>5,539</b>	<b>4,830</b>	<b>4,607</b>	<b>6,518</b>	<b>16,677</b>	<b>21,493</b>
Change (%)		-0.9	10.1	2.7	69.9	93.5	67.1	37.5	36.7		28.9
<b>EBITDA</b>	<b>306</b>	<b>340</b>	<b>447</b>	<b>486</b>	<b>353</b>	<b>317</b>	<b>418</b>	<b>515</b>	<b>710</b>	<b>1,932</b>	<b>1,959</b>
Change (%)		7.6	24.9	70.5	15.5	-6.9	-6.6	6.0	101.0		1.4
As of % Sales	10.9	11.9	15.5	14.5	7.4	5.7	8.6	11.2	10.9	11.6	9.1
Depreciation	61	66	63	84	97	83	103	102	100	371	389
Interest	98	102	102	114	55	52	18	53	64	471	187
Other Income	0	0	1	1	18	3	1	7	3	22	13
Extra-ordinary income	0	0	0	0	0	27	0	0	0	0	27
<b>PBT</b>	<b>147</b>	<b>173</b>	<b>283</b>	<b>290</b>	<b>219</b>	<b>211</b>	<b>297</b>	<b>366</b>	<b>549</b>	<b>1,112</b>	<b>1,423</b>
Tax	4	19	36	80	-69	25	36	50	372	69	482
Effective Tax Rate (%)	2.5	10.8	12.5	27.7	-31.5	11.9	12.0	13.7	67.7	6.2	33.9
<b>Reported PAT</b>	<b>143</b>	<b>154</b>	<b>248</b>	<b>209</b>	<b>288</b>	<b>186</b>	<b>262</b>	<b>316</b>	<b>177</b>	<b>1,043</b>	<b>941</b>
<b>Adj PAT</b>	<b>143</b>	<b>154</b>	<b>248</b>	<b>209</b>	<b>288</b>	<b>159</b>	<b>262</b>	<b>316</b>	<b>177</b>	<b>1,029</b>	<b>914</b>
Change (%)		41.7	234.9	5.3	101.3	3.5	5.7	50.9	-35.4		-11.2

E: Most Estimates; \* FY06 = 15 months from Jan 2005 - Dec 2004

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<http://deadpresident.blogspot.com> **GMR Infrastructure**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GMRI IN
	REUTERS CODE
S&P CNX: 3,634	GMRI.BO
Equity Shares (m)	331.1
52-Week Range	437/205
1,6,12 Rel. Perf. (%)	-4/44/-
M.Cap. (Rs b)	112.9
M.Cap. (US\$ b)	2.6

2 April 2007

Buy

Previous Recommendation: Buy

Rs341

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	15,061	1,689	5.1	91.2	66.9	6.5	9.8	7.4	9.3	24.2
3/08E	18,335	1,590	4.8	-5.8	71.0	6.1	8.5	5.5	9.6	25.0
3/09E	24,583	1,937	5.8	21.8	58.3	5.6	9.6	6.8	8.7	17.4

- During 4QFY07, we expect GMR to report revenue of Rs4.3b and net profit after minority interest of Rs610m.
- The revenue for FY07 is expected to be Rs15.1b, up 42.3% YoY, primarily driven by takeover of Delhi international airport from May 2006. GMR has the right to operate and manage Delhi and Hyderabad international airports, which together represent 28% of India's total passenger traffic (FY06).
- During 9MFY07, the net revenue from the airport business stood at Rs4.1b, roads business at Rs1.1b, and power business at Rs7.5b. The net profit after minority interest for 9MFY07 was Rs1.5b, up 37% YoY driven by contribution from Delhi airport.
- Projects under construction phase include four road projects, development of Hyderabad airport, and upgradation of Delhi airport. Further, the company has been awarded three more power projects (1,300MW), which have not achieved financial closure.
- We expect GMR to report a net profit CAGR of 59% over FY06-10 on a consolidated basis. We expect its net profit after minority interest to grow from Rs705m in FY06 to Rs4.5b in FY10.
- We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>2,666</b>	<b>2,211</b>	<b>2,194</b>	-	<b>4,093</b>	<b>3,125</b>	<b>3,554</b>	<b>4,289</b>	<b>10,585</b>	<b>15,061</b>
Change (%)	-	-	-	-	53.5	41.3	62.0	-	3.6	42.3
<b>EBITDA</b>	<b>1,163</b>	<b>1,141</b>	<b>1,093</b>	-	<b>1,281</b>	<b>1,250</b>	<b>1,526</b>	<b>1,767</b>	<b>4,499</b>	<b>5,824</b>
Change (%)	-	-	-	-	10.1	9.6	39.6	-	14.3	29.4
As of % Sales	43.6	51.6	49.8	-	31.3	40.0	42.9	41.2	42.5	38.7
Depreciation	540	559	263	-	577	603	445	450	2,200	1,488
Interest	342	348	342	-	255	276	376	371	1,558	1,277
Other Income	9	32	25	-	-23	86	121	70	315	254
<b>PBT</b>	<b>290</b>	<b>265</b>	<b>513</b>	-	<b>426</b>	<b>457</b>	<b>826</b>	<b>1,017</b>	<b>1,057</b>	<b>3,313</b>
Tax	28	30	32	-	96	86	139	196	125	517
Effective Tax Rate (%)	9.5	11.2	6.2	-	22.6	18.8	16.8	19.3	11.8	15.6
<b>Reported PAT</b>	<b>262</b>	<b>236</b>	<b>481</b>	-	<b>330</b>	<b>371</b>	<b>688</b>	<b>820</b>	<b>932</b>	<b>2,796</b>
<b>Adj PAT (bef. Minority Interest)</b>	<b>262</b>	<b>236</b>	<b>481</b>	-	<b>330</b>	<b>371</b>	<b>688</b>	<b>820</b>	<b>932</b>	<b>2,615</b>
Change (%)	-	-	-	-	25.7	57.4	43.1	-	-16.7	180.5
Minority Interest	83	69	123	-	135	115	155	210	231	726
<b>Adj PAT (after Minority Interest)</b>	<b>180</b>	<b>167</b>	<b>358</b>	-	<b>195</b>	<b>256</b>	<b>533</b>	<b>610</b>	<b>701</b>	<b>1,689</b>

E: MOST Estimates; Note: Quarterly numbers do not add up to the full year numbers as the company changed its depreciation policy for GMR Energy from 3QFY07. Adjusted figures for the past quarter are not available.



<http://deadpresident.blogspot.com>  
Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HCC IN
	REUTERS CODE
S&P CNX: 3,634	HCNS.BO
Equity Shares (m)	274.3
52-Week Range	185/83
1,6,12 Rel. Perf. (%)	-14/-26/-61
M.Cap. (Rs b)	23.1
M.Cap. (US\$ b)	0.5

2 April 2007

Buy

Previous Recommendation: Buy

Rs84

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	24,260	691	2.7	-18.1	31.2	2.4	7.7	7.6	1.2	12.4
3/08E	35,100	1,214	4.4	64.1	19.0	1.6	10.3	11.1	0.8	8.2
3/09E	44,900	1,805	6.6	48.8	12.8	1.5	11.9	14.1	0.7	6.4

- During 4QFY07, we expect HCC to report revenue of Rs9b, up 16.6% YoY, and net profit of Rs244m, down 42.8% YoY.
- HCC's order backlog at the end of December 2006 is Rs96b (equivalent to 4x FY07 revenue). During 4QFY07, the company bagged Rs1.1b Vidharbha irrigation project while the order booking for 9MFY07 stood at Rs10.9b.
- The company has achieved significant progress on the real estate front. HCC has a total developable area of 129m sq ft. HCC Real Estate (100% subsidiary of HCC) is also looking at various options for fund raising to finance the real estate initiatives.
- During FY08, we expect the company to report positive surprises on revenue and EBITDA front as 13 out of 35 projects (~ 55-60% of order book in value terms) as at December 2006 enter into margin recognition phase. As of December 2006, the company could not account for margins on ~20% of revenue, as the projects did not reach the margin recognition threshold.
- The increasing share of contribution from hydro power business (47% as of December 2006) could lead to improved margins.
- During FY07-09E, we expect HCC to report revenue CAGR of 36% and net profit CAGR of 62%. At CMP of Rs84, HCC trades at a reported P/E of 31.2x FY07E, 19x FY08E and 12.8x FY09E. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>4,610</b>	<b>3,022</b>	<b>4,557</b>	<b>7,681</b>	<b>5,743</b>	<b>4,203</b>	<b>5,361</b>	<b>8,953</b>	<b>19,870</b>	<b>24,260</b>
Change (%)	30.9	12.8	28.4	50.4	24.6	39.1	17.6	16.6	34.0	22.1
<b>EBITDA</b>	<b>409</b>	<b>258</b>	<b>486</b>	<b>675</b>	<b>461</b>	<b>395</b>	<b>583</b>	<b>918</b>	<b>1,829</b>	<b>2,357</b>
Change (%)	-4.2	10.7	20.5	40.9	12.8	53.3	19.9	36.1	17.3	28.9
As of % Sales	8.9	8.5	10.7	8.8	8.0	9.4	10.9	10.3	9.2	9.7
Depreciation	118	129	130	147	161	186	206	241	524	794
Interest	83	120	126	85	74	158	175	157	414	565
Other Income	35	29	9	8	62	10	2	10	61	84
Extra-ordinary income	0	400	1	12	0	0	81	0	431	81
<b>PBT</b>	<b>243</b>	<b>437</b>	<b>239</b>	<b>463</b>	<b>288</b>	<b>61</b>	<b>285</b>	<b>531</b>	<b>1,383</b>	<b>1,164</b>
Tax	16	81	12	25	36	19	65	287	135	407
Effective Tax Rate (%)	6.7	18.5	5.2	5.4	12.6	31.5	22.8	54.1	9.7	35.0
<b>Reported PAT</b>	<b>227</b>	<b>357</b>	<b>227</b>	<b>438</b>	<b>251</b>	<b>42</b>	<b>220</b>	<b>244</b>	<b>1,248</b>	<b>756</b>
<b>Adj PAT</b>	<b>227</b>	<b>29</b>	<b>226</b>	<b>426</b>	<b>251</b>	<b>42</b>	<b>155</b>	<b>244</b>	<b>817</b>	<b>691</b>
Change (%)	71.5	131.3	106.3	5.9	10.9	45.3	-31.5	-42.8	21.4	-15.4

E: MOST Estimates

<http://deadpresident.blogspot.com> **IVRCL Infrastructure**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	IVRC IN
	REUTERS CODE
S&P CNX: 3,634	IVRC.BO
Equity Shares (m)	134.7
52-Week Range	460/164
1,6,12 Rel. Perf. (%)	-8/-2/-16
M.Cap. (Rs b)	34.7
M.Cap. (US\$ b)	0.8

2 April 2007

Buy

Previous Recommendation: Buy

Rs258

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	21,290	1,058	7.9	-9.6	32.8	2.5	11.5	13.1	1.5	15.6
3/08E	31,915	1,714	12.7	62.0	20.3	2.3	11.9	15.0	1.2	11.3
3/09E	46,915	2,472	18.4	44.2	14.1	2.0	15.3	19.6	0.9	8.4

- During 4QFY07, we expect IVRCL to report revenue of Rs8.2b, up 38% YoY, and net profit of Rs371m, down 15.4% YoY.
- IVRCL has recently completed fund raising of US\$125m, which would improve the current net worth to Rs14.4b (March 2007). This would enable it to bid for big ticket size projects. Also, the company has approved fund raising of Rs5b plus for IVR Prime Urban (80% subsidiary).
- IVR Prime Urban has a land bank of 2,298.75 acre, representing a development area of 56.63m sq ft in the cities of Hyderabad, Chennai, Bangalore, Pune and Noida. Plans include residential, commercial, retail and hotel projects, etc. scheduled for completion by 2011.
- IVRCL's order backlog as at end of December 2006 stood at Rs72.2b (equivalent to 3.4x FY07 revenue). The order intake during 9MFY07 stood at Rs27.6b. During 4QFY07, the company bagged three big projects: 1) Bembla River Lift Irrigation - Rs2b, 2) Kerala Water Supply Project - Rs1.5b and 3) Campus of BITS – Pilani at Hyderabad - Rs1.2b.
- EBITDA margin is expected to increase on back of operating leverage and change in revenue composition. IVRCL accounts for margins on projects on a proportionate basis, without any threshold limit for project completion.
- During FY07-FY09, we expect IVRCL to report CAGR of 48% in revenues and 53% in net profit.
- At the CMP of Rs258, the stock trades at a reported P/E of 32.8x FY07E, 20.3x FY08E and 14.1x FY09E. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>3,007</b>	<b>2,567</b>	<b>4,083</b>	<b>5,906</b>	<b>4,266</b>	<b>3,644</b>	<b>5,223</b>	<b>8,157</b>	<b>14,957</b>	<b>21,290</b>
Change (%)	28.3	36.6	44.1	69.2	41.9	42.0	27.9	38.1	41.8	39.9
<b>EBITDA</b>	<b>235</b>	<b>210</b>	<b>344</b>	<b>558</b>	<b>407</b>	<b>308</b>	<b>556</b>	<b>833</b>	<b>1,343</b>	<b>2,104</b>
Change (%)	33.3	26.0	57.8	64.9	73.3	46.5	61.8	49.2	55.3	56.7
As of % Sales	7.8	8.2	8.4	9.4	9.5	8.5	10.7	10.2	9.0	9.9
Depreciation	22	24	27	36	38	49	60	55	110	202
Interest	40	72	85	49	133	103	98	94	253	428
Other Income	10	3	4	43	17	55	18	38	57	127
<b>PBT</b>	<b>183</b>	<b>118</b>	<b>235</b>	<b>516</b>	<b>253</b>	<b>211</b>	<b>416</b>	<b>721</b>	<b>1,037</b>	<b>1,601</b>
Tax	12	6	13	78	42	56	94	350	108	543
Effective Tax Rate (%)	6.6	5.0	5.6	15.1	16.6	26.5	22.7	48.6	10.4	33.9
<b>Reported PAT</b>	<b>171</b>	<b>112</b>	<b>222</b>	<b>438</b>	<b>211</b>	<b>155</b>	<b>321</b>	<b>371</b>	<b>930</b>	<b>1,058</b>
<b>Adj PAT</b>	<b>171</b>	<b>112</b>	<b>222</b>	<b>438</b>	<b>261</b>	<b>155</b>	<b>321</b>	<b>371</b>	<b>930</b>	<b>1,058</b>
Change (%)	59.2	37.7	54.9	74.1	53.0	38.7	45.0	-15.4	63.8	13.8

E: MOST Estimates

<http://deadpresident.blogspot.com>  
Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	JPA IN
	REUTERS CODE
S&P CNX: 3,634	JAIA.BO
Equity Shares (m)	235.7
52-Week Range	753/280
1,6,12 Rel. Perf. (%)	0/10/3
M.Cap. (Rs b)	125.8
M.Cap. (US\$ b)	2.9

2 April 2007

Buy

Previous Recommendation: Buy

Rs534

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	34,227	4,051	17.2	45.4	31.1	3.1	12.1	11.9	4.5	17.2
3/08E	38,423	4,401	18.7	8.6	28.6	2.9	10.5	12.0	4.2	15.3
3/09E	52,958	6,125	26.0	39.2	20.5	2.6	13.2	14.2	2.9	11.6

\* Fully diluted

- During 4QFY07, we expect Jaiprakash Associates to report revenues of Rs8.7b, up 1.4% YoY, and net profit of Rs1.2b, up 73% YoY.
- The company announced formation of a separate SPV for executing the Taj expressway project to avail the benefits of infrastructure project. The company has already acquired 600 acres of land at Noida (current value Rs24b) while another 600 acre is likely to be awarded by June 2007. Merger with Jaypee Greens has provided the company access to 452 acres (development area 86 acres - 9m sq ft) at Noida.
- The company's engineering and construction order book at the end of December 2006 stood at ~Rs75b, ensuring revenue visibility till FY09.
- The company has signed a memorandum of association (MoA) for 1,600MW Lower Siang Hydro Power Project and 500MW Hironong Hydro Power project in Arunachal Pradesh on BOOT basis. This would increase the company's hydropower BOOT portfolio to 3,800MW from the current 1,700MW. Jaiprakash Associates is also setting up a 500MW coal-based thermal power project in Madhya Pradesh.
- The company has also announced plans to increase cement capacity to 20m ton by end of FY09 from the current 7m ton. This will be driven by the Himachal Pradesh greenfield unit (4m ton, December 2007), UP cement acquisition (2.5m ton, March 2008), JV with SAIL (2m ton, March 2008), Gujarat Angan Cement (1.2m ton, September 2008), possible acquisition in Madhya Pradesh (1m ton), JV in Bhutan, etc.
- At the CMP of Rs534, Jaiprakash trades at a P/E of 31.1x FY07E, 28.6x FY08E and 20.5x FY09E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06*	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>8,170</b>	<b>6,720</b>	<b>7,970</b>	<b>8,550</b>	<b>8,950</b>	<b>7,700</b>	<b>8,910</b>	<b>8,667</b>	<b>31,410</b>	<b>34,227</b>
Change (%)	11.6	9.1	20.4	18.8	9.5	14.6	11.8	1.4	12.1	9.0
<b>EBITDA</b>	<b>1,550</b>	<b>1,390</b>	<b>1,670</b>	<b>1,540</b>	<b>2,130</b>	<b>1,980</b>	<b>2,310</b>	<b>2,507</b>	<b>6,180</b>	<b>8,927</b>
Change (%)	17.4	2.7	42.7	-9.3	37.4	42.4	38.3	62.8	18.4	44.4
As of % Sales	19.0	20.7	21.0	18.0	23.8	25.7	25.9	28.9	19.7	26.1
Depreciation	370	370	380	380	380	390	430	400	1,500	1,600
Interest	650	610	670	580	590	620	700	900	2,370	2,810
Other Income	430	660	280	540	250	380	400	743	1,730	1,773
Extra-ordinary income	3,600	0	0	0	0	0	0	0	3,600	0
<b>PBT</b>	<b>4,560</b>	<b>1,070</b>	<b>900</b>	<b>1,120</b>	<b>1,410</b>	<b>1,350</b>	<b>1,580</b>	<b>1,951</b>	<b>7,640</b>	<b>6,291</b>
Tax	420	210	330	420	490	450	560	740	1,370	2,240
Effective Tax Rate (%)	9.2	19.6	36.7	37.5	34.8	33.3	35.4	37.9	17.9	35.6
<b>Reported PAT</b>	<b>4,140</b>	<b>860</b>	<b>570</b>	<b>700</b>	<b>920</b>	<b>900</b>	<b>1,020</b>	<b>1,211</b>	<b>6,270</b>	<b>4,051</b>
<b>Adj PAT</b>	<b>540</b>	<b>860</b>	<b>570</b>	<b>700</b>	<b>920</b>	<b>900</b>	<b>1,020</b>	<b>1,211</b>	<b>2,670</b>	<b>4,051</b>
Change (%)	3.8	163.4	26.7	21.3	70.4	4.7	78.9	73.0	26.6	51.7

E: MOST Estimates; \* Represents audited numbers

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<http://deadpresident.blogspot.com>  
Nagarjuna Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	NJCC IN
	REUTERS CODE
S&P CNX: 3,634	NGCN.BO
Equity Shares (m)	206.6
52-Week Range	226/98
1,6,12 Rel. Perf. (%)	0/-12/-29
M.Cap. (Rs b)	30.4
M.Cap. (US\$ b)	0.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs147

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	29,498	1,418	6.9	35.2	21.5	1.5	14.3	15.5	1.3	13.5
3/08E	44,000	1,930	9.3	36.1	15.8	1.3	17.4	16.4	1.0	10.3
3/09E	60,000	2,727	13.2	41.3	11.2	1.1	21.0	17.7	0.8	8.1

- During 4QFY07, we expect NCC to report revenue of Rs9.5b, up 48% YoY, and net profit of Rs192m, down 45.1% YoY.
- As at December 2006, NCC's order backlog stood at Rs70.3b (equivalent to 2.4x FY07E revenue), up 38% YoY. The order book composition: roads Rs28b, water and irrigation projects Rs19.7b, buildings Rs18.3b, electricals Rs5b.
- During 4QFY07, the company bagged the following orders: (1) Construction of cricket stadium at Mohali - Rs740m, (2) Irrigation project in Kurnool, Andhra Pradesh - Rs860m, (3) Rural electrification works for Karnataka on turnkey basis - Rs580m, (4) Designing, providing and constructing water supply and underground sewerage system contracts worth Rs2b, (5) Rural electrification work for Jharkhand SEB - Rs1.3b
- Real estate has now become a distinct business activity for the company. It has consolidated its real estate activities through NCC Urban Infrastructure (80% subsidiary). NCC Urban Infrastructure has a land bank of 530 acre, of which 132 acres is contributed by NCC and 140 acres is from Ranchi and Vizag project (provided by the government).
- The development plan has been finalized for 267 acres (development area of 13.4m sq ft) to be developed over a 3-4 year period with possible revenues of Rs22b. The development plan for the balance 263 acres would be finalized over the next 12 months. The management has guided for revenues of FY08 Rs4b (development of 1.2m sq ft), FY08 Rs8b (2.5m sq ft) and FY10 Rs10b (4.0m sq ft).
- The company is focusing on new verticals such as gas pipelines, real estate development, and international operations.
- At the CMP of Rs147, the stock trades at a P/E of 21.5x FY07E, 15.8x FY08E and 11.2x FY09E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>3,594</b>	<b>3,682</b>	<b>4,724</b>	<b>6,404</b>	<b>6,517</b>	<b>6,517</b>	<b>6,998</b>	<b>9,466</b>	<b>18,404</b>	<b>29,498</b>
Change (%)	54.6	52.3	78.8	42.3	81.4	77.0	48.1	47.8	54.9	60.3
<b>EBITDA</b>	<b>278</b>	<b>379</b>	<b>457</b>	<b>531</b>	<b>550</b>	<b>618</b>	<b>802</b>	<b>946</b>	<b>1,640</b>	<b>2,916</b>
Change (%)	61.3	95.3	108.9	65.2	97.8	63.0	75.5	78.0	80.8	77.8
As of % Sales	7.7	10.3	9.7	8.3	8.4	9.5	11.5	10.0	8.9	9.9
Depreciation	34	41	53	54	58	69	76	90	182	293
Interest	43	89	97	44	57	96	185	180	217	518
Other Income	13	15	17	5	8	10	5	19	20	41
<b>PBT</b>	<b>214</b>	<b>264</b>	<b>324</b>	<b>439</b>	<b>443</b>	<b>462</b>	<b>546</b>	<b>695</b>	<b>1,262</b>	<b>2,146</b>
Tax	22	55	56	90	59	69	97	503	223	727
Effective Tax Rate (%)	10.4	20.9	17.3	20.5	13.3	14.9	17.8	72.4	17.7	33.9
<b>Reported PAT</b>	<b>192</b>	<b>209</b>	<b>268</b>	<b>349</b>	<b>384</b>	<b>393</b>	<b>449</b>	<b>192</b>	<b>1,039</b>	<b>1,418</b>
<b>Adj PAT</b>	<b>192</b>	<b>209</b>	<b>268</b>	<b>349</b>	<b>384</b>	<b>393</b>	<b>449</b>	<b>192</b>	<b>1,039</b>	<b>1,418</b>
Change (%)	88.9	83.3	121.6	47.9	100.3	88.1	67.7	-45.1	74.6	36.6

E: M0St Estimates

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<http://deadpresident.blogspot.com> Patel Engineering

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	PEC IN
S&P CNX: 3,634	REUTERS CODE
	PENG.BO
Equity Shares (m)	59.7
52-Week Range	635/222
1,6,12 Rel. Perf. (%)	5/-2/-41
M.Cap. (Rs b)	18.8
M.Cap. (US\$ b)	0.4

2 April 2007

Buy

Previous Recommendation: Buy

Rs316

YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	10,944	796	13.0	-10.1	24.3	2.9	18.4	14.1	1.7	13.0
3/08E	16,383	1,128	18.4	41.4	17.2	2.5	15.8	15.5	1.3	9.5
3/09E	22,074	1,492	24.3	32.1	13.0	2.2	17.9	16.6	1.0	7.8

\* Consolidated

- ⚡ During 4QFY07, we expect the company to report revenue of Rs3.9b, up 28.8% YoY, and net profit of Rs34m, down 84.2% YoY.
- ⚡ As at December 2006, order backlog stood at Rs47.7b (equivalent to 4.4x FY07E revenue). The order book composition is: hydropower, 50%; roads and transport, 22% and irrigation and water supply, 28%. The company is also in the L1 category in projects worth Rs7b.
- ⚡ During 4QFY07, the company received a Rs1,436m micro tunnelling project for 6.1km long tunnel from Veravail to Yari Road via Adarsh Nagar from Mumbai municipal corporation.
- ⚡ Management has guided for revenue growth of at least 25% for next three years on a consolidated basis and a stable EBITDA margin.
- ⚡ Patel Engineering has a land bank of ~500 acres spread across Hyderabad, Mumbai, Bangalore and Maharashtra (Karjat, Panvel etc). The company has formed five subsidiaries to monetize its land bank though the detailed plan is not yet chalked out. The management has stated that development plans should be finalized by end of FY07. Based on the valuation exercise undertaken ~4-5 years ago, value of the land bank stood at ~Rs2-2.5b.
- ⚡ At the CMP of Rs316, the stock trades at a reported P/E of 24.3x FY07E, 17.2x FY08E and 13x FY09E.
- ⚡ We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>1,898</b>	<b>1,408</b>	<b>1,697</b>	<b>3,014</b>	<b>2,900</b>	<b>1,979</b>	<b>2,184</b>	<b>3,882</b>	<b>8,016</b>	<b>10,944</b>
Change (%)	77.3	15.8	22.1	32.0	52.8	40.6	28.7	28.8	49.2	36.5
<b>EBITDA</b>	<b>206</b>	<b>221</b>	<b>361</b>	<b>269</b>	<b>318</b>	<b>307</b>	<b>419</b>	<b>399</b>	<b>1,059</b>	<b>1,444</b>
Change (%)	59.8	28.2	77.1	59.7	54.2	38.7	15.9	48.1	67.2	36.3
As of % Sales	10.9	15.7	21.3	8.9	11.0	15.5	19.2	10.3	13.2	13.2
Depreciation	60	71	72	63	65	66	70	77	266	278
Interest	51	23	60	72	46	-13	24	52	206	110
Other Income	37	15	46	101	26	20	11	60	200	117
Extra-ordinary income	0	0	0	2	0	0	0	0	2	0
<b>PBT</b>	<b>133</b>	<b>142</b>	<b>276</b>	<b>237</b>	<b>233</b>	<b>274</b>	<b>335</b>	<b>331</b>	<b>789</b>	<b>1,173</b>
Tax	20	16	25	23	33	24	44	297	85	398
Effective Tax Rate (%)	15.4	11.4	9.1	9.8	14.2	8.7	13.0	89.9	10.8	33.9
<b>Reported PAT</b>	<b>113</b>	<b>126</b>	<b>251</b>	<b>214</b>	<b>200</b>	<b>250</b>	<b>292</b>	<b>34</b>	<b>704</b>	<b>775</b>
<b>Adj PAT</b>	<b>113</b>	<b>126</b>	<b>251</b>	<b>212</b>	<b>200</b>	<b>250</b>	<b>292</b>	<b>34</b>	<b>702</b>	<b>775</b>
Change (%)	93.6	66.3	110.0	103.1	76.9	98.2	16.4	-84.2	97.3	10.4

E: MOST Estimates

<http://deadpresident.blogspot.com> **Media**

BSE Sensex: 12,455

S&P CNX: 3,634

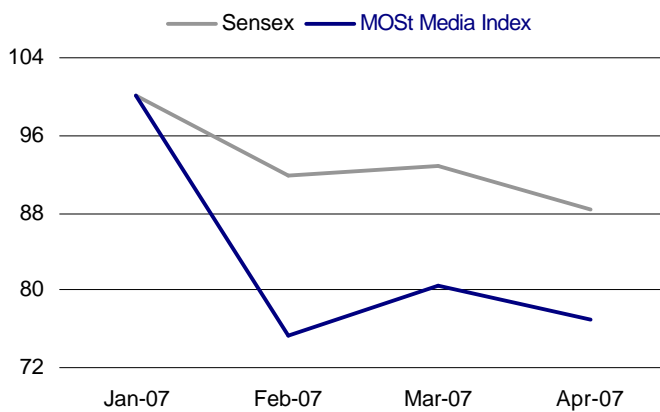
2 April 2007

## Stock performance and valuations

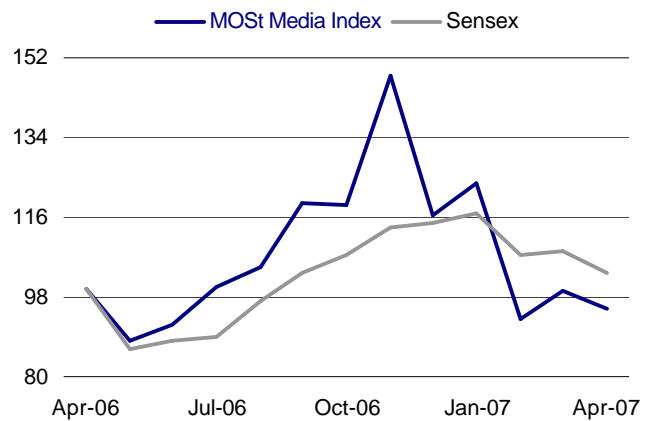
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Media</b>						
Zee Entertainmen	-16	-3	-6	-11	0	-5

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Media</b>														
Zee Entertainment	240	Neutral	5.5	8.3	11.2	43.5	28.8	21.5	29.8	17.3	13.0	9.8	12.4	14.7

### EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Media</b>							
Zee Entertainment	Neutral	3,991	-	1,284	-	809	-



<http://deadpresident.blogspot.com> Zee Telefilms

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	Z IN
	REUTERS CODE
S&P CNX: 3,634	ZEE.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs240

Equity Shares (m)	434.7
52-Week Range	381/189
1,6,12 Rel. Perf. (%)	11/-21/-11
M.Cap. (Rs b)	104.3
M.Cap. (US\$ b)	2.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	14,558	2,401	5.5	16.4	43.5	3.8	9.8	13.4	7.2	29.9
3/08E	19,793	3,625	8.3	51.0	28.8	3.4	12.4	18.7	5.2	17.4
3/09E	24,096	4,862	11.2	34.1	21.5	3.0	14.7	22.2	4.1	13.1

- ✗ We expect Zee Entertainment Enterprises (ZEEL) to report a 4.4% QoQ decline in revenue to Rs3.99b due to lower advertising income.
- ✗ The company is likely to register a 10% decline in advertising income on account of Cricket World Cup and KBC.
- ✗ Zee now has 5 programs in the Top 20 list and 11 programs in the Top 50. It has seen a steady increase in viewership over the last few quarters. This, we believe, would result in better inventory utilization and an increase in advertising rates.
- ✗ Zee's subscription revenue is expected to show marginal growth of 1.2% QoQ due to initial hiccups in implementation of CAS.
- ✗ We estimate EBITDA margin at 32.2 % compared with 32.5% in 3QFY07.
- ✗ PAT is likely to decline 7.6% QoQ to Rs809m, impacted by the decline in advertising revenue.
- ✗ The stock is trading at 28.8x FY08E and 21.5x FY09E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	ZEE TELEFILMS CONSOLIDATED						ZEEL			FY07E
	FY06				FY07		FY07			
	1Q	2Q	3Q	4Q	1Q	2Q	1HFY07	3Q	4QE	
Advertising Revenue	1,315	1,477	1,698	1,956	1,728	2,107	3,109	2,105	1,895	7,109
Subscription Revenue	1,734	1,745	1,751	1,757	1,797	1,930	2,801	1,956	1,980	6,737
Other Sales and Services	422	137	328	253	357	601	480	116	116	712
<b>Net Sales</b>	<b>3,471</b>	<b>3,359</b>	<b>3,777</b>	<b>3,966</b>	<b>3,882</b>	<b>4,638</b>	<b>6,391</b>	<b>4,177</b>	<b>3,991</b>	<b>14,558</b>
YoY Change (%)	24.5	8.6	17.1	10.2	11.8	38.1		53.0	0.0	38.5
Prog.,Trans.,Education,Direct Exp.	1,705	1,659	2,225	2,099	2,204	3,041	4,001	1,721	1,634	7,356
Staff Cost	265	261	272	259	334	328	483	232	248	964
Administrative & Other Cost	504	853	914	848	619	931	1,027	867	824	2,717
Total Expenses	2,473	2,774	3,412	3,206	3,157	4,300	5,511	2,820	2,706	11,037
<b>EBITDA</b>	<b>998</b>	<b>585</b>	<b>365</b>	<b>761</b>	<b>726</b>	<b>338</b>	<b>880</b>	<b>1,357</b>	<b>1,284</b>	<b>3,521</b>
Margin (%)	28.7	17.4	9.7	19.2	18.7	7.3	13.8	32.5	32.2	24.2
YoY Change (%)	1.8	-43.1	-66.5	-37.9	-27.3	-42.2	0.0	186.3	0.0	46.0
Other Income	113	143	254	125	162	203	298	155	155	608
Net Interest	25	76	120	21	125	30	143	68	75	286
Depreciation	97	89	104	102	92	102	103	69	70	242
<b>PBT</b>	<b>989</b>	<b>563</b>	<b>395</b>	<b>764</b>	<b>671</b>	<b>409</b>	<b>932</b>	<b>1,375</b>	<b>1,294</b>	<b>3,601</b>
Tax	210	138	103	89	109	76	182	417	409	1,008
Tax Rate (%)	21.3	24.5	26.2	11.6	16.3	18.6	19.6	30.3	31.6	28.0
<b>PAT</b>	<b>779</b>	<b>425</b>	<b>291</b>	<b>676</b>	<b>562</b>	<b>333</b>	<b>750</b>	<b>958</b>	<b>885</b>	<b>2,593</b>
<b>Adjusted PAT</b>	<b>760</b>	<b>412</b>	<b>317</b>	<b>684</b>	<b>549</b>	<b>321</b>	<b>716</b>	<b>875</b>	<b>809</b>	<b>2,401</b>
YoY Change (%)	13.2	-39.0	-64.1	-27.5	-27.8	-22.1		166.9	-	30.9

E: MOSt Estimates

Amnisha Aggarwal (AmnishaAggarwal@MotilalOswal.com) Tel: +91 22 39825404/Amit Purohit (AmitPurohit@MotilalOswal.com); Tel: 39825418



<http://deadpresident.blogspot.com> **Metals**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

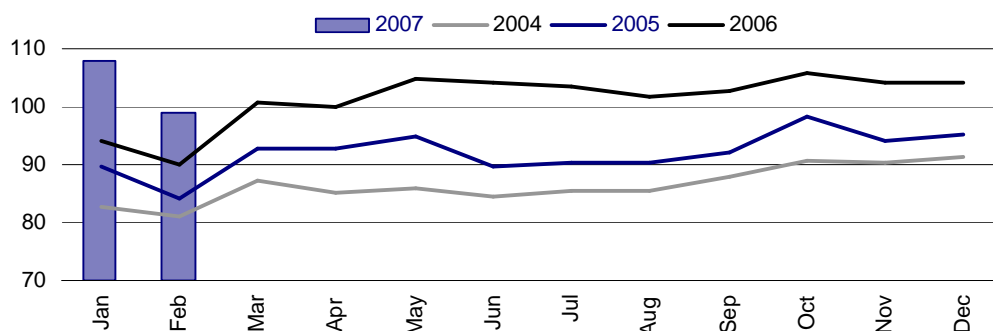
COMPANY NAME	PG.
Hindalco	173
Jindal Steel	174
JSW Steel	175
Nalco	176
SAIL	177
Tata Steel	178

## Steel

Global steel prices started moving up in 4QFY07 due to pick up in demand from Europe, Middle East, and China coupled with shortage of input metallic i.e. scrap, iron ore. Domestic prices too moved up during the quarter but not in the same ratio. During the quarter, hot rolled coil (HRC) prices moved up from US\$480-500 per ton to US\$620-630 per ton in the international market but the corresponding domestic prices moved up by Rs1,500 per ton only due to switching of pricing from import parity to export parity. Current domestic pricing of HRC is at US\$20 per ton discount to export parity and there is case for further price hike in the month of April 2007. We are witnessing rather stable pricing in the domestic market and fundamentals are moving in favor of integrated Indian steel producers due to rising cost structure for global steel producers on account of higher raw materials, logistics, and other costs.

**High growth in steel production continued:** Global crude steel output increased 10% YoY to 1,216 m tons in CY06 driven by growth of 21% in China, 9% in India and 5% in rest of the world (RoW). China has maintained growth in crude steel production of more than 20% YoY for five years in a row.

GLOBAL MONTHLY CRUDE STEEL PRODUCTION (M TON)



Source: IISI

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

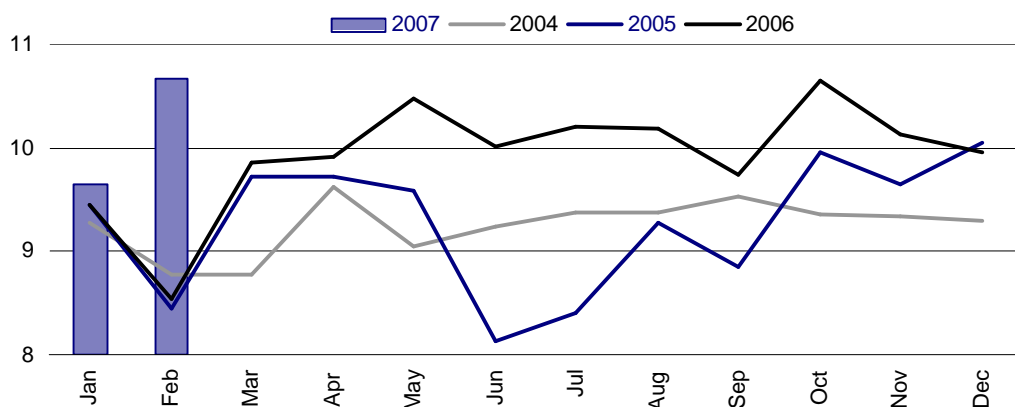
	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Metals</b>							
Hindalco	Buy	42,750	16.9	10,426	12.1	6,330	1.0
Jindal Steel & Power	Buy	11,739	74.3	4,201	56.3	2,141	42.1
JSW Steel	Buy	23,067	45.7	8,346	108.0	3,610	133.5
Nalco	Neutral	15,459	0.5	8,917	-8.1	6,012	-1.1
SAIL	Buy	100,550	9.1	32,212	112.5	19,713	78.7
Tata Steel	Buy	46,084	11.6	19,880	52.8	12,083	58.9
<b>Sector Aggregate</b>		<b>239,649</b>	<b>15.2</b>	<b>83,982</b>	<b>55.9</b>	<b>49,890</b>	<b>46.6</b>

Sanjay Jain (SanjayJain@MotilalOswal.com); Tel: +91 22 39825412

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**Emergence of another growth driver in 2007:** Global crude steel production increased 10.2% YoY to 99m tons in February 2007 and first two months' growth of 12.4% YoY is even stronger. Though China continues to maintain the growth momentum with first two months growth of 24.5% YoY, production in CIS (Commonwealth of Independent States) region has broken out of its lackluster trend in last four years and grown 25% YoY in the month of Feb 07 to 10.7m ton. The growth is driven by strong demand due to construction boom in Russia.

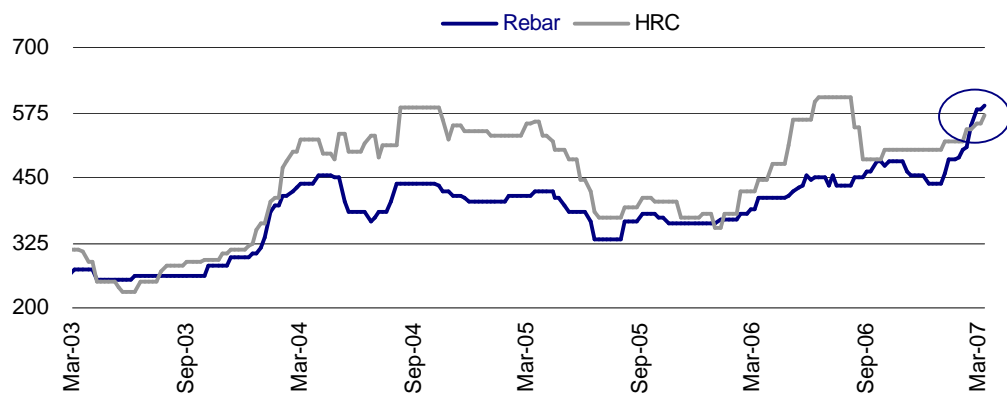
CRUDE STEEL MONTHLY PRODUCTION IN CIS REGION (M TON)



Source: IISI

**Construction boom in Europe and Middle East driving the steel price rally in 2007:** Rebar (used in civil construction) prices in Russia have touched an all time high of US\$1,000 per ton. Russian local prices are higher than international prices due to import duty protection of 27%. Construction boom in Russia, Turkey, other European countries, and the Middle East has driven the prices of rebar so much that it has overtaken HRC prices for the first time in history.

REBAR PRICES HAVE OVERTAKEN HRC PRICES IN CIS REGION (US\$/TON)



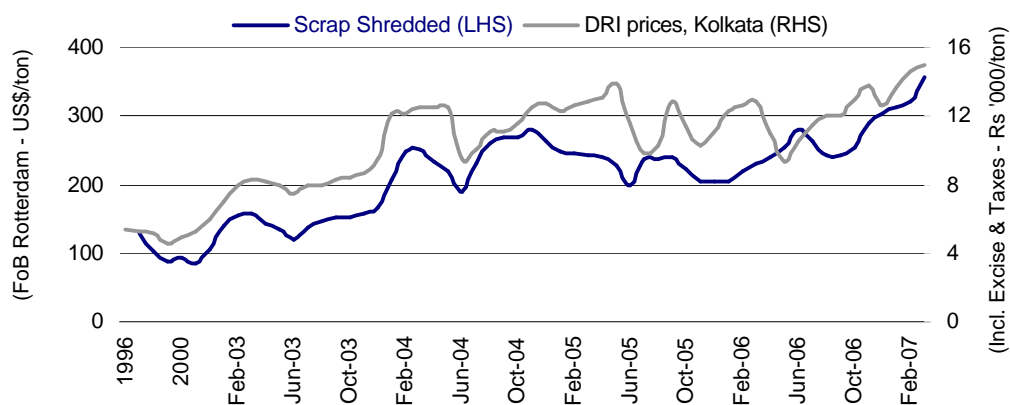
Source: Metal Bulletin

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China has turned net exporter of finished steel products clocking 24m ton of net exports in 2006 against net imports of 4m ton in 2005 and 10m ton in 2004. Net exports increased from 0.23m ton in January 2006 to 3.93m ton in December 2006 and has started declining thereafter. Net exports of finished steel in January 2007 declined 31% MoM to 2.72m tons. Exports of finished steel in February 2007 remained flat MoM at 4.38m ton though net exports increased 9% MoM due to decline in imports. Absence of growth in Chinese exports and strong demand from European and Middle East region have driven steel prices in 2007.

**Metallics prices too have rallied:** High growth in steel production in Eastern Europe was supported by increased internal consumption of steel scrap as alternate production route through blast furnace cannot be ramped up quickly. This has reduced the supply of scrap in annual global traded volume of 90m ton and pushed up prices in the spot market. Scrap prices have reached an all time high of US\$370 per ton and appear to be inching further up to US\$380 per ton. India is net importer of steel scrap and has started substituting it by sponge iron in the last few years. The prices of sponge iron in India closely follow the global trend in scrap prices and have been therefore moving up in the current quarter. This will improve the profitability of Jindal Steel and Power (JSP), which is a fully integrated sponge iron producer in India.

FIRMING SCRAP PRICES DRIVING INDIAN SPONGE IRON PRICES



DRI = Direct reduced iron = Sponge Iron

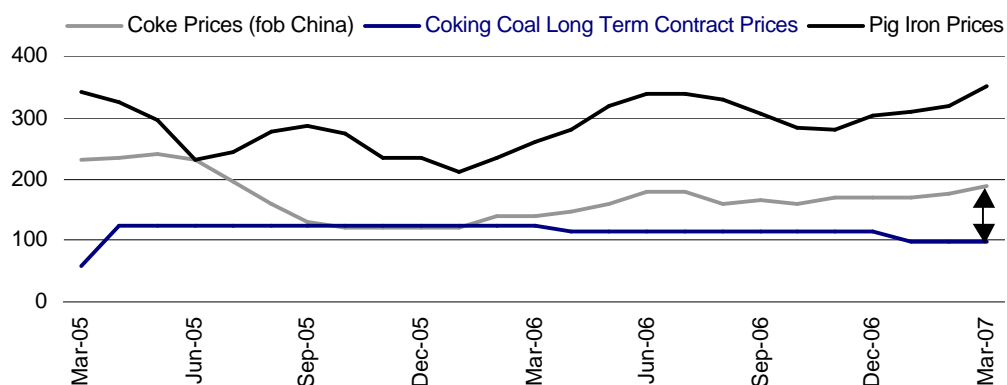
Source: Metal Bulletin and JPC

Firming scrap prices have driven the prices of pig iron also. Recent auction sale of pig iron was conducted at US\$355 per ton by MMTC in India. Chinese exporters of coke are rather keen to sell domestically (due to rising local demand and less stringent quality norms) than to export which has driven the export prices. This is pushing up the costs of merchant pig iron producers who don't have captive coke ovens and the margins of such producers are unlikely to improve. However, the margins of standalone coke producers who buy coking coal on annual contracts would improve due to widening gap between spot coke prices and long term coking coal prices. Coke business of Sesa Goa is likely to benefit from this trend.

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Spot prices of Indian iron ore in China too have moved from US\$69 per ton to US\$85 per ton due to rising ocean freights and FOB prices in India. Indian government has imposed export duty of Rs300 (US\$6.8) per ton with effect from 1 March 2007 to discourage exports. This will further increase the costs for Chinese steel producers.

GAP BETWEEN COKE AND COKING COAL PRICES IS WIDENING (US\$/TON)



DRI = Direct reduced iron = Sponge Iron

Source: Metal Bulletin and JPC

**Strong performance in 4QFY07:** We believe that integrated players like SAIL, Tata Steel and Jindal Steel would post QoQ growth in 4QFY07 earnings and YoY growth in earnings will be far more exciting due to weak steel prices in the same quarter last year. JSW steel will not be able to post QoQ volume growth due to break down in one of its furnaces. On account of improvement in general steel pricing scenario, we expect EBITDA margin to improve sequentially.

**We maintain our positive view on integrated players:** We believe that companies like SAIL, Tata Steel, and JSP will continue to show strong operating performance on account of their captive raw material, high volume growth and controlled cost structure. Considering the high volume growth, strong operating cash flow generation, and attractive valuations, we maintain our positive view on **SAIL, JSW Steel** and **JSPL**. Tata Steel remains attractive from a long term perspective.

### Non-ferrous metals

During 4QFY07, aluminium prices remained stable and averaged US\$2,746 per ton. However, copper prices continued their downward slide to touch a low of US\$5,340 per ton on 5 February 2007 and have recovered thereafter to US\$6,600 per ton on the LME. Strong demand for non-ferrous metals and low inventory level indicate that prices of will remain strong in the near term. However, copper is expected to remain volatile.

<http://deadpresident.blogspot.com>

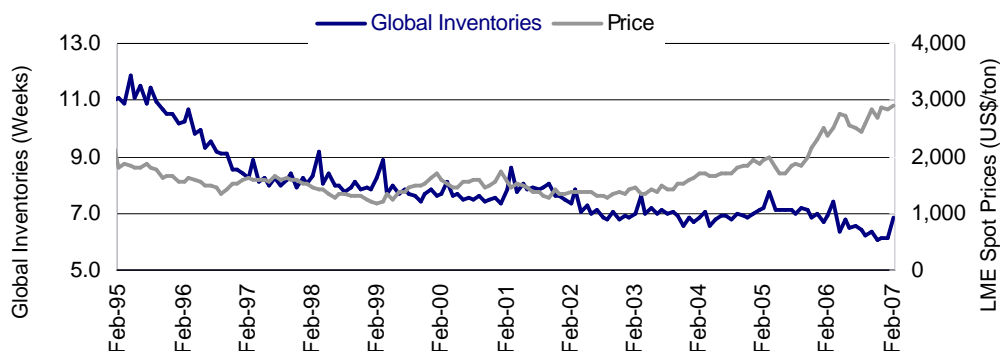
QUARTERLY AVERAGE OF METAL PRICES (US\$/TON)

QUARTER	ALUMINIUM			COPPER			ALUMINA SPOT PRICES		
	AVERAGE	QOQ (%)	YOY (%)	AVERAGE	QOQ (%)	YOY (%)	AVERAGE	QOQ (%)	YOY (%)
4QFY07	2,746	1	12	5,880	-17	21	317	32	-48
3QFY07	2,726	8	32	7,096	-7	72	240	-29	-55
2QFY07	2,531	-6	37	7,628	7	115	340	-42	-21
1QFY07	2,684	10	50	7,158	47	123	583	-4	34
4QFY06	2,447	18	29	4,862	18	55	607	15	46
3QFY06	2,071	12	14	4,130	17	39	530	23	32
2QFY06	1,849	3	8	3,544	10	27	432	0	29
1QFY06	1,795	-5	6	3,213	3	19	434	5	-5

Source: LME and Metal Bulletin

**Aluminium prices remained firm and grew 12% YoY:** Aluminium prices at LME continued to rule firm and average prices were higher by 1% QoQ and 12% YoY during 4QFY07 on account of continued strong demand and falling inventories.

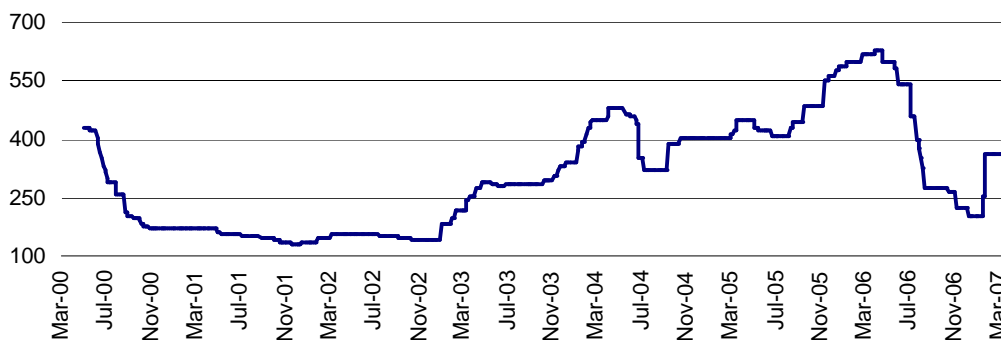
GLOBAL INVENTORIES AND PRICES OF ALUMINIUM



Source: IAI and LME

Average spot prices of alumina after falling for three quarters in sequence have recovered 32% QoQ in 4QFY07. Indian alumina producers tend to gain from firm spot prices. However, the gains for NALCO got negated as long term contracts in 2007 were negotiated at lower prices.

ALUMINA SPOT PRICES (US\$/TON)



Source: Metal Bulletin

<http://deadpresident.blogspot.com>

**Copper prices bottomed out, while spot TCRCs weakened:** Copper prices continued their downward slide to touch a low of US\$5,340 per ton on 5 February 2007 and have recovered thereafter to US\$6,600 per ton on the LME. Copper prices (3 month contract on LME) averaged lower by 17% QoQ to US\$5,880 per ton in 3QFY07.

The world refined copper market was in surplus of 350,000ton for the first time in four years in 2006, according to preliminary data from International Copper Study Group (ICSG). World demand of copper grew 2.2% though production of primary metal rose 4.8% and production of recycled metal rose 7%. Demand from EU, India, and Russia grew between 9-10% and usage in China, South Korea, and the US fell by 1, 5 and 6% respectively. Demand from Japan grew 5%.

Since the start of the year, spot copper TCRCs have fallen gradually, with the market at around US\$30 per ton/3 USc per pound. Tightness in the concentrates market is expected to develop in second half of the year on lower production rates. Freeport-McMoRan Copper & Gold Inc's big Grasberg copper mine in Indonesia, for example, is scheduled to produce less metal following changes to the mining sequence during the year. Therefore, smelters will be under a lot of pressure to accept lower numbers in mid-year negotiations for supply of concentrate between July 2007 and June 2008.

**We maintain our positive view on Hindalco:** The fundamentals remain robust for aluminium driven by strong global demand. Hindalco has aggressive plans to increase the capacity of primary aluminium from 0.5mtpa to 1.5mtpa in the next five years. It has recently acquired Novelis, the largest producer of rolled products, to ensure off-take of its primary aluminium even during adverse market conditions, as India is expected to be in surplus once large number of greenfield projects becomes operational in the next five years. Novelis too will turnaround in a couple of years once supply contracts with price ceiling get over.



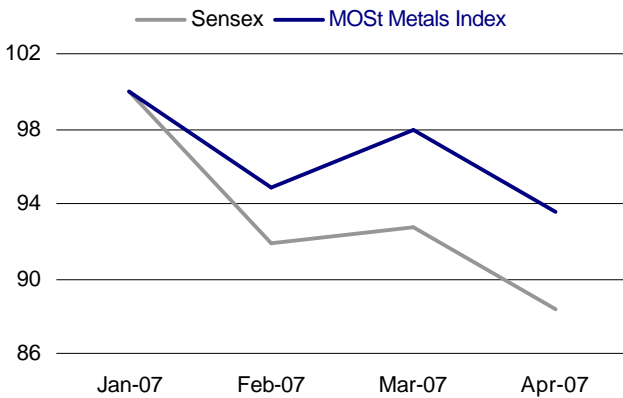
<http://deadpresident.blogspot.com>

Stock performance and valuations

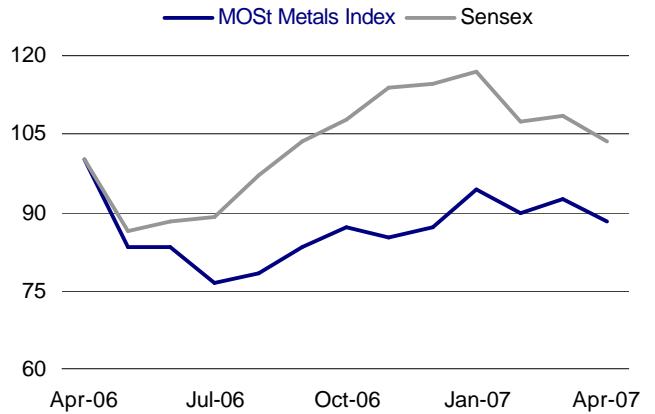
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Metals</b>						
Hindalco	-28	-31	-18	-39	-29	-28
Jindal Steel & Power	-1	15	10	7	-1	18
JSW Steel	20	50	31	42	20	53
Nalco	8	-23	19	-31	8	-20
SAIL	18	27	29	19	18	30
Tata Steel	-11	-22	-1	-30	-12	-19

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	2.4.07													
<b>Metals</b>														
Hindalco	128	Buy	23.0	23.2	26.3	5.6	5.5	4.8	4.1	3.8	3.3	21.9	17.2	16.6
Jindal Steel & Power	2,247	Buy	232.0	306.8	342.6	9.7	7.3	6.6	7.5	5.4	4.0	28.6	28.0	26.5
JSW Steel	476	Buy	70.6	91.0	105.2	6.7	5.2	4.5	4.3	3.4	3.5	24.7	24.5	23.2
Nalco	231	Neutral	37.1	29.1	29.6	6.2	7.9	7.8	3.2	4.1	3.7	30.2	19.9	17.4
SAIL	108	Buy	14.7	16.3	20.8	7.3	6.6	5.2	3.7	3.1	2.3	34.5	29.3	29.1
Tata Steel	424	Buy	74.4	79.2	110.4	5.7	5.4	3.8	3.3	2.8	1.9	30.2	24.2	26.4
<b>Sector Aggregate</b>						<b>6.5</b>	<b>6.2</b>	<b>4.9</b>	<b>3.8</b>	<b>3.4</b>	<b>2.7</b>	<b>29.3</b>	<b>24.0</b>	<b>24.1</b>

<http://deadpresident.blogspot.com> **Hindalco**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HNDL IN
	REUTERS CODE
S&P CNX: 3,634	HALC.BO
Equity Shares (m)	1,159.3
52-Week Range	251/125
1,6,12 Rel. Perf. (%)	-4/-27/-39
M.Cap. (Rs b)	148.4
M.Cap. (US\$ b)	3.4

2 April 2007

Buy

Rs128

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	194,809	26,635	23.0	68.8	5.6	1.2	21.9	18.5	1.0	4.1
3/08E	203,403	26,932	23.2	1.1	5.5	0.9	17.2	16.1	0.9	3.8
3/09E	239,138	30,525	26.3	13.3	4.9	0.8	16.6	16.4	0.7	3.3

\* Consolidated Numbers, incl Indal and Copper Mining Operations

- During 4QFY07, we expect Hindalco to report a net profit of Rs6.3b marginally higher YoY, driven by improvement in aluminium prices and volume growth of 13% in aluminium and 11% in copper. However, the falling spot TCRCs would drag the earnings.
- The company has been continuously working on increasing the capacity utilization and minimizing the operational disruption. Copper smelter Cu-2 remained shut due to falling weak spot TCRCs. Mitsubishi copper smelter Cu-3 is expected to ramp up to full capacity in FY08.
- Hindalco has aggressive plans to increase the capacity of primary aluminium from 0.5mtpa to 1.5mtpa in next five years and has recently acquired Novelis, the largest producer of rolled product, to ensure off-take of its primary aluminium even during adverse market conditions as India is expected to be in surplus once large number of greenfield projects become operational in next five years.
- The stock is quoting at P/E of 5.5x FY08E and EV/EBITDA of 3.8x FY08E. We maintain **Buy** in view of Hindalco's aggressive growth plan for aluminium business combined with strategic acquisition of Novelis, which too would turnaround once price ceiling contracts are over.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>22,078</b>	<b>26,608</b>	<b>28,737</b>	<b>36,574</b>	<b>42,737</b>	<b>46,342</b>	<b>46,562</b>	<b>42,750</b>	<b>113,964</b>	<b>178,391</b>
Change (YoY %)	7.1	8.3	15.4	45.4	93.6	74.2	62.0	16.9	19.7	56.5
Total Expenditure	16,034	21,729	22,907	27,276	33,403	36,478	36,109	32,324	87,914	138,314
<b>EBITDA</b>	<b>6,044</b>	<b>4,879</b>	<b>5,830</b>	<b>9,298</b>	<b>9,334</b>	<b>9,864</b>	<b>10,453</b>	<b>10,426</b>	<b>26,050</b>	<b>40,077</b>
Change (YoY %)	31.1	-9.7	-9.8	47.9	54.4	102.2	79.3	12.1	14.4	53.8
As % of Net Sales	27.4	18.3	20.3	25.4	21.8	21.3	22.4	24.4	22.9	22.5
Interest	461	539	628	624	634	515	698	700	2,252	2,547
Depreciation	1,169	1,285	1,314	1,443	1,341	1,353	1,384	1,522	5,211	5,600
Other Income	336	927	433	743	776	1,108	584	600	2,439	3,068
<b>PBT (before EO Item)</b>	<b>4,750</b>	<b>3,982</b>	<b>4,321</b>	<b>7,974</b>	<b>8,135</b>	<b>9,104</b>	<b>8,955</b>	<b>8,804</b>	<b>21,027</b>	<b>34,998</b>
Extra-ordinary Income	-	-	30.0	-	-	-727.0	-	-	30.2	-727.0
<b>PBT (after EO Item)</b>	<b>4,750</b>	<b>3,982</b>	<b>4,351</b>	<b>7,974</b>	<b>8,135</b>	<b>8,377</b>	<b>8,955</b>	<b>8,804</b>	<b>21,057</b>	<b>34,271</b>
Total Tax	1,015	851	930	1,705	2,120	2,401	2,516	2,474	4,501	9,511
% Tax	21.4	21.4	21.4	21.4	26.1	28.7	28.1	28.1	21.4	27.8
<b>Reported PAT</b>	<b>3,735</b>	<b>3,131</b>	<b>3,421</b>	<b>6,269</b>	<b>6,015</b>	<b>5,976</b>	<b>6,439</b>	<b>6,330</b>	<b>16,555</b>	<b>24,760</b>
<b>Adjusted PAT</b>	<b>3,735</b>	<b>3,131</b>	<b>3,397</b>	<b>6,269</b>	<b>6,015</b>	<b>6,495</b>	<b>6,439</b>	<b>6,330</b>	<b>16,532</b>	<b>25,286</b>
Change (YoY %)	58.5	5.1	-5.9	37.4	61.1	107.4	89.5	1.0	23.8	53.0

E: MOST Estimates

<http://deadpresident.blogspot.com> Jindal Steel & Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	JSP IN
	REUTERS CODE
S&P CNX: 3,634	JNSP.BO
Equity Shares (m)	30.8
52-Week Range	2,640/1,151
1,6,12 Rel. Perf. (%)	-1/31/7
M.Cap. (Rs b)	69.2
M.Cap. (US\$ b)	1.6

2 April 2007

Buy

Previous Recommendation: Buy

Rs2,247

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	36,406	7,144	232.0	24.7	9.7	2.8	28.7	16.4	2.9	7.5
3/08E	50,193	9,447	306.8	32.2	7.3	2.1	28.0	20.6	2.0	5.4
3/09E	55,133	11,918	342.6	11.7	6.6	1.7	26.5	25.6	1.7	4.4

- ✦ We expect net sales to grow 74% YoY to Rs11.7b in 4QFY07, driven by volume growth in steel business and strong realizations. Ramp up of recently commissioned 1.25mtpa blast furnace would drive the crude steel production and re-commissioning of RUBM will drive the volumes of rolled products. Iron ore sales are expected to decline QoQ due to utilization of fines in sintering. Stronger QoQ sponge iron prices are also expected to contribute to the topline.
- ✦ EBITDA is likely to move up 56.3% YoY to Rs4.2b. EBITDA margin is likely to decline to 35.8% due to change in product mix (iron ore, sponge iron, steel, power) in favor of steel products.
- ✦ Depreciation and interest expenses are likely to move up due to full impact of capex in this quarter. Post-tax adjusted profit is likely to move up 42% to Rs2.1b.
- ✦ Coke ovens commissioning of 0.4m ton is expected by April 07, which will provide steam for full ramp up of 340MW captive power from current level of operation at 300MW. First phase of 250MW of 1,000MW power is expected by June 2007.
- ✦ We expect JSP standalone business to post an EPS of Rs232 in FY07E and Rs306.8 in FY08E. Commissioning of the first phase of 250MW of power by JPL in June 2007 would lead to re-rating of the stock. Our target price of Rs2,892 is based upon sum of the parts (SOTP) valuation. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>6,296</b>	<b>6,213</b>	<b>6,252</b>	<b>6,735</b>	<b>6,662</b>	<b>7,896</b>	<b>10,101</b>	<b>11,739</b>	<b>25,903</b>	<b>36,406</b>
Change (YoY %)	2.7	5.7	-2.8	7.1	5.8	27.1	61.6	74.3	14.9	40.6
Total Expenditure	3,626	3,609	3,958	4,048	3,413	4,812	6,327	7,538	15,833	22,090
<b>EBITDA</b>	<b>2,670</b>	<b>2,604</b>	<b>2,294</b>	<b>2,687</b>	<b>3,249</b>	<b>3,085</b>	<b>3,773</b>	<b>4,201</b>	<b>10,070</b>	<b>14,316</b>
Change (YoY %)	35.2	28.0	6.1	-4.2	21.7	18.5	64.5	56.3	13.1	42.2
As % of Net Sales	42.4	41.9	36.7	39.9	48.8	39.1	37.4	35.8	38.9	39.3
Interest	241	254	304	260	558	330	363	575	873	1,825
Depreciation	439	453	477	823	621	642	919	931	2,192	3,113
Other Income	27	69	110	70	32	33	24	195	275	275
<b>PBT (before EO Item)</b>	<b>2,017</b>	<b>1,965</b>	<b>1,623</b>	<b>1,673</b>	<b>2,103</b>	<b>2,145</b>	<b>2,516</b>	<b>2,890</b>	<b>7,280</b>	<b>9,653</b>
Extra-ordinary Income									-2	-
<b>PBT (after EO Item)</b>	<b>2,017</b>	<b>1,965</b>	<b>1,623</b>	<b>1,673</b>	<b>2,103</b>	<b>2,145</b>	<b>2,516</b>	<b>2,890</b>	<b>7,279</b>	<b>9,653</b>
Total Tax	515	510	358	167	572	573	617	749	1,549	2,510
% Tax	25.5	25.9	22.0	10.0	27.2	26.7	24.5	25.9	21.3	26.0
<b>Reported PAT</b>	<b>1,502</b>	<b>1,455</b>	<b>1,265</b>	<b>1,507</b>	<b>1,531</b>	<b>1,572</b>	<b>1,899</b>	<b>2,141</b>	<b>5,729</b>	<b>7,144</b>
<b>Adjusted PAT</b>	<b>1,502</b>	<b>1,455</b>	<b>1,265</b>	<b>1,507</b>	<b>1,531</b>	<b>1,572</b>	<b>1,899</b>	<b>2,141</b>	<b>5,731</b>	<b>7,144</b>
Change (YoY %)	23.6	17.9	2.0	2.7	1.9	8.0	50.1	42.1	9.2	24.7

E: MOST Estimates

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<http://deadpresident.blogspot.com> JSW Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	JSTL IN
	REUTERS CODE
S&P CNX: 3,634	JSTL.BO
Equity Shares (m)	172.0
52-Week Range	508/205
1,6,12 Rel. Perf. (%)	4/64/42
M.Cap. (Rs b)	81.9
M.Cap. (US\$ b)	1.9

2 April 2007

Buy

Previous Recommendation: Buy

Rs476

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	83,721	12,138	70.6	87.4	6.7	1.6	23.6	21.6	1.4	4.1	
3/08E	105,663	15,645	91.0	28.9	5.2	1.3	24.5	23.4	1.1	3.4	
3/09E	116,229	18,086	105.2	15.6	4.5	1.1	23.2	19.9	1.1	3.5	

- During 4QFY07, we expect net sales to increase 46% YoY to Rs23b driven by 23% higher volumes and 18.6% higher realization. QoQ growth in volume is muted due to break down of one of the furnaces (Corex-2).
- EBITDA is expected to grow 108% YoY and margins to improve 1,090bp to 36.2% due to cost savings and higher realization. Profit after tax is likely to increase 133.5% YoY to Rs3.6b.
- The stock is trading at P/E of 5.2x FY08E. We maintain **Buy** as company is on a rapid growth path through brownfield expansions and has cost advantages due to its location in iron ore rich belt of Bellary-Hospet.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales ('000 ton)	447	567	517	589	543	656	730	724	2,118	2,653
Change (YoY %)	27.7	41.7	12.4	-0.1	21.5	15.7	41.2	22.8	17.7	25.2
Realization (Rs per ton)	34,433	27,166	29,367	26,862	28,902	33,454	31,538	31,872	29,174	31,563
Change (YoY %)	19.7	-4.3	-21.2	-27.4	-16.1	23.1	7.4	18.6	-21.4	8.2
<b>Net Sales</b>	<b>15,388</b>	<b>15,400</b>	<b>15,180</b>	<b>15,832</b>	<b>15,694</b>	<b>21,946</b>	<b>23,015</b>	<b>23,067</b>	<b>61,801</b>	<b>83,721</b>
Change (YoY %)	52.8	35.6	-11.5	-27.5	2.0	42.5	51.6	45.7	-7.5	35.5
Total Expenditure	10,493	11,661	10,983	11,821	11,136	14,983	15,318	14,721	44,707	56,157
<b>EBITDA</b>	<b>4,896</b>	<b>3,739</b>	<b>4,197</b>	<b>4,012</b>	<b>4,558</b>	<b>6,963</b>	<b>7,697</b>	<b>8,346</b>	<b>17,094</b>	<b>27,564</b>
Change (YoY %)	78.7	12.3	-26.5	-52.7	-6.9	86.2	83.4	108.0	-24.5	61.3
As % of Net Sales	31.8	24.3	27.6	25.3	29.0	31.7	33.4	36.2	27.7	32.9
<b>EBITDA (Rs per ton)</b>	<b>10,954</b>	<b>6,596</b>	<b>8,119</b>	<b>6,806</b>	<b>8,394</b>	<b>10,614</b>	<b>10,548</b>	<b>11,531</b>	<b>8,069</b>	<b>10,392</b>
Interest	904	989	895	816	887	967	1,107	1,200	3,603	4,161
Depreciation	919	1,104	1,021	1,015	1,025	1,164	1,295	1,350	4,058	4,834
Other Income	25	38	27	49	16	84	64	80	-113	244
<b>PBT (before EO Item)</b>	<b>3,098</b>	<b>1,684</b>	<b>2,308</b>	<b>2,230</b>	<b>2,662</b>	<b>4,915</b>	<b>5,360</b>	<b>5,876</b>	<b>9,319</b>	<b>18,813</b>
Extra-ordinary Exp.	0	0	-78	3,692	0	0	0	-400	3,692	-400
<b>PBT (after EO Item)</b>	<b>3,098</b>	<b>1,684</b>	<b>2,231</b>	<b>5,922</b>	<b>2,662</b>	<b>4,915</b>	<b>5,360</b>	<b>5,476</b>	<b>13,011</b>	<b>18,413</b>
Total Tax	1,094	621	839	1,815	959	1,452	1,738	2,111	4,369	6,261
% Tax	35.3	36.9	37.6	30.6	36.0	29.5	32.4	38.6	33.6	34.0
<b>Reported PAT</b>	<b>2,004</b>	<b>1,063</b>	<b>1,392</b>	<b>4,107</b>	<b>1,703</b>	<b>3,463</b>	<b>3,622</b>	<b>3,365</b>	<b>8,643</b>	<b>12,153</b>
Preference Dividend									279	279
<b>Adjusted PAT</b>	<b>2,004</b>	<b>1,063</b>	<b>1,440</b>	<b>1,546</b>	<b>1,703</b>	<b>3,463</b>	<b>3,622</b>	<b>3,610</b>	<b>5,911</b>	<b>12,138</b>
Change (YoY %)	265.0	28.3	-36.0	-61.7	-15.0	225.8	151.4	133.5	-28.3	105.3

E: MOSt Estimates

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<http://deadpresident.blogspot.com> **Nalco**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	NACL IN
	REUTERS CODE
S&P CNX: 3,634	NALU.BO
Equity Shares (m)	644.3
52-Week Range	335/185
1,6,12 Rel. Perf. (%)	8/7/-31
M.Cap. (Rs b)	148.5
M.Cap. (US\$ b)	3.4

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs231

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	59,216	23,913	37.1	55.0	6.2	1.9	30.2	37.8	1.9	3.2
3/08E	53,176	18,756	29.1	-21.6	7.9	1.6	19.9	25.2	2.2	4.1
3/09E	54,504	19,096	29.6	1.8	7.7	1.3	17.4	22.1	2.0	3.7

- During 4QFY07, we expect net sales to remain flat (+0.5% YoY) at Rs15.5b. The revenue of aluminium segment is expected to grow on account of 17% YoY higher metal prices at LME though the volumes would remain flat at 90,000tons. The revenue from sale of alumina would decline due to 26% YoY higher volumes but 46% YoY lower realization.
- EBITDA is expected to decline 8.1% to Rs8.9b primarily on account of weak alumina prices despite stronger aluminium prices.
- Profit after tax is expected to decline 1.1% YoY to Rs6b on account of higher other income and lower tax rate.
- The stock is trading at P/E of 7.9x FY08E. The capacity expansion of 33% volume growth at capex of Rs41b is expected to be completed by end of 2008 and benefits will accrue in FY10. The company is available at enterprise value of Rs112b i.e. at 9% discount to replacement cost. We are **Neutral** on the stock due to absence of volume growth till FY09 and weak earnings from alumina segment.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>9,787</b>	<b>10,470</b>	<b>13,249</b>	<b>15,380</b>	<b>14,855</b>	<b>14,416</b>	<b>14,486</b>	<b>15,459</b>	<b>48,887</b>	<b>59,216</b>
Change (YoY %)	19.0	7.2	21.5	24.7	51.8	37.7	9.3	0.5	18.6	21.1
Total Expenditure	4,892	5,881	6,604	5,675	5,512	5,665	6,037	6,542	23,053	23,755
<b>EBITDA</b>	<b>4,896</b>	<b>4,589</b>	<b>6,645</b>	<b>9,705</b>	<b>9,344</b>	<b>8,751</b>	<b>8,449</b>	<b>8,917</b>	<b>25,834</b>	<b>35,461</b>
Change (QoQ %)		-6.3	44.8	46.0	-3.7	-6.3	-3.4	5.5		
Change (YoY %)					90.9	90.7	27.2	-8.1	20.5	37.3
As % of Net Sales	50.0	43.8	50.2	63.1	62.9	60.7	58.3	57.7	52.8	59.9
Depreciation	983	992	919	894	787	771	744	800	3,787	3,102
Other Income	406	474	545	851	834	1,014	978	1,001	2,276	3,827
<b>PBT (before EO Item)</b>	<b>4,319</b>	<b>4,070</b>	<b>6,271</b>	<b>9,663</b>	<b>9,391</b>	<b>8,994</b>	<b>8,684</b>	<b>9,118</b>	<b>24,323</b>	<b>36,186</b>
Extra-ordinary Exp.									297	0
<b>PBT (after EO Item)</b>	<b>4,319</b>	<b>4,070</b>	<b>6,271</b>	<b>9,663</b>	<b>9,391</b>	<b>8,994</b>	<b>8,684</b>	<b>9,118</b>	<b>24,620</b>	<b>36,186</b>
Total Tax	1,514	1,240	2,341	3,582	3,168	3,044	2,958	3,105	8,674	12,273
% Tax	35.0	30.5	37.3	37.1	33.7	33.8	34.1	34.1	35.2	33.9
<b>Reported PAT</b>	<b>2,806</b>	<b>2,830</b>	<b>3,930</b>	<b>6,080</b>	<b>6,223</b>	<b>5,950</b>	<b>5,726</b>	<b>6,012</b>	<b>15,945</b>	<b>23,913</b>
<b>Adjusted PAT</b>	<b>2,806</b>	<b>2,830</b>	<b>3,930</b>	<b>6,080</b>	<b>6,223</b>	<b>5,950</b>	<b>5,726</b>	<b>6,012</b>	<b>15,753</b>	<b>23,913</b>
Change (YoY %)	28.1	2.7	28.4	44.1	121.8	110.2	45.7	-1.1	28.4	51.8

E: MOST Estimates

<http://deadpresident.blogspot.com> Steel Authority of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SAIL IN
	REUTERS CODE
S&P CNX: 3,634	SAIL.BO
Equity Shares (m)	4,130.4
52-Week Range	122/61
1,6,12 Rel. Perf. (%)	5/37/19
M.Cap. (Rs b)	444.0
M.Cap. (US\$ b)	10.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs108

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	339,894	60,902	14.7	51.5	7.3	2.6	34.9	43.0	1.1	3.7
3/08E	359,041	67,209	16.3	10.4	6.6	2.0	29.6	39.6	0.9	3.2
3/09E	385,764	85,972	20.8	27.9	5.2	1.5	29.3	39.9	0.8	2.5

- ✂ We expect net sales to grow 9.1% YoY to Rs100.6b in 4QFY07. Revenue growth would be driven by 18% YoY increase in realization despite a 7.7% decline in sales volume.
- ✂ EBITDA margin for the quarter is likely to expand 1,560bp YoY to 32%, largely driven by higher realizations and lower coking coal costs.
- ✂ Post-tax adjusted profit is likely to increase 79% YoY to Rs19.7b.
- ✂ Rs370b capex will raise the capacity of saleable steel from 13mtpa currently to 20mtpa by 2010. SAIL has revamped one blast furnace in each of the four main plants during FY07 and therefore would further increase the volume by 2m ton of hot metal in FY08.
- ✂ The stock trades at an attractive valuation of 6.6x FY08E EPS and 3.2x FY08E EV/EBITDA. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales ('000 ton)	1,886	2,804	2,776	3,848	2,470	2,947	3,014	3,553	11,300	11,984
Change (YoY %)	-8.1	7.2	-5.7	12.5	31.0	5.1	8.6	-7.7	2.4	6.1
Realization (Rs per Ton)	29,908	25,747	22,819	23,958	27,766	28,976	28,325	28,300	25,468	28,362
Change (YoY %)	16.5	0.0	-11.0	-12.6	-7.2	12.5	24.1	18.1	-3.5	11.4
<b>Net Sales</b>	<b>56,407</b>	<b>72,196</b>	<b>63,345</b>	<b>92,190</b>	<b>68,583</b>	<b>85,391</b>	<b>85,371</b>	<b>100,550</b>	<b>287,786</b>	<b>339,894</b>
Change (%)	7.0	7.7	-18.5	-1.6	21.6	18.3	34.8	9.1	-1.2	18.1
<b>EBITDA</b>	<b>19,965</b>	<b>19,627</b>	<b>13,726</b>	<b>15,159</b>	<b>17,803</b>	<b>23,333</b>	<b>26,226</b>	<b>32,212</b>	<b>68,474</b>	<b>99,574</b>
Change (YoY %)	23.6	-6.6	-55.9	-62.0	-10.8	18.9	91.1	112.5	-36.7	45.4
As % of Net Sales	35.4	27.2	21.7	16.4	26.0	27.3	30.7	32.0	23.8	29.3
<b>EBITDA (per ton)</b>	<b>10,586</b>	<b>7,000</b>	<b>4,944</b>	<b>3,939</b>	<b>7,208</b>	<b>7,918</b>	<b>8,701</b>	<b>9,066</b>	<b>6,060</b>	<b>8,309</b>
Interest	1,320	1,212	1,056	1,139	937	924	906	900	4,678	3,667
Depreciation	2,923	2,866	3,112	3,041	2,959	3,035	3,299	3,350	12,073	12,643
Other Income	1,320	1,524	1,089	1,600	1,513	2,261	2,231	1,997	5,334	8,001
<b>PBT (before EO Inc.)</b>	<b>17,042</b>	<b>17,074</b>	<b>10,646</b>	<b>12,578</b>	<b>15,421</b>	<b>21,635</b>	<b>24,252</b>	<b>29,958</b>	<b>57,057</b>	<b>91,266</b>
EO Income (exp)					5,582		-1,910			3,672
<b>PBT (after EO Inc.)</b>	<b>17,042</b>	<b>17,074</b>	<b>10,646</b>	<b>12,578</b>	<b>21,002</b>	<b>21,635</b>	<b>22,342</b>	<b>29,958</b>	<b>57,057</b>	<b>94,938</b>
Total Tax	5,777	5,801	3,800	1,546	7,138	7,207	7,630	10,246	16,928	32,221
% Tax	33.9	34.0	35.7	12.3	34.0	33.3	34.2	34.2	29.7	33.9
<b>Reported PAT</b>	<b>11,265</b>	<b>11,272</b>	<b>6,846</b>	<b>11,032</b>	<b>13,864</b>	<b>14,428</b>	<b>14,712</b>	<b>19,713</b>	<b>40,130</b>	<b>62,717</b>
<b>Adjusted PAT</b>	<b>11,265</b>	<b>11,272</b>	<b>6,846</b>	<b>11,032</b>	<b>10,179</b>	<b>14,428</b>	<b>15,969</b>	<b>19,713</b>	<b>40,130</b>	<b>60,291</b>
Change (YoY %)	1.3	-25.5	-54.8	-58.8	-9.6	28.0	133.3	78.7	-41.1	50.2

E: MOST Estimates; Quarterly results don't add up with full year results due to restating of past quarter results.



<http://deadpresident.blogspot.com> Tata Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TATA IN
	REUTERS CODE
S&P CNX: 3,634	TISC.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs424

Equity Shares (m)	609.2
52-Week Range	679/377
1,6,12 Rel. Perf. (%)	-1/-2/-30
M.Cap. (Rs b)	258.3
M.Cap. (US\$ b)	5.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	241,745	45,349	74.4	9.3	5.9	1.7	28.8	31.8	1.0	3.3
3/08E	248,888	48,232	79.2	6.4	5.6	1.3	24.2	26.0	0.9	2.9
3/09E	306,618	67,268	110.4	39.5	4.0	1.1	26.4	29.9	0.7	2.0

PAT and EPS numbers are consolidated

- ✗ We expect net sales to increase 12% YoY to Rs46b in 4QFY07. Volumes of saleable steel are likely to increase 5.6% YoY to 1.326m ton and net sales realization is expected to be higher by 12.3% YoY. We expect lower sales from ferro alloy and mineral division due to imposition of export tax on chrome ore and concentrate.
- ✗ EBITDA margin for the quarter is likely to improve by 1,160bp YoY on account of higher steel prices, lower coking coal prices, product mix improvement, and better operating efficiencies.
- ✗ PAT is likely to increase 59% to Rs12b. For FY07, we expect adjusted PAT of Rs44b (+24.3% YoY).
- ✗ After acquisition of Natsteel (2mtpa capacity) in 2005 and Millennium Steel (1.7mtpa capacity) in 2006, it has done mega acquisition of Corus (18mtpa capacity) in 2007 to leverage its low cost advantage in primary steel making in India with high end finishing facilities across the globe. It has become the fifth largest steel company in the world.
- ✗ The pressure on the stock due to high price paid for Corus may come off due to stronger than expected steel pricing scenario prevailing in western world benefiting Corus. The stock is trading at P/E of 5.6x FY08E and is attractive with a long term perspective. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales ('000 ton)	875	1,180	1,107	1,256	1,115	1,184	1,234	1,327	4,418	4,860
Change (YoY %)	-0.8	15.3	11.0	24.3	27.4	0.4	11.5	5.6	12.9	10.0
Realization (Rs per ton)	34,626	29,867	29,710	28,849	31,133	31,656	32,236	32,388	30,481	31,883
Change (YoY %)	5.4	-0.1	-8.6	-15.7	-10.1	6.0	8.5	12.3	-8.2	4.6
<b>Net Sales</b>	<b>34,645</b>	<b>38,651</b>	<b>36,808</b>	<b>41,290</b>	<b>39,159</b>	<b>41,858</b>	<b>44,700</b>	<b>46,084</b>	<b>151,394</b>	<b>171,800</b>
Change (%)	9.5	3.4	-1.4	6.8	13.0	8.3	21.4	11.6	4.4	13.5
<b>EBITDA</b>	<b>15,882</b>	<b>16,516</b>	<b>13,909</b>	<b>13,008</b>	<b>15,813</b>	<b>17,048</b>	<b>17,836</b>	<b>19,880</b>	<b>59,315</b>	<b>70,577</b>
Change (YoY %)	13.3	1.4	-11.5	-9.9	-0.4	3.2	28.2	52.8	-1.9	19.0
As % of Net Sales	45.8	42.7	37.8	31.5	40.4	40.7	39.9	43.1	39.2	41.1
<b>EBITDA(Rs/tss)</b>	<b>16,022</b>	<b>13,153</b>	<b>11,276</b>	<b>9,318</b>	<b>12,871</b>	<b>13,236</b>	<b>13,398</b>	<b>13,926</b>	<b>12,161</b>	<b>13,381</b>
Interest	342	307	364	172	293	478	520	609	1,184	1,900
Depreciation	1,706	1,755	2,357	1,933	1,951	1,957	1,991	2,101	7,751	8,000
Other Income	303	1,188	413	644	779	1,772	987	1,361	2,548	4,900
<b>PBT (before EO Inc.)</b>	<b>14,138</b>	<b>15,642</b>	<b>11,601</b>	<b>11,547</b>	<b>14,348</b>	<b>16,386</b>	<b>16,313</b>	<b>18,531</b>	<b>52,927</b>	<b>65,577</b>
EO Income (exp)	-296	-290	-286	343	-184	-443	-493	-500	-528	-1,620
<b>PBT (after EO Inc.)</b>	<b>13,842</b>	<b>15,352</b>	<b>11,315</b>	<b>11,891</b>	<b>14,164</b>	<b>15,943</b>	<b>15,820</b>	<b>18,031</b>	<b>52,399</b>	<b>63,958</b>
Total Tax	4,601	4,898	3,777	4,060	4,630	4,928	5,183	6,275	17,336	21,015
% Tax	33.2	31.9	33.4	34.1	32.7	30.9	32.8	34.8	33.1	32.9
<b>Reported PAT</b>	<b>9,241</b>	<b>10,454</b>	<b>7,537</b>	<b>7,831</b>	<b>9,534</b>	<b>11,015</b>	<b>10,638</b>	<b>11,757</b>	<b>35,063</b>	<b>42,943</b>
<b>Adjusted PAT</b>	<b>9,439</b>	<b>10,652</b>	<b>7,728</b>	<b>7,604</b>	<b>9,658</b>	<b>11,321</b>	<b>10,969</b>	<b>12,083</b>	<b>35,417</b>	<b>44,031</b>
Change (YoY %)	24.1	12.6	-13.4	-18.7	2.3	6.3	41.9	58.9	0.2	24.3

E: MOSt Estimates; tss=ton of steel sales

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<http://deadpresident.blogspot.com> Oil & Gas

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.	
BPCL	185	<b>Recovery in refining margins, but mixed petchem margins</b>
Chennai Petroleum	186	<b>YoY comparative (v/s 4QFY06)</b>
GAIL	187	<ul style="list-style-type: none"> <li>✍ Benchmark Singapore refining complex margins up by 50% at US\$6.8/bbl (v/s US\$4.6/bbl in 4QFY06)</li> <li>✍ Brent average down by 6.1% at US \$58.2/bbl v/s US \$62.0/bbl</li> <li>✍ Mixed petrochemical margins (spread over naphtha) – Polymer margins have moved up but polyester margins have gone down; PE - up 17.2 %; PP - up 16.7 %; PTA - down 7.6 %; and MEG - down 9.4 %.</li> </ul>
HPCL	188	
IOC	189	<b>QoQ comparative (v/s 3QFY07)</b>
Indraprastha Gas	190	<ul style="list-style-type: none"> <li>✍ Benchmark refining margins up 76% from US\$3.9/bbl</li> <li>✍ Brent average down by 3% from US\$9.7/bbl</li> <li>✍ Petrochemical margins (spread over naphtha) largely down; PE – down 6%; PP – down 3%; PTA – down 17% and MEG – down 3%.</li> </ul>
IPCL	191	
ONGC	192	<b>Factors to watch for</b>
Reliance	193	<ul style="list-style-type: none"> <li>✍ We have not factored in any sale of current Oil Bond holding. Any sale at a discount would impact profits of marketing companies.</li> </ul>

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Oil &amp; Gas</b>							
BPCL	Buy	258,620	3.1	6,443	-66.4	2,794	-83.4
Chennai Petroleum	Neutral	69,477	5.6	1,482	8.5	363	2.4
GAIL	Neutral	52,360	24.4	8,800	24.9	6,374	55.8
HPCL	Buy	221,127	-2.8	3,815	-80.5	1,934	-90.4
IOC	Buy	488,556	-3.8	21,690	-58.5	11,345	-71.9
IPCL	Neutral	30,500	4.7	6,500	15.2	4,208	31.1
Indraprastha Gas	Not Rated	1,618	19.2	674	15.9	358	20.3
ONGC	Buy	144,275	21.3	77,329	15.0	38,940	59.2
Reliance Inds.	Neutral	262,332	6.9	45,646	12.8	26,550	6.1
<b>Sector Aggregate</b>		<b>1,528,865</b>	<b>2.7</b>	<b>172,378</b>	<b>-19.2</b>	<b>92,866</b>	<b>-31.1</b>

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### Oil prices: continue to remain high

#### 4QFY07 highlights

- ⚡ Down 6.1% YoY at US\$58.2/bbl (v/s US\$62/bbl in 4QFY06)
- ⚡ Down 3% QoQ (v/s US\$ 59.7/bbl in 3QFY07)

4QFY07 saw high volatility in oil prices. The first two weeks of January saw a sharp fall in crude oil prices by above 14%, in view of an unusually warm winter in North America. Soon afterward prices started moving up in view of OPEC's volume cuts from 1 February 2007, and later on owing to the coldest February in the US in thirty years.

Crude prices were also strongly driven by product prices in the US where strong demand coincided with peak refining maintenance and several unplanned shutdowns. Sudden heating oil demand in February, when many refiners had already started to increase gasoline yields ahead of driving season, also added to the pressure. By end-February, crude prices breached US\$60/bbl again.

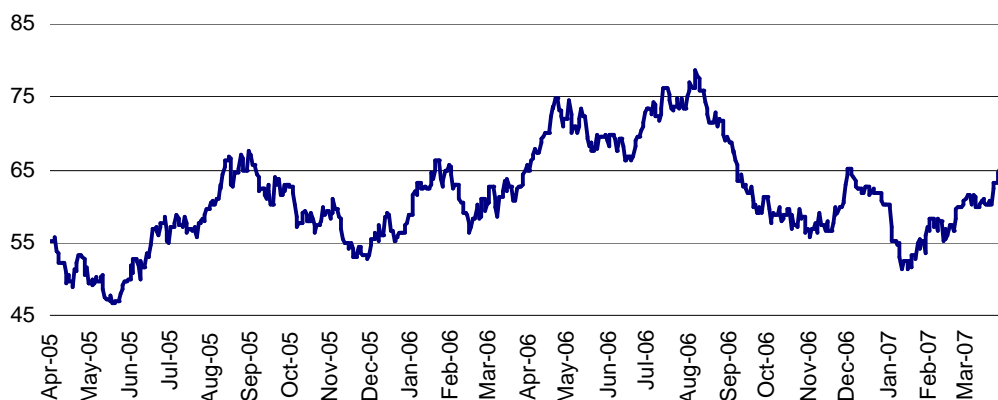
After remaining range-bound in the first three weeks of March, prices saw a sudden spurt of about US\$8/bbl in end-March due to renewed tension on Iranian issue.

Despite high prices, global oil demand continues to remain robust. As per IEA's latest forecast, global demand would increase by 1.5 mmbpd in 2007 to 86 mmbpd. In the short term, strong product demand will continue to drive crude prices on the back of high and rising gasoline cracks.

We believe that higher oil prices are here to stay and will remain in the US\$50-60/bbl band in the short to medium term.

The risk of oil price moving upward remains due to low spare capacity, geo-political situation, resource nationalism and continuing underinvestment in the sector globally.

BRENT CRUDE PRICE (US\$/BBL): SHARP RISE IN MARCH END



Source: Bloomberg/Motilal Oswal Securities

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### Refining margins: seasonal factors playing out

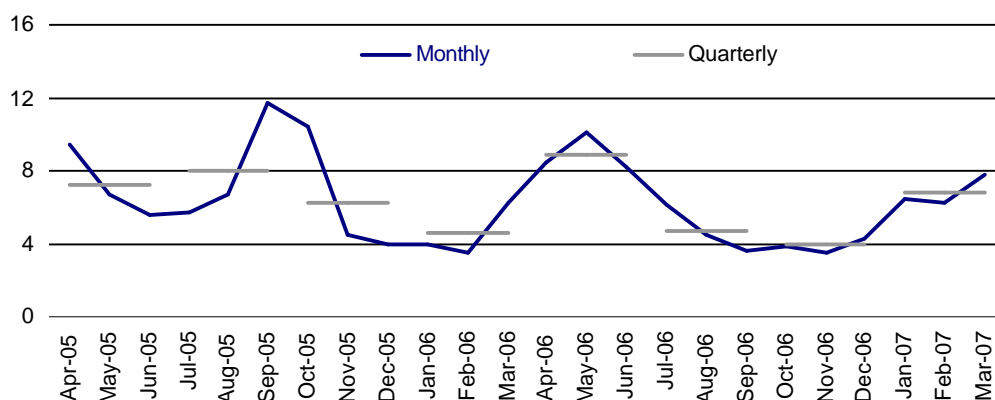
#### 4QFY07 highlights

- ⚡ Up 50% YoY at US\$6.8/bbl (v/s US\$4.6/bbl in 4QFY06)
- ⚡ Up 76% QoQ (v/s US\$3.9/bbl in 2QFY07)

Refining margins continue to remain high in the US and Europe due to strong product demand, peak seasonal refinery maintenance and several unplanned refinery shutdowns. Healthy gasoline cracks and to a lesser degree, jet and fuel oil cracks in the region, and particularly on the West Coast are responsible for high margins.

Asian cracking margins have also firmed up in Q4 after two weak quarters. However, simple topping margins remain weak in Asia reflecting higher product inventories and a generally weaker market compared with the US and Europe. In fact, several Japanese and Korean refiners are reportedly making voluntary cuts, in view of weak demand, high stocks and poor hydro-skimming margins.

FIRMED UP SINGAPORE CRACK MARGINS (US\$/BBL)



Source: Industry/Motilal Oswal Securities

### Fuel underrecoveries: Continue to remain high

High fuel marketing underrecoveries continue to impact the bottomline of government oil marketing companies. We estimate total underrecoveries of Rs110b for the quarter as against Rs87b last quarter for three main marketing companies BPCL, HPCL and IOC. For subsidy sharing we expect, the government will bring forth oil bonds of about Rs42.7b upstream players will likely bear Rs36.7b for the quarter.

### Petrochemical margins: coming off the peak

Correction in key petrochemical product spreads continued in 4QFY07. With the return of capacity after shutdown in 2QFY07 and the seasonally weak demand season, margins have corrected, especially in the polyester chain.

Plastic margins remain strong YoY, though they have marginally declined v/s 3QFY07.

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Polyester intermediates, especially PTA, are the biggest losers, as price correction that was witnessed in 3Q continued in 4QFY07. As a result, integrated polyester margins were down further from the already low levels seen in previous two quarters.

KEY PRODUCT SPREADS (RS/KG)

	4QFY07	3QFY07	QOQ CH (%)	4QFY06	YOY CH (%)
PE	41.4	44.0	-6.0	35.3	17.2
PP	41.7	43.0	-3.0	35.8	16.7
PTA	26.9	32.5	-17.1	29.1	-7.6
MEG	27.2	28.0	-3.0	30.0	-9.4
POY (Standalone)	14.4	13.7	5.0	12.6	14.3
PSF (Standalone)	14.0	14.1	-0.3	12.1	15.6
POY (Integrated)	47.6	52.1	-8.7	48.7	-2.3
PSF (Integrated)	47.2	52.5	-10.1	48.2	-2.1

\* PE,PP,PTA and MEG spreads over naptha, POY & PSF spreads over PTA-MEG adjusted for consumption norms

Source: Company/Motilal Oswal Securities

With the next tranche of large capacity addition expected only in CY09, product spreads are likely to remain strong in the ethylene and propylene chains.

However, polyester margin cycle outlook is not so encouraging. Polyester standalone margins continue to remain weak, barring some correction from lows. We do not expect significant improvement over the next 2-3-years. Large polyester overcapacity in China (China continues to add over 2m tpa of polyester capacity every year, over and above the 5-6m ton of global overcapacity, while demand growth is just over 1m ton every year) is set to keep standalone polyester margins tight.

#### Factors to watch for

- ✍ We have assumed payment of Rs42.7b of Oil Bonds in 4QFY07. Issue of higher amount of bonds can result in upside.
- ✍ We have not factored in any sale of current Oil Bond holding. Any sale at a discount would impact profits of oil marketing companies.

#### Valuation and view

**ONGC is our top pick in the sector.** After hitting a recent low in January 2007, oil prices have again firmed up. The recent surge in oil prices will be beneficial to ONGC. OVL, the global arm of ONGC, remains a key growth engine ahead.

**Oil marketing companies – BPCL, HPCL and IOC** – With oil prices again on a uptrend over past few weeks, fuel marketing underrecoveries may escalate even more. With elections in key states around the corner, we do not expect that government is going to allow any commensurate increase in auto fuel prices.

We maintain our **Buy recommendation** on oil marketing companies, with BPCL as our preferred stock due to its high gearing to marketing margins.

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**We remain Neutral on Reliance.** The proposed merger of IPCL is a positive. We estimate that at announced share swap ratio of 1:5, EPS accretion for RIL will be about 8%.

While, there could be further gas reserve upsides, we prefer to wait for a formal announcement, rather than build potential upsides into the stock price at this juncture. The stock price already discounts all the announced reserves as well as part of the potential upsides indicated by Reliance in the revised KG-D6 development plan.

While, retail store rollout appears to be gaining momentum, it is yet to reach critical volumes to contribute significantly to the valuation of RIL. However, if the indicated E & P upsides come through, we would look to review our recommendation.

**GAIL's long-term growth prospects remain bright.** However, near-term growth is limited. Implementation of Dahej-Uran and a couple of regional pipelines account for the near-term earnings growth. Possible fall in PE and LPG prices, possible upward revision of domestic gas prices, marketing margin cut on LNG and transmission tariff cut on KG basin pipeline would hurt earnings. While decline in subsidy sharing could be incrementally positive, we believe risk-reward remains unfavorable. We maintain **Neutral**.

**IPCL to trade in tandem with RIL.** Post recent announcement of merger of IPCL with RIL, we expect that IPCL share would now broadly trade in 1:5 ratio of RIL price.

**We maintain our Neutral rating on Chennai Petro.** While GRMs have already bounced back from the last quarter's low levels, we believe that the stock already builds in a recovery and we do not see any re-rating trigger in the near term.

**We also present estimates of Indraprastha Gas (IGL)** in this preview compendium. We currently do not have a rating on the stock.

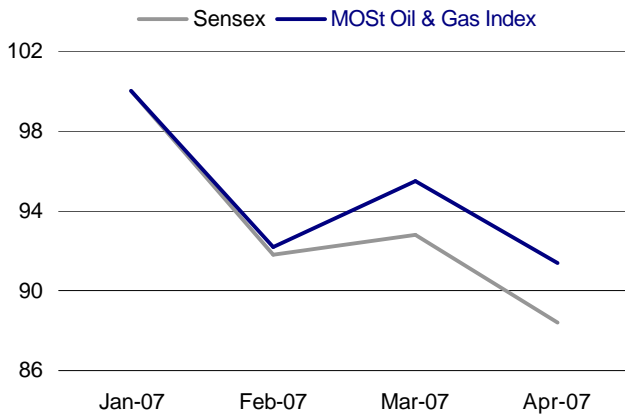
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## Stock performance and valuations

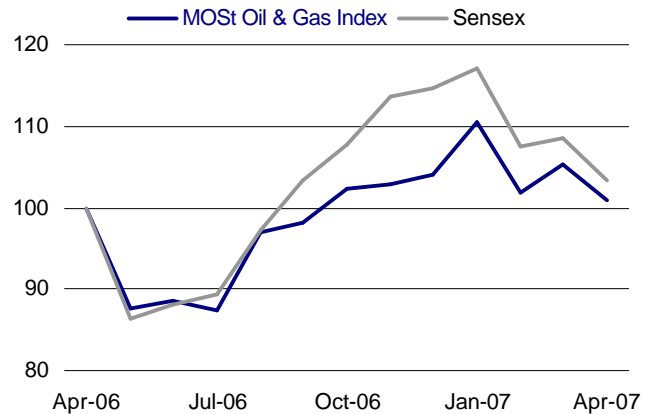
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Oil &amp; Gas</b>						
BPCL	-12	-33	-1	-40	-9	-38
Chennai Petroleum	-15	-19	-4	-27	-11	-24
GAIL	1	-16	11	-24	4	-21
HPCL	-14	-26	-3	-34	-10	-31
Indraprastha Gas	-18	-33	-7	-41	-15	-38
IOC	-13	-36	-3	-44	-10	-41
IPCL	-11	-3	0	-11	-7	-8
ONGC	-5	-5	5	-13	-2	-10
Reliance	2	58	13	51	6	53

### RELATIVE PERFORMANCE - 3 MONTHS (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS) 2.4.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Oil &amp; Gas</b>														
BPCL	294	Buy	39.1	38.6	46.8	7.5	7.6	6.3	5.4	4.4	3.2	16.0	14.2	15.5
Chennai Petroleum	185	Neutral	27.7	31.7	32.8	6.7	5.8	5.7	3.6	3.8	3.4	17.2	17.9	16.2
GAIL	266	Neutral	27.7	27.0	26.2	9.6	9.8	10.1	6.1	5.1	5.7	22.2	19.3	16.7
HPCL	241	Buy	35.9	35.1	40.0	6.7	6.8	6.0	7.4	5.4	4.3	13.5	12.3	12.9
IOC	388	Buy	37.3	48.7	47.2	10.4	8.0	8.2	6.8	5.9	4.6	11.0	13.8	11.8
IPCL	259	Neutral	47.6	36.6	28.8	5.4	7.1	9.0	2.4	3.4	5.3	33.9	21.2	3.1
Indraprastha Gas	98	Not Rated	9.6	11.1	11.8	10.3	8.9	8.4	5.2	4.1	4.3	31.9	30.5	25.9
ONGC	828	Buy	88.8	94.1	99.8	9.3	8.8	8.3	4.5	4.1	3.7	31.1	27.9	26.2
Reliance Inds.	1,314	Neutral	76.9	76.8	79.5	17.1	17.1	16.5	11.8	10.9	9.9	31.5	25.4	22.3
<b>Sector Aggregate</b>						<b>11.3</b>	<b>10.6</b>	<b>10.3</b>	<b>6.5</b>	<b>5.9</b>	<b>5.4</b>	<b>24.4</b>	<b>22.1</b>	<b>18.3</b>



<http://deadpresident.blogspot.com> **BPCL**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BPCL IN
	REUTERS CODE
S&P CNX: 3,634	BPCL.BO
Equity Shares (m)	361.5
52-Week Range	503/287
1,6,12 Rel. Perf. (%)	1/-21/-40
M.Cap. (Rs b)	106.3
M.Cap. (US\$ b)	2.4

2 April 2007

Buy

Previous Recommendation: Buy

Rs294

YEAR END *	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	1,066,816	14,149	39.1	163.3	7.5	1.1	16.0	17.7	0.2	5.4
3/08E	1,029,602	13,969	38.6	-1.3	7.6	1.0	14.2	21.5	0.2	4.4
3/09E	884,369	16,911	46.8	21.1	6.3	0.9	15.5	21.5	0.2	3.2

\* Consolidated

- ✗ We forecast net profit of Rs2.8b in 4QFY07; BPCL's net profit was extraordinarily high in 4QFY06 due to inclusion of Rs21.6b Oil Bonds received in March 2006, thus a YoY comparison would be inappropriate.
- ✗ Fuel marketing losses continue to hurt, though Oil Bonds issue and upstream sharing have cushioned losses. For the first 9 months, company has accounted for Rs32.8b toward discounts from upstream companies and Rs43.5b from Oil Bonds issue.
- ✗ For 4QFY07, we estimate underrecoveries at Rs29b, with share of upstream at Rs9.7b and Oil Bonds issue of Rs13.4b.
- ✗ Rather than downstream fundamentals, we believe lack of clarity over government's policy to address incremental losses (in view of high crude prices) would continue to impact stock price.
- ✗ However, we believe, the negatives are already in the price and the stock is inexpensive compared with its long term potential. We maintain **Buy**.

## QUARTERLY PERFORMANCE (MERGED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Sales</b>	<b>186,543</b>	<b>189,565</b>	<b>224,448</b>	<b>250,940</b>	<b>254,338</b>	<b>288,323</b>	<b>265,535</b>	<b>258,620</b>	<b>851,496</b>	<b>1,066,816</b>
Change (%)	28.1	28.3	29.1	46.4	36.3	52.1	18.3	3.1	33.3	25.3
Raw Material Consumed	54,638	76,843	95,660	96,519	105,979	120,207	98,250	103,453	323,660	427,889
Staff Cost	2,078	1,864	1,876	2,998	2,414	2,087	2,651	2,636	8,816	9,788
Finished Goods Purchase	98,807	98,057	96,570	96,410	105,801	118,179	126,491	107,024	389,844	457,495
Other Exp (incl Stock Adj)	26,141	31,979	32,721	36,306	42,753	30,712	31,251	39,064	127,147	143,780
<b>EBITDA</b>	<b>-1,126</b>	<b>1,222</b>	<b>-9,686</b>	<b>19,163</b>	<b>-2,609</b>	<b>17,138</b>	<b>6,892</b>	<b>6,443</b>	<b>9,573</b>	<b>27,864</b>
Change (%)	-129.3	-74.0	-393.2	294.1	nm	1,302.5	nm	-66.4	-41.4	191.1
% of Net Sales	-0.6	0.6	-4.3	7.6	-1.0	5.9	2.6	2.5	1.1	2.6
Depreciation	1,829	1,798	1,753	2,300	1,814	1,964	2,484	2,418	7,680	8,680
Interest	470	461	689	854	908	920	1,298	1,037	2,474	4,163
Other Income	890	1,503	1,074	1,186	1,091	2,207	1,487	1,246	4,653	6,031
<b>PBT</b>	<b>-2,535</b>	<b>466</b>	<b>-11,054</b>	<b>17,195</b>	<b>-4,240</b>	<b>16,461</b>	<b>4,597</b>	<b>4,234</b>	<b>4,072</b>	<b>21,052</b>
Tax	258	278	264	356	25	3,876	1,562	1,440	1,156	6,903
Rate (%)	-10.2	59.7	-2.4	2.1	-0.6	23.5	34.0	34.0	28.4	32.8
<b>PAT</b>	<b>-2,793</b>	<b>188</b>	<b>-11,318</b>	<b>16,839</b>	<b>-4,265</b>	<b>12,585</b>	<b>3,035</b>	<b>2,794</b>	<b>2,916</b>	<b>14,149</b>
Change (%)	-250.3	-94.2	-876.8	379.2	nm	6,594.1	nm	-83.4	-69.8	385.2

E: MOST Estimates

<http://deadpresident.blogspot.com>  
Chennai Petroleum Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	MRL IN
	REUTERS CODE
S&P CNX: 3,634	CHPC.BO
Equity Shares (m)	149.0
52-Week Range	274/143
1,6,12 Rel. Perf. (%)	3/-11/-27
M.Cap. (Rs b)	27.6
M.Cap. (US\$ b)	0.6

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs185

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	293,662	4,124	27.7	-14.2	6.7	1.1	17.2	18.6	0.1	3.6
3/08E	232,477	4,725	31.7	14.6	5.8	1.0	17.9	14.7	0.2	3.8
3/09E	178,665	4,887	32.8	3.4	5.7	0.8	16.2	35.6	0.2	3.4

- ✍ We expect 4QFY07 net profit of Rs363m, marginally up by 2.4% YoY.
- ✍ We have not considered any possible accounting of reimbursement of product price discounts. In 3Q, the company was reimbursed Rs1.19b for LPG/ kerosene discounts offered to OMCs during 1HFY07.
- ✍ Crude throughput is likely to be largely flat YoY at 2.6m.
- ✍ As in case of other PSU refining companies, more than fundamentals, we believe lack of clarity and timing of the government's policies would continue to impact stock prices.
- ✍ The stock is trading at 5.8x FY08E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Sales</b>	<b>56,749</b>	<b>66,151</b>	<b>65,377</b>	<b>65,815</b>	<b>76,367</b>	<b>77,956</b>	<b>69,862</b>	<b>69,477</b>	<b>254,092</b>	<b>293,662</b>
Change (%)	87.7	103.0	38.0	24.7	34.6	17.8	6.9	5.6	265.7	15.6
Raw Materials Cons	42,832	50,226	51,835	52,887	58,804	63,338	55,551	54,195	197,780	231,888
Employee Costs	221	219	213	316	245	353	302	310	968	1,210
Other Exp (incl Stock Adj)	9,372	11,797	12,017	11,247	12,531	11,884	12,790	13,490	44,434	50,695
<b>EBITDA</b>	<b>4,323</b>	<b>3,908</b>	<b>1,313</b>	<b>1,366</b>	<b>4,789</b>	<b>2,381</b>	<b>1,218</b>	<b>1,482</b>	<b>10,910</b>	<b>9,869</b>
% of Sales	7.6	5.9	2.0	2.1	6.3	3.1	1.7	2.1	4.3	3.4
Change (%)	32.4	35.7	-41.9	(64.4)	10.8	(39.1)	(7.2)	8.5	636.2	-9.5
Depreciation	586	589	592	591	586	586	586	586	2,358	2,344
Interest	371	425	465	480	426	468	412	410	1,740	1,716
Other Income	171	66	66	180	69	146	152	60	484	427
<b>PBT</b>	<b>3,538</b>	<b>2,960</b>	<b>322</b>	<b>475</b>	<b>3,845</b>	<b>1,473</b>	<b>373</b>	<b>546</b>	<b>7,295</b>	<b>6,237</b>
Tax	1,198	996	109	121	1,300	500	129	183	2,424	2,112
Rate (%)	33.9	33.6	33.9	25.5	33.8	34.0	34.6	33.6	33.2	33.9
<b>PAT</b>	<b>2,340</b>	<b>1,964</b>	<b>213</b>	<b>354</b>	<b>2,546</b>	<b>973</b>	<b>243</b>	<b>363</b>	<b>4,871</b>	<b>4,124</b>
Change (%)	43.3	53.7	-75.9	-83.7	8.8	-50.5	14.4	2.4	-18.4	-15.3

E: MOSt Estimates

<http://deadpresident.blogspot.com> GAIL (India)

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GAIL IN
	REUTERS CODE
S&P CNX: 3,634	GAIL.BO
Equity Shares (m)	845.7
52-Week Range	325/210
1,6,12 Rel. Perf. (%)	-1/1/-24
M.Cap. (Rs b)	225.0
M.Cap. (US\$ b)	5.2

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs266

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	194,309	23,434	27.7	1.4	9.6	2.0	22.2	36.0	1.0	6.1
3/08E	179,513	22,871	27.0	-2.4	9.8	1.8	19.3	44.7	1.0	5.1
3/09E	205,616	22,190	26.2	-3.0	10.1	1.6	16.7	72.2	1.0	5.7

- ✂ We expect GAIL to report net profit of Rs6.4b, up 56% YoY, due to the lower base effect, higher transmission volumes, higher petrochemical margins and lower subsidy share.
- ✂ In 4QFY06, GAIL's net profit was 21% lower YoY due to high LPG/ kerosene loss burden share of Rs 5.4b.
- ✂ Subsidy share for sensitive oil products (read LPG/kerosene) remains an overhang. For the first 9 months of FY07 GAIL's burden had increased by 87% YoY to Rs 9.86b from 5.26b in FY06.
- ✂ Overall, FY07 net profit expected to be marginally up by 1.4%, despite topline growth of 19% and higher petchem margins - reasons are higher YoY subsidy share and lower transmission margins.
- ✂ The stock is trading at 9.8x FY08E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>36,242</b>	<b>40,738</b>	<b>44,455</b>	<b>42,078</b>	<b>47,303</b>	<b>43,583</b>	<b>51,062</b>	<b>52,360</b>	<b>163,513</b>	<b>194,309</b>
Change (%)	11.8	15.6	27.9	27.2	30.5	7.0	14.9	24.4	11.6	18.8
Finished Gds Purchase	21,439	24,473	27,787	25,396	30,552	28,088	30,568	30,874	99,096	120,082
Raw Materials Cons	2,485	3,698	4,149	4,427	5,069	4,845	5,559	5,800	14,758	21,273
Employee Costs	534	539	612	528	551	905	651	658	2,213	2,765
Other Exp (incl Stock Adj)	2,304	2,684	2,796	4,683	1,715	3,854	5,643	6,228	12,467	17,440
<b>EBITDA</b>	<b>9,480</b>	<b>9,344</b>	<b>9,111</b>	<b>7,044</b>	<b>9,416</b>	<b>5,891</b>	<b>8,641</b>	<b>8,800</b>	<b>34,979</b>	<b>32,749</b>
% of Net Sales	26.2	22.9	20.5	16.7	19.9	13.5	16.9	16.8	21.4	16.9
Change (%)	24.1	6.4	-11.1	-3.8	-0.7	-37.0	-5.2	24.9	-5.5	-6.4
Depreciation	2,391	399	1,414	1,391	1,408	1,436	1,439	1,438	5,595	5,721
Interest	297	178	406	292	288	291	271	290	1,173	1,140
Other Income	499	1,693	1,519	844	801	1,674	1,846	1,500	4,555	5,821
<b>PBT</b>	<b>7,292</b>	<b>10,461</b>	<b>8,809</b>	<b>6,205</b>	<b>8,521</b>	<b>5,838</b>	<b>8,778</b>	<b>8,572</b>	<b>32,766</b>	<b>31,709</b>
Tax	2,457	2,719	2,377	2,112	2,600	1,354	2,124	2,198	9,665	8,275
Rate (%)	33.7	26.0	27.0	34.0	30.5	23.2	24.2	25.6	29.5	26.1
<b>PAT</b>	<b>4,835</b>	<b>7,742</b>	<b>6,432</b>	<b>4,093</b>	<b>5,921</b>	<b>4,484</b>	<b>6,655</b>	<b>6,374</b>	<b>23,101</b>	<b>23,434</b>
Change (%)	42.6	69.7	1.2	-20.8	22.5	-42.1	3.5	55.8	3.6	1.4

E: MOST Estimates

<http://deadpresident.blogspot.com> **HPCL**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HPCL IN
	REUTERS CODE
S&P CNX: 3,634	HPCL.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs241

Equity Shares (m)	338.8
52-Week Range	361/206
1,6,12 Rel. Perf. (%)	-5/-15/-34
M.Cap. (Rs b)	81.5
M.Cap. (US\$ b)	1.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	952,766	12,150	35.9	199.6	6.7	0.9	13.5	11.6	0.1	7.4
3/08E	825,987	11,898	35.1	-2.1	6.8	0.8	12.3	15.4	0.2	5.4
3/09E	798,335	13,559	40.0	14.0	6.0	0.7	12.9	26.5	0.2	4.3

- ✗ We forecast net profit of Rs1.9b, against profit of Rs20.1b in 4QFY06. In March 2006, HPCL had received Oil Bonds of Rs21.6b, which were included in 4Q sales.
- ✗ Lower underrecoveries along with Oil Bonds are expected to be the key drivers of profit. However, relatively weak refining margins would pull down profits.
- ✗ For 4QFY07, we estimate fuel marketing underrecoveries at Rs20b, with share of upstream at Rs6.7b and Oil Bonds of Rs5.8b.
- ✗ For FY07, we expect net profit of Rs12.1b, a rise of 200% over FY06. This increase is largely due to accounting of Rs43.5b Oil Bonds for the first 9 months.
- ✗ With both crude and product prices expected to remain high, and the company not at liberty to pass on the prices to consumers, we believe more than fundamentals, the government's policies and timing and quantum of discount reimbursal would dictate earnings in the near-to-medium term.
- ✗ However, the market is already factoring all the negatives in price, and on long-term growth potential, the stock is inexpensive. The stock is trading at 6.8x FY08E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q*	4QE		
<b>Sales</b>	<b>163,621</b>	<b>178,886</b>	<b>199,306</b>	<b>227,390</b>	<b>226,795</b>	<b>262,351</b>	<b>242,494</b>	<b>221,127</b>	<b>769,203</b>	<b>952,766</b>
Change (%)	8.9	18.5	13.4	29.8	38.6	46.7	21.7	-2.8	17.9	23.9
Raw Material Consumed	48,826	56,016	72,229	78,751	90,409	100,016	86,610	86,091	255,822	363,126
Staff Cost	1,590	1,478	1,711	2,116	1,657	2,202	1,930	2,298	6,895	8,087
Finished Goods Purchase	100,141	116,105	97,982	100,102	114,243	121,223	118,300	101,154	414,330	454,921
Other Exp, Levies and Stock Adj	16,997	4,529	36,180	26,894	25,652	22,447	33,714	27,769	84,600	109,582
<b>EBITDA</b>	<b>-3,934</b>	<b>758</b>	<b>-8,796</b>	<b>19,528</b>	<b>-5,166</b>	<b>16,462</b>	<b>1,940</b>	<b>3,815</b>	<b>7,556</b>	<b>17,051</b>
% of Net Sales	-2.4	0.4	-4.4	8.6	-2.3	6.3	0.8	1.7	1.0	1.8
Change (%)	-175.9	-87.6	-289.3	327.8	nm	2,070.4	nm	-80.5	-63.2	125.7
Depreciation	1,663	1,744	1,751	1,745	1,701	1,742	1,733	1,742	6,902	6,918
Interest	142	309	559	578	596	983	1,046	775	1,587	3,400
Other Income	682	789	504	1,810	1,021	1,925	2,466	1,800	3,785	7,212
<b>PBT</b>	<b>-5,056</b>	<b>-505</b>	<b>-10,602</b>	<b>19,014</b>	<b>-6,442</b>	<b>15,663</b>	<b>1,627</b>	<b>3,098</b>	<b>2,851</b>	<b>13,945</b>
Tax	23	-284	176	-1,120	-366	3,443	-2,446	1,164	-1,205	1,795
Rate (%)	-0.4	56.2	-1.7	-5.9	5.7	22.0	-150.3	37.6	-42.3	12.9
<b>PAT</b>	<b>-5,079</b>	<b>-221</b>	<b>-10,778</b>	<b>20,134</b>	<b>-6,077</b>	<b>12,220</b>	<b>4,073</b>	<b>1,934</b>	<b>4,056</b>	<b>12,150</b>
Change (%)	-305.4	-107.5	-556.8	302.8	nm	nm	nm	-90.4	-68.2	199.5

E: MOST Estimates; \* In 3QFY07, Previous years tax provisions of Rs3,029.6m written back

<http://deadpresident.blogspot.com>  
Indian Oil Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	IOC IN
	REUTERS CODE
S&P CNX: 3,634	IOC.BO
Equity Shares (m)	1,168.0
52-Week Range	622/310
1,6,12 Rel. Perf. (%)	-2/-27/-44
M.Cap. (Rs b)	453.1
M.Cap. (US\$ b)	6.9

2 April 2007

Buy

Previous Recommendation: Buy

Rs388

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07E	2,309,685	40,173	37.3	-11.7	10.4	1.2	11.0	14.7	0.2	6.8
3/08E	2,134,435	56,847	48.7	30.5	8.0	1.0	13.8	15.3	0.2	5.9
3/09E	2,040,390	55,083	47.2	-3.1	8.2	0.9	11.8	26.4	0.2	4.6

\* Consolidated

- ✗ We expect IOC to record net profit of Rs11.3b for 4QFY07 down 72% YoY despite higher refining margins. 4QFY06 profits were inflated due to accounting of Rs65.7b special bonds received from GoI in lieu of underrealization on sale of SKO (PDS) and domestic LPG.
- ✗ For first 9 months of FY07, IOC's reported GRM was US\$3.64/bbl as against US\$5.16/bbl for the same period in FY06. For the first 9 months in FY07 the company has reported net underrealization of Rs35.2b.
- ✗ For FY07, we expect net profit (excl. extraordinaries) to be Rs38b down 22.8%, due to lower YoY refining margins and continued underrealization.
- ✗ As in the case of other PSU downstream players, we believe more than fundamentals, the government's policies, and timing and quantum of discount reimbursement would dictate earnings in the near-to-medium term.
- ✗ We believe the market is already factoring in the negatives in price and on long term basis stock appears inexpensive. The stock is trading at 8x FY08E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q*	1Q	2Q*	3Q*	4QE		
<b>Net Sales</b>	<b>386,235</b>	<b>400,452</b>	<b>442,936</b>	<b>507,844</b>	<b>486,884</b>	<b>577,665</b>	<b>544,378</b>	<b>488,556</b>	<b>1,737,467</b>	<b>2,097,482</b>
Change (%)	7.3	12.9	11.1	24.1	26.1	44.3	22.9	-3.8	14.1	20.7
Raw Material Consumed	138,141	159,771	182,479	198,831	200,298	249,671	233,701	207,508	679,221	891,178
Staff Cost	4,355	4,335	4,368	5,380	4,893	6,188	5,051	6,000	18,438	22,132
Finished Goods Purchase	221,652	222,421	219,312	237,558	262,155	271,402	260,067	232,000	900,943	1,025,623
Other Exp (incl Stock Adj)	17,427	-919	35,169	13,770	27,983	10,045	27,647	21,358	65,448	87,033
<b>EBITDA</b>	<b>4,661</b>	<b>14,844</b>	<b>1,608</b>	<b>52,305</b>	<b>-8,445</b>	<b>40,359</b>	<b>17,912</b>	<b>21,690</b>	<b>73,418</b>	<b>71,516</b>
% of Net Sales	1.2	3.7	0.4	10.3	-1.7	7.0	3.3	4.4	4.2	3.4
Change (%)	-82.5	-20.3	-86.6	257.9	-281.2	171.9	1,013.7	-58.5	2.1	-2.6
Depreciation	5,439	5,215	5,549	5,802	5,750	6,650	6,770	6,510	22,005	25,680
Interest	1,684	2,497	3,225	2,817	3,344	3,619	3,831	3,700	10,222	14,494
Other Income	2,115	6,021	5,796	11,986	3,153	6,176	7,807	3,500	25,918	20,636
<b>PBT</b>	<b>-347</b>	<b>13,153</b>	<b>-1,369</b>	<b>55,672</b>	<b>-14,387</b>	<b>36,267</b>	<b>15,117</b>	<b>14,980</b>	<b>67,109</b>	<b>51,978</b>
Tax	196	3,657	-1,310	15,367	56	5,765	4,527	3,635	17,909	13,983
Rate (%)	-56.5	27.8	95.7	27.6	-0.4	15.9	29.9	24.3	26.7	26.9
<b>PAT</b>	<b>-542</b>	<b>9,496</b>	<b>-58</b>	<b>40,306</b>	<b>-14,443</b>	<b>30,503</b>	<b>10,590</b>	<b>11,345</b>	<b>49,201</b>	<b>37,995</b>
Change (%)	-103.7	-23.4	-100.5	351.4	nm	221.2	nm	-71.9	0.6	-22.8
<b>PAT incl EO</b>					<b>17,805</b>					<b>66,861</b>

E: Most Estimates; While the numbers above are consolidated; the numbers in the table are standalone; \* 4QFY06, 2QFY07 and 3QFY07 net sales numbers include Special Oil Bonds from Government of India

<http://deadpresident.blogspot.com> Indraprastha Gas

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	IGL IN
	REUTERS CODE
S&P CNX: 3,634	IGAS.BO

2 April 2007

Not Rated

Rs98

Equity Shares (m)	140.0
52-Week Range	154/86
1,6,12 Rel. Perf. (%)	-7/-17/-41
M.Cap. (Rs b)	13.8
M.Cap. (US\$ b)	0.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	6,116	1,337	9.6	25.7	10.3	3.0	31.9	37.4	2.1	5.2
3/08E	6,816	1,551	11.1	16.0	8.9	2.5	30.5	33.3	1.8	4.1
3/09E	7,472	1,646	11.8	6.1	8.4	1.9	25.9	56.0	1.8	4.3

- ✍ We expect IGL to report PAT of Rs358m in 4QFY07, up 20.3% YoY.
- ✍ For FY07, we expect net profit of Rs1.34b, up by 25.7%.
- ✍ While CNG and PNG volumes are expected to grow, CNG growth would be lower than the trend owing to the base effect as well as maturing penetration.
- ✍ Conversion of passenger vehicles remains the key growth driver in the case of CNG, even as volumes from buses peak out.
- ✍ IGL is trading at 8.9x FY08E EPS. The stock is **Not Rated**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>1,140</b>	<b>1,341</b>	<b>1,370</b>	<b>1,357</b>	<b>1,358</b>	<b>1,542</b>	<b>1,599</b>	<b>1,618</b>	<b>5,209</b>	<b>6,116</b>
Change (%)	7.2	17.1	16.1	16.3	19.1	15.0	16.7	19.2	14.3	17.4
Raw Material Consumed	521	599	579	556	586	675	721	698	2,255	2,679
Staff Cost	21	26	29	39	31	36	36	37	115	140
Other Exp (incl Stock Adj)	161	179	181	181	199	186	188	210	702	783
<b>EBITDA</b>	<b>437</b>	<b>538</b>	<b>582</b>	<b>581</b>	<b>541</b>	<b>645</b>	<b>654</b>	<b>674</b>	<b>2,137</b>	<b>2,514</b>
% of Net Sales	38.3	40.1	42.4	42.8	39.9	41.9	40.9	41.6	41.0	41.1
Change (%)	1.6	14.9	27.4	18.6	23.8	20.1	12.4	15.9	15.6	17.6
Depreciation	134	138	143	151	150	150	150	161	565	610
Interest	7	6	6	3	0	0	0	0	22	0
Other Income	8	10	7	27	22	23	24	20	53	88
<b>PBT</b>	<b>305</b>	<b>404</b>	<b>440</b>	<b>454</b>	<b>413</b>	<b>518</b>	<b>528</b>	<b>533</b>	<b>1,603</b>	<b>1,992</b>
Tax	103	133	147	157	137	170	173	175	540	655
Rate (%)	33.7	33.1	33.4	34.5	33.1	32.9	32.8	32.8	33.7	32.9
<b>PAT</b>	<b>202</b>	<b>270</b>	<b>293</b>	<b>298</b>	<b>276</b>	<b>348</b>	<b>355</b>	<b>358</b>	<b>1,064</b>	<b>1,337</b>
Change (%)	2.3	28.7	32.5	0.2	36.5	28.7	21.0	20.3	14.8	25.7

E: MOST Estimates



<http://deadpresident.blogspot.com> IPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	IPCL IN
	REUTERS CODE
S&P CNX: 3,634	IPCL.BO

2 April 2007

Neutral

Previous Recommendation: Sell

Rs259

Equity Shares (m)	301.5
52-Week Range	325/185
1,6,12 Rel. Perf. (%)	4/-16/-11
M.Cap. (Rs b)	78.2
M.Cap. (US\$ b)	1.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	121,720	14,348	47.6	37.4	5.4	1.6	33.9	38.5	0.5	2.4
3/08E	100,966	11,032	36.6	-23.1	7.1	1.4	21.2	28.6	0.6	3.4
3/09E	117,231	8,669	28.8	-21.4	9.0	0.2	3.1	23.7	0.6	5.3

✎ We expect net profit of Rs4.2b, driven by higher petrochemical prices and margins.

✎ On March 10, the boards of both RIL and IPCL have approved the merger of IPCL with RIL, with an appointed date of merger as 1 April 2006. The merger ratio is 1 share of RIL for every 5 shares of IPCL.

✎ We believe that until the actual merger is consummated, IPCL's share price will now move broadly in line with RIL's share price in 1:5 ratio.

✎ Since we have a Neutral rating on RIL, we upgrade our rating on IPCL to **Neutral**.

## QUARTERLY PERFORMANCE (MERGED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Sales</b>	<b>26,210</b>	<b>25,880</b>	<b>28,000</b>	<b>29,130</b>	<b>30,180</b>	<b>30,480</b>	<b>30,560</b>	<b>30,500</b>	<b>109,220</b>	<b>121,720</b>
Change (%)					15.1	17.8	9.1	4.7		11.4
Change in Stocks	-210	-1,200	-1,050	130	1,750	-1,360	-90	0	-2,330	300
Raw Material Consumed	13,580	14,320	15,300	14,890	14,960	17,290	15,920	15,800	58,090	63,970
Staff Cost	1,120	1,140	1,140	1,150	1,390	1,210	1,260	1,270	4,550	5,130
Other Expenses	7,050	7,010	7,290	7,320	6,490	6,970	6,660	6,930	28,670	27,050
<b>EBITDA</b>	<b>4,670</b>	<b>4,610</b>	<b>5,320</b>	<b>5,640</b>	<b>5,590</b>	<b>6,370</b>	<b>6,810</b>	<b>6,500</b>	<b>20,240</b>	<b>25,270</b>
% of Net Sales	17.8	17.8	19.0	19.4	18.5	20.9	22.3	21.3	18.5	20.8
Change (%)				43.1	19.7	38.2	28.0	15.2		24.9
Depreciation	1,430	1,400	1,430	1,350	1,320	1,350	1,440	1,440	5,610	5,550
Interest	370	390	290	300	510	370	320	300	1,350	1,500
Other Income	400	340	360	370	620	1,180	740	1,260	1,470	3,800
<b>PBT</b>	<b>3,270</b>	<b>3,160</b>	<b>3,960</b>	<b>4,360</b>	<b>4,380</b>	<b>5,830</b>	<b>5,790</b>	<b>6,020</b>	<b>14,750</b>	<b>22,020</b>
Tax	940	1,150	1,070	1,150	1,800	2,320	1,740	1,812	4,310	7,672
Rate (%)	28.7	36.4	27.0	26.4	41.1	39.8	30.1	30.1	29.2	34.8
<b>Adjusted PAT</b>	<b>2,330</b>	<b>2,010</b>	<b>2,890</b>	<b>3,210</b>	<b>2,580</b>	<b>3,510</b>	<b>4,050</b>	<b>4,208</b>	<b>10,440</b>	<b>14,348</b>
Change (%)					10.7	74.6	40.1	31.1		37.4
<b>Reported PAT</b>	<b>2,330</b>	<b>3,210</b>	<b>2,890</b>	<b>3,210</b>	<b>2,580</b>	<b>3,510</b>	<b>4,050</b>	<b>4,208</b>	<b>11,640</b>	<b>14,348</b>

E: MOST Estimates



<http://deadpresident.blogspot.com> **ONGC**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ONGC IN
	REUTERS CODE
S&P CNX: 3,634	ONGC.BO

2 April 2007

**Buy***Previous Recommendation: Buy***Rs828**

Equity Shares (m)	2,138.9
52-Week Range	1,009/620
1,6,12 Rel. Perf. (%)	7/7/-13
M.Cap. (Rs b)	1,771.8
M.Cap. (US\$ b)	40.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	834,402	189,933	88.8	23.4	9.3	2.6	31.1	36.3	2.0	4.5
3/08E	863,124	201,270	94.1	5.97	8.8	2.3	27.9	29.2	1.8	4.1
3/09E	857,932	213,461	99.8	6.06	8.3	2.1	26.2	23.8	1.7	3.7

\* Consolidated

- ✂ We estimate ONGC's net profit at Rs38.9b, up 59.2% YoY. ONGC's 4QFY06 reported profit was lower due to higher share in underrecovery of oil marketing companies.
- ✂ Bonnylight prices for the quarter were down 4.3% YoY at US\$60.6/bbl.
- ✂ For FY07, we expect net profit of Rs168.6b up by 22.2%, primarily due to higher oil prices YoY and despite higher subsidy burden sharing.
- ✂ In the current high crude price environment, we expect ONGC to continue to bear the high subsidy share burden. For the first 9 months, ONGC's gross discounts increased by 44% to Rs123.5b in FY07 compared with Rs85.5b for same period in FY06. For 3QFY07 gross discounts were Rs22b, and we expect similar discounts for 4Q.
- ✂ The stock is trading at 8.8x FY08E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>108.7</b>	<b>126.8</b>	<b>124.8</b>	<b>119.0</b>	<b>146.0</b>	<b>140.7</b>	<b>155.6</b>	<b>144.3</b>	<b>479.2</b>	<b>586.6</b>
Change (%)	5.6	7.3	3.1	-2.1	34.3	11.0	24.8	21.3	3.4	22.4
Raw Material and Purchases	9.7	12.7	5.8	9.9	17.5	17.0	15.4	16.9	38.1	66.8
Statutory Levies	25.0	26.6	27.1	18.3	31.1	29.8	30.6	29.5	97.0	121.0
Employee Costs	2.8	2.4	2.5	5.0	3.0	6.3	5.0	4.8	12.7	19.1
Other Exp (incl Stock Adj)	10.2	13.6	15.8	18.5	13.3	17.2	15.5	15.7	58.0	61.8
<b>EBITDA</b>	<b>61.1</b>	<b>71.6</b>	<b>73.6</b>	<b>67.3</b>	<b>81.1</b>	<b>70.4</b>	<b>89.1</b>	<b>77.3</b>	<b>273.5</b>	<b>317.9</b>
% of Net Sales	56.2	56.4	59.0	56.5	55.5	50.0	57.2	53.6	57.1	54.2
Change (%)	18.5	12.5	17.1	5.5	32.8	-1.6	21.0	15.0	13.1	16.3
Depreciation	13.5	19.4	20.1	31.6	22.3	18.5	25.6	25.0	84.6	91.4
Interest	0.0	0.1	0.1	0.3	0.0	0.0	0.1	0.1	0.5	0.2
Other Income	3.0	8.6	5.6	6.3	4.2	9.4	7.0	7.0	23.5	27.6
<b>PBT</b>	<b>50.5</b>	<b>60.8</b>	<b>59.0</b>	<b>41.7</b>	<b>63.0</b>	<b>61.3</b>	<b>70.5</b>	<b>59.3</b>	<b>212.0</b>	<b>254.0</b>
Tax	17.3	19.4	20.2	17.2	21.8	19.5	23.8	20.3	74.1	85.4
Rate (%)	34.3	31.9	34.2	41.3	34.6	31.9	33.8	34.3	34.9	33.6
<b>PAT</b>	<b>33.2</b>	<b>41.4</b>	<b>38.9</b>	<b>24.5</b>	<b>41.2</b>	<b>41.7</b>	<b>46.7</b>	<b>38.9</b>	<b>137.9</b>	<b>168.6</b>
Change (%)	43.8	22.3	11.3	-35.6	24.1	0.9	20.1	59.2	6.2	22.2

E: MOST Estimates

<http://deadpresident.blogspot.com> Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	RIL IN
	REUTERS CODE
S&P CNX: 3,634	RELI.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs1,314

		YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
Equity Shares (m)	1,393.5	3/07E	1,035,433	107,101	76.9	18.1	17.1	4.8	31.5	23.4	2.0	11.8
52-Week Range	1,445/791	3/08E	1,009,741	107,021	76.8	-0.07	17.1	4.0	25.4	21.4	2.0	10.9
1,6,12 Rel. Perf. (%)	3/12/51	3/09E	1,032,883	110,714	79.5	3.45	16.5	3.4	22.3	45.8	1.9	9.9
M.Cap. (Rs b)	1,830.4											
M.Cap. (US\$ b)	42.1											

- ✍ We expect net profit of Rs26.5b, up 6.1% YoY. On trailing quarter basis, we expect profits to be down by ~5%.
- ✍ In 3QFY07, RIL had reported very high gross refinery margins of US\$11.7/bbl, as against benchmark Singapore margins of US\$3.9/bbl.
- ✍ We believe this outperformance will be difficult to maintain, and RIL will report margins of ~US\$12/bbl in 4QFY07 as against Singapore margin of US\$6.8/bbl.
- ✍ We expect mixed margins in petrochemicals. While polymer margins have moved up significantly by about 17%, the polyester intermediates margin have fallen by 8-9% YoY. Integrated polyester margins are expected to be down by about 2%.
- ✍ Recently RIL has announced the merger of IPCL with itself with merger ratio of one share of RIL for every five shares of IPCL. The merger will be EPS accretive for RIL by about 8%.
- ✍ The stock is trading at a P/E of 17.1x FY08E and EV/EBITDA of 10.9x FY08E. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>177,840</b>	<b>207,170</b>	<b>181,680</b>	<b>245,420</b>	<b>245,220</b>	<b>284,740</b>	<b>264,720</b>	<b>262,332</b>	<b>812,110</b>	<b>1,057,012</b>
Change (%)	24.5	28.2	2.3	37.6	37.9	37.4	45.7	6.9	23.0	30.2
Inc/Dec in Stock	-14,900	-7,990	-8,050	9,630	-6,270	-8,730	7,730	7,270	-21,310	0
Raw Materials - Ext. Purchases	135,400	152,280	133,580	162,160	181,520	223,850	186,560	186,017	583,420	777,947
Staff Cost	2,530	2,590	2,510	2,150	3,180	2,840	2,860	2,900	9,780	11,780
Other Expenditure	19,150	23,170	23,880	31,020	24,420	21,130	20,480	20,500	97,220	86,530
<b>EBITDA</b>	<b>35,660</b>	<b>37,120</b>	<b>29,760</b>	<b>40,460</b>	<b>42,370</b>	<b>45,650</b>	<b>47,090</b>	<b>45,646</b>	<b>143,000</b>	<b>180,756</b>
% of Net Sales	20.1	17.9	16.4	16.5	17.3	16.0	17.8	17.4	17.6	17.1
Change (%)	27.1	17.1	-9.5	14.1	18.8	23.0	58.2	12.8	11.6	26.4
Depreciation	7,910	8,040	8,240	9,820	9,070	10,180	10,620	10,617	34,010	40,487
Interest	2,370	2,220	1,940	2,250	2,660	2,780	2,930	3,131	8,780	11,501
Other Income	1,940	2,220	1,800	870	440	220	420	400	6,830	1,480
<b>PBT</b>	<b>27,320</b>	<b>29,080</b>	<b>21,380</b>	<b>29,260</b>	<b>31,080</b>	<b>32,910</b>	<b>33,960</b>	<b>32,298</b>	<b>107,040</b>	<b>130,248</b>
Tax	4,220	4,270	3,620	4,240	5,610	5,820	5,970	5,748	16,350	23,148
Rate (%)	15.4	14.7	16.9	14.5	18.1	17.7	17.6	17.8	15.3	17.8
<b>PAT</b>	<b>23,100</b>	<b>24,810</b>	<b>17,760</b>	<b>25,020</b>	<b>25,470</b>	<b>27,090</b>	<b>27,990</b>	<b>26,550</b>	<b>90,690</b>	<b>107,100</b>
Change (%)	60.8	41.6	-15.1	9.2	10.3	9.2	57.6	6.1	19.8	18.1

E: M0St Estimates

<http://deadpresident.blogspot.com> **Pharmaceuticals**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
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Ranbaxy Labs.	215
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Sun Pharmaceuticals	217
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### MNC pharma performance continues to be muted

MOST Pharma universe is expected to report 4QFY07E sales growth of 24.6% YoY, driven by a 26% YoY sales growth for the big-3 generic companies and 28.7% for other Indian companies. We expect MNC pharma to report topline growth of only 2% (mainly due to divestment of consumer healthcare business for Pfizer and animal healthcare business for GSK Pharma) compared to the 28.7% growth expected from the other Indian pharmaceutical companies (excl big-3 generics). The Big-3 generic companies' growth will be primarily driven by improvement in their base business and consolidation of acquired companies – Terapia for Ranbaxy and Betapharm for Dr. Reddy's. Other Indian companies are expected to report good topline growth as their initiatives in regulated markets start contributing to revenues. Overall EBITDA margins for MOST Pharma universe are expected to improve by 416bp YoY, as the Big-3 report strong margin expansion on the low base of last year.

EBITDA margins for the Big-3 generic companies are likely to improve by 626bp, whereas other Indian companies would witness margin expansion of 368bp. However, margins for the MNC players are expected to remain flat at 29.6%. Overall, we expect MOST Pharma universe's PAT to grow by 38.1% YoY, with MNC Pharma reporting growth of only 5% YoY and other Indian pharma group's PAT growing by 33.6%. The Big-3 generic companies are expected to record 70.6% PAT growth on a low base of last year

#### EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO	SALES		EBITDA		NET PROFIT		
	MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)	
<b>Pharmaceuticals</b>							
Aurobindo Pharma	Sell	5,233	13.0	821	14.7	565	50.7
Aventis Pharma	Buy	2,335	16.5	625	24.6	468	26.8
Biocon	Buy	2,938	37.1	894	47.8	646	35.1
Cadila Health	Buy	4,198	21.3	854	30.2	462	34.1
Cipla	Buy	9,857	13.2	2,458	36.3	1,954	2.4
Divi's Labs	Neutral	1,783	40.3	551	42.2	437	90.9
Dr Reddy' s Labs	Buy	10,880	56.0	1,766	-	878	-
GSK Pharma	Buy	4,293	0.9	1,388	-1.6	1,040	0.6
Jubilant Organosys	Buy	5,128	21.0	912	31.6	592	22.9
Lupin	Buy	5,055	19.8	879	111.1	582	16.0
Nicholas Piramal	Buy	6,077	44.0	978	194.7	512	249.2
Pfizer	Neutral	1,538	-11.0	403	-5.5	270	-7.2
Ranbaxy Labs	Buy	15,414	18.7	2,158	45.6	1,245	74.4
Shasun Chemicals	Buy	1,357	36.9	249	9.2	123	-6.3
Sun Pharma	Buy	5,184	30.7	1,642	69.4	1,682	17.7
Wockhardt	UR	5,051	43.9	1,066	54.7	587	8.1
<b>Sector Aggregate</b>		<b>86,323</b>	<b>24.6</b>	<b>17,644</b>	<b>56.2</b>	<b>12,043</b>	<b>37.7</b>

Shasun: Excluding acquisition of Rhodia

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where both DRL and Ranbaxy were impacted by poor performance in regulated generics business. PAT for Ranbaxy and Sun Pharma will also be boosted due to the translation gains on FCCB loans arising from rupee appreciation. Performance of MNCs is likely to be impacted by company-specific factors –divestment of animal healthcare business for GSK and divestment of consumer healthcare business for Pfizer.

### **Pressure on global healthcare budgets, aging population, to ensure buoyant generics demand**

Globally, governments are under constant pressure to lower healthcare costs and to increase access to medicines. This is likely to result in more favorable legislation for generics globally, although it may result in lower generic prices in some markets. Generics will continue to see robust demand across markets, led by macroeconomic factors such as ageing population, pressure on global healthcare budgets, increasing penetration of generic drugs (especially in some EU and semi-regulated markets) and patent expiries.

### **Patent expiries to drive generics growth in regulated markets**

We expect US\$45b-US\$50b worth of products to go off-patent in the US alone by 2009. At an average of 95% price discount, this is likely to result in a potential market worth US\$2.5b for the generics players over the next three years. Western Europe will witness patent expiries worth about US\$6b in the same period. Many countries (for e.g. Japan) are likely to encourage generics to reduce their healthcare costs. All this will ensure that generic volumes continue to expand further.

### **US generic prices already at 97% discount**

Prices for patent-expired products in the US are already at 97% discount to the innovator's price. While we do not expect any significant improvement in the competitive landscape in the short-to-medium term, we believe that further price declines may not be very significant. Price deflation commenced in CY04 and we are already into the fourth year of successive price decline.

### **Low penetration to drive double-digit growth in several European markets**

We believe that generic penetration in several European markets is extremely low. Except for Germany and the UK, generic penetration in most of the regulated markets in Europe (France, Spain, Italy, Belgium) remains in single digits. Japan, the second largest pharmaceutical market, also has a generic penetration of merely 5%. This implies that as more drugs go off-patent in these markets and as respective governments enact favorable legislation, generic penetration in these markets is likely to improve significantly. The larger Indian generic players have already entered these markets (either via the inorganic route or through partnerships), which should augur well for these companies, long term.

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### **RoW markets offer an attractive opportunity with higher margins**

Size of the semi-regulated markets is expected to increase from US\$40b in 2005 to US\$50b-US\$60b by 2009. The opportunity spans more than 150 markets through Latin America, Asia, Eastern Europe and Australia. The current market share of Indian companies is merely about 6%, implying that there is substantial room for growth. Secondly, most of these markets are branded generic markets, thus, resulting in better margins compared with the US generic market (GPM of about 60-70% compared with about 40-50% for the US). Indian generic companies have already established a reasonable presence in some of these markets (such as Russia, Latam) while they are in the process of strengthening their presence in some of the other markets (such as China, Australia, New Zealand).

### **Anti-AIDS also presents a large volume opportunity with stable margins**

Unlike popular belief, we believe that the anti-AIDS market offers a reasonable upside to Indian companies like Ranbaxy and Cipla. Besides Indian companies, no other generic player is active in this market as it was assumed that the supplies would entail significantly lower margins. Contrary to this belief, the anti-AIDS opportunity offers large volumes with reasonable margins (15-20% EBITDA margin) for the Indian players.

### **Consolidation to gain further steam ahead, risks of extended payback remain**

Intense price competition in the traditional generic market of the US and UK has forced most generic players to expand geographically and also focus on backward integration. This has led to a big consolidation wave in the global generic industry with large players such as Teva and Sandoz successfully polarizing the market in their favor (via big-ticket acquisitions). While acquisitions are imperative to gain scale, we believe that current valuations for generic assets are extremely demanding implying that inorganic growth for Indian players is likely to arise at the cost of extended paybacks of about 8-10 years.

### **Cost structures are being re-aligned/de-risked**

To counter the pricing pressure in regulated markets, Indian generic companies have embarked on a cost control cum de-risking drive. Costs are being reduced by focusing on conducting inhouse bioequivalence studies, controlling SG&A costs and adopting a pragmatic approach towards patent challenges (leading to out-of-court settlements thus capping litigation costs). Ranbaxy is a typical example of this approach. Dr. Reddy's Labs. has de-risked its R&D and fixed costs by resorting to external funding and partnering with private equity investors. Sun Pharma is de-risking its NCE/NDDS research by demerging this unit into a separate company with the potential of attracting partners at a future date.

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### Which generic models will succeed?

In our opinion, the winning business model will include a combination of:

1. Vertical integration
2. Low cost of manufacture
3. Geographically diversified presence
4. Wide product basket
5. Strong balance sheet

The table below indicates the status of Indian players vis-à-vis each of the above parameters:

PARAMETER	PRE-REQUISITE	STATUS OF INDIAN PLAYERS
Vertical Integration	Complete integration from manufacturing of intermediates to formulations	Most Indian players are vertically integrated
Manufacturing locations	Access to low-cost manufacturing base like India	Most Indian players have a strong manufacturing base in India
Geographical Diversification	Right mix of regulated and semi-regulated markets	Ranbaxy & Cipla have a fairly diversified geographical portfolio
Product Basket	Wide product basket including various dosage forms with some niche products & FTFs	The top four generic Indian players have large product baskets. Other Indian companies in the process of widening their portfolios
Financial Health	Strong balance sheet to manage litigation risks, acquisitions etc.	Amongst the leading players only Sun Pharma has the balance sheet strength to fund large acquisitions without significantly diluting equity capital

*Source: Motilal Oswal Securities*

### US pricing pressure, costly acquisitions – already discounted in current valuations

Whilst valuations for Ranbaxy and Dr Reddy's reflect extreme pessimism led by intense generics pricing pressure and expensive acquisitions made by these companies, that for Cipla and Sun Pharma reflect the consistency of performance over the past seven years and their conservative management style. The recent US FDA survey at Ranbaxy's US operations is also serving as an overhang on its valuations.

### Sensitivity to US revenues likely to reduce in future for Ranbaxy and DRL

We believe that markets are currently discounting the 97% price erosion in the US generic markets despite the fact that sensitivity to US generic revenues is likely to decline in forthcoming years, as initiatives in other markets (that enjoy better margins) start contributing to revenues and profits.

### Outsourcing opportunity gaining traction

More MNCs are visiting India for CRAMS tie-ups. We believe that India offers a unique combination of skilled labor (at low costs), international regulatory compliance, IPR protection, presence across the CRAMS value chain and reliable quality. Most of the CRAMS players are expecting a ramp-up in their contract manufacturing revenues.



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Large pharmaceutical companies such as Pfizer, Merck (USA) etc., have undertaken a restructuring of their manufacturing operations and are likely to focus on outsourcing to reduce costs. We believe that India could be a significant beneficiary of the increased outsourcing.

### **Indian CRAMS players are also looking at acquisitions**

Most of the Indian CRAMS players are looking at acquisitions to acquire more customer relationships and contracts as well as to get access to critical technologies. Nicholas Piramal has already announced two acquisitions (Avecia and Pfizer's UK unit at Morpeth) while Shasun has acquired Rhodia's custom manufacturing unit in UK. Dishman Pharma has acquired Carbogen-AMCIS in Switzerland.

Most of the acquired companies were divested by their existing owners (mostly large pharmaceutical/chemicals companies) as a part of their strategy of divesting non-core assets. It is pertinent to note that most of these companies had invested significant resources some years back to establish their presence in the CRAMS space. Failure/withdrawal of some large molecules, intense generic competition and low R&D productivity (at the customer's end) has adversely impacted most of the CRAMS players in Europe and USA over the past 3 years. This coupled with high fixed costs forced the owners to divest these assets, which have been purchased by Indian CRAMS players at very reasonable valuations (0.5-1.0x sales).

### **Topline growth is imperative for turnaround of acquired CRAMS companies**

Although, Indian CRAMS players have acquired these assets at very reasonable valuations (0.5-1x sales), high fixed costs mandate that a turnaround is not feasible without topline growth. It is also important to note that most of these CRAMS assets were divested post restructuring (by their existing owners) implying that; there may not be any significant room to cut costs further.

### **Turnaround may be achieved faster than anticipated**

We are positively surprised by the increased business traction in the acquired CRAMS companies. Increased order flow coupled with a positive outsourcing stance (by the innovator pharmaceutical companies) is helping CRAMS players gain increased traction in the custom manufacturing business. Carbogen-AMCIS, Avecia and Shasun's UK units are all witnessing better topline growth. We believe that this is likely to shorten the turnaround time for these companies (mainly for Avecia and Shasun)

### **New Pharma policy: Uncertainty continues**

Outlook on the New Pharmaceutical Policy continues to be uncertain, as the government is yet to announce the final policy. We believe differences continue to exist between the government and the pharmaceutical industry, which requires to be addressed. Major



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differences concern the span and extent of price control on pharmaceutical products. Media reports suggest that the government is not fully satisfied with the price cuts implemented by the pharmaceutical industry in the generic-generics segment.

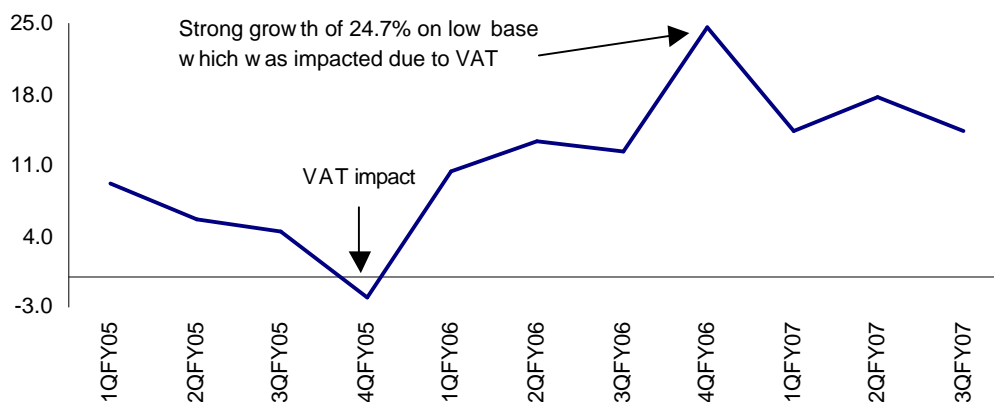
The new policy proposes to significantly increase the span of control by bringing in additional 354 drugs under price control. This could severely impact profitability of the domestic formulations business. Industry has taken strong objection to the proposed policy and we believe that the policy is unlikely to be implemented in the current form. Given strong opposition from the industry, the government has formed a group of ministers (GoM), which would give final recommendations to the government regarding the new pharmaceutical policy. However, the uncertainty related to this will remain until the government finally notifies the new pharmaceutical policy.

It is important to note that these are only recommendations, pending announcement of the final new drug policy. These recommendations may or may not undergo a change after the proposed policy is tabled in the Union Cabinet for approval.

### Domestic market – showing double-digit growth

The domestic formulation industry, after almost 4-5 years of single-digit growth, has shown signs of improvement with industry recording 15.8% growth (March 2006-February 2007). While the strong growth has been primarily driven by higher volumes, we also note that for the first time in last five years, industry is witnessing a positive price contribution (about 2%).

TREND IN DOMESTIC MARKET GROWTH



Source: CRISINFAC/ORG IMS

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## Outlook

### Generics

We believe that the worst is over for Indian generic companies and expect a gradual improvement in their performance over the next two years. CY05-CY06 were the worst years for generics mainly due to:

- ✍ Increased competition due to aggressive filings from Indian companies and entry of new players
- ✍ Innovators have adopted an aggressive stance including price cuts (on branded products), introduction of authorized generics, patent de-listing, and defending IPRs vigorously.
- ✍ Twin impact of intense competition and very few new launches due to lower number of patent expiries.

### ✍ What has changed over 2005-2006?

- ✍ CY07-CY08 to witness patent expiries worth over US\$30b leading to more new launches – takes care of one of the key impediments for generics
- ✍ Pricing to remain intensely competitive due to entry of more players and government pressures – however, significant price deterioration unlikely as generic prices are already at 3-5% on innovator price
- ✍ Expect more consolidation, as generics gain scale and expand geographical reach
- ✍ Indian generic companies have initiated cost-cutting measures (including R&D hive-off)
- ✍ Generics and innovators adopting a more pragmatic stance on patent litigations leading to settlements.
- ✍ Governments worldwide trying to reduce healthcare costs – expect regulations to remain favorable

Besides the gradual improvement in business, the recent acquisitions announced by generic companies are likely to have a positive impact on the operations. Our top picks in the generic space are **Cipla** and **Ranbaxy**.

### MNC Pharma

We remain favorably inclined towards MNC Pharma stocks in the long term. In our view, the current risk-reward equation is stacked in favor of MNC stocks. Leading Pharma MNCs are geared to gain from the opportunities arising in the stronger patent regime post 2005. We remain bullish on the long-term prospects of these companies. The potential upside from product patents would create 'option value' in these stocks over the longer term. It should be noted that some of the patented products may be launched by the parent through the 100% subsidiary route. However, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through the listed entities. Our top picks among MNCs are **Aventis** and **GSK Pharma**.

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### CRAMS

We also believe that the Indian contract manufacturing segment will see secular growth (given India's advantages) with the financial impact visible from FY08/09 onward. We remain favorably inclined towards CRAMS players like **Nicholas Piramal**.

#### TREND IN GROWTH / PROFITABILITY OF DIFFERENT SEGMENTS OF THE INDUSTRY (JANUARY-MARCH QUARTER)

INQUIRE PHARMA UNIVERSE	YOY GROWTH (%)			EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	SALES	EBITDA	ADJ PAT	MAR'07	MAR'06	CHG (BP)	MAR'07	MAR'06	CHG (BP)
AGGREGATES									
MNC Pharma (Aventis, GSK Pharma, Pfizer)	2.2	3.3	4.9	29.6	29.3	30	21.8	21.2	56
Indian Big-3 (Cipla, DRL, Ranbaxy) *	26.1	95.4	70.6	17.7	11.4	626	11.3	8.3	294
Other Indian Pharma	28.7	55.8	33.6	21.1	17.4	368	14.8	14.3	55
<b>Sector Aggregate</b>	<b>24.6</b>	<b>56.4</b>	<b>38.1</b>	<b>20.5</b>	<b>16.3</b>	<b>416</b>	<b>14.0</b>	<b>12.6</b>	<b>138</b>

\* ranked according to revenues

Source: Motilal Oswal Securities

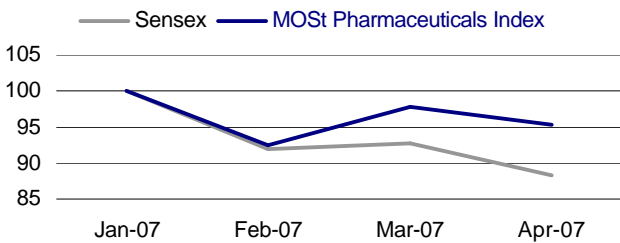
<http://deadpresident.blogspot.com>

Stock performance and valuations

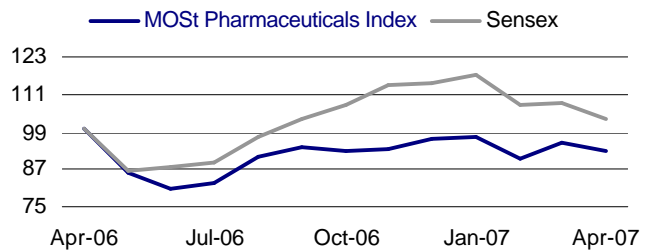
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Pharmaceuticals</b>						
Aurobindo Pharma	-6	-1	5	-8	-1	6
Aventis Pharma	-13	-35	-3	-43	-9	-28
Biocon	23	4	34	-4	28	11
Cadila Health	-7	-3	3	-11	-3	4
Cipla	-10	-18	0	-26	-6	-11
Divis Labs	-2	56	9	48	3	63
Dr Reddy' s Labs	-12	-2	-1	-9	-7	5
GSK Pharma	-5	-27	6	-35	0	-20
Jubilant Organosys	1	-2	12	-10	5	5
Lupin	-1	14	9	6	3	21
Nicholas Piramal	-8	-11	2	-18	-4	-4
Pfizer	1	-34	12	-42	5	-27
Ranbaxy Labs	-14	-22	-4	-30	-10	-15
Shasun Chemicals	-15	-7	-4	-15	-11	0
Sun Pharma	6	20	17	13	10	27
Wockhardt	7	-27	18	-35	12	-20

RELATIVE PERFORMANCE - 3 MONTHS (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Pharmaceuticals</b>														
Aurobindo Pharma	683	Sell	33.5	42.0	53.7	20.4	16.2	12.7	13.0	10.7	8.7	22.2	22.0	22.1
Aventis Pharma	1,214	Buy	73.5	84.0	96.1	16.5	14.5	12.6	10.7	8.6	7.2	28.6	26.9	25.5
Biocon	465	Buy	20.5	24.7	28.2	22.7	18.8	16.5	15.9	12.0	10.2	19.6	20.0	19.4
Cadila Health	331	Buy	19.2	21.8	25.6	17.2	15.1	12.9	11.5	9.3	7.9	27.7	26.7	25.5
Cipla	226	Buy	9.4	11.7	14.5	24.0	19.3	15.6	18.5	15.1	12.2	21.9	22.4	22.7
Divi's Labs	3,015	Neutral	104.9	124.9	153.4	28.7	24.1	19.7	21.3	16.8	14.0	34.1	31.4	30.1
Dr Reddy' s Labs	711	Buy	24.8	35.8	41.4	28.7	19.9	17.2	17.5	14.4	12.8	11.7	14.9	15.3
GSK Pharma	1,104	Buy	42.7	48.1	56.0	25.8	22.9	19.7	17.4	14.8	12.3	30.3	28.2	27.1
Jubilant Organosys	252	Buy	12.0	16.0	18.7	20.9	15.7	13.5	11.9	9.4	7.4	22.7	23.3	22.2
Lupin	603	Buy	24.8	35.8	41.2	24.4	16.9	14.6	16.8	12.4	10.4	30.9	34.7	31.2
Nicholas Piramal	241	Buy	10.8	14.9	18.8	22.3	16.2	12.8	14.1	11.6	9.4	22.3	27.2	29.2
Pfizer	775	Neutral	39.4	33.6	38.7	19.7	23.1	20.0	12.9	13.8	11.5	26.9	20.8	21.5
Ranbaxy Labs	341	Buy	13.6	15.8	20.3	25.2	21.6	16.8	16.8	14.1	11.3	20.1	20.9	23.7
Shasun Chemicals	98	Buy	-2.3	12.2	17.4	-43.3	8.1	5.6	8.1	5.5	4.1	18.9	23.8	24.6
Sun Pharma	1,043	Buy	35.6	42.4	51.9	29.3	24.6	20.1	26.9	21.8	17.6	39.0	36.3	34.8
Wockhardt	378	UR	22.3	25.3	31.2	17.0	15.0	12.1	10.2	7.7	6.6	29.4	27.0	27.0
<b>Sector Aggregate</b>						<b>23.1</b>	<b>18.5</b>	<b>15.2</b>	<b>16.6</b>	<b>13.5</b>	<b>11.2</b>	<b>23.0</b>	<b>24.0</b>	<b>24.2</b>

<http://deadpresident.blogspot.com> Aurobindo Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ARBP IN
	REUTERS CODE
S&P CNX: 3,634	ARBN.BO

2 April 2007

Sell

Previous Recommendation: Sell

Rs683

Equity Shares (m)	53.3
52-Week Range	762/468
1,6,12 Rel. Perf. (%)	11/9/-8
M.Cap. (Rs b)	36.4
M.Cap. (US\$ b)	0.8

YEAR END *	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	22,065	2,294	33.5	180.7	20.4	3.5	22.2	11.0	2.2	13.0
3/08E	25,491	2,878	42.0	25.4	16.2	2.8	22.0	13.3	1.8	10.7
3/09E	29,214	3,676	53.7	27.7	12.7	2.2	22.1	14.7	1.5	8.7

\* Consolidated results

- ✗ Aurobindo does not declare consolidated quarterly results. Our quarterly estimates are standalone, while annual estimates are on a consolidated basis.
- ✗ Sales are expected to be at Rs5.2b, growth of 13% YoY on account of improved traction in Pen-G based business and incremental contribution from USA as well as higher ARV sales.
- ✗ Margins are expected to be stable at 15.7%, despite improvement in market and product mix, as the company continues to invest in its regulated generics business.
- ✗ However, high other income at Rs259m (up 131% YoY) and lower tax provisioning (at 20.1% of PBT v/s 31.9% in 4QFY06) would boost PAT growth to 51% to Rs565m.
- ✗ We have upgraded our earnings estimate for FY07E and FY08E by 6-8%, to factor in for higher interest income on account of unutilized FCCB funds.
- ✗ Despite the progress on regulated market initiatives and slight recovery of Pen G prices, earnings visibility is poor. Given its high leverage and modest return ratios, we believe valuations at 20.4x and 16.2x FY07E and FY08E earnings are expensive. We maintain **Sell**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>2,807</b>	<b>3,195</b>	<b>4,090</b>	<b>4,630</b>	<b>4,386</b>	<b>4,800</b>	<b>5,284</b>	<b>5,233</b>	<b>14,722</b>	<b>19,703</b>
YoY Change (%)	-1.5	18.6	28.1	62.1	56.3	50.2	29.2	13.0	27.0	33.8
Total Expenditure	2,576	2,980	3,508	3,915	3,727	4,109	4,499	4,412	12,979	16,747
<b>EBITDA</b>	<b>231</b>	<b>215</b>	<b>582</b>	<b>716</b>	<b>659</b>	<b>691</b>	<b>785</b>	<b>821</b>	<b>1,743</b>	<b>2,955</b>
Margins (%)	8.2	6.7	14.2	15.5	15.0	14.4	14.9	15.7	11.8	15.0
Depreciation	119	125	135	133	143	150	163	167	511	623
Interest	134	141	163	168	181	202	197	205	606	785
Other Income	36	76	80	112	171	267	263	259	304	960
<b>PBT</b>	<b>13</b>	<b>25</b>	<b>364</b>	<b>527</b>	<b>506</b>	<b>606</b>	<b>688</b>	<b>708</b>	<b>929</b>	<b>2,508</b>
Tax	2	4	32	55	7	48	52	143	93	259
Deferred Tax	-9	-15	70	113	137	12	44	0	159	193
Rate (%)	-52.3	-44.4	28.0	31.9	28.5	9.8	14.0	20.1	27.1	18.0
<b>PAT</b>	<b>20</b>	<b>36</b>	<b>262</b>	<b>375</b>	<b>362</b>	<b>546</b>	<b>601</b>	<b>565</b>	<b>694</b>	<b>2,066</b>
<b>Adjusted PAT</b>	<b>20</b>	<b>36</b>	<b>262</b>	<b>375</b>	<b>362</b>	<b>546</b>	<b>592</b>	<b>565</b>	<b>694</b>	<b>2,057</b>
YoY Change (%)	-88.8	5.5	165.9	922.6	1,701.5	1,401.1	126.0	50.7	98.1	196.5
Margins (%)	0.7	1.1	6.4	8.1	8.3	11.4	11.2	10.8	4.7	10.4

E: MOST Estimates

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<http://deadpresident.blogspot.com> **Aventis Pharma**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HOEC IN
	REUTERS CODE
S&P CNX: 3,634	HOEC.BO

2 April 2007

**Buy***Previous Recommendation: Buy***Rs1,214**

Equity Shares (m)	23.0
52-Week Range	2,125/1,160
1,6,12 Rel. Perf. (%)	3/-24/-43
M.Cap. (Rs b)	28.0
M.Cap. (US\$ b)	0.6

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	8,840	1,693	73.5	5.7	16.5	4.7	28.6	41.5	2.7	10.7
12/07E	9,975	1,935	84.0	14.3	14.5	3.9	26.9	40.3	2.2	8.6
12/08E	11,120	2,214	96.1	14.4	12.6	3.2	25.5	38.3	1.9	7.2

\* Standalone results

- During 1QCY07, sales are expected to grow at 16.5% YoY to Rs2.33b aided by higher growth in exports (on the low base of 1QCY06) and stable growth in the domestic portfolio.
- EBITDA margins are likely to improve by 180bp to 26.8% based on higher contribution from mature brands, as reflected in lower RM cost (at 47% of sales v/s 48.8% in 1QCY06). This translates into EBITDA growth of 24.6% to Rs625m.
- Impact of higher other income (up by 53% YoY), was diluted to some extent by higher tax provisioning (at 34.1% of PBT v/s 32.3% in 1QCY06), thereby boosting PAT growth to 26.8% YoY to Rs468m.
- Aventis is the one of the best prepared pharmaceutical MNCs to leverage the opportunities arising from introduction of product patents, given its excellent brand equity, strong parental support and focus on power brands. Valuations at 16.5x and 14.5x CY06E and CY07E are at a discount to peers and attractive. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>2,005</b>	<b>2,228</b>	<b>2,431</b>	<b>2,176</b>	<b>2,335</b>	<b>2,529</b>	<b>2,786</b>	<b>2,325</b>	<b>8,840</b>	<b>9,975</b>
YoY Change (%)	16.2	4.4	8.8	11.2	16.5	13.5	14.6	6.9	9.4	12.8
Total Expenditure	1,503	1,609	1,744	1,749	1,710	1,841	1,999	1,820	6,633	7,370
<b>EBITDA</b>	<b>502</b>	<b>619</b>	<b>687</b>	<b>427</b>	<b>625</b>	<b>688</b>	<b>787</b>	<b>505</b>	<b>2,207</b>	<b>2,605</b>
Margins (%)	25.0	27.8	28.3	19.6	26.8	27.2	28.2	21.7	25.0	26.1
Depreciation	43	42	43	51	47	46	47	55	179	195
Interest	0	1	0	1	0	0	0	0	2	0
Other Income	86	90	156	111	132	111	137	148	471	527
<b>PBT</b>	<b>545</b>	<b>666</b>	<b>800</b>	<b>486</b>	<b>710</b>	<b>753</b>	<b>877</b>	<b>597</b>	<b>2,497</b>	<b>2,937</b>
Tax	176	227	262	139	242	257	299	204	804	1,002
Effective tax Rate (%)	32.3	34.1	32.8	28.6	34.1	34.1	34.1	34.1	32.2	34.1
<b>Reported PAT</b>	<b>369</b>	<b>439</b>	<b>538</b>	<b>347</b>	<b>468</b>	<b>496</b>	<b>578</b>	<b>393</b>	<b>1,693</b>	<b>1,935</b>
<b>Adj PAT</b>	<b>369</b>	<b>439</b>	<b>538</b>	<b>347</b>	<b>468</b>	<b>496</b>	<b>578</b>	<b>393</b>	<b>1,693</b>	<b>1,935</b>
YoY Change (%)	56.4	28.4	8.2	-7.7	26.8	13.0	7.4	13.4	16.7	14.3
Margins (%)	18.4	19.7	22.1	15.9	20.0	19.6	20.7	16.9	19.2	19.4

E: M0St Estimates



<http://deadpresident.blogspot.com> Biocon

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BIOS IN
	REUTERS CODE
S&P CNX: 3,634	BION.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs465

Equity Shares (m)	100.0
52-Week Range	513/306
1,6,12 Rel. Perf. (%)	13/23/-4
M.Cap. (Rs b)	46.5
M.Cap. (US\$ b)	1.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	10,018	2,054	20.5	18.1	22.7	4.5	19.6	19.9	4.6	15.9
3/08E	11,690	2,472	24.7	20.3	18.8	3.8	20.0	22.3	3.8	12.0
3/09E	13,042	2,819	28.2	14.0	16.5	3.2	19.4	21.7	3.3	10.2

- ✗ Biocon's 4QFY07 sales are expected to grow by 37% YoY to Rs2.9b led by commencement of statins supplies to the US, traction in enzymes business which faced capacity constraints last year and continued momentum in contract research services.
- ✗ EBITDA margins are likely to expand by 220bp (to 30.4%) due to contribution from statins sales for US markets and continuing traction in contract research services.
- ✗ However, higher depreciation (up by 166% YoY) and higher interest cost (up by 131%) on account of commencement of the new facility, is likely to restrict PAT growth to 35% at Rs646m.
- ✗ Syngene has recently entered into pact with Bristol-Myers Squibb, for conducting discovery and early drug development for the latter, through a dedicated research facility. This facility is likely to generate revenues from FY09 onwards.
- ✗ While some of Biocon's initiatives appear promising, currently, their visibility is poor. Biocon is currently valued at 22.7x FY07E and 18.8x FY08E earnings. Launch of bio-generics in regulated markets remains the key long-term trigger. However, clarity on the regulatory pathway is still awaited from the US FDA. In the interim, Biocon's initiatives in the Insulin space are likely to be key growth drivers. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>1,740</b>	<b>2,006</b>	<b>1,993</b>	<b>2,143</b>	<b>2,120</b>	<b>2,490</b>	<b>2,470</b>	<b>2,938</b>	<b>7,881</b>	<b>10,018</b>
YoY Change (%)	-0.1	7.8	12.1	22.8	21.9	24.2	24.0	37.1	10.6	27.1
Total Expenditure	1,235	1,416	1,404	1,538	1,577	1,831	1,693	2,044	5,593	7,144
<b>EBITDA</b>	<b>505</b>	<b>589</b>	<b>589</b>	<b>605</b>	<b>544</b>	<b>659</b>	<b>777</b>	<b>894</b>	<b>2,288</b>	<b>2,874</b>
Margins (%)	29.0	29.4	29.6	28.2	25.6	26.5	31.5	30.4	29.0	28.7
Depreciation	71.1	73.8	74.6	76.9	109.7	177.5	182.8	205.0	296.5	675.0
Interest	2.8	1.5	3.8	9.4	16.7	21.6	21.6	21.8	17.5	81.7
Other Income	17.8	11.3	18.1	4.3	13.6	8.6	2.8	11.6	51.4	36.7
<b>PBT</b>	<b>449</b>	<b>525</b>	<b>529</b>	<b>523</b>	<b>431</b>	<b>469</b>	<b>576</b>	<b>679</b>	<b>2,026</b>	<b>2,154</b>
Tax	66	94	94	51	42	22	36	40	306	140
Rate (%)	14.8	17.9	17.8	9.8	9.8	4.8	6.2	5.9	15.1	6.5
Minority Interest	-5	-4	-4	-7	-5	-7	-20	-8	-20	-40
<b>PAT</b>	<b>387</b>	<b>435</b>	<b>439</b>	<b>478</b>	<b>394</b>	<b>453</b>	<b>560</b>	<b>646</b>	<b>1,740</b>	<b>2,054</b>
YoY Change (%)	-20.3	-22.6	-12.8	12.9	1.8	4.1	27.7	35.1	-11.9	18.1
Margins (%)	22.3	21.7	22.0	22.3	18.6	18.2	22.7	22.0	22.1	20.5

E: MOST Estimates

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<http://deadpresident.blogspot.com> Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CDH IN
	REUTERS CODE
S&P CNX: 3,634	CADI.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs331

Equity Shares (m)	125.6
52-Week Range	400/231
1,6,12 Rel. Perf. (%)	10/3/-11
M.Cap. (Rs b)	41.5
M.Cap. (US\$ b)	1.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	18,128	2,239	19.2	47.5	17.2	4.5	29.8	22.7	2.4	11.9
3/08E	21,224	2,742	21.8	13.8	15.1	3.7	26.7	23.8	2.0	9.7
3/09E	24,820	3,211	25.6	17.1	12.9	3.0	25.5	23.3	1.7	8.3

- ✗ Cadila's 4QFY07 revenue is expected to grow by 21% to Rs4.2b, driven by 21% growth in exports and 15% growth in domestic business. However, growth in the domestic formulations business is likely to be muted, as the company has recently finished the restructuring of this business.
- ✗ EBITDA margins are expected to improve by 130bp to 20.3%, driven by higher contribution from formulation exports and supplies to Altana. However, higher depreciation (up by 27%) and higher interest cost (up by 57%) would restrict PAT growth to 41.6% to Rs487m.
- ✗ Cadila recently acquired Liva Healthcare, a company focused on domestic dermatology (~56% of sales) and respiratory (~24% of sales) segments. Liva Healthcare is a profit making company, with FY07E revenues to be around Rs370m.
- ✗ Cadila is currently valued at 17.2x FY07E and 15.1x FY08E consolidated earnings. Higher growth in the international business, turnaround in French operations, steady supplies to Altana coupled with a de-risked business model should augur well for the company. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Revenues</b>	<b>3,732</b>	<b>3,730</b>	<b>3,696</b>	<b>3,460</b>	<b>4,458</b>	<b>4,748</b>	<b>4,724</b>	<b>4,198</b>	<b>14,845</b>	<b>18,128</b>
YoY Change (%)	13.0	11.2	15.7	40.7	19.5	27.3	27.8	21.3	16.2	22.1
Total Expenditure	3,058	3,061	3,045	2,804	3,560	3,658	3,901	3,344	11,968	14,463
<b>EBITDA</b>	<b>674</b>	<b>669</b>	<b>651</b>	<b>656</b>	<b>898</b>	<b>1,090</b>	<b>823</b>	<b>854</b>	<b>2,877</b>	<b>3,665</b>
Margins (%)	18.1	17.9	17.6	19.0	20.1	23.0	17.4	20.3	19.4	20.2
Depreciation	179	192	214	194	197	213	212	247	779	869
Interest	51	61	103	36	69	54	49	57	251	229
Other Income	0	145	127	-9	49	3	0	10	36	62
<b>PBT before EO Income</b>	<b>444</b>	<b>561</b>	<b>461</b>	<b>417</b>	<b>681</b>	<b>826</b>	<b>562</b>	<b>560</b>	<b>1,883</b>	<b>2,629</b>
EO Exp/(Inc)	-49	-25	-14	-16	0	0	-196	0	-105	-196
<b>PBT after EO Income</b>	<b>493</b>	<b>586</b>	<b>475</b>	<b>433</b>	<b>681</b>	<b>826</b>	<b>758</b>	<b>560</b>	<b>1,988</b>	<b>2,825</b>
Tax	58	67	49	59	76	100	98	99	233	373
Rate (%)	11.8	11.4	10.3	13.6	11.2	12.1	12.9	17.7	11.7	13.2
Minority Int/Adj on Consol	-5	-11	1	16	21	21	1	0	1	43
<b>Reported PAT</b>	<b>440</b>	<b>530</b>	<b>425</b>	<b>358</b>	<b>584</b>	<b>705</b>	<b>659</b>	<b>462</b>	<b>1,754</b>	<b>2,410</b>
<b>Adj PAT</b>	<b>397</b>	<b>508</b>	<b>412</b>	<b>344</b>	<b>584</b>	<b>705</b>	<b>488</b>	<b>462</b>	<b>1,662</b>	<b>2,239</b>
YoY Change (%)	3.8	32.2	25.9	245.9	47.2	38.8	18.4	34.1	24.1	34.8
Margins (%)	10.6	13.6	11.2	9.9	13.1	14.8	10.3	11.0	11.2	12.4

E: MOST Estimates

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<http://deadpresident.blogspot.com> Cipla

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CIPLA IN
	REUTERS CODE
S&P CNX: 3,634	CIPL.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs226

Equity Shares (m)	777.3
52-Week Range	305/178
1,6,12 Rel. Perf. (%)	4/-12/-26
M.Cap. (Rs b)	175.5
M.Cap. (US\$ b)	4.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	36,260	7,304	9.4	15.8	24.0	5.3	21.9	25.7	4.7	18.5
03/08E	42,540	9,099	11.7	24.3	19.3	4.3	22.4	25.1	3.9	15.1
03/09E	51,196	11,250	14.5	23.4	15.6	3.5	22.7	25.6	3.2	12.2

- ✗ Cipla's 4QFY07 revenues are expected to grow by 13% YoY to Rs9.9b, led by 14% growth in domestic business and 27% growth in formulation exports.
- ✗ EBITDA margin is expected to expand by 420bp to 24.9% driven primarily by improving product and market mix.
- ✗ However, higher depreciation (up by 19%), lower other income (down by 51% due to the higher other income recorded in 4QFY06 on account of insurance claims) and higher tax provisioning (at 17.6% of PBT v/s 4% in 4QFY06) would restrict PAT growth to just 2.4% to Rs1.95b.
- ✗ We have raised our FY08E and FY09E estimates for Cipla by 7-10% to take into account the better-than-expected growth for the domestic formulations portfolio and higher other income.
- ✗ Significant capex of Rs13b during FY05-FY08 to upgrade and expand facilities, should augur well in the long term. Valuations at 24x FY07E and 19.3x FY08E earnings do not fully reflect the potential of Cipla's generics pipeline. Our estimates do not include any uncertain upsides linked to patent challenges filed by Cipla's partners. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>6,628</b>	<b>6,717</b>	<b>7,806</b>	<b>8,706</b>	<b>8,636</b>	<b>8,961</b>	<b>8,805</b>	<b>9,857</b>	<b>29,919</b>	<b>36,260</b>
YoY Change (%)	24.2	15.5	30.9	62.7	30.3	33.4	12.8	13.2	32.7	21.2
Total Expenditure	5,129	4,944	6,217	6,903	6,347	6,685	6,613	7,399	23,121	27,044
<b>EBITDA</b>	<b>1,499</b>	<b>1,773</b>	<b>1,589</b>	<b>1,803</b>	<b>2,289</b>	<b>2,276</b>	<b>2,193</b>	<b>2,458</b>	<b>6,798</b>	<b>9,215</b>
Margins (%)	22.6	26.4	20.4	20.7	26.5	25.4	24.9	24.9	22.7	25.4
Depreciation	135	215	230	250	260	245	275	298	802	1,078
Interest	14	17	51	33	28	16	13	18	114	75
Other Income	84	15	744	468	220	190	261	229	1,216	900
<b>Profit before Tax</b>	<b>1,434</b>	<b>1,556</b>	<b>2,053</b>	<b>1,988</b>	<b>2,220</b>	<b>2,205</b>	<b>2,166</b>	<b>2,371</b>	<b>7,098</b>	<b>8,962</b>
Tax	320	330	300	80	516	403	322	418	1,022	1,658
Rate (%)	22.3	21.2	14.6	4.0	23.2	18.3	14.9	17.6	14.4	18.5
<b>Reported PAT</b>	<b>1,114</b>	<b>1,226</b>	<b>1,753</b>	<b>1,908</b>	<b>1,704</b>	<b>1,803</b>	<b>1,844</b>	<b>1,954</b>	<b>6,076</b>	<b>7,304</b>
YoY Change (%)	40.6	27.9	39.5	80.7	53.0	47.0	5.2	2.4	48.3	20.2
Margins (%)	16.8	18.3	22.5	21.9	19.7	20.1	20.9	19.8	20.3	20.1

E: MOST Estimates

<http://deadpresident.blogspot.com> Divi's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	DIVI IN
	REUTERS CODE
S&P CNX: 3,634	DIVI.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs3,015

Equity Shares (m)	12.8
52-Week Range	3,541/1,118
1,6,12 Rel. Perf. (%)	7/36/48
M.Cap. (Rs b)	38.7
M.Cap. (US\$ b)	0.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	6,501	1,345	104.9	92.0	28.7	8.7	34.1	32.6	6.1	21.3
03/08E	7,909	1,601	124.9	19.1	24.1	6.7	31.4	33.0	5.1	16.8
03/09E	9,267	1,966	153.4	22.8	19.7	5.3	30.1	31.0	4.3	14.0

- Divi's 4QFY07 revenues are expected to grow by 40% YoY to Rs1.8b, led by continued momentum in both the generics and custom chemical synthesis (CCS) business.
- EBITDA margins are expected to improve marginally by 40bp to 30.9%. Margins would have been higher but for higher costs on account of commissioning of new facilities.
- Commissioning of new facilities will also lead to higher depreciation (up 111%) and interest costs (up 85%). However, lower tax provisioning (at 8.2% of PBT v/s 35.3% in 4QFY06) due to higher contribution from the new SEZ is likely to temper the adverse impact, resulting in PAT growth of 91% to Rs437m.
- We have raised our FY07E earnings estimates by 9% to take into account lower taxes as a significant portion of sales is likely to come from the new SEZ.
- Divi's is expected to be one of the key beneficiaries of increased pharmaceutical outsourcing from India. The company's existing relationships with innovator companies should help it procure more MNC contracts. Our estimates however, do not include upsides from any future contracts that the company may announce. Divi's is currently valued at 28.7x FY07E and 24.1x FY08E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Op Revenue</b>	<b>646</b>	<b>814</b>	<b>1,080</b>	<b>1,271</b>	<b>1,608</b>	<b>1,614</b>	<b>1,496</b>	<b>1,783</b>	<b>3,811</b>	<b>6,501</b>
YoY Change (%)	5.4	7.8	6.8	16.1	148.8	98.3	38.6	40.3	9.7	70.6
Total Expenditure	443	549	769	883	1,148	1,179	1,071	1,231	2,644	4,628
<b>EBITDA</b>	<b>203</b>	<b>265</b>	<b>311</b>	<b>388</b>	<b>461</b>	<b>435</b>	<b>425</b>	<b>551</b>	<b>1,167</b>	<b>1,872</b>
Margins (%)	31.5	32.5	28.8	30.5	28.6	26.9	28.4	30.9	30.6	28.8
Depreciation	36	37	37	39	43	42	59	81	148	224
Interest	11	9	14	21	21	6	38	40	56	105
Other Income	37	22	22	26	44	34	25	46	106	148
<b>PBT</b>	<b>193</b>	<b>241</b>	<b>282</b>	<b>354</b>	<b>441</b>	<b>421</b>	<b>353</b>	<b>476</b>	<b>1,069</b>	<b>1,691</b>
Tax	64	77	89	103	167	114	-1	7	333	288
Deferred Tax	1	4	4	22	6	-6	27	32	31	59
Rate (%)	33.8	33.7	33.0	35.3	39.4	25.7	7.3	8.2	34.1	20.5
<b>Adj PAT</b>	<b>128</b>	<b>159</b>	<b>189</b>	<b>229</b>	<b>267</b>	<b>313</b>	<b>327</b>	<b>437</b>	<b>705</b>	<b>1,345</b>
YoY Change (%)	-11.0	18.3	24.0	-0.3	109.6	96.2	73.2	90.9	6.7	90.8
Margins (%)	19.7	19.6	17.5	18.0	16.6	19.4	21.9	24.5	18.5	20.7

E: MOST Estimates

<http://deadpresident.blogspot.com>  
Dr Reddy's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	DR IN
	REUTERS CODE
S&P CNX: 3,634	REDY.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs711

Equity Shares (m)	167.7
52-Week Range	877/579
1,6,12 Rel. Perf. (%)	11/-3/-9
M.Cap. (Rs b)	119.3
M.Cap. (US\$ b)	2.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E*	43,086	4,152	24.8	177.0	28.7	3.3	11.7	6.5	3.0	17.5
03/08E*	49,660	6,001	35.8	44.5	19.9	3.0	14.9	8.8	2.6	14.4
03/09E*	58,046	6,939	41.4	15.6	17.2	2.6	15.3	9.5	2.1	12.8

\*Excludes one-time upsidess from authorized generics and FTF opportunities

- Dr Reddy's 4QFY07 sales (excl. Zofran) are expected to grow by 56% YoY to Rs10.9b, driven by consolidation of BetaPharm and Roche's Mexico facility, and improvement in the base business. Zofran — a 180 exclusivity opportunity — is likely to contribute around Rs1b to DRL's sales and Rs741m to PAT for the quarter.
- Overall gross margin (excl. Zofran) is expected to improve by 830bp (to 50.4%) due to improvement in the base business. Also, EBITDA margins are likely to improve to 16.2% due to the significantly lower base of 3QFY06.
- However, higher depreciation (up 174%) and higher other expenditure (up 164%) would restrict PBT to Rs1b (v/s losses of Rs296m) and PAT (excl. Zofran) to Rs878m (v/s losses of Rs232m).
- Improvement in the US business coupled with large one-time opportunities like generic Allegra and Zofran will result in increased traction. The German operations are likely to contribute positively to margins despite the recent price cuts. DRL is currently valued at 28.7x FY07E and 19.9x FY08E EPS (excl. one-time opportunities). We maintain **Buy**.

## GLOBAL QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E MARCH	FY06				FY07#				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Sales</b>	<b>5,591</b>	<b>5,773</b>	<b>5,898</b>	<b>6,974</b>	<b>14,049</b>	<b>20,039</b>	<b>15,434</b>	<b>10,880</b>	<b>24,267</b>	<b>60,233</b>
<b>Gross Sales incl Zofran</b>								<b>11,904</b>		<b>61,257</b>
YoY Change (%)	15.1	6.9	27.0	64.0	151.3	247.1	161.7	56.0	24.6	148.2
<b>EBITDA</b>	<b>459</b>	<b>754</b>	<b>445</b>	<b>-19</b>	<b>2,217</b>	<b>4,220</b>	<b>2,464</b>	<b>1,766</b>	<b>1,668</b>	<b>10,498</b>
Margins (%)	8.2	13.1	7.5	-0.3	15.8	21.1	16.0	16.2	6.9	17.4
Depreciation & Amortization	96	76	86	162	388	402	330	444	420	1,564
Other Income	92	170	557	-115	-223	-287	-281	-304	640	-1,095
<b>Profit before Tax</b>	<b>455</b>	<b>848</b>	<b>916</b>	<b>-296</b>	<b>1,606</b>	<b>3,531</b>	<b>1,853</b>	<b>1,018</b>	<b>1,888</b>	<b>7,839</b>
Tax	73	-40	287	-62	208	737	-27	140	258	1,058
Rate (%)	16.0	-4.7	31.3	20.9	13.0	20.9	-1.5	13.8	13.7	13.5
<b>Reported PAT</b>	<b>382</b>	<b>888</b>	<b>629</b>	<b>-234</b>	<b>1,398</b>	<b>2,794</b>	<b>1,880</b>	<b>878</b>	<b>1,630</b>	<b>6,781</b>
Minority Interest	0	1	1	-2	0	-4	0	0	0	-4
EO (Exp)/Inc	0	0	258	0	42	0	0	0	258	42
<b>Adjusted PAT</b>	<b>382</b>	<b>887</b>	<b>370</b>	<b>-232</b>	<b>1,356</b>	<b>2,798</b>	<b>1,880</b>	<b>878</b>	<b>1,372</b>	<b>6,743</b>
<b>Adjusted PAT incl Zofran</b>								<b>1,619</b>		<b>7,484</b>
YoY Change (%)	-	71.6	-	-	255.0	215.4	407.6	-	547.3	391.3
Margins (%)	6.8	15.4	6.3	-3.3	9.7	14.0	12.2	8.1	5.7	11.2

E: MOST Estimates; # includes one-time upsidess

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<http://deadpresident.blogspot.com>  
GlaxoSmithKline Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GLXO IN
	REUTERS CODE
S&P CNX: 3,634	GLAX.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs1,104

Equity Shares (m)	84.7
52-Week Range	1,551/891
1,6,12 Rel. Perf. (%)	0/-11/-35
M.Cap. (Rs b)	93.5
M.Cap. (US\$ b)	2.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	15,384	3,617	42.7	18.1	25.8	7.8	30.3	46.3	5.4	17.4
12/07E	17,173	4,076	48.1	12.7	22.9	6.5	28.2	43.3	4.7	14.8
12/08E	19,577	4,742	56.0	16.3	19.7	5.3	27.1	41.5	4.0	12.3

- GSK Pharma's 1QCY07 net sales are expected to remain flat at Rs4.3b, despite divestment of the animal healthcare business in July 2006.
- EBITDA margins are expected to decline by 90bp YoY to 32.3%. However, higher other income (up by 15%) would result in stable PAT at Rs1b. This is despite the significant higher base of 1QCY06 wherein, the company recorded 89% bottomline growth.
- GSK is focused on strengthening its presence in the lifestyle disease segment of CVS, CNS, diabetes etc., by licensing products and evaluating brand acquisitions in the domestic market.
- GSK Pharma is one of the best plays on the IPR regime. Our estimates for CY07E take into account the additional marketing and promotional expenditure linked to launch of patented products in CY08E and divestment of animal healthcare division. Valuations at 22.9x CY07E and 19.7x CY08E earnings do not fully reflect the strong parentage and the 'option value' created from product patent regime in the long term. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>4,254</b>	<b>4,041</b>	<b>3,970</b>	<b>3,119</b>	<b>4,293</b>	<b>4,808</b>	<b>4,637</b>	<b>3,435</b>	<b>15,384</b>	<b>17,173</b>
YoY Change (%)	54.0	-13.1	-3.9	-1.8	0.9	19.0	16.8	10.1	4.6	11.6
Total Expenditure	2,843	2,789	2,688	2,305	2,905	3,176	3,077	2,585	10,625	11,743
<b>EBITDA</b>	<b>1,411</b>	<b>1,252</b>	<b>1,283</b>	<b>814</b>	<b>1,388</b>	<b>1,633</b>	<b>1,560</b>	<b>850</b>	<b>4,760</b>	<b>5,430</b>
Margins (%)	33.2	31.0	32.3	26.1	32.3	34.0	33.6	24.7	30.9	31.6
Depreciation	38	39	41	41	40	42	44	44	159	170
Other Income	222	183	254	299	256	205	226	338	958	1,026
<b>PBT before EO Expense</b>	<b>1,596</b>	<b>1,396</b>	<b>1,496</b>	<b>1,072</b>	<b>1,600</b>	<b>1,792</b>	<b>1,740</b>	<b>1,138</b>	<b>5,560</b>	<b>6,271</b>
Tax	567	475	499	348	560	627	609	398	1,889	2,195
Deferred Tax	-6	10	6	43	0	0	0	0	53	0
Rate (%)	35.2	34.8	33.8	36.4	35.0	35.0	35.0	35.0	34.9	35.0
<b>Adjusted PAT</b>	<b>1,034</b>	<b>911</b>	<b>991</b>	<b>682</b>	<b>1,040</b>	<b>1,165</b>	<b>1,131</b>	<b>740</b>	<b>3,617</b>	<b>4,076</b>
YoY Change (%)	88.9	-13.6	4.4	33.0	0.6	27.9	14.2	8.6	18.1	12.7
Margins (%)	24.3	22.5	25.0	21.9	24.2	24.2	24.4	21.5	23.5	23.7
Extra-Ord Expense	22	0	-1,864	4	0	0	0	0	-1,838	0
<b>Reported PAT</b>	<b>1,012</b>	<b>911</b>	<b>2,854</b>	<b>678</b>	<b>1,040</b>	<b>1,165</b>	<b>1,131</b>	<b>740</b>	<b>5,455</b>	<b>4,076</b>

E: MOST Estimates; Quarterly results don't add up due to recasting



<http://deadpresident.blogspot.com> Jubilant Organosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	VAM IN
	REUTERS CODE
S&P CNX: 3,634	JUBO.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs252

Equity Shares (m)	142.3
52-Week Range	295/180
1,6,12 Rel. Perf. (%)	4/23/-10
M.Cap. (Rs b)	35.8
M.Cap. (US\$ b)	0.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	18,604	2,234	12.0	40.3	20.9	3.1	22.7	11.6	2.1	11.9
03/08E	22,263	2,974	16.0	33.1	15.7	2.5	23.3	9.9	1.8	9.4
03/09E	26,225	3,461	18.7	16.3	13.5	2.1	22.2	10.6	1.4	7.4

- Jubilant's 4QFY07 sales are expected to grow by 21% to Rs5.1b, driven by minor supplies of Oxcarbazepine to US and robust growth in CRAMS business due to removal of capacity constraints, resulting in Pharma and Life Sciences business growing by 55% to Rs3.4b. EBITDA margin is expected to improve by 140bp to 17.8%, reflecting improving business mix in favor of Pharma and Life Science business (at 66% of sales v/s 52% in 4QFY06) as well as the favorable impact of lower molasses prices.
- Also, higher other income (up by 79%) due to interest income on unutilized FCCB proceeds, would boost PAT growth of 23% to Rs592m.
- Margins are expected to stabilize and improve gradually over the next few years, with the growing share of pharma and life sciences business and easing raw material prices. This, along with healthy growth in revenues, would lead to a 35% CAGR in fully diluted earnings over FY06-FY08E. Valuations of 20.9x FY07E and 15.7x FY08E earnings do not reflect the higher growth potential. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>3,267</b>	<b>3,315</b>	<b>4,234</b>	<b>4,238</b>	<b>4,124</b>	<b>4,659</b>	<b>4,693</b>	<b>5,128</b>	<b>15,054</b>	<b>18,604</b>
YoY Change (%)	22.8	12.9	46.5	31.8	26.2	40.5	10.8	21.0	28.6	23.6
Total Expenditure	2,873	2,859	3,588	3,545	3,425	3,858	3,795	4,216	12,884	15,294
<b>EBITDA</b>	<b>394</b>	<b>456</b>	<b>646</b>	<b>693</b>	<b>699</b>	<b>801</b>	<b>898</b>	<b>912</b>	<b>2,170</b>	<b>3,310</b>
Margins (%)	12.1	13.8	15.3	16.4	16.9	17.2	19.1	17.8	14.4	17.8
Depreciation	111	118	129	155	146	153	158	174	513	631
Interest	49	40	54	30	55	37	49	79	173	220
Other Income	31	34	36	96	90	145	168	172	197	575
<b>PBT after EO Expense</b>	<b>265</b>	<b>332</b>	<b>499</b>	<b>604</b>	<b>588</b>	<b>756</b>	<b>859</b>	<b>831</b>	<b>1,681</b>	<b>3,034</b>
Tax	55	80	121	136	139	215	236	229	392	819
Rate (%)	20.8	24.1	24.2	22.5	23.6	28.4	27.5	27.6	23.3	27.0
<b>PAT</b>	<b>210</b>	<b>252</b>	<b>378</b>	<b>468</b>	<b>449</b>	<b>541</b>	<b>623</b>	<b>601</b>	<b>1,289</b>	<b>2,214</b>
Minority Interest	-3	3	12	-14	-12	-3	-14	9	-8	-20
<b>Reported PAT</b>	<b>213</b>	<b>249</b>	<b>366</b>	<b>482</b>	<b>461</b>	<b>544</b>	<b>637</b>	<b>592</b>	<b>1,297</b>	<b>2,234</b>
<b>Adjusted PAT</b>	<b>213</b>	<b>249</b>	<b>366</b>	<b>482</b>	<b>461</b>	<b>544</b>	<b>637</b>	<b>592</b>	<b>1,297</b>	<b>2,234</b>
YoY Change (%)	-20.8	-19.9	36.1	73.8	116.4	118.5	74.0	22.9	17.7	72.3
Margins (%)	6.5	7.5	8.6	11.4	11.2	11.7	13.6	11.6	8.6	12.0

E: Most Estimates



<http://deadpresident.blogspot.com> **Lupin**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	LPC IN
	REUTERS CODE
S&P CNX: 3,634	LUPN.BO

2 April 2007

**Buy***Previous Recommendation: Buy***Rs603**

Equity Shares (m)	80.3
52-Week Range	678/406
1,6,12 Rel. Perf. (%)	4/24/6
M.Cap. (Rs b)	48.4
M.Cap. (US\$ b)	1.1

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	19,889	2,182	24.8	15.4	24.4	6.1	30.9	21.3	2.6	16.8
03/08E	23,521	3,151	35.8	44.4	16.9	4.7	34.7	24.9	2.1	12.4
03/09E	26,512	3,634	41.2	15.3	14.6	3.7	31.2	23.5	1.8	10.4

\* Consolidated

- ✎ Lupin's quarterly results are standalone, while annual numbers are consolidated.
- ✎ Lupin's 4QFY07 revenue is expected to grow by 19.8% YoY to Rs5.06b, driven by continued momentum in domestic formulations business, as well as formulation exports (both regulated and unregulated markets). Our estimates do not include upside from income linked to sale of Perindopril IPR to Laboratories Seroier of France.
- ✎ EBITDA margins are expected to improve by 750bp YoY to 17.4%, as product and market mix improves. However, lower other income (down by 68%) and higher tax provisioning (at 25.3% of PBT v/s 18.7% in 4QFY06) is likely to restrict PAT growth to 16% to Rs582m.
- ✎ Lupin is currently valued at 24.4x and 16.9x FY07E and FY08E fully diluted consolidated EPS excluding upside from potential acquisitions and NCE out-licensing. Lupin is likely to witness a gradual improvement in the underlying fundamentals led by an expanding US generics pipeline and bottoming out of Pen-G business. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>3,612</b>	<b>4,051</b>	<b>4,269</b>	<b>4,220</b>	<b>4,769</b>	<b>4,958</b>	<b>4,967</b>	<b>5,055</b>	<b>16,625</b>	<b>19,749</b>
YoY Change (%)	24.4	34.1	52.7	45.9	32.0	22.4	16.4	19.8	43.2	18.8
Total Expenditure	2,903	3,378	3,693	3,804	4,118	4,123	4,174	4,176	13,778	16,592
<b>EBITDA</b>	<b>709</b>	<b>673</b>	<b>576</b>	<b>416</b>	<b>651</b>	<b>835</b>	<b>793</b>	<b>879</b>	<b>2,847</b>	<b>3,157</b>
Margins (%)	19.6	16.6	13.5	9.9	13.6	16.8	16.0	17.4	17.1	16.0
Depreciation	91	98	101	114	106	112	121	132	404	471
Interest	65	64	79	95	91	93	89	100	303	373
Other Income	39	89	96	410	182	163	145	133	161	623
<b>PBT</b>	<b>591</b>	<b>601</b>	<b>492</b>	<b>618</b>	<b>637</b>	<b>793</b>	<b>729</b>	<b>779</b>	<b>2,302</b>	<b>2,937</b>
Tax	160	149	51	116	130	210	168	197	475	705
Rate (%)	27.0	24.8	10.3	18.7	20.5	26.4	23.1	25.3	20.6	24.0
<b>Profit after Tax</b>	<b>432</b>	<b>452</b>	<b>442</b>	<b>502</b>	<b>507</b>	<b>583</b>	<b>560</b>	<b>582</b>	<b>1,827</b>	<b>2,232</b>
YoY Change (%)	109.1	158.4	80.3	131.0	17.4	29.0	26.8	16.0	116.6	22.2
Margins (%)	11.9	11.2	10.3	11.9	10.6	11.8	11.3	11.5	11.0	11.3

E: MOST Estimates; Our estimates do not include upside from income linked to sale of Perindopril IPR to Laboratories Seroier of France.

<http://deadpresident.blogspot.com> Nicholas Piramal

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	NP IN
	REUTERS CODE
S&P CNX: 3,634	NICH.BO
Equity Shares (m)	209.0
52-Week Range	284/150
1,6,12 Rel. Perf. (%)	8/1/-18
M.Cap. (Rs b)	50.4
M.Cap. (US\$ b)	1.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs241

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	24,345	2,258	10.8	77.9	22.3	4.7	22.3	20.3	2.3	14.1
03/08E	28,268	3,119	14.9	38.2	16.2	4.1	27.2	22.9	2.0	11.6
03/09E	31,891	3,928	18.8	25.9	12.8	3.5	29.2	25.3	1.7	9.4

- NPIL is expected to report revenue growth of 44% to Rs6.1b in 4QFY07, driven by continued momentum in CRAMS business and consolidation of Pfizer's Morpeth facility (acquired in June 2006).
- EBITDA margins are expected to improve by 820bp YoY (on a low base) to 16.1% as Phensedyl sales in the domestic market were impacted in 3QFY06 due to the case filed by the Narcotics Control Board (which has been resolved).
- However, higher depreciation (up by 20%), higher interest cost (up by 106%), lower other income (down by 98%) and higher tax provisioning (at 19.2% of PBT v/s tax write back of 2% in 4QFY06) will impact bottom-line growth. We expect NPIL to record 249% YoY growth in adjusted PAT (albeit on a low base) to Rs512m.
- Increasing visibility in CRAMS (with peak revenue potential of US\$170-US\$200m expected by FY09), turnaround at Avecia and higher growth in the domestic portfolio, would act as catalysts for the stock. Valuations at 22.3x FY07E and 16.2x FY08E do not fully reflect the increasing momentum in CRAMS business. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>3,983</b>	<b>3,651</b>	<b>4,026</b>	<b>4,220</b>	<b>5,226</b>	<b>6,547</b>	<b>6,495</b>	<b>6,077</b>	<b>15,944</b>	<b>24,345</b>
YoY Change (%)	11.0	-2.8	17.3	83.2	31.2	79.3	61.3	44.0	21.9	52.7
Total Expenditure	3,228	3,007	3,580	3,889	4,348	5,409	5,525	5,099	13,849	20,381
<b>EBITDA</b>	<b>755</b>	<b>644</b>	<b>446</b>	<b>332</b>	<b>877</b>	<b>1,139</b>	<b>971</b>	<b>978</b>	<b>2,095</b>	<b>3,964</b>
Margins (%)	18.9	17.6	11.1	7.9	16.8	17.4	14.9	16.1	13.1	16.3
Depreciation	151	154	170	214	228	244	222	257	688	950
Interest	48	58	23	43	46	76	88	89	173	299
Other Income	18	205	34	102	0	2	2	2	282	6
<b>PBT before EO Expense</b>	<b>574</b>	<b>637</b>	<b>287</b>	<b>177</b>	<b>604</b>	<b>820</b>	<b>663</b>	<b>634</b>	<b>1,516</b>	<b>2,721</b>
Extra-Ord Expense	5	36	137	26	0	-76	-2	32	33	-46
<b>PBT after EO Expense</b>	<b>569</b>	<b>600</b>	<b>150</b>	<b>151</b>	<b>604</b>	<b>896</b>	<b>665</b>	<b>602</b>	<b>1,484</b>	<b>2,767</b>
Tax	73	123	34	-106	13	172	59	50	125	282
Deferred Tax	-6	-2	19	103	51	9	51	66	114	188
Rate (%)	11.7	20.1	35.2	-1.9	10.7	20.2	16.5	19.2	16.0	17.0
<b>PAT</b>	<b>503</b>	<b>479</b>	<b>97</b>	<b>154</b>	<b>539</b>	<b>715</b>	<b>556</b>	<b>487</b>	<b>1,246</b>	<b>2,297</b>
Less: Minority Interest	1	1	0	2	1	0	0	0	4	1
<b>Reported PAT</b>	<b>502</b>	<b>478</b>	<b>97</b>	<b>153</b>	<b>539</b>	<b>715</b>	<b>556</b>	<b>487</b>	<b>1,242</b>	<b>2,296</b>
<b>Adj PAT</b>	<b>481</b>	<b>533</b>	<b>241</b>	<b>147</b>	<b>539</b>	<b>655</b>	<b>554</b>	<b>512</b>	<b>1,269</b>	<b>2,258</b>
YoY Change (%)	11.2	-4.7	-25.7	-	11.9	22.8	129.9	249.2	24.4	77.9

E: MOST Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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<http://deadpresident.blogspot.com> Pfizer

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	PFIZ IN
	REUTERS CODE
S&P CNX: 3,634	PFIZ.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs775

Equity Shares (m)	29.8
52-Week Range	1,225/621
1,6,12 Rel. Perf. (%)	12/-15/-42
M.Cap. (Rs b)	23.1
M.Cap. (US\$ b)	0.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
11/06A	6,885	1,176	39.4	42.2	19.7	5.3	26.9	42.0	3.0	12.9
11/07E	6,257	1,002	33.6	-14.8	23.1	4.8	20.8	31.6	3.2	13.8
11/08E	6,882	1,155	38.7	15.4	20.0	4.3	21.5	32.3	2.8	11.5

- ✗ Pfizer's revenues for 2QFY07E (year-end: November 2007) are expected to decline by 11.5% to Rs1.48b, due to divestment of consumer healthcare business. On a like-to-like basis, the continuing business is likely to record over 10% growth. Since, the company is yet to take a decision on this divestment, it may report numbers including performance of the consumer healthcare business which, may not be comparable with the estimates given below.
- ✗ EBITDA margins are likely to improve by 150bp to 26.2% (albeit on a slightly lower base), despite divestment of the consumer healthcare business. However, higher tax provisioning (at 34.6% of PBT v/s 28.9% in 2QFY06) and loss on profits from the consumer healthcare business is likely to result in a 7% decline in PAT to Rs270m.
- ✗ Pfizer (USA) has decided to divest its consumer healthcare business to Johnson & Johnson, which might result in divestment of its domestic consumer healthcare business in favor of Johnson & Johnson. We estimate divestment to result in loss of sales at Rs1.5b and reduction in PAT by Rs291m (EPS of Rs10/share) for FY07E (assuming the divestment will be effective by end-2006).
- ✗ Valuations of 23.1x FY07E and 20x FY08E (22.4x FY07E after adjusting for divestment of the Consumer Healthcare division) adequately reflect Pfizer's business fundamentals. However, we note that that company has cash of about Rs5.5b on its books (including proceeds from the recently divested Chandigarh facility). Maintain **Neutral**.

## QUARTERLY PERFORMANCE (INCLUDING PHARMACIA)

(RS MILLION)

Y/E NOVEMBER	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4QE	1Q	2QE	3QE	4QE		
<b>Net Revenues</b>	<b>1,535</b>	<b>1,729</b>	<b>1,856</b>	<b>1,765</b>	<b>1,603</b>	<b>1,538</b>	<b>1,640</b>	<b>1,476</b>	<b>6,885</b>	<b>6,257</b>
YoY Change (%)	11.0	21.7	9.5	0.7	4.4	-	-	-	10.1	-
Total Expenditure	1,104	1,302	1,378	1,447	1,176	1,135	1,232	1,123	5,232	4,796
<b>EBITDA</b>	<b>431</b>	<b>426</b>	<b>478</b>	<b>317</b>	<b>427</b>	<b>403</b>	<b>408</b>	<b>353</b>	<b>1,652</b>	<b>1,461</b>
Margins (%)	28.1	24.7	25.7	18.0	26.6	26.2	24.9	23.9	24.0	23.3
Depreciation	31	32	37	31	27	37	37	46	131	146
Interest	0	0	0	1	0	0	0	0	1	0
Other Income	45	51	54	64	67	54	57	39	333	217
<b>PBT before EO Items</b>	<b>445</b>	<b>445</b>	<b>496</b>	<b>350</b>	<b>467</b>	<b>420</b>	<b>429</b>	<b>346</b>	<b>1,854</b>	<b>1,531</b>
EO Expense/(Income)	58	-60	58	58	26	33	33	41	234	133
<b>PBT after EO Items</b>	<b>387</b>	<b>505</b>	<b>437</b>	<b>292</b>	<b>441</b>	<b>387</b>	<b>395</b>	<b>305</b>	<b>1,620</b>	<b>1,398</b>
Tax	139	146	157	121	158	134	137	-1	563	428
Deferred Tax	0	0	0	0	0	0	0	56	0	56
Rate (%)	35.9	28.9	35.8	41.6	35.9	34.6	34.6	18.1	34.7	34.6
<b>Reported PAT</b>	<b>248</b>	<b>359</b>	<b>281</b>	<b>170</b>	<b>283</b>	<b>253</b>	<b>259</b>	<b>250</b>	<b>1,057</b>	<b>914</b>
YoY Change (%)	84.0	132.0	28.6	-2.0	14.1	-29.5	-7.9	46.8	55.2	-13.5
<b>Adj. PAT for Excep Items</b>	<b>290</b>	<b>291</b>	<b>323</b>	<b>228</b>	<b>299</b>	<b>270</b>	<b>280</b>	<b>226</b>	<b>1,210</b>	<b>1,002</b>
YoY Change (%)	71.4	52.5	26.9	16.3	3.2	-	-	-	46.3	-
Margins (%)	18.9	16.8	17.4	12.9	18.7	17.5	17.1	15.3	17.6	16.0

E: MOST Estimates; Estimates adjusted for consumer healthcare divestment. Historic numbers include consumer healthcare

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<http://deadpresident.blogspot.com>  
Ranbaxy Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	RBXY IN
	REUTERS CODE
S&P CNX: 3,634	RANB.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs341

Equity Shares (m)	372.4
52-Week Range	530/306
1,6,12 Rel. Perf. (%)	2/-21/-30
M.Cap. (Rs b)	127.1
M.Cap. (US\$ b)	2.9

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	61,337	5,418	13.6	150.3	25.2	4.7	20.1	11.7	2.6	16.8
12/07E*	70,625	6,302	15.8	16.3	21.6	4.2	20.9	12.9	2.3	14.1
12/08E*	86,241	8,130	20.3	29.0	16.8	3.7	23.7	15.7	1.9	11.3

\* Excludes upsides from FTF products

- Ranbaxy is expected to report a 18.7% YoY growth in revenues to Rs15.4b in 1QCY07, driven primarily by 28% growth in European business and consolidation of Terapia's performance. However, US generic business continues to be competitive, with 8% decline in revenues.
- EBITDA margin is expected to improve over 1QCY06 by 260bp to 14%, but likely to decline sequentially (100bp) due to expiry of Simvastatin exclusivity. Higher depreciation (up 22%), higher interest cost (up 34%) and higher tax provisioning (at 20% of PBT v/s 15.8% in 1QCY06), would restrict PAT growth to 74% (on a low base) to Rs1.2b for the quarter.
- We have revised our core earnings estimates (excl. one-time upsides) downward by 8.3% for CY07E to take into account higher interest expense and depreciation and lower other income, as the idle cash has been utilized for BeTabs acquisition.
- Ranbaxy is currently valued at 21.6x CY07E and 16.8x CY08E earnings (excl. one-time upsides). Although, valuations appear rich, they do not capture the full potential of Ranbaxy's rich product pipeline, as the company has come out of one of its worst years in the recent past. Valuations also do not reflect the potential upsides from any major de-risking measures that Ranbaxy may undertake in the future. We believe the company is reasonably valued at EV/Sales of 2.6x CY07E and 2.3x CY08E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06#				CY07E				CY06#	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Income</b>	<b>12,981</b>	<b>14,562</b>	<b>16,087</b>	<b>17,769</b>	<b>15,414</b>	<b>17,553</b>	<b>18,224</b>	<b>19,434</b>	<b>61,337</b>	<b>70,625</b>
YoY Change (%)	9.7	6.9	18.4	24.3	18.7	20.5	13.3	9.4	15.4	15.1
<b>EBITDA</b>	<b>1,482</b>	<b>2,648</b>	<b>2,697</b>	<b>2,665</b>	<b>2,158</b>	<b>2,633</b>	<b>3,098</b>	<b>3,433</b>	<b>9,430</b>	<b>11,322</b>
Margins (%)	11.4	18.2	16.8	15.0	14.0	15.0	17.0	17.7	15.4	16.0
Depreciation	427	457	496	531	522	553	650	681	1,911	2,406
Interest	257	277	299	247	344	359	359	373	1,080	1,435
Other Income	55	-355	106	484	280	53	60	79	349	471
<b>PBT before EO Expense</b>	<b>853</b>	<b>1,559</b>	<b>2,008</b>	<b>2,371</b>	<b>1,572</b>	<b>1,773</b>	<b>2,149</b>	<b>2,458</b>	<b>6,788</b>	<b>7,952</b>
Extra-Ord Expense	0	0	226	0	0	0	0	0	226	0
<b>PBT after EO Expense</b>	<b>853</b>	<b>1,559</b>	<b>1,782</b>	<b>2,371</b>	<b>1,572</b>	<b>1,773</b>	<b>2,149</b>	<b>2,458</b>	<b>6,562</b>	<b>7,952</b>
Tax	135	336	378	512	314	355	430	492	1,361	1,590
Rate (%)	15.8	21.6	21.2	21.6	20.0	20.0	20.0	20.0	20.7	20.0
<b>Reported PAT</b>	<b>718</b>	<b>1,223</b>	<b>1,404</b>	<b>1,859</b>	<b>1,257</b>	<b>1,419</b>	<b>1,719</b>	<b>1,966</b>	<b>5,201</b>	<b>6,362</b>
Minority Interest	4	12	11	26	12	16	15	17	53	60
<b>Adj PAT after Minority Int.</b>	<b>714</b>	<b>1,211</b>	<b>1,571</b>	<b>1,833</b>	<b>1,245</b>	<b>1,403</b>	<b>1,704</b>	<b>1,950</b>	<b>5,327</b>	<b>6,302</b>
YoY Change (%)	0.8	19.5	753.8	513.7	74.4	15.8	8.5	6.4	146.1	18.3
Margins (%)	5.5	8.3	9.8	10.3	8.1	8.0	9.4	10.0	8.7	8.9

E: MOST Estimates; # includes upsides from FTF products.

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<http://deadpresident.blogspot.com> Shasun Chemicals

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SSCD IN
	REUTERS CODE
S&P CNX: 3,634	SHAS.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs98

Equity Shares (m)	48.1
52-Week Range	136/60
1,6,12 Rel. Perf. (%)	-8/13/-15
M.Cap. (Rs b)	4.7
M.Cap. (US\$ b)	0.1

YEAR END*	NET SALES* (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	7,979	-109	-2.3	N.A.	-	2.3	18.9	16.1	1.4	8.1
03/08E	9,749	585	12.2	N.A.	8.1	1.9	23.8	21.0	1.1	5.5
03/09E	10,841	838	17.4	43.3	5.6	1.6	24.6	23.4	0.9	4.1

\* Consolidated

- Shasun (stand-alone) is expected to report 37% YoY growth in revenues to Rs1.4b in 4QFY07, driven by strong growth in CRAMS and steady performance in older products. Our quarterly estimates do not include financials of Rhodia's custom manufacturing business, which Shasun acquired in January 2006. This business is likely to record revenues of about GBP10-11m for the quarter led by increased order-flow from some customers.
- EBITDA margins are expected to decline by 470bp to 18.3% due to higher material and other expenditure. Also, higher depreciation (up 29%), higher interest cost (up 108%) and lower tax provisioning (at 4% of PBT v/s 19.4% in 4QFY06) would result in a 6.3% decline in PAT at Rs123m.
- We believe that the Rhodia acquisition would aid transformation of Shasun's operations in favor of CRAMS business. This, along with commercialization of the company's generic pipeline would result in gradual improvement in EBITDA margins in the medium term. However, the consolidated performance for FY07E will be significantly impacted due to the losses of the acquired company. At 8.1x FY08E consolidated EPS, we believe valuations are reasonable. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>750</b>	<b>844</b>	<b>993</b>	<b>991</b>	<b>955</b>	<b>1,030</b>	<b>982</b>	<b>1,357</b>	<b>3,578</b>	<b>4,324</b>
YoY Change (%)	14.3	2.8	31.0	-4.3	27.3	22.0	-1.1	36.9	9.4	20.8
Total Expenditure	628	698	789	764	809	864	805	1,109	2,880	3,587
<b>EBITDA</b>	<b>122</b>	<b>146</b>	<b>203</b>	<b>228</b>	<b>146</b>	<b>166</b>	<b>176</b>	<b>249</b>	<b>698</b>	<b>737</b>
Margins (%)	16.2	17.3	20.5	23.0	15.3	16.1	18.0	18.3	19.5	17.0
Depreciation	52	58	61	60	67	66	67	78	231	277
Interest	13	13	13	11	11	15	16	22	49	64
Other Income	2	3	2	6	3	5	12	3	13	22
<b>PBT</b>	<b>59</b>	<b>78</b>	<b>132</b>	<b>163</b>	<b>71</b>	<b>89</b>	<b>105</b>	<b>152</b>	<b>431</b>	<b>417</b>
Tax	17	15	4	28	15	14	1	23	63	54
Deferred Tax	-1	1	-1	4	-6	-3	3	6	3	0
Rate (%)	27.3	20.3	2.0	19.4	13.2	13.1	4.0	19.0	15.3	13.0
<b>PAT</b>	<b>43</b>	<b>62</b>	<b>129</b>	<b>132</b>	<b>62</b>	<b>78</b>	<b>100</b>	<b>123</b>	<b>365</b>	<b>363</b>
YoY Change (%)	8.7	8.6	43.2	6.0	44.8	25.5	-22.2	-6.3	17.6	-0.6
Margins (%)	5.7	7.3	13.0	13.3	6.5	7.5	10.2	9.1	10.2	8.4

E: MOST Estimates

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Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,455	SUNP IN
	REUTERS CODE
S&P CNX: 3,634	SUN.BO

2 April 2007

Buy

Rs1,043

Previous Recommendation: Buy

Equity Shares (m)	185.7
52-Week Range	1,082/640
1,6,12 Rel. Perf. (%)	11/11/13
M.Cap. (Rs b)	193.7
M.Cap. (US\$ b)	4.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	20,664	7,364	35.6	28.5	29.3	8.9	39.0	22.0	9.1	26.9
03/08E	25,060	8,788	42.4	19.3	24.6	7.3	36.3	23.7	7.3	21.8
03/09E	30,661	10,750	51.9	22.3	20.1	5.5	34.8	24.7	5.8	17.6

- ☞ Sun's 4QFY07 revenues are expected to grow by 31% YoY to Rs5.2b, driven by 34% YoY growth in international sales and 25% growth in domestic sales.
- ☞ EBITDA margins are expected to improve by 730bp to 31.7%, on the low base of last year, which was impacted by one-time acquisition related expenses. However, higher depreciation (up by 32%) and lower other income (down by 39%), would restrict PAT growth to 18% to Rs1.7b.
- ☞ The de-merged R&D entity of SPIL, SPARC is currently working on 4 NCE and 12 NDDS products, with earliest launch expected in 2009 for a NDDS product. Our preliminary valuations at 7x cash and 10x annual expenses imply that SPARC's NCE & NDDS pipeline will be valued at about US\$225- US\$315m (Rs50-Rs65/share). Our estimates do not include upsides from any potential outlicensing agreement.
- ☞ Valuations at 29.3x FY07E and 24.6x FY08E fully diluted EPS, do not fully factor in the value that Sun could add by using its strong cash chest (US\$500m) for acquisitions and ramping up its overseas business as well as the contribution from the acquired businesses. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Revenues</b>	<b>3,784</b>	<b>4,112</b>	<b>4,236</b>	<b>3,966</b>	<b>4,987</b>	<b>5,229</b>	<b>5,263</b>	<b>5,184</b>	<b>15,932</b>	<b>20,664</b>
YoY Change (%)	35.7	43.2	35.0	36.2	31.8	27.2	24.2	30.7	36.5	29.7
<b>EBITDA</b>	<b>1,281</b>	<b>1,415</b>	<b>1,476</b>	<b>969</b>	<b>1,811</b>	<b>1,708</b>	<b>1,733</b>	<b>1,642</b>	<b>4,975</b>	<b>6,957</b>
Margins (%)	33.9	34.4	34.8	24.4	36.3	32.7	32.9	31.7	31.2	33.7
Depreciation	119	130	177	189	202	204	212	250	615	867
Net Other Income	284	193	268	697	274	402	636	424	1,608	1,735
<b>PBT</b>	<b>1,446</b>	<b>1,478</b>	<b>1,567</b>	<b>1,477</b>	<b>1,883</b>	<b>1,906</b>	<b>2,157</b>	<b>1,816</b>	<b>5,969</b>	<b>7,825</b>
Tax	33	23	70	113	2	-22	-29	-29	239	-78
Rate (%)	2.3	1.5	4.5	7.7	0.1	-1.1	-1.3	-1.6	4.0	-1.0
<b>Profit after Tax</b>	<b>1,413</b>	<b>1,455</b>	<b>1,497</b>	<b>1,364</b>	<b>1,882</b>	<b>1,928</b>	<b>2,186</b>	<b>1,845</b>	<b>5,729</b>	<b>7,903</b>
Share of Minority Partner	52	-23	33	-65	115	64	198	163	-3	539
<b>Adj Net Profit</b>	<b>1,361</b>	<b>1,478</b>	<b>1,464</b>	<b>1,429</b>	<b>1,767</b>	<b>1,864</b>	<b>1,989</b>	<b>1,682</b>	<b>5,732</b>	<b>7,364</b>
YoY Change (%)	53.9	48.0	36.8	20.8	29.9	26.1	35.8	17.7	44.7	28.5
Margins (%)	36.0	36.0	34.6	36.0	35.4	35.6	37.8	32.4	36.0	35.6

E: MOST Estimates; Quarterly results have been recasted and hence do not tally with full year results



<http://deadpresident.blogspot.com> Wockhardt

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	WOCK IN
	REUTERS CODE
S&P CNX: 3,634	WCKH.BO

2 April 2007

Under Review

Previous Recommendation: Under Review

Rs378

Equity Shares (m)	109.3
52-Week Range	554/318
1,6,12 Rel. Perf. (%)	5/-8/-35
M.Cap. (Rs b)	41.3
M.Cap. (US\$ b)	1.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	17,288	2,664	22.3	3.6	17.0	4.2	29.4	15.9	2.4	10.2
12/07E	23,062	3,018	25.3	13.3	15.0	3.3	27.0	15.0	1.7	7.7
12/08E	26,107	3,729	31.2	23.6	12.1	2.7	27.0	14.8	1.4	6.6

\* Fully diluted EPS

- Wockhardt's 1QCY07 revenues are expected to grow by 44% YoY to Rs5b, driven by higher growth in both the domestic and US businesses (albeit on a low base), and consolidation of Pinewood and Dumex acquisition.
- EBITDA margins are expected to improve by 150bp YoY to 21.1%, due to higher contribution from regulated markets (at 57.7% of sales v/s 49.1% in 1QCY06). While the company has commenced capitalizing a part of its R&D expenses beginning 3QCY06, we continue to expense R&D costs fully. Higher depreciation (linked to commissioning of new biotech facilities) and higher interest costs (linked to acquisition of Pinewood) will restrict adjusted PAT growth to 8.1% YoY at Rs587m.
- We are upgrading our earnings estimate for CY07E by 21.4% and CY08E by 26.2%, to factor in consolidation of Pinewood acquisition and for higher growth in domestic business. The company has recently guided revenues of over US\$500m and PAT margins at 16-18% for CY07E.
- Wockhardt still has to display the ability to fully leverage its assets and scale up substantially in regulated markets, for a further re-rating in its valuation multiples. We view the company's policy of capitalization of generic products development costs as a negative. Wockhardt is currently valued at 15x CY07E and 12.1x CY08E consolidated earnings. Our recommendation is currently **Under Review**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E DECEMBER	CY06				CY07E				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Gross Sales</b>	<b>3,510</b>	<b>4,127</b>	<b>4,377</b>	<b>5,265</b>	<b>5,051</b>	<b>5,643</b>	<b>6,111</b>	<b>6,256</b>	<b>17,288</b>	<b>23,062</b>
YoY Change (%)	13.4	9.5	21.8	43.9	43.9	36.7	39.6	18.8	22.4	33.4
Total Expenditure	2,821	3,230	3,406	4,043	3,986	4,423	4,703	4,905	13,287	18,016
<b>EBITDA</b>	<b>689</b>	<b>897</b>	<b>971</b>	<b>1,222</b>	<b>1,066</b>	<b>1,221</b>	<b>1,408</b>	<b>1,351</b>	<b>4,001</b>	<b>5,046</b>
Margins (%)	19.6	21.7	22.2	23.2	21.1	21.6	23.0	21.6	23.1	21.9
Depreciation	137	140	141	212	215	215	210	214	621	854
Interest	-77	-6	-5	115	70	70	30	42	26	212
Other Income	33	18	61	78	33	18	61	38	190	150
<b>PBT before EO Items</b>	<b>662</b>	<b>781</b>	<b>896</b>	<b>973</b>	<b>814</b>	<b>954</b>	<b>1,229</b>	<b>1,133</b>	<b>3,544</b>	<b>4,129</b>
EO Income	-604	0	0	0	0	0	0	0	-604	0
<b>PBT after EO Items</b>	<b>58</b>	<b>781</b>	<b>896</b>	<b>973</b>	<b>814</b>	<b>954</b>	<b>1,229</b>	<b>1,133</b>	<b>2,940</b>	<b>4,129</b>
Tax	95	147	156	101	135	155	225	228	529	743
Rate (%)	163.8	18.8	17.4	10.4	16.6	16.3	18.3	20.2	18.0	18.0
<b>Reported PAT</b>	<b>-37</b>	<b>634</b>	<b>740</b>	<b>872</b>	<b>679</b>	<b>799</b>	<b>1,004</b>	<b>904</b>	<b>2,411</b>	<b>3,386</b>
R&D Capitalized	0	0	170	164	150	150	150	150	570	600
<b>Adjusted PAT</b>	<b>543</b>	<b>634</b>	<b>636</b>	<b>771</b>	<b>587</b>	<b>707</b>	<b>912</b>	<b>812</b>	<b>2,556</b>	<b>3,018</b>
YoY Change (%)	30.2	-18.3	-2.4	5.7	8.1	11.5	43.5	5.3	-0.6	18.1
Margins (%)	-1.1	15.4	16.9	16.6	13.4	14.2	16.4	14.5	13.9	14.7

E: MOST Estimates; Quarterly numbers don't add up to annual numbers due to re-classification

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<http://deadpresident.blogspot.com> **Retailing**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
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Titan Industries	226

Retail sector continues to make rapid strides with Bharti announcing plans for its retail foray. The sector continued to be in the limelight with news of a possible tie-up between big players such as Carrefour and Reliance and also news on Dabur announcing plans to set up a chain of health and beauty stores. New formats and realignment of existing stores continued as existing players tried to capture more and more share of consumers' wallets. The imposition of a service tax on lease rentals paid by the retailers in the recent budget was a big dampener for the fast growing retail sector. The increasing operating costs due to rising manpower and rental costs could be a concern for retailing companies going forward. However 'same store' sales growth continues to be strong due to the rub-off effect of the ongoing economic boom. Consumers continued to flock to shopping malls in search of style and value. Long term prospects appear encouraging despite rising competition and cost pressures. Next couple of years will distinguish between leaders and laggards.

### Budget announcements – sentiment dampener

The recent Union Budget FY2007-2008 has brought lease rentals paid by retail companies under the 12% service net. This is expected to increase lease rentals by 9-10%. This will translate into either (a) lower margins for the retail chain; or (b) lower discounts to consumers. Companies such as Reliance Retail will be big beneficiaries, as they plan to own a large part of the real estate on which their retail stores will stand. Since most of the other players like Shopper's Stop, Pantaloon and Titan have leased models we do not rule out a change in strategy of the stated companies to expand owned retail stores.

### Strong growth in 'same store' sales continues

Retail companies continued to post double-digit 'same store' sales growth. Impact of strong economic growth is clearly visible in rising footfalls and conversion rates. Retail companies are also witnessing consumer upgrades across products and segments. Our industry interaction reveals that the consumer response is extremely good across all segments be it departmental stores, hypermart or specialty retailers. We also observed the growing tendency of consumer companies to launch their premium products through organized retail.

#### EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Retailing</b>							
Pantaloon Retail	Buy	8,750	92.1	725	88.3	278	71.2
Shopper's Stop	Neutral	2,299	40.7	208	75.3	82	33.5
Titan Industries	Neutral	5,279	24.8	463	-13.8	251	-40.2
<b>Sector Aggregate</b>		<b>16,328</b>	<b>56.7</b>	<b>1,397</b>	<b>34.2</b>	<b>611</b>	<b>-5.0</b>

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### **Operating costs continue to rise sharply**

- ✍ Quality human resources are a key issue as companies are facing higher attrition rates on the shop floor and senior management levels. Salaries at higher levels are rapidly increasing. We estimate the increase in manpower costs at more than 25%. While companies such as Shopper's Stop have been able to neutralize the impact of wage increase by strong 'same sales' growth, Pantaloon Retail has started feeling the impact of the same due to delay in completion of properties and faster recruitment of people due to aggressive store opening plans.
- ✍ Lease rentals have been on a rise for some time now. Further, with the additional service tax being imposed on lease rents, we expect lease rentals to move up even more. Earnings of key retailing companies like Pantaloon and Shopper's Stop would take a hit by 9-11% in FY08 and FY09 if the companies absorb the entire service tax impact.
- ✍ Strengthening of supply chain and back-end infrastructure will also result in increase in other operating costs in the immediate term; although we expect the ensuing benefits to neutralize the cost impact over a period of time.

### **Big ticket announcements by new entrants in the sector**

According to Cris Infac, organized retailing in India is expected to be in the high-growth trajectory and is expected to grow by 27% p.a. over the next five years. The total organized retail size was at around Rs530b in FY06 and is expected to increase to Rs1,797b in FY11. Consequently, the retail sector continues to attract the interest of large domestic houses as well as global retailers. Bharti Enterprises announced its tie-up with Walmart to enter the retail sector. The joint venture will entail initial investment of around US\$100m, which could touch US\$1.4b as they scale up. The Aditya Birla group is in the process of investing US\$3.5b in the next 3-4 years to open more than 6,000 retail outlets. The group is aiming to achieve 50% of its revenues from the food and grocery segment. According to speculation, the group is also scouting for a tie-up with a foreign retailer.

Dabur too announced its plans to set up a chain of health and beauty stores across the country with an investment of Rs1.4b over the next three years. Dabur would roll out its first few stores by the end of the current year and plans to set up more than 350 stores in the next five years.

Reliance is rapidly making strides, has already opened 70 stores. The company is rumoured to acquire a stake in the world's second largest retailer – Carrefour. Carrefour has been interested in gaining a footprint in the Indian marketplace and is scouting for the right partner. It is looking at India and then Russia as the next attractive market. The promoters, the Halley family, might be looking at a strategic sale of 13.03% stake in the company. We believe that the acquisition would help Reliance source non-food items and gain technical knowhow of the supply chain and sourcing techniques of Carrefour.

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### Increasing importance of a strong supply chain management

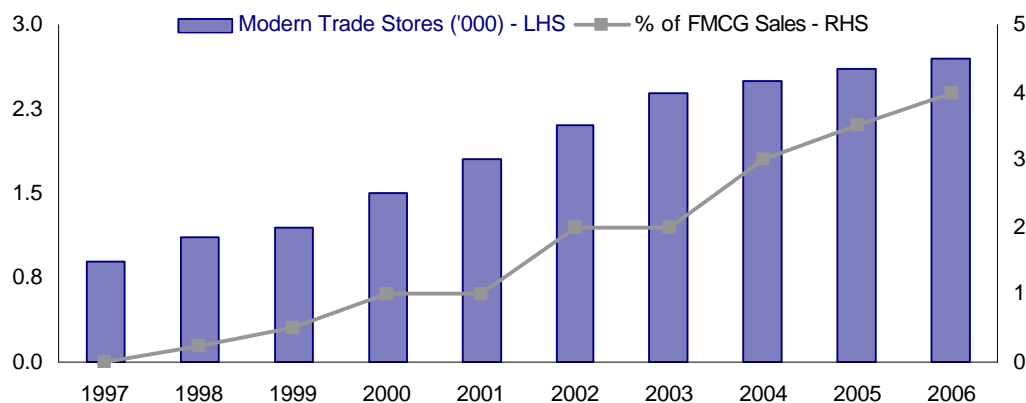
In the wake of rising competition, it is becoming difficult for players to increase end prices. In such a scenario, the player who is able to integrate backwards and squeeze higher margins will be the winner given wafer-thin margins in the food and grocery business. Reliance, through Reliance Logistics and Pantaloon, via Future Logistics, plans to expand its distribution network through rail, road, cold chains and warehouses in order to cut costs and enhance efficiencies in the business. The Bharti-Walmart joint venture is already on the look out for land to set up warehouses. Changes in the APMC act has provided the companies with enough elbow room to undertake bulk sourcing until the last mile, which will ensure quality and reduce costs. We expect this area to witness heightened activity with ITC, Reliance, Godrej and Bharti nursing aggressive plans.

### Organized retail – growing recognition from consumer companies

FMCG majors have clearly identified organized retail as a separate distribution segment with dedicated teams. Modern trade is fast gaining market share in the sale of FMCG products. It accounts for 10% of sales in the metros, 20% in southern India and 4% for the entire FMCG sector. Our interaction with the leading FMCG and retail companies indicates that the share of modern trade is likely to significantly increase in the coming years. Both retailers and FMCG companies appear willing to realize the importance of working together in the long term due to following benefits:

- ✍ Market share and sales mix of leading FMCG companies is higher in organized retail than the traditional distribution system.
- ✍ Modern trade does not have low-priced sachets and there is a tilt toward premium products, which improves the margin profile of companies
- ✍ FMCG companies are showing a willingness to share the savings in logistics and distribution costs with retailers.
- ✍ FMCG companies expect the processed food sector to take off in a major way as drawbacks related to poor infrastructure and cold chains are addressed.

TREND IN MODERN TRADES STORES



Source: HLL/ Motilal Oswal Securities

<http://deadpresident.blogspot.com>

#### **Valuation and view**

While we have good visibility for the existing retailers on the sales front, the same is perhaps not true for profit margins, particularly in the hypermart and grocery store formats. We expect specialty stores to flourish due to committed customers and strong brand recall. We believe that the competitive landscape will undergo a big change due to entry of players such as Reliance, Bharti and the A.V. Birla group. We expect industry focus to shift to cost efficiencies and improved value for consumers.

Despite expected increase in competition we believe that the companies which have a strong headstart will continue to thrive in the foreseeable future. Past history of the evolution of retail stocks in developed countries reveals that the sector enjoys premium valuations in its development stage, a situation which is prevailing in India currently. We maintain a positive view on the sector with **Pantaloon Retail** as our top pick.

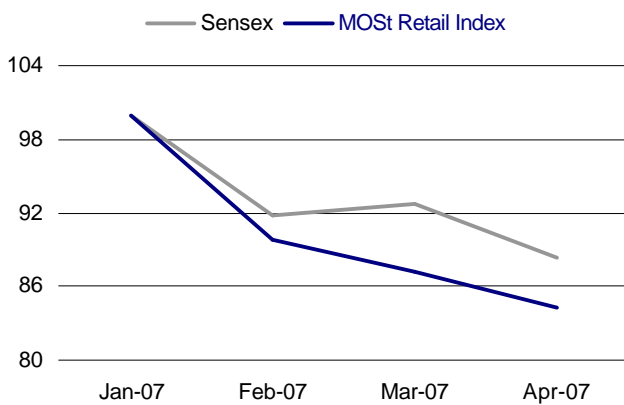
<http://deadpresident.blogspot.com>

## Stock performance and valuations

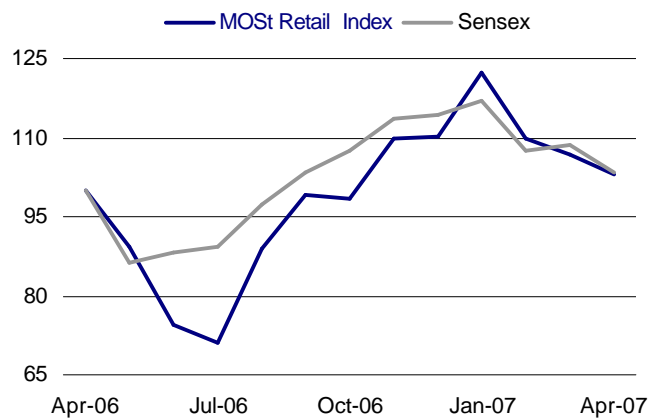
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Retailing</b>						
Pantaloon Retail	-10	-6	0	-13	-1	-6
Shopper's Stop	-12	12	-1	4	-2	11
Titan Industries	-7	-3	4	-11	3	-3

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Retailing</b>	2.4.07													
Pantaloon Retail	378	Buy	6.9	9.2	13.8	54.7	41.3	27.5	24.0	17.7	13.2	14.3	13.5	17.2
Shopper's Stop	615	Neutral	10.4	12.8	18.0	59.2	47.9	34.2	28.7	22.7	16.7	12.7	14.4	18.2
Titan Industries	815	Neutral	21.6	34.0	49.4	37.7	24.0	16.5	19.7	13.8	10.3	35.0	31.8	33.6
<b>Sector Aggregate</b>						<b>47.4</b>	<b>32.9</b>	<b>22.4</b>	<b>23.1</b>	<b>17.0</b>	<b>12.7</b>	<b>18.6</b>	<b>18.7</b>	<b>22.4</b>

<http://deadpresident.blogspot.com> **Pantaloon Retail**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	PF IN
	REUTERS CODE
S&P CNX: 3,634	PART.BO
Equity Shares (m)	134.4
52-Week Range	527/216
1,6,12 Rel. Perf. (%)	-7/1/-13
M.Cap. (Rs b)	50.8
M.Cap. (US\$ b)	1.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs378

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
06/07E	32,969	928	6.9	44.6	54.7	8.4	14.3	12.8	1.8	23.7
06/08E	55,889	1,299	9.2	32.6	41.3	5.5	13.5	12.62	1.1	14.2
06/09E	86,065	1,948	13.8	50.4	27.5	4.7	17.2	13.7	0.8	12.7

\* Diluted equity after rights issue

- ✍ Pantaloon's revenues are expected to grow 75.7% YoY in 3QFY07 with value retailing driving growth in the quarter.
- ✍ The company is expected to report encouraging numbers as discount period in January/February has been positive for sales growth momentum.
- ✍ EBITDA margins are expected to decline by 10bp YoY, PAT is expected at Rs265m, a growth of 63.2% YoY buoyed by strong growth in revenues.
- ✍ Pantaloon is expected to witness acceleration in store opening in the coming few months. Pantaloons Chennai, Kolkata opened in March 2007, another five are expected in April 2007. Twelve Food Bazaars and seven Big Bazaars and company's first Home Town store in Noida is expected to commence operations in April 2007.
- ✍ Pantaloon continues to explore new initiatives to capture more and more share of the consumers' wallet. New formats like Furniture Bazaar, E-Zone, and Home Town are fast scaling up their store launches.
- ✍ The stock is currently trading at 54.7x FY07E EPS, 41.3x FY08E EPS and 27.5x FY09E EPS. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Sales</b>	<b>3,648</b>	<b>4,720</b>	<b>4,554</b>	<b>5,752</b>	<b>6,034</b>	<b>7,527</b>	<b>8,750</b>	<b>10,659</b>	<b>18,678</b>	<b>32,969</b>
YoY Change (%)	81.4	81.4	98.0	65.6	65.4	59.5	92.1	85.3	77.4	76.5
Total Exp	3,368	4,341	4,169	5,379	5,618	6,957	8,025	9,851	17,257	30,451
<b>EBITDA</b>	<b>280</b>	<b>379</b>	<b>385</b>	<b>373</b>	<b>415</b>	<b>570</b>	<b>725</b>	<b>808</b>	<b>1,420</b>	<b>2,518</b>
Margins (%)	7.7	8.0	8.5	6.5	6.9	7.6	8.3	7.6	7.6	7.6
Depreciation	-38	-46	-59	-66	-67	-82	-110	-138	-208	-397
Interest	-57	-79	-101	-98	-125	-207	-215	-246	-335	-793
Other Income	7	4	5	30	17	5	15	20	42	57
<b>PBT</b>	<b>192</b>	<b>258</b>	<b>230</b>	<b>239</b>	<b>241</b>	<b>286</b>	<b>415</b>	<b>443</b>	<b>919</b>	<b>1,385</b>
Tax	-57	-72	-68	-80	-79	-94	-137	-147	-277	-457
Rate (%)	29.7	28.0	27.0	33.6	32.7	33.0	33.0	33.2	30.2	33.0
<b>Adjusted PAT</b>	<b>135</b>	<b>186</b>	<b>162</b>	<b>158</b>	<b>162</b>	<b>191</b>	<b>278</b>	<b>296</b>	<b>642</b>	<b>928</b>
YoY Change (%)	95.0	83.0	52.0	43.5	19.6	3.1	71.2	87.1	65.4	44.6
Exceptional Income	0	0	0	0	224	249	0	12	0	361
<b>Repoorted PAT</b>	<b>135</b>	<b>186</b>	<b>162</b>	<b>158</b>	<b>386</b>	<b>440</b>	<b>278</b>	<b>308</b>	<b>642</b>	<b>1,289</b>
YoY Change (%)					185.7	137.2	71.2	94.7	65.4	100.9

E: MOST Estimates



<http://deadpresident.blogspot.com> Shopper's Stop

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	SHOP IN
	REUTERS CODE
S&P CNX: 3,634	SHOP.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs615

Equity Shares (m)	34.4
52-Week Range	777/370
1,6,12 Rel. Perf. (%)	3/8/4
M.Cap. (Rs b)	21.2
M.Cap. (US\$ b)	0.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	8,430	358	10.4	47.6	59.2	7.5	12.7	15.8	2.5	28.5
03/08E	12,319	442	12.8	23.5	47.9	6.9	14.4	18.3	1.8	22.5
03/09E	17,010	619	18.0	40.2	34.2	6.2	18.2	20.4	1.3	16.6

- Shopper's Stop is expected to report revenues of Rs2.3b in 4QFY07, an increase of 40.7%, driven by strong 'same store' sales growth in existing stores.
- EBITDA margins are expected at 9.1% for 4QFY07, an increase of 180bp due to the rising share of private labels and strong 'same store' growth.
- Adjusted PAT at Rs82m is expected to increase by 33.5% during 4QFY07 on a YoY basis.
- The company has been able to increase margins during the first nine months of the current year, as delay in store openings and more than 15% 'same store' sales growth boosted margins. The company hopes to increase the number of Shopper's Stop stores to around 30 in 12 months. We expect margins to come under pressure after the store openings, as the new stores will take at least 12-18 months to break even.
- We expect the company to dilute some equity in CY07-08 to fund growth plans beyond 2007. The stock is currently trading at 59.2x FY07E EPS, 47.9x FY08E and 34.2x FY09E EPS. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>1,274</b>	<b>1,515</b>	<b>1,925</b>	<b>1,635</b>	<b>1,720</b>	<b>2,013</b>	<b>2,398</b>	<b>2,299</b>	<b>6,345</b>	<b>8,430</b>
YoY Change (%)	47.1	40.0	42.0	43.3	35.0	32.9	24.6	40.7	45.2	32.9
Total Exp	1,193	1,425	1,728	1,516	1,600	1,852	2,150	2,091	5,858	7,693
<b>EBITDA</b>	<b>81</b>	<b>90</b>	<b>197</b>	<b>119</b>	<b>119</b>	<b>162</b>	<b>248</b>	<b>208</b>	<b>487</b>	<b>737</b>
Margins (%)	6.4	6.0	10.2	7.3	6.9	8.0	10.3	9.1	7.7	8.7
Depreciation	-40	-47	-38	-41	-41	-55	-43	-68	-166	-207
Interest	-7	-5	-7	-8	-9	-11	-11	-22	-28	-53
Other Income	10	17	22	29	25	31	37	16	78	109
<b>PBT</b>	<b>44</b>	<b>55</b>	<b>173</b>	<b>99</b>	<b>95</b>	<b>126</b>	<b>231</b>	<b>134</b>	<b>371</b>	<b>586</b>
Tax	-16	-23	-56	-37	-41	-46	-90	-52	-133	-229
Rate (%)	37.2	41.4	32.3	37.9	43.0	36.4	38.8	39.0	35.7	39.0
<b>PAT</b>	<b>28</b>	<b>32</b>	<b>117</b>	<b>61</b>	<b>54</b>	<b>80</b>	<b>142</b>	<b>82</b>	<b>238</b>	<b>358</b>
YoY Change (%)	-8.2	127.4	18.0	35.2	95.8	148.0	21.0	33.5	-95.7	50.1
Minority Interest	5	0	0	0	0	0	0	0	5	0
<b>Reported PAT</b>	<b>32</b>	<b>32</b>	<b>117</b>	<b>61</b>	<b>54</b>	<b>80</b>	<b>142</b>	<b>82</b>	<b>243</b>	<b>358</b>

E: MOSt Estimates

<http://deadpresident.blogspot.com> Titan Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TTAN IN
	REUTERS CODE
S&P CNX: 3,634	TITN.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs815

Equity Shares (m)	42.3
52-Week Range	1,053/486
1,6,12 Rel. Perf. (%)	-2/1/-11
M.Cap. (Rs b)	34.4
M.Cap. (US\$ b)	0.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07E	20,216	959	21.6	-11.9	37.7	14.8	35.0	26.5	1.8	19.7
03/08E	24,288	1,510	34.0	57.5	24.0	12.6	31.8	34.9	1.4	13.8
03/09E	28,858	2,195	49.4	45.4	16.5	5.3	33.6	39.5	1.2	10.3

- ✗ We expect Titan to register a 24.8% growth in revenues to Rs5.27b. The Watch division is likely to be impacted owing to sales mix changed in favor of low-margin Sonata watches.
- ✗ EBITDA margins are likely to dip from 12.7% to 8.8% due to rising store operating expenses and overheads on the new *World of Titan* and *Gold Plus* stores, despite margin expansion in jewellery business.
- ✗ We expect adjusted PAT to decline by 40.2% to Rs251m on account of higher depreciation and taxes.
- ✗ The stock is currently trading at 24x FY08E and 16.5x FY09E. We expect medium term profitability to take a hit due to expected commissioning of 85 Titan stores in the coming 12 months. We maintain our **Neutral** rating on the stock.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>2,862</b>	<b>3,539</b>	<b>3,703</b>	<b>4,231</b>	<b>4,410</b>	<b>5,235</b>	<b>5,291</b>	<b>5,279</b>	<b>14,402</b>	<b>20,216</b>
YoY Change (%)	42.9	29.7	25.8	33.1	54.1	47.9	42.9	24.8	31.3	40.4
Total Exp	2,709	2,988	3,405	3,693	4,245	4,690	4,711	4,815	12,794	18,461
<b>EBITDA</b>	<b>153</b>	<b>551</b>	<b>299</b>	<b>537</b>	<b>165</b>	<b>546</b>	<b>581</b>	<b>463</b>	<b>1,608</b>	<b>1,755</b>
Margins (%)	5.3	15.6	8.1	12.7	3.7	10.4	11.0	8.8	11.2	8.7
Depreciation	-49	-48	-49	-52	-49	-66	-70	-82	-197	-266
Interest	-58	-60	-73	-58	-49	-43	-47	-38	-248	-177
Other Income	5	6	4	10	14	5	9	10	24	39
<b>PBT</b>	<b>51</b>	<b>449</b>	<b>181</b>	<b>438</b>	<b>81</b>	<b>442</b>	<b>473</b>	<b>354</b>	<b>1,187</b>	<b>1,350</b>
Tax	24	-81	-48	-19	-12	-100	-177	-103	-133	-392
Rate (%)	-46.3	18.0	26.5	4.3	14.4	22.6	37.4	29.1	11.2	29.0
<b>PAT</b>	<b>75</b>	<b>368</b>	<b>133</b>	<b>419</b>	<b>70</b>	<b>342</b>	<b>296</b>	<b>251</b>	<b>1,054</b>	<b>959</b>
YoY Change (%)	230.1	187.1	15.6	7.7	-7.4	-7.1	122.9	-40.2	75.8	-9.1
Extraordinary Items	-25	-162	-25	-48	-29	-21	-21	-21	-250	-91
<b>Reported PAT</b>	<b>50</b>	<b>206</b>	<b>108</b>	<b>371</b>	<b>41</b>	<b>322</b>	<b>275</b>	<b>230</b>	<b>804</b>	<b>868</b>

E: MOST Estimates

<http://deadpresident.blogspot.com> **Telecom**

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

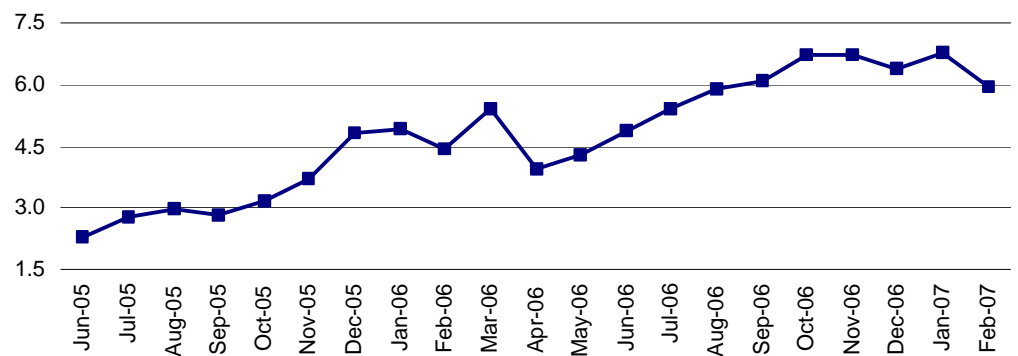
COMPANY NAME	PG.
Bharti Airtel	231
Reliance Communication	232
VSNL	233

The wireless industry continued its momentum of strong subscriber additions. We expect the industry to add 19m subscribers in the quarter ended March 2007 compared with 19.7m subscribers added in the quarter ended December 2006. Subscriber additions continue to be driven by the A and B circles.

**STRONG MARKET SHARE (%)**

	SEP-06	OCT-06	NOV-06	DEC-06	JAN-07	FEB-07
<b>Market Share</b>						
Metros	21.9	21.4	20.8	20.5	20.2	20.0
A-Circle	35.8	35.9	36.0	35.8	35.9	35.6
B-Circle	33.8	34.2	34.5	34.8	35.0	35.2
C-Circle	8.5	8.6	8.7	8.9	9.0	9.2
<b>Incremental Market Share</b>						
Metros	13.4	11.3	9.7	14.0	12.7	15.5
A-Circle	39.4	37.7	38.2	32.4	37.0	28.7
B-Circle	37.0	40.3	40.5	41.6	39.0	41.1
C-Circle	10.3	10.6	11.7	11.9	11.3	14.6

Source: Company/Motilal Oswal Securities

**MOM NET ADDITIONS**

Source: Company/Motilal Oswal Securities

**EXPECTED QUARTERLY PERFORMANCE SUMMARY**

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Telecom</b>							
Bharti Airtel	Buy	55,541	62.8	22,589	76.7	12,801	87.6
Reliance Comm	Buy	41,223	38.8	16,681	60.1	9,172	127.7
VSNL	Neutral	10,957	14.2	2,650	13.8	1,244	11.6
<b>Sector Aggregate</b>		<b>107,721</b>	<b>46.7</b>	<b>41,920</b>	<b>64.2</b>	<b>23,217</b>	<b>94.0</b>

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### **Subscriber verification, lesser days in Feb cause a blip**

In February 2007, GSM additions were down 3.8 % MoM as most large players excluding BSNL reported lower additions. GSM additions were 10% lower MoM in February 2006 also. The deadline of 31 March for verification of prepaid subscriber base and lower number of days in February are likely to be the reasons behind this. However, we think the lower growth in February is a temporary blip and momentum in India's wireless story is intact.

% OF SUBSCRIBER BASE VERIFIED (AS OF 2ND MARCH 2007)

Bharti Airtel	90
Hutch Essar	96
Idea	94
RCOM Gsm	94
Rcom CDMA	70
Spice	79
BSNL	58
MTNL	28

\* BSNL figures are as of 16th February 2007

### **Vodafone acquisition of Hutch Essar**

Vodafone has agreed to acquire a controlling interest (67%) in Hutchison Essar Limited via its subsidiary Vodafone International Holdings BV for a cash consideration of US\$11.1b. The transaction implies an enterprise value of US\$18.8 b for Hutch Essar. Vodafone will assume gross debt of approximately US\$2.2b.

#### **1) No immediate impact on industry**

Acquisition of HTIL's stake in Hutch Essar will give Vodafone direct access to Indian markets, with majority ownership. We do not see major changes in the competitive landscape if Vodafone enters the Indian wireless industry. We also do not expect Vodafone to adopt a 'price warrior strategy' considering the premium positioning of brand and focus on high ARPU customers. Considering the control premium that Vodafone has paid, it is more likely to focus on profitability post-acquisition, which will be a positive for all industry players. However, as growth begins to slowdown post 2010, the strong balance sheet of Vodafone, its wide bouquet of value added services, and experience in handling mature markets will come into play. This will put pressure on regional players like Spice, Aircel etc. We expect the gap between the top four players and regional players to widen further in the next two years.

#### **2) Positive impact on Bharti**

Vodafone expects to share both new and existing infrastructure with Bharti. It expects over US\$1b in capex savings and 150bp improvement in EBITDA margin over a five year period from the deal. We think Bharti would also stand to gain from the infrastructure sharing deal with Vodafone. Though Vodafone will sell its direct holding, it will retain its 4.4% indirect interest in Bharti, underpinning its ongoing relationship. Also, Vodafone will be routing its incoming ILD traffic with Bharti for the next three years.

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### **Cabinet clears FDI in telecom up to 74%**

The final guidelines for raising the foreign direct investment ceiling in telecommunications to 74% (current ceiling 49%) were approved by the Union Cabinet to allow operators remote access to their telephone networks with a stiff monitoring mechanism in place. The operators have been granted an additional period of three months (up to June 2007) to comply with the regulations pertaining to remote access.

### **ADC Cut from April 2007**

TRAI has announced reduction in the Access Deficit Charges (ADC) w.e.f. 1 April 2007.

#### CHANGES IN ADC

	CURRENT	REVISED
Revenue Sharing (% of AGR)	1.50	0.75
ILD Incoming Calls (Rs/Minute)	1.60	1.00
ILD Outgoing Calls (Rs/Minute)	0.80	0.0

*Source: Company/Motilal Oswal Securities*

Revised ADC will result in the industry making a lower payment of Rs20.5b in FY08E as against Rs33.35b in FY07. We expect reduction in ILD incoming calls will be passed to customers with a lag of 1-2 quarters due to longer period agreements. This would result into higher margins for ILD players in the short term. We believe that VSNL is likely to have relatively higher benefit. Reduction in ADC on outgoing ILD calls are likely to result in considerable reduction in tariff rates and hence could result into higher ILD traffic. However, the impact of same is not likely to be higher for Bharti and Reliance Communication as revenue from outgoing ILD revenues is not a significant portion of consolidated revenues. With respect to tariff in mobility business due to decline in ADC as a percentage of AGR, we believe that tariff reduction will not be material.

### **Valuation and view**

Momentum in subscriber additions continues to be strong driven by falling handset costs, attractive tariffs, and deeper penetration. We do not expect last quarter's stabilization in ARPU to continue due to tariff pressures. Though subscriber additions have been strong during the quarter, the focus is likely to be on ARPU, as roaming rentals will take a hit.

Considering the expected strong growth momentum in the wireless subscriber base over FY08E-FY10E, we continue to remain positive on Bharti and Reliance Communication.

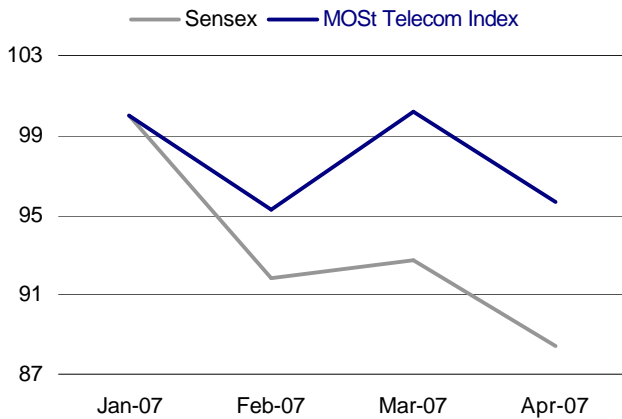
<http://deadpresident.blogspot.com>

## Stock performance and valuations

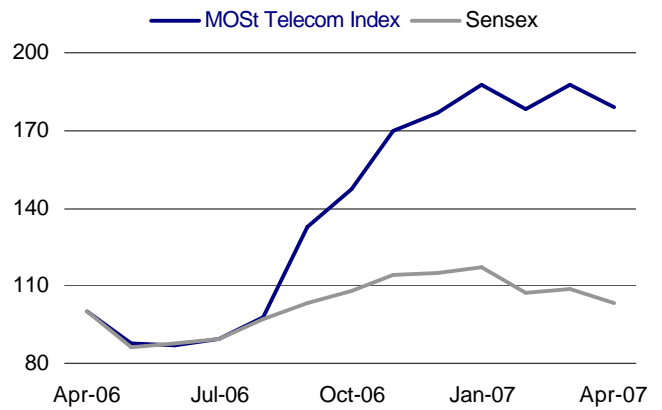
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Telecom</b>						
Bharti Airtel	15	73	26	66	2	13
Reliance Communication	-16	24	-5	16	-29	-37
V S N L	-11	-16	0	-24	-24	-77

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	2.4.07													
<b>Telecommunication</b>														
Bharti Airtel	731	Buy	22.1	32.2	40.1	33.1	22.7	18.2	19.4	12.8	9.6	37.1	37.1	32.6
Reliance Comm.	397	Buy	14.9	22.2	28.2	26.5	17.9	14.1	14.5	9.8	7.3	23.0	26.2	25.7
VSNL	396	Neutral	16.2	16.0	17.8	24.5	24.8	22.2	11.4	9.2	7.8	7.2	7.0	7.4
<b>Sector Aggregate</b>						<b>30.0</b>	<b>20.9</b>	<b>16.7</b>	<b>16.9</b>	<b>11.4</b>	<b>8.6</b>	<b>25.0</b>	<b>27.5</b>	<b>26.4</b>



<http://deadpresident.blogspot.com> **Bharti Airtel**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	BHARTI IN
	REUTERS CODE
S&P CNX: 3,634	BRTL.BO
Equity Shares (m)	1,895.0
52-Week Range	850/310
1,6,12 Rel. Perf. (%)	7/56/66
M.Cap. (Rs b)	1,384.5
M.Cap. (US\$ b)	31.8

2 April 2007

Buy

Rs731

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	186,807	41,841	22.1	85.3	33.1	10.3	37.1	28.1	7.8	19.4
3/08E	273,421	61,032	32.2	45.9	22.7	7.1	37.1	30.8	5.4	12.9
3/09E	347,046	76,043	40.1	24.6	18.2	5.1	32.6	31.1	4.1	9.7

- ✍ We expect overall revenue to grow 13% QoQ, driven by growth in mobility revenues.
- ✍ Overall EBITDA margin is expected to decline marginally by 15bp to 40.7% due to reduction in the roaming tariffs for mobility business.
- ✍ EBITDA margin for mobile telephony business is expected to decline 35bp QoQ. While we expect demand elasticity to compensate for the reduction in roaming rate over 6-9 months, margins could be marginally impacted in the short term.
- ✍ We expect 100bp margin decline in long distance business due to pressure on net retentions. Enterprise business margins are also likely to decline 100bp to 44 % owing to intense competition.
- ✍ Net Profit for the company is expected to grow slower at 5.4% sequentially due to lower forex gain (QoQ) on loan restatement.
- ✍ The stock is currently trading at 22.7x FY08E and 18.2x FY09E earnings. We expect Bharti to consolidate its leadership in the mobility markets, while continuing to invest aggressively. We maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Revenue</b>	<b>25,172</b>	<b>27,090</b>	<b>30,256</b>	<b>34,113</b>	<b>38,564</b>	<b>43,572</b>	<b>49,130</b>	<b>55,541</b>	<b>116,631</b>	<b>186,807</b>
YoY Growth (%)	48.6	46.3	41.9	46.7	53.2	60.8	62.4	62.8	45.7	60.2
QoQ Growth (%)	8.2	7.6	11.7	12.7	13.0	13.0	12.8	13.0		
Access & Interconnect Charges	4,849	4,928	5,571	6,447	6,612	7,190	8,242	9,498	21,795	31,542
<b>Net Revenue</b>	<b>20,323</b>	<b>22,162</b>	<b>24,685</b>	<b>27,666</b>	<b>31,952</b>	<b>36,382</b>	<b>40,888</b>	<b>46,044</b>	<b>94,836</b>	<b>155,266</b>
Total Operating Expenses	10,916	11,951	13,486	14,884	16,930	19,357	20,834	23,455	51,237	80,576
<b>EBITDA</b>	<b>9,407</b>	<b>10,211</b>	<b>11,199</b>	<b>12,782</b>	<b>15,022</b>	<b>17,025</b>	<b>20,054</b>	<b>22,589</b>	<b>43,599</b>	<b>74,690</b>
Margin (%)	37.4	37.7	37.0	37.5	39.0	39.1	40.8	40.7	37.4	40.0
Net Finance Costs	149	845	924	733	1,691	587	-1,317	288	2,651	1,249
Cash Profit from Operations	9,258	9,366	10,275	12,049	13,331	16,438	21,371	22,301	40,948	73,441
Depreciation & Amortization	3,403	3,703	4,026	4,698	4,972	5,926	7,072	7,748	15,830	25,718
<b>Profit before Tax</b>	<b>5,980</b>	<b>5,795</b>	<b>6,386</b>	<b>7,413</b>	<b>8,600</b>	<b>10,782</b>	<b>14,410</b>	<b>14,822</b>	<b>25,574</b>	<b>48,614</b>
Income Tax Expense / (Income)	815	514	858	549	952	1,378	2,139	1,897	2,736	6,366
<b>Net Profit / (Loss)</b>	<b>5,099</b>	<b>5,209</b>	<b>5,453</b>	<b>6,823</b>	<b>7,552</b>	<b>9,338</b>	<b>12,150</b>	<b>12,801</b>	<b>22,584</b>	<b>41,841</b>
QoQ Growth (%)	11.1	2.2	4.7	25.1	10.7	23.7	30.1	5.4		
Margin (%)	20.3	19.2	18.0	20.0	19.6	21.4	24.7	23.0	19.4	22.4

E: MOST Estimates; Financials as per US GAAP

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<http://deadpresident.blogspot.com>  
Reliance Communication

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	RCOM IN
	REUTERS CODE
S&P CNX: 3,634	RLCM.BO
Equity Shares (m)	2,044.6
52-Week Range	518/186
1,6,12 Rel. Perf. (%)	-1/14/16
M.Cap. (Rs b)	811.4
M.Cap. (US\$ b)	18.7

2 April 2007

Buy

Previous Recommendation: Buy

Rs397

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	146,536	30,566	14.9	588.6	26.5	5.5	23.0	13.6	5.7	14.4
3/08E	202,355	44,848	22.2	48.3	17.9	4.2	26.2	16.4	4.0	9.8
3/09E	253,721	57,699	28.2	27.3	14.1	3.2	25.9	18.3	3.0	7.3

- ✂ We expect overall revenue to grow 9.8% QoQ, driven by growth in mobility and broadband revenues. We expect the company to add 3.4m subscribers compared with 4m subscribers added in 3QFY07.
- ✂ Overall EBITDA margin is expected to decline 20bp to 40.5% due to increase in SG&A costs. ARPU for the company is likely to fall by 3%. EBITDA margin for wireless business is expected to decline 20bp QoQ.
- ✂ We expect stable margins in long distance telephony despite pressure on retention as proportion of data revenue is expected to increase. We expect broadband business margin to remain flat at 47%.
- ✂ Net Profit is expected to decline marginally by 0.8% sequentially due to expected lower forex gain (QoQ) on foreign currency loan restatement and decline in margins.
- ✂ The stock is currently trading at 17.9x FY08E and 14.1x FY09E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Revenue</b>	<b>22,830</b>	<b>25,220</b>	<b>29,910</b>	<b>29,704</b>	<b>32,501</b>	<b>35,260</b>	<b>37,553</b>	<b>41,223</b>	<b>107,664</b>	<b>146,536</b>
YoY Growth (%)					42.4	39.8	25.6	38.8	34.5	36.1
QoQ Growth (%)		10.5	18.6	-0.7	9.4	8.5	6.5	9.8		
Total Operating Expenses	21,240	20,950	21,430	19,282	20,439	21,734	22,281	24,541	82,902	88,996
<b>EBITDA</b>	<b>1,590</b>	<b>4,270</b>	<b>8,480</b>	<b>10,422</b>	<b>12,062</b>	<b>13,525</b>	<b>15,272</b>	<b>16,681</b>	<b>24,762</b>	<b>57,540</b>
Margin (%)	7.0	16.9	28.4	35.1	37.1	38.4	40.7	40.5	23.0	39.3
Net Finance Costs	270	650	1,280	425	999	56	-657	25	2,625	423
Cash Profit from Operations	1,320	3,620	7,200	9,997	11,063	7,288	15,929	16,656	22,137	50,936
Depreciation & Amortization	3,760	3,790	3,980	5,457	5,514	6,237	6,524	7,144	16,987	25,419
<b>Profit before Tax</b>	<b>-2,440</b>	<b>-170</b>	<b>3,220</b>	<b>4,540</b>	<b>5,549</b>	<b>7,233</b>	<b>9,404</b>	<b>9,512</b>	<b>5,150</b>	<b>31,698</b>
Income Tax Expense / (Income)	60	20	120	137	272	59	130	190	337	652
<b>Net Profit / (Loss)</b>	<b>-2,500</b>	<b>-190</b>	<b>3,100</b>	<b>4,029</b>	<b>5,127</b>	<b>7,023</b>	<b>9,244</b>	<b>9,172</b>	<b>4,439</b>	<b>30,567</b>
QoQ Growth (%)		-92.4	-1731.6	30.0	27.3	37.0	31.6	-0.8		
Margin (%)		-0.8	10.4	13.6	15.8	19.9	24.6	22.3	4.1	20.9

E: MOST Estimates; Financials as per US GAAP

<http://deadpresident.blogspot.com> **VSNL**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	VSNL IN
S&P CNX: 3,634	REUTERS CODE
	VSNL.BO

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs396

Equity Shares (m)	285.0
52-Week Range	515/300
1,6,12 Rel. Perf. (%)	13/-1/-24
M.Cap. (Rs b)	112.9
M.Cap. (US\$ b)	2.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	40,517	4,611	16.2	-3.9	24.5	1.8	7.4	10.7	2.6	11.4
3/08E	45,113	4,553	16.0	-1.3	24.8	1.7	7.0	10.4	2.3	9.2
3/09E	49,262	5,075	17.8	11.5	22.2	1.6	7.4	11.1	2.1	7.8

- ✍ We estimate VSNL's revenue to grow 14.2% YoY and 2.8% sequentially driven largely by data business.
- ✍ EBITDA margin is likely to expand 35bp to 24.2% in 4QFY07 as against 23.8% in the last quarter due to increased contribution from data business.
- ✍ We expect employee costs to decline sequentially with most of the one-time settlement already been charged in the previous quarter. We expect continued cost savings in other expenses, which were high last year due to acquisition-related expenses.
- ✍ Due to continued maintenance capex, depreciation is expected to go up 10% sequentially.
- ✍ Net profit is expected to decline 12.4% on QoQ basis. The decline is due to higher other income and lower depreciation in 3QFY07. The stock is currently trading at 24.8x FY08E and 22.2x FY09E earnings. We remain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Revenue</b>	<b>9,149</b>	<b>9,295</b>	<b>9,775</b>	<b>9,595</b>	<b>9,240</b>	<b>9,660</b>	<b>10,660</b>	<b>10,957</b>	<b>37,814</b>	<b>40,517</b>
YoY Growth (%)	15.2	19.4	18.2	6.4	1.0	3.9	9.1	14.2	14.5	7.1
QoQ Growth (%)	1.5	1.6	5.2	-1.8	-3.7	4.5	9.9	2.8		
Network Operating Expenses	5,018	5,340	5,597	5,004	5,360	5,413	5,830	6,020	20,959	22,623
Employee Costs	458	527	527	579	590	580	730	708	2,091	2,608
Other Operating Costs	1,200	1,518	1,600	1,684	1,160	1,690	1,560	1,580	6,002	5,989
Total Operating Expenses	6,676	7,385	7,724	7,267	7,110	7,683	8,120	8,308	29,052	31,221
<b>EBITDA</b>	<b>2,473</b>	<b>1,910</b>	<b>2,051</b>	<b>2,328</b>	<b>2,130</b>	<b>1,977</b>	<b>2,540</b>	<b>2,650</b>	<b>8,762</b>	<b>9,297</b>
QoQ Growth (%)	22.2	-22.8	7.4	13.5	-8.5	-8.7	4.6	4.3		
Margin (%)	27.0	20.5	21.0	24.3	23.1	20.5	23.8	24.2	23.2	22.9
Net Finance Costs	0	0	0	16	10	10	20	20	16	60
Cash Profit from Operations	2,473	1,910	2,051	2,312	2,120	1,967	2,520	2,630	8,746	9,237
Non-Operating Income	291	317	980	698	270	390	490	315	2,286	1,465
Depreciation & Amortization	796	893	882	1,023	1,050	900	920	1,012	3,594	3,882
<b>Profit before Tax</b>	<b>1,968</b>	<b>1,334</b>	<b>2,149</b>	<b>1,987</b>	<b>1,340</b>	<b>1,457</b>	<b>2,090</b>	<b>1,933</b>	<b>7,438</b>	<b>6,819</b>
Income Tax Expense / (Income)	698	459	729	185	430	530	710	648	2,071	2,318
<b>Net Profit / (Loss)</b>	<b>1,270</b>	<b>875</b>	<b>1,420</b>	<b>1,802</b>	<b>910</b>	<b>927</b>	<b>1,380</b>	<b>1,284</b>	<b>5,367</b>	<b>4,501</b>
<b>Adjusted PAT</b>	<b>1,270</b>	<b>910</b>	<b>1,501</b>	<b>1,115</b>	<b>880</b>	<b>1,067</b>	<b>1,420</b>	<b>1,244</b>	<b>4,796</b>	<b>4,611</b>
QoQ Growth (%)	-68.2	-28.3	64.9	-25.7	-21.1	0.2	0.3	-12.4		

E: MOST Estimates

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<http://deadpresident.blogspot.com>

Textiles

BSE Sensex: 12,455

S&P CNX: 3,634

2 April 2007

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### Indian RMG export growth slows in CY06

The growth of Indian RMG (readymade garment) exports to both the US and EU witnessed a slow down in CY06, after recording 30% growth rate in CY05. During CY06, RMG exports to the US registered 6.34% YoY increase in volume terms and 7.08% YoY increase in value terms. RMG exports to the EU also slowed down to 5.36% YoY increase in volume terms and 17.11% YoY increase in value terms. Indian RMG exports are facing stiff competition from China across several key categories particularly in the MMF (man made fiber) segment, wherein Indian MMF RMG exports to the US declined by close to 20% YoY.

#### GROWTH RATES OF INDIAN RMG (READY-MADE GARMENTS) EXPORTS (%)

	CY05	CY06
<b>Growth Rates</b>		
<b>US</b>		
Volume	29.7	6.3
Value	34.2	7.1
<b>EU</b>		
Volume	NA	5.4
Value	30.0	17.1

Source: OTEXA

### Removal of trade restrictions on China poses additional threat

Removal of the restrictions on Chinese textile exports by the EU and US, CY07 and CY08 onward, is likely to pose increased threat to the Indian textile industry going forward. We expect pressure on Indian textile exports to increase substantially from CY07 itself, due to the higher quota availability for China from both the EU and USA. Furthermore, with the complete removal of textile export restrictions on China by the EU and US post CY08 onwards, pricing pressure is likely to increase.

#### EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Textiles</b>							
Alok Ind	Neutral	5,414	32.8	1,182	34.9	420	21.1
Arvind Mills	Neutral	4,315	20.6	739	-14.4	28	-87.0
Gokaldas Exports	Buy	3,005	25.7	343	24.5	214	42.3
Himatsingka Seide	Neutral	474	25.1	153	44.4	130	9.9
Raymond	Neutral	3,176	-17.3	623	17.2	322	-7.6
Vardhman Textiles	Buy	5,509	11.3	909	8.7	411	-16.4
Welspun Ind	Neutral	3,388	65.2	608	93.5	175	63.4
<b>Sector Aggregate</b>		<b>25,281</b>	<b>18.9</b>	<b>4,557</b>	<b>19.8</b>	<b>1,700</b>	<b>-4.4</b>

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RESTRICTION ON CHINA BY EU-25: GROWTH RATES IN KEY CATEGORIES (%)

	CY05	CY06	CY07
Jersey and Pullovers	8	10	10
Men's and Boy's Bottomwear	8	10	10
Women and Girl's Shirt/Blouses	8	10	10
T-Shirts and Vests	10	10	10
Women's and Girl's Dresses	10	10	10

Source: Industry/CRISIL Research

RESTRICTION ON CHINA BY USA: GROWTH RATES IN KEY CATEGORIES (%)

	2006	2007	2008
<b>Growth Rate Cap</b>			
Men' and Boys' Cotton Knit Shirts	10	12.5	15
Men' and Boys' MMF Knit Shirts	10	12.5	15
Women' and Girls' Cotton Knit Shirts/Blouses	10	12.5	15
Women' and Girls' MMF Knit Shirts/Blouses	10	12.5	15
Men's and Boys' Cotton Woven Shirts	10	12.5	15
Men's and Boys' MMF Woven Shirts	10	12.5	15
Men's and Boys' Cotton Bottom-wear	10	12.5	15
Women's and Girls' Cotton Bottom-wear	10	12.5	15
Cotton Bras	10	12.5	15
MMF Bras	10	12.5	15
Cotton Underwear	10	12.5	15
MMF Underwear	10	12.5	15
Sweaters	10	12.5	15

Source: Industry/CRISIL Research

However, in spite of increased competition from China, we expect Indian textile exports to continue to do well in select high-value-added cotton-based categories, where it already enjoys a leadership position in the US and EU.

INDIA'S MARKET SHARE IN US FOR KEY CATEGORIES

APPAREL CATEGORY	MARKET SHARE (%)
Women's/Girls' Cotton Woven Shirts/Blouses	27.8
Cotton Skirts	21.9
Cotton Dresses	15.0
Men's/Boys' Cotton Shirts, Woven	11.3
Women's/Girls' Woven MMF Shirts/Blouses	10.2
MMF Skirts	10
MMF Dresses	7.1

Source: OTEXA/CRISIL Research

INDIA'S MARKET SHARE IN EU MARKET FOR KEY CATEGORIES

APPAREL CATEGORY	MARKET SHARE (%)
Women's/Girls' Woven Dresses	16.2
Women's/Girls' Woven Blouses/Shirts	15.9
Women's/Girls' Knitted Dresses	15.1
Woven Skirts	13.9
Women's/Girls' Knitted Blouses/Shirts	9.9

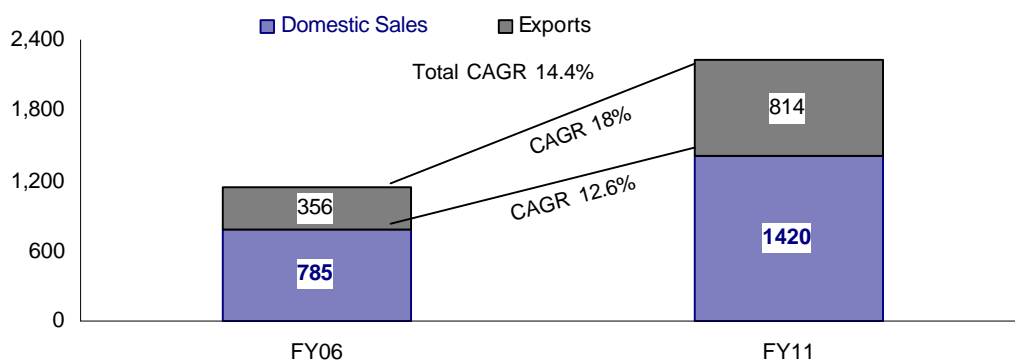
Source: Eurostat, CRISIL Research

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**Domestic RMG market to emerge as a big opportunity**

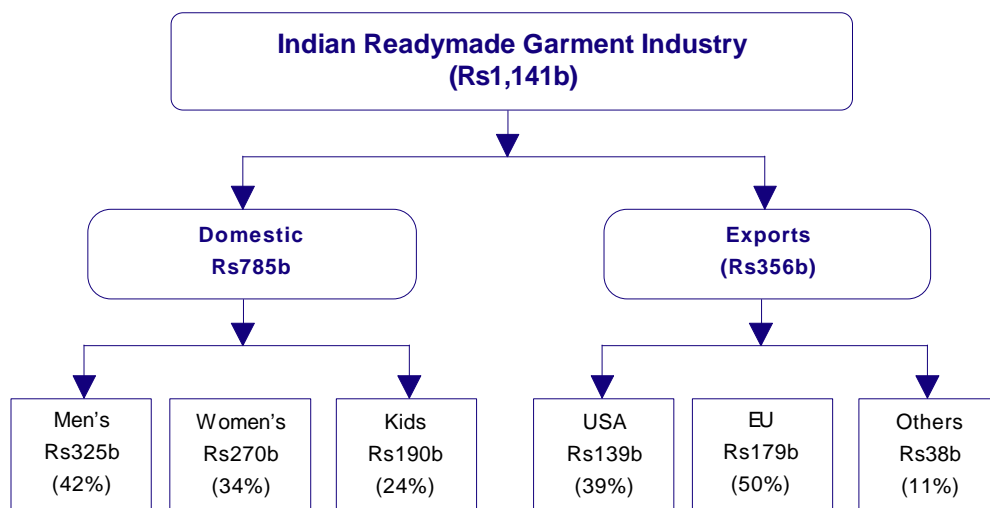
CRISIL estimates overall RMG market size to grow at a CAGR of 14.4%, over FY06-FY11 to US\$50.4b from around US\$25.8b in FY06. CRISIL estimates the domestic RMG market to grow at a CAGR of 12.6% to US\$32b by FY11 from around US\$17.7b in FY06. This growth will primarily be led by increasing income levels and a shift in consumption pattern from tailored to readymade garments. We believe with the consolidation of retail industry in India, the domestic RMG market would present a big opportunity for the Indian garment manufacturers.

RMG MARKET: AN OUTLOOK (RS B)



Source: CRISIL

OVERVIEW OF INDIAN RMG MARKET (FY06)



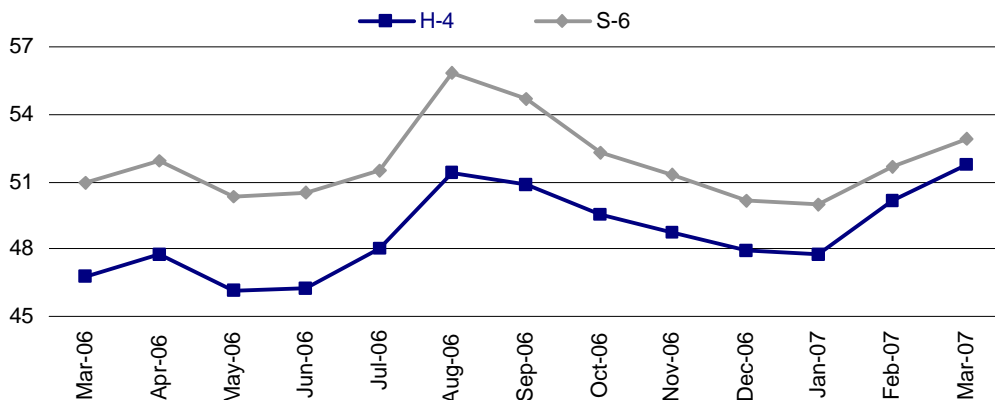
Source: CRISIL

**Cotton Yarn margins under pressure**

Domestic cotton prices ruled firm during 4QFY07 due to healthy international demand. Though cotton yarn prices remained stable during 4QFY07, margins for cotton yarn spinners were negatively impacted due to inability of spinners to pass on the increase in cotton prices.

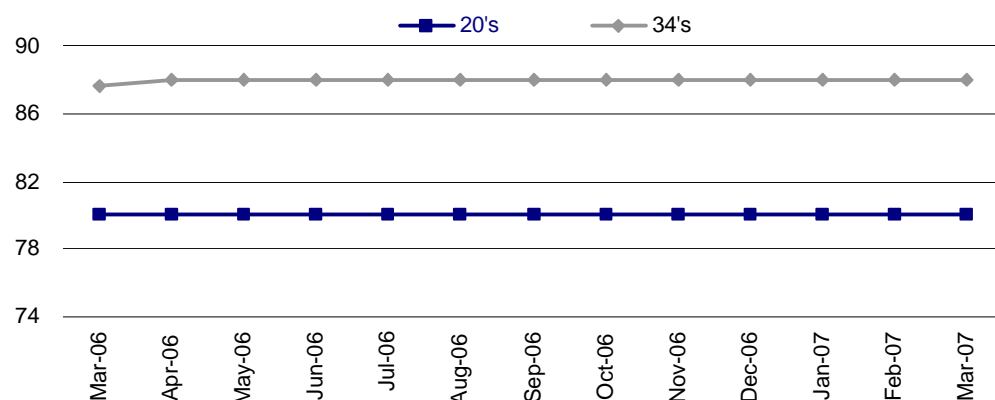
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DOMESTIC COTTON PRICES (RS/KG)



Source: EICA

COTTON YARN PRICES FOR COUNTS 20'S AND 34'S (RS/KG)



Source: Industry

Historically, one of the key concerns for the textile sector has been the high dependence on raw material cost. Raw materials such as cotton, man-made yarn or fabric, along with certain other items account for nearly 50-60% of revenues for most textile companies. Any adverse movement in the raw material prices could have a significant impact on the earnings of most companies. International cotton prices have increased by 5-10% QoQ in 4QCY06 to around 58-59 cents/pound v/s 54-55 cents/pound in 3QCY06. However, we do not expect this trend to sustain going by robust production estimates for the 2006-2007 cotton season.

COTTON OUTLOOK FAVORABLE (M TON)

	PRODUCTION	IMPORTS	MILL USE	STOCKS	STOCKS TO USE RATIO
<b>World Cotton Demand/Supply Estimates</b>					
2003-04	20.74	7.42	21.34	9.38	44.0
2004-05	26.21	7.26	23.69	11.77	49.7
2005-06	24.85	9.62	25.22	11.81	46.8
2006-07E	25.23	9.08	26.34	11.21	42.6

Source: USDA

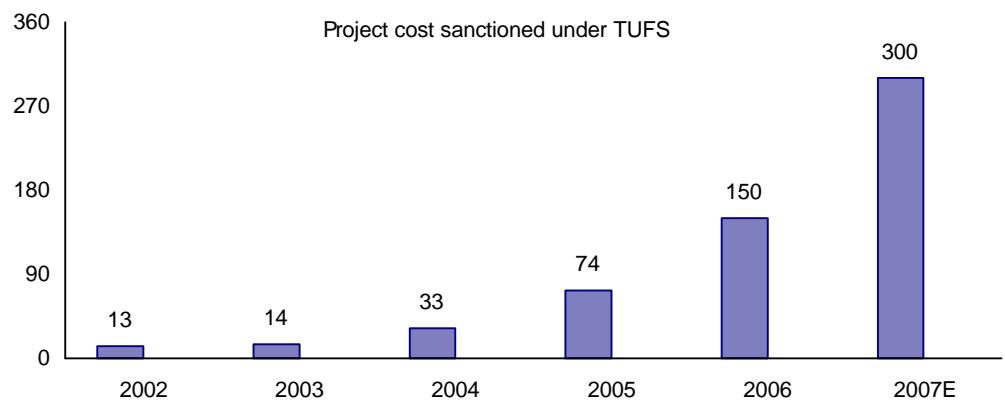


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### TUF sanctions witnesses a sharp jump

Sanctions under the Textile Upgradation Scheme (TUF) witnessed an unprecedented increase over the last few years, owing to large capex initiatives by a majority of the textile players. Total sanctions under the TUF scheme stood at around Rs584b between FY02-FY07. Sanctions under this scheme increased by almost 2x in FY07 to Rs300b compared with Rs150b in FY06. Availability of easy and cheap finance has enabled the Indian textile industry to modernize and create a credible scale for itself. As a result, a majority of the Indian textile industry players today have access to the latest technology and machinery and can offer critical scale to global buyers.

INVESTMENTS SANCTIONED UNDER TUF (RS B)



Source: Company/ Motilal Oswal Securities

### TUF scheme extended by 5 years

A prominent measure relating to the textile industry in the Union Budget 2007-2008 was extension of the Textile Upgradation Fund (TUF) scheme to the Eleventh Five Year Plan. Though extension of the TUF scheme by five years is a long term positive for textiles, in the medium-to-short term, it is likely to compound the prevailing problem of overcapacity due to the continued availability of subsidized funds. Further, attractiveness of the TUF scheme has also reduced considerably for large organized players, due to the increased interest rate scenario. Earlier, the effective interest cost for textile companies after TUF subsidy was 3%-4%, going forward it would increase to 7%-8% due to the prevailing high interest rates.

### Valuations

We believe the textile industry is today on a much stronger footing than previously. Most of the companies have expanded and modernized their capacities to reach critical size. Consequently, due to their modern plans and global capacities, they have also managed to attract large international institutional buyers with whom they now have established strategic relationships. This has allowed them to move their business models from being a transitional-based model to one that is based on strategic vendor-based relationships. At the same

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time, their financials are extremely healthy, as they have resorted to substantial withdrawals from the subsidized TUF scheme. Further, there is no immediate concern of large dilutions, as most companies have already completed a substantial portion of their capex plans.

We continue to maintain our **Neutral** rating on Arvind, Alok, Welspun, Raymond and Himatsingka Seide. We remain bullish on Vardhman Textiles and Gokaldas and rate them as our top picks in the textile industry.

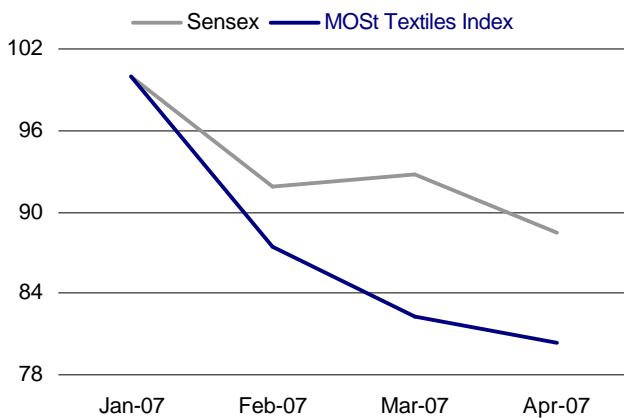
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## Stock performance and valuations

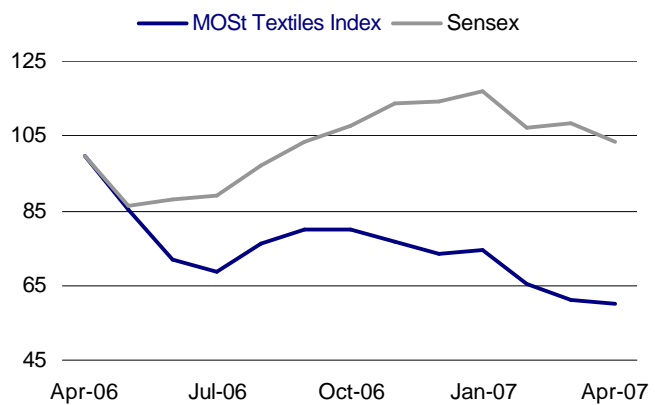
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Textiles</b>						
Alok Ind	-18	-25	-8	-33	2	15
Arvind Mills	-19	-58	-9	-66	1	-18
Gokaldas Exports	-29	-41	-18	-49	-9	-1
Himatsingka Seide	-9	-27	2	-35	11	14
Raymond	-18	-38	-8	-46	2	2
Vardhman Textiles	-27	-46	-16	-54	-7	-6
Welspun Ind	-21	-41	-10	-49	-1	-1

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	2.4.07													
<b>Textiles</b>														
Alok Ind	56	Neutral	7.0	10.3	12.1	8.0	5.4	4.6	8.5	6.4	5.6	11.5	15.1	15.4
Arvind Mills	42	Neutral	0.8	3.9	4.9	50.0	10.8	8.7	9.3	7.6	6.9	1.2	5.4	6.4
Gokaldas Exports	228	Buy	21.4	26.7	31.3	10.7	8.5	7.3	6.9	5.7	4.7	19.2	20.2	19.9
Himatsingka Seide	115	Neutral	6.2	9.2	11.4	18.5	12.5	10.1	17.5	8.8	7.1	10.3	14.2	15.9
Raymond	336	Neutral	28.9	35.0	43.6	11.6	9.6	7.7	7.2	6.0	4.8	8.7	9.2	9.9
Vardhman Textiles	200	Buy	26.9	32.9	39.4	7.4	6.1	5.1	7.1	7.1	6.1	16.7	17.7	18.2
Welspun Ind	71	Neutral	7.8	10.1	12.8	9.2	7.0	5.6	8.9	7.9	6.7	10.0	12.0	13.6
<b>Sector Aggregate</b>						<b>10.9</b>	<b>7.9</b>	<b>6.5</b>	<b>8.4</b>	<b>6.9</b>	<b>5.9</b>	<b>10.2</b>	<b>12.7</b>	<b>13.7</b>

<http://deadpresident.blogspot.com> Alok Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ALOK IN
	REUTERS CODE
S&P CNX: 3,634	ALOK.BO
Equity Shares (m)	199.1
52-Week Range	99/50
1,6,12 Rel. Perf. (%)	0/-17/-33
M.Cap. (Rs b)	11.1
M.Cap. (US\$ b)	0.3

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs56

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	17,964	1,386	7.0	25.8	8.0	0.9	11.5	7.5	1.9	8.5
3/08E	23,447	2,057	10.3	48.4	5.4	0.8	15.1	10.0	1.5	6.4
3/09E	27,334	2,401	12.1	16.7	4.6	0.7	15.4	10.7	1.3	5.6

\*Fully Diluted EPS

- For 4QFY07, we expect Alok to post 32.8% YoY increase in revenues to Rs5.4b v/s Rs4.1b in 4QFY06. Total exports are likely to increase by 110% YoY to Rs2.3b in 4QFY07.
- We expect EBITDA to increase by 35% to around Rs1.2b, while we expect EBITDA margins to increase by 35bp YoY to around 21.8%.
- We expect PAT in 4QFY07 to increase by 21.1% YoY to around Rs420m v/s Rs347m in 4QFY06. During the 3QFY07 post-results conference call, management had indicated that they have Rs300-Rs350m in forex gains, which they hope to book during 4QFY07 or 1QFY08. However, our forecasts currently do not reflect any such probable extraordinary gains.
- During 3QFY07, the company launched its retail initiatives through exclusive retail stores christened 'Homes and Apparels'. It plans to open around 15 stores in FY07 and increase the total number of stores to around 100 by FY08.
- We are lowering our PAT and revenue estimates for FY07 by 4.4% YoY and 5% YoY respectively to Rs1.4b and Rs18b respectively, as a result of delay in capex plans.
- We expect Alok's revenues to grow by 23% CAGR and earnings to witness 32% CAGR over FY07-FY09E. Margins are likely to expand from 21% in FY05 to 23.3% in FY09. The stock is currently trading at 8x FY07E and 5.4x FY08E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>2,992</b>	<b>3,454</b>	<b>3,664</b>	<b>4,077</b>	<b>3,579</b>	<b>4,172</b>	<b>4,799</b>	<b>5,414</b>	<b>14,188</b>	<b>17,964</b>
Change (%)	28.8	23.2	10.7	7.8	19.6	20.8	31.0	32.8	16.1	26.6
Total Expenditure	2,404	2,746	2,854	3,202	2,772	3,204	3,726	4,232	11,226	13,934
<b>EBITDA</b>	<b>588</b>	<b>708</b>	<b>810</b>	<b>876</b>	<b>806</b>	<b>968</b>	<b>1,073</b>	<b>1,182</b>	<b>2,961</b>	<b>4,029</b>
Change (%)	26.9	32.0	31.8	15.8	37.1	36.7	32.5	34.9	24.9	36.1
As % of Sales	19.7	20.5	22.1	21.5	22.5	23.2	22.4	21.8	20.9	22.4
Depreciation	160	184	198	216	246	280	325	349	758	1,200
Interest	166	178	181	173	170	213	242	260	697	885
Other Income	23	7	-28	15	-4	-16	32	52	37	65
<b>PBT</b>	<b>284</b>	<b>353</b>	<b>404</b>	<b>503</b>	<b>386</b>	<b>459</b>	<b>539</b>	<b>625</b>	<b>1,544</b>	<b>2,009</b>
Tax	79	98	109	156	117	132	168	205	442	623
Effective Tax Rate (%)	27.7	27.8	27.0	31.0	28.2	28.9	31.2	32.8	28.6	31.0
<b>Reputed PAT</b>	<b>206</b>	<b>255</b>	<b>295</b>	<b>347</b>	<b>269</b>	<b>326</b>	<b>371</b>	<b>420</b>	<b>1,102</b>	<b>1,386</b>
Change (%)	40.6	23.8	18.5	11.8	31.0	28.1	25.7	21.1	21.0	25.8

E: MOST Estimates

<http://deadpresident.blogspot.com> Arvind Mills

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	ARVND IN
	REUTERS CODE
S&P CNX: 3,634	ARMI.BO
Equity Shares (m)	209.4
52-Week Range	114/43
1,6,12 Rel. Perf. (%)	-12/-39/-66
M.Cap. (Rs b)	8.8
M.Cap. (US\$ b)	0.2

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs42

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	16,271	177	0.8	-86.1	51.5	0.6	1.2	5.0	1.8	9.4
3/08E	18,258	821	3.9	364.2	11.1	0.6	5.4	5.8	1.5	7.7
3/09E	20,717	1,022	4.9	24.5	8.9	0.6	6.4	6.4	1.3	7.0

- ✗ We expect Arvind to record revenue increase of 20.6% YoY to Rs4.3b, on the back of higher garment sales.
- ✗ EBITDA margin is likely to decline by 701bp YoY to 17.1% in 4QFY07 v/s 24.1% in 4QFY06.
- ✗ During 4QFY07, the denim scenario continued to improve in the international markets, however, the domestic market continues to be plagued by a huge overcapacity situation. We do not expect domestic demand-supply equilibrium in the denim sector to emerge in the near-to-medium term. Hence we expect pressure on denim margins to continue in the near-to medium term.
- ✗ The company is currently working on restructuring plans, which could include relocating a part of its commodity grade denim capacity to countries such as Bangladesh and Egypt.
- ✗ Arvind Mills has recently concluded an agreement with VF Corporation. The American apparel group with US\$7b in revenues (Lee, Wrangler and Nautica brands) will pick up a 60% stake in a joint venture with Arvind Brands.
- ✗ We are further downgrading our PAT estimates by 41% to Rs177m to reflect continued below average performance of the denim segment.
- ✗ Arvind plans to aggressively expand its garment manufacturing capacity from 12.7m/pieces p.a. in FY06 to around 42.2m/pieces p.a. by FY09, to de-risk itself from denim.
- ✗ The stock is trading at 11.1x FY08E and 8.9x FY09E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>4,204</b>	<b>4,280</b>	<b>3,902</b>	<b>3,578</b>	<b>3,546</b>	<b>3,932</b>	<b>4,479</b>	<b>4,315</b>	<b>15,964</b>	<b>16,271</b>
Change (%)	7.1	1.0	-5.7	-18.8	-15.7	-8.1	14.8	20.6	-4.9	1.9
Total Expenditure	3,055	3,219	2,984	2,714	2,802	3,074	3,769	3,576	11,972	13,221
<b>EBITDA</b>	<b>1,149</b>	<b>1,061</b>	<b>918</b>	<b>864</b>	<b>744</b>	<b>859</b>	<b>710</b>	<b>739</b>	<b>3,993</b>	<b>3,051</b>
Change (%)	29.1	16.1	-5.1	-22.9	-35.3	-19.1	-22.7	-14.4	10.2	-23.6
As % of Sales	27.3	24.8	23.5	24.1	21.0	21.8	15.8	17.1	25.0	18.8
Depreciation	385	387	385	394	372	383	347	349	1,551	1,451
Interest	335	342	296	330	348	378	399	390	1,303	1,515
Other Income	67	77	21	60	48	6	27	32	225	112
Non Recurring Expense						-46	1,068			1,022
<b>PBT</b>	<b>497</b>	<b>409</b>	<b>258</b>	<b>200</b>	<b>70</b>	<b>58</b>	<b>1,058</b>	<b>32</b>	<b>1,364</b>	<b>1,218</b>
Tax	45.9	37.2	23.8	-14.7	3.2	2.2	10.2	4.0	92.2	19.6
Effective Tax Rate (%)	9.2	9.1	9.2	-7.4	4.6	3.8	1.0	12.5	6.8	1.6
<b>Reported PAT</b>	<b>451</b>	<b>372</b>	<b>234</b>	<b>215</b>	<b>67</b>	<b>55</b>	<b>1,048</b>	<b>28</b>	<b>1,272</b>	<b>1,199</b>
<b>Adj. PAT</b>	<b>451</b>	<b>372</b>	<b>234</b>	<b>215</b>	<b>67</b>	<b>101</b>	<b>-20</b>	<b>28</b>	<b>1,272</b>	<b>177</b>
Change (%)	147.9	84	-36	-59	-85	-73	-108	-87	-0.1	-86

E: MOST Estimates

Siddharth Bothra (Sbothra@MotilalOswal.com); Tel: +91 22 39825407

<http://deadpresident.blogspot.com> Gokaldas Exports

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	GOKL IN
	REUTERS CODE
S&P CNX: 3,634	GOKL.BO
Equity Shares (m)	34.4
52-Week Range	400/226
1,6,12 Rel. Perf. (%)	-7/-28/-49
M.Cap. (Rs b)	7.8
M.Cap. (US\$ b)	0.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs228

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	10,583	736	17.7	20.9	10.7	1.9	19.2	19.3	0.8	6.9
3/08E	12,719	918	26.7	24.8	8.5	1.6	20.2	20.7	0.6	5.7
3/09E	14,885	1,077	31.3	17.3	7.3	1.3	19.9	20.9	0.5	4.7

- ✎ We expect revenues in 4QFY07 to register 25.7% YoY increase to Rs3b, while net profit is likely to increase by 42% YoY to Rs214m.
- ✎ EBITDA margins are likely to decline 10bp to 11.4%, driven primarily by better utilization and improved product mix.
- ✎ PAT growth is likely to be subdued at 42.3% YoY to Rs214m, due to higher depreciation and interest cost.
- ✎ Gokaldas plans to set up two more factories in an SEZ in Chennai, which the promoters are developing. The company stands to gain substantial tax benefits from its investment in SEZs.
- ✎ We expect the company to register revenue CAGR of 19% and profit CAGR of 21% over FY07-FY09. The stock is trading at 10.7x FY07E and 8.5x FY08E earnings. We reiterate **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>1,790</b>	<b>2,471</b>	<b>2,193</b>	<b>2,391</b>	<b>2,216</b>	<b>2,810</b>	<b>2,553</b>	<b>3,005</b>	<b>8,845</b>	<b>10,583</b>
Change (%)	N.A.	N.A.	N.A.	N.A.	23.8	13.7	16.4	25.7	22.2	19.7
Total Expenditure	1,611	2,207	1,952	2,115	1,991	2,494	2,263	2,661	7,885	9,409
<b>EBITDA</b>	<b>179</b>	<b>265</b>	<b>240</b>	<b>276</b>	<b>225</b>	<b>316</b>	<b>290</b>	<b>343</b>	<b>960</b>	<b>1,175</b>
Change (%)	N.A.	N.A.	N.A.	N.A.	26	19	21	24	65	22
As % of Sales	10.0	10.7	11.0	11.5	10.2	11.2	11.3	11.4	10.9	11.1
Depreciation	34	42	50	54	52	60	68	69	181	249
Interest	33	38	37	35	46	54	55	53	143	208
Other Income	8	5	12	17	22	16	12	15	43	65
<b>PBT</b>	<b>120</b>	<b>190</b>	<b>166</b>	<b>204</b>	<b>150</b>	<b>218</b>	<b>179</b>	<b>236</b>	<b>679</b>	<b>783</b>
Tax	4	5	8	54	14	10	1	22	71	47
Effective Tax Rate (%)	2.9	2.6	5.1	26.3	9.7	4.4	10.2	9.4	10.4	6.0
<b>Reputed PAT</b>	<b>116</b>	<b>185</b>	<b>157</b>	<b>150</b>	<b>135</b>	<b>208</b>	<b>178</b>	<b>214</b>	<b>609</b>	<b>736</b>
Change (%)	N.A.	N.A.	N.A.	N.A.	16.3	12.4	13.4	42.3	53.0	20.8

E: MOST Estimates

<http://deadpresident.blogspot.com> Himatsingka Seide

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	HSS IN
	REUTERS CODE
S&P CNX: 3,634	HMSD.BO
Equity Shares (m)	97.4
52-Week Range	172/82
1,6,12 Rel. Perf. (%)	-1/-12/-35
M.Cap. (Rs b)	11.2
M.Cap. (US\$ b)	0.3

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs115

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS * (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	2,100	607	6.2	24.7	18.5	1.9	10.3	8.4	5.0	17.5
3/08E	5,186	896	9.2	47.7	12.5	1.7	14.2	12.7	2.2	8.8
3/09E	6,355	1,109	11.38	23.8	10.1	1.5	15.9	15.1	1.7	7.1

\* Consolidated

- ✍ We expect Himatsingka to report revenue growth of 25.1% YoY to Rs474m on the back of higher contribution from yarn and better utilization rates.
- ✍ We expect EBITDA margins to improve by 430bp YoY to 32.3% on the back of improved utilization rates and lower power cost.
- ✍ PAT is likely to increase by 10% YoY to Rs130m.
- ✍ Its foray into the bed linen segment is progressing as planned, with the 20m plant scheduled to commence production by February 2007. The plant is located at the Hassan special economic zone (SEZ), Karnataka. The company has been allotted 110 acres of land within the Hassan SEZ for this project.
- ✍ We expect the company to post EPS of Rs6.2 for FY07 and Rs9.2 for FY08. The stock is trading at 18.5x FY07E and 12.5x FY08E earnings and an EV/EBITDA of 17.5x FY07E and 8.8x FY08E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>342</b>	<b>381</b>	<b>408</b>	<b>379</b>	<b>378</b>	<b>470</b>	<b>463</b>	<b>474</b>	<b>1,509</b>	<b>1,785</b>
Change (%)	9.8	9.9	4.0	14.9	10.5	23.5	13.5	25.1	8.4	18.3
Total Expenditure	209	233	276	273	252	311	321	321	991	1,205
<b>EBITDA</b>	<b>132</b>	<b>147</b>	<b>132</b>	<b>106</b>	<b>126</b>	<b>159</b>	<b>142</b>	<b>153</b>	<b>518</b>	<b>580</b>
Change (%)	0.6	-3.9	-13.9	-12.2	-4.9	7.8	7.4	44.4	-6.0	12.0
As % of Sales	38.7	38.7	32.3	28.0	33.3	33.8	30.6	32.3	34.3	32.5
Depreciation	35	36	35	32	35	37	37	40	138	150
Interest	5	4	1	1	1	1	2	12	11	16
Other Income	32	29	25	57	62	69	68	43	143	242
<b>PBT</b>	<b>124</b>	<b>136</b>	<b>121</b>	<b>130</b>	<b>151</b>	<b>190</b>	<b>171</b>	<b>144</b>	<b>512</b>	<b>656</b>
Tax	11.5	4.0	1.1	12.1	7.0	27.0	20.8	14.0	28.6	69.1
Effective Tax Rate (%)	9.3	2.9	0.9	9.2	4.6	14.2	12.2	9.7	5.6	10.5
<b>Reported PAT</b>	<b>113</b>	<b>132</b>	<b>119</b>	<b>118</b>	<b>144</b>	<b>163</b>	<b>150</b>	<b>130</b>	<b>483</b>	<b>587</b>
<b>Adj. PAT</b>	<b>113</b>	<b>132</b>	<b>119</b>	<b>118</b>	<b>144</b>	<b>163</b>	<b>150</b>	<b>130</b>	<b>483</b>	<b>587</b>
Change (%)	11.4	24.0	1.8	-9.3	27.8	22.7	25.5	9.9	9.1	21.4

E: MOST Estimates; Quarterly numbers are standalone, while annual numbers include its retail subsidiary.



<http://deadpresident.blogspot.com> Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	RW IN
	REUTERS CODE
S&P CNX: 3,634	RYMD.BO
Equity Shares (m)	61.4
52-Week Range	625/289
1,6,12 Rel. Perf. (%)	0/-25/-46
M.Cap. (Rs b)	20.6
M.Cap. (US\$ b)	0.5

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs336

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	20,359	1,777	28.9	30.6	11.8	1.5	13.3	11.5	1.2	7.7
3/08E	22,912	2,146	35.0	20.8	9.8	1.3	14.2	12.8	1.0	6.3
3/09E	26,371	2,678	43.6	24.8	7.8	1.2	15.7	14.5	0.9	5.1

\* Consolidated

- ✗ We expect Raymond to post revenues of Rs3.2b in 4QFY07 v/s Rs3.8b in 4QFY06, a decline of 17.3% YoY. However, the numbers are not comparable, as 4QFY07 does not include denim revenues — the denim division has been de-merged into a JV. Denim revenues during 4QFY06 stood at Rs818m.
- ✗ We expect EBITDA margins to expand by 577bp YoY to 19.6% but PAT to decline by 7.6% YoY to Rs322m.
- ✗ The company is likely to double worsted fabric capacity at its Vapi plant to 6m meters by 1QFY08.
- ✗ Raymond's denim JV is facing cost pressures at its international plants in the US and Romania and is operating at low utilization rates of 70-75%.
- ✗ The company expects to aggressively roll out 40-50 flagship stores in FY08. However, we feel these stores are unlikely to breakeven before 3-4 years due to high rentals. Management has given guidance for its branded apparel business to register growth rates of 20%-25% CAGR, over the next two three years.
- ✗ The stock is trading at 11.8x FY07E and 9.8x FY08E earnings. It has an EV/EBITDA of 7.7x FY07E and 6.3x FY08E. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06*	FY07E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>2,455</b>	<b>3,497</b>	<b>3,453</b>	<b>3,843</b>	<b>2,806</b>	<b>3,586</b>	<b>2,973</b>	<b>3,176</b>	<b>13,248</b>	<b>12,541</b>
Change (%)	30.9	3.2	15.4	20.6	14.3	2.6	-13.9	-17.3	15.8	-5
Total Expenditure	2137	2946	2864	3311	2578	2945	2483	2554	11258	10560
<b>EBITDA</b>	<b>318</b>	<b>551</b>	<b>589</b>	<b>531</b>	<b>228</b>	<b>641</b>	<b>489</b>	<b>623</b>	<b>1,989</b>	<b>1,981</b>
Change (%)	197.9	36.1	52.5	26.3	-28.4	16.4	-17.0	17.2	75.0	0
As % of Sales	13.0	15.7	17.1	13.8	8.1	17.9	16.5	19.6	15.0	15.8
Depreciation	166	180	188	193	187	146	134	166	727	632
Interest	46	63	69	54	44	93	72	77	231	286
Other Income	163	231	141	160	179	160	268	43	695	650
Extra-ordinary Income	-42	-35	-35	2	-14	859	43	0	-109	888
<b>PBT</b>	<b>227</b>	<b>505</b>	<b>439</b>	<b>444</b>	<b>162</b>	<b>1,421</b>	<b>552</b>	<b>422</b>	<b>1,725</b>	<b>2,557</b>
Tax	39	136	143	98	46	6	165	101	416	318
Effective Tax Rate (%)	17.2	26.9	32.6	22.0	24.0	0.5	29.9	23.8	24.1	12.4
<b>Reported PAT</b>	<b>188</b>	<b>369</b>	<b>296</b>	<b>347</b>	<b>116</b>	<b>1,415</b>	<b>387</b>	<b>322</b>	<b>1,210</b>	<b>2,239</b>
<b>Adj. PAT</b>	<b>188</b>	<b>334</b>	<b>261</b>	<b>348</b>	<b>130</b>	<b>556</b>	<b>344</b>	<b>322</b>	<b>1,101</b>	<b>1,352</b>
Change (%)	499.0	15.1	17.9	51.2	-30.8	66.4	31.6	-7.6	69.7	23

E: MOST Estimates; Standalone numbers

<http://deadpresident.blogspot.com> Vardhman Textiles

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	VTEX IN
	REUTERS CODE
S&P CNX: 3,634	MHSP.BO
Equity Shares (m)	64.1
52-Week Range	420/192
1,6,12 Rel. Perf. (%)	-5/-28/-54
M.Cap. (Rs b)	12.8
M.Cap. (US\$ b)	0.3

2 April 2007

Buy

Previous Recommendation: Buy

Rs200

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	20,986	1,724	26.9	1.8	7.4	1.2	16.7	10.0	1.3	7.4
3/08E	25,850	2,110	32.9	22.4	6.1	1.0	17.7	10.0	1.4	7.3
3/09E	31,902	2,526	39.4	19.8	5.1	0.9	18.2	9.7	1.2	6.3

Vardhman Textiles has issued a bonus of 1:2

- ✗ Vardhman is likely to report revenue CAGR of 11.3% in 4QFY07 to around Rs5.5b.
- ✗ We expect EBITDA margins to decline by 40bp to 16.5% in 4QFY07 v/s 16.9% in 4QFY06, as a result of lower margins in the fabric and steel businesses.
- ✗ PAT is likely to register 16.4% YoY decline to Rs411m in 4QFY07 v/s Rs492m in 4QFY06.
- ✗ We expect Vardhman's 4QFY07 EBITDA margins to be negatively impacted due to lower yarn margins. During 4QFY07 yarn margins were negatively impacted due to 2-3% increase in cotton prices and 1-2% decline in yarn prices. We expect yarn margins to decline by 125bp YoY to 13.26%.
- ✗ We are lowering our FY07 PAT and revenue estimates by 4.1% to Rs1.7b and by 7.4% to Rs20b.
- ✗ The company is currently implementing an ambitious Rs16b capex plan, which would double its fabric capacity and increase spinning capacity by nearly 50%. We expect Vardhman Textiles' sales and earnings to witness CAGR of 23% and 21%, respectively over FY07-FY09.
- ✗ The stock is trading at 7.4x FY07E and 6.1x FY08E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>4,221</b>	<b>4,596</b>	<b>5,127</b>	<b>4,948</b>	<b>4,755</b>	<b>5,283</b>	<b>5,438</b>	<b>5,509</b>	<b>18,892</b>	<b>20,986</b>
Change (%)	2.0	-3.9	6.0	3.9	12.7	15.0	6.1	11.3	2.1	11.1
Total Expenditure	3,438	3,743	4,169	4,112	133	4,366	4,470	4,600	15,462	17,355
<b>EBITDA</b>	<b>783</b>	<b>853</b>	<b>958</b>	<b>836</b>	<b>836</b>	<b>917</b>	<b>968</b>	<b>909</b>	<b>3,430</b>	<b>3,630</b>
Change (%)	16.0	19.2	30.7	9.5	6.8	7.5	1.0	8.7	18.9	5.8
As % of Sales	18.5	18.6	18.7	16.9	17.6	17.4	17.8	16.5	18.2	17.3
Depreciation	251	251	267	244	286	301	290	302	1,013	1,180
Interest	112	98	91	93	110	99	87	106	395	402
Other Income	12	27	56	120	62	37	77	44	214	220
Extra-ordinary Income	0	0	0	270	0	35	0	0	270	35
<b>PBT</b>	<b>431</b>	<b>531</b>	<b>656</b>	<b>888</b>	<b>501</b>	<b>590</b>	<b>668</b>	<b>545</b>	<b>2,506</b>	<b>2,303</b>
Tax	142	132	143	127	126	132	152	134	543	544
Effective Tax Rate (%)	32.8	24.8	21.7	14.3	25.2	22.4	22.8	24.6	21.7	23.6
<b>Reported PAT</b>	<b>290</b>	<b>399</b>	<b>513</b>	<b>762</b>	<b>375</b>	<b>458</b>	<b>516</b>	<b>411</b>	<b>1,963</b>	<b>1,759</b>
<b>Adj. PAT</b>	<b>290</b>	<b>399</b>	<b>513</b>	<b>492</b>	<b>375</b>	<b>423</b>	<b>516</b>	<b>411</b>	<b>1,693</b>	<b>1,724</b>
Change (%)	62.0	62.5	64.2	4.2	29.4	5.9	0.5	-16.4	62.6	1.8

E: MOST Estimates; \* Standalone numbers not merged

<http://deadpresident.blogspot.com> Welspun India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	WLSP IN
	REUTERS CODE
S&P CNX: 3,634	WLSP.BO
Equity Shares (m)	76.8
52-Week Range	134/60
1,6,12 Rel. Perf. (%)	-3/-25/-49
M.Cap. (Rs b)	5.5
M.Cap. (US\$ b)	0.1

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs71

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	10,696	594	7.7	42.9	9.2	0.9	10.0	7.5	1.6	8.9
3/08E	11,569	779	10.1	31	7.0	0.8	12.0	7.5	1.6	7.9
3/09E	13,191	982	12.8	26.0	5.6	0.7	13.6	8.4	1.4	6.7

- ✗ We expect Welspun to post revenue CAGR of 65% to Rs3.4b in 4QFY07 buoyed by sharp increase in bed-linen sales.
- ✗ EBITDA margin is likely to increase by 262bp YoY to 17.9%, as a result of improved margins in the bed-linen segment.
- ✗ PAT is likely to post robust 63.4% YoY increase to Rs175m in 4QFY07, 4QFY07 was positively impacted by extraordinary gains of around Rs95m.
- ✗ During the quarter, utilization rates for the bed-linen plant improved to around 60-65%.
- ✗ Going forward, margins in the bed-linen are likely to improve on the back of increased capacity utilization rates.
- ✗ We expect Welspun's revenues and earnings to witness 11% and 28% CAGR (FY07-FY09) respectively. Welspun is trading at a PER of 9.2x FY07E and 7x FY08E earnings. We are **Neutral** on the stock.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>1,441</b>	<b>1,547</b>	<b>1,544</b>	<b>2,051</b>	<b>1,989</b>	<b>2,764</b>	<b>2,554</b>	<b>3,388</b>	<b>6,583</b>	<b>10,696</b>
Change (%)	50.7	37.2	35.1	39.0	38.1	78.7	65.4	65.2	63.6	62.5
Total Expenditure	1,127	1,228	1,164	1,737	1,576	2,342	2,110	2,780	5,255	8,809
<b>EBITDA</b>	<b>314</b>	<b>320</b>	<b>380</b>	<b>314</b>	<b>413</b>	<b>423</b>	<b>444</b>	<b>608</b>	<b>1,328</b>	<b>1,887</b>
Change (%)	58.7	-0.9	32.0	20.4	31.5	32.2	16.7	93.5	57.9	42.1
As % of Sales	21.8	20.7	24.6	15.3	20.8	15.3	17.4	17.9	20.2	17.6
Depreciation	102	115	120	149	144	157	166	201	486	668
Interest	74	81	86	102	112	122	129	146	343	509
Other Income	23	59	-43	95	52	40	75	19	134	185
Extra-ordinary Income	0	0	0	0	-90	88	0	0	0	-2
<b>PBT</b>	<b>161</b>	<b>182</b>	<b>131</b>	<b>158</b>	<b>119</b>	<b>272</b>	<b>224</b>	<b>280</b>	<b>633</b>	<b>895</b>
Tax	53	56	57	51	43	89	65	105	217	301
Effective Tax Rate (%)	32.9	30.6	43.7	32.4	36.2	32.6	28.8	37.5	34.4	33.6
<b>Reputed PAT</b>	<b>108</b>	<b>127</b>	<b>74</b>	<b>107</b>	<b>76</b>	<b>183</b>	<b>159</b>	<b>175</b>	<b>416</b>	<b>594</b>
<b>Adj. PAT</b>	<b>108</b>	<b>127</b>	<b>74</b>	<b>107</b>	<b>166</b>	<b>95</b>	<b>159</b>	<b>175</b>	<b>416</b>	<b>596</b>
Change (%)	156.3	14.7	-31.2	5.0	53.7	-24.6	115.4	63.4	5.3	43.5

E: M0St Estimates

<http://deadpresident.blogspot.com> Utilities

BSE Sensex: 12,455

S&amp;P CNX: 3,634

2 April 2007

COMPANY NAME	PG.
CESC	253
NTPC	254
Neyveli Lignite	255
PTC India	256
Reliance Energy	257
Tata Power	258

### Budget 2007-2008: Significant thrust to capacity addition

The Union Budget 2007-2008 provides significant impetus to the pace of capacity addition in the power sector through accelerated reforms and new initiatives like award of coal blocks, merchant power capacity etc.

### Key budget initiatives

**(1) Fuel availability:** Imported coal is exempted from 5% customs duty, which would lower the cost of power generation. The government has also allotted 26 coal blocks with reserves of 8,581m ton and four lignite blocks with reserves of 755m ton until December 2006 for various industries including the power sector. The definition of 'end-user' for coal blocks has been enlarged to include underground coal-gasification and coal-liquefaction to encourage investments in such technologies in the future.

**(2) Focus on ultra mega power projects:** As expected, the Finance Minister reiterated that of the seven ongoing ultra mega power projects, two projects would be awarded by July 2007.

**(3) The government has extended the APDRP scheme beyond FY07.** Budgetary allocation towards APDRP was raised from Rs6.5b in FY07 to Rs8b for FY08. Further, the APDRP scheme has been extended to district headquarters and towns with a population of more than 50,000.

**(4) The budget allocation under Rajiv Gandhi Gram Vidyutikaran Yojana** has been extended to Rs4b during FY08 from Rs3b during FY07.

### Capacity addition at just 48% of target levels

The Tenth Five Year Plan witnessed a plethora of reforms including introduction of Electricity Act, 2003, unbundling of SEBs and increased scope for private sector players.

#### EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.07	CHG. (%)	MAR.07	CHG. (%)	MAR.07	CHG. (%)
<b>Utilities</b>							
CESC	Buy	5,475	-6.2	1,243	-13.7	550	25.0
Neyveli Lignite Corp.	Buy	6,847	86.3	3,006	2,210.6	1,774	49.1
NTPC	Neutral	85,749	17.6	20,565	17.0	19,096	21.9
PTC India	Buy	10,627	40.8	70	-23.8	89	27.9
Reliance Energy	Buy	14,477	39.4	1,541	-19.0	1,871	10.4
Tata Power	Buy	13,316	13.7	2,573	63.6	1,129	7.4
<b>Sector Aggregate</b>		<b>136,491</b>	<b>21.8</b>	<b>28,998</b>	<b>27.6</b>	<b>24,509</b>	<b>21.9</b>

<http://deadpresident.blogspot.com>

On the generation side, out of revised capacity addition target of ~39,000MW, the achievement is expected at 18,900MW, which represents 48% of the target capacity additions. This compares with the achievement in Ninth and Eighth Plan at 46% and 54% respectively. Also, in the Tenth Plan, most of the capacity addition has been back ended with FY07 accounting for capacity addition of ~9,000MW.

CAPACITY ADDITION DURING XTH PLAN (MW)

SECTOR	TARGET	LIKELY ACHIEVEMENT
Hydro	24,182	10,505
Thermal	13,727	7,340
Nuclear	1,350	1,080
<b>Total</b>	<b>39,259</b>	<b>18,925</b>

Source: CEA

For the XI<sup>th</sup> Five Year Plan, the target capacity addition has been initially pegged at 62,529MW which was later on revised to 66,463MW. The recent report suggests that the revised target for the XI<sup>th</sup> Five Year Plan stands at 76,460MW. Of this, around 20,000MW is under construction while the remaining capacity is expected to be awarded over next two years. The award of the two ultra mega power projects and a pipeline of seven more such projects, indicates continued thrust on the part of the government toward ramping up the capacity.

Besides, the efforts of the Central and state governments too have been favorable enough to exploit the available source of energy in the state viz. hydro, coal reserves etc.

### **UMPPs: New benchmark in terms of per unit cost**

Next on the government's agenda is focus on bringing the per unit cost of power lower, driven by operational efficiencies. The ultra mega power project (UMPP) bids for Sasan and Mundra projects established a total new benchmark for the capital cost and operational efficiency. The levelized tariff for the Sasan power project is at Rs1.21/unit while for the Mundra power project (based on imported coal), it is Rs2.22/-unit. The higher plant configuration, better operational efficiency and introduction of competitive based tariff have helped to lower the cost per unit of power. There are now talks of awarding 1,000MW plus projects through competitive bidding to lower the effective per unit rate. This we believe would also make the merchant capacity competitive and help reduce the peak hour tariff rate.

### **Thrust on building up the nuclear power portfolio**

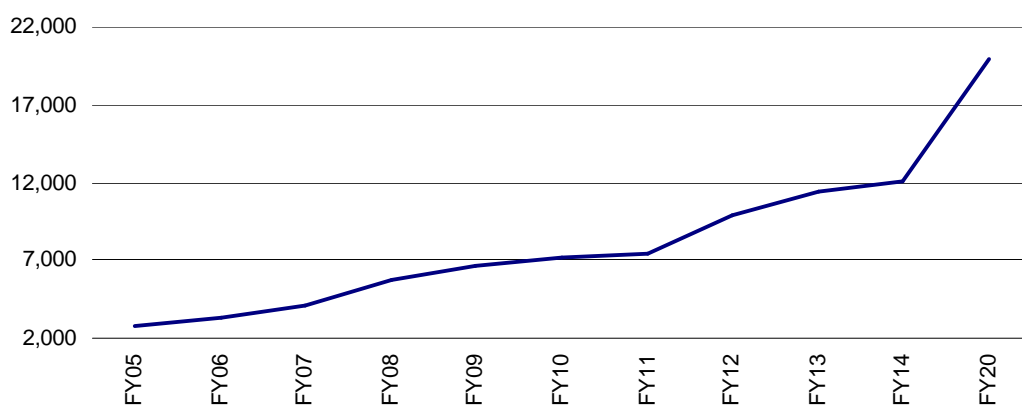
Nuclear power appears to be gaining strong traction post sanction of the bill in the joint session of US Parliament. In March 2006, the Department of Atomic Energy (DAE) also initiated steps to amend the Indian Atomic Energy Act, 1962 as a precursor to facilitating private and foreign participation in India. It has initiated the process of preparation of Feasibility Reports to install 6,800MW of nuclear power capacity at an investment of

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Rs340b. The sites cleared by the government are at Kudankulam in Tamil Nadu, Kakrapar in Gujarat, Rawatbhata in Rajasthan and Jaitapur in Maharashtra.

The public sector undertakings are showing their keen interest to participate in the development of the nuclear power plant, and, the NTPC board has recently approved a proposal to enable the company enter the nuclear power generation business. The company envisages generating 2,000MW from nuclear power by the end of 2017. The overall target for India is to reach 20,000MW by 2020 from the current capacity of below 3,000MW.

TARGETED NUCLEAR POWER CAPACITY IN INDIA



Source: Department of Atomic Energy

### Increased traction in renewable segment

The focus of the Central public sector undertakings (CPSUs) and private players toward establishing a renewable portfolio has led to increased traction in Hydro and Wind power sector. In the Union Budget 2007-08, the government continued the accelerated benefit for the wind power sector and is in the process of formulating a national hydro power policy, which is expected to address issues including rehabilitations. Given increased thrust by the government, CPSUs like NTPC have announced Hydro power capacity addition of 2,200MW for XI<sup>th</sup> plan. Private players such as Tata Power (Tala HEP) and Reliance Energy have awarded initial orders to set up wind projects, to comply with the Renewable Portfolio Standard mandate. Recently, Reliance Energy ordered 500MW of wind power capacity while Tata Power too awarded orders for 150MW during 3QFY07.

Peak deficit during FY06 stood at 12.6% and growth in electricity consumption at ~5.5% p.a. over the past few years has been largely met through improvement in capacity utilization (industry PLF increased from 64% in FY99 to 76.2% as of February 2007). The urge to balance the nation's power portfolio and higher capacity addition of hydro power to meet peak demand is the key focus. The government has announced 50,000MW of hydro project to be commissioned in next 10 years. CEA has finalized the preliminary feasibility report

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with hydro potential in 16 states totaling to ~48,000MW. We believe that attracting both public and private sector investments in hydro power remains one of the key challenges for the government.

HYDRO POWER POTENTIAL: PRELIMINARY FEASIBILITY REPORT

STATES	CAPACITY (MW)
Arunachal Pradesh	27,293
Uttaranchal	5,282
Himachal Pradesh	3,328
Jammu & Kashmir	2,675
Mizoram	1,500
Maharashtra	411
Sikkim	1,469
Meghalaya	931
Orissa	1,189
Nagaland	330
Karnataka	1,900
Andhra Pradesh	81
Chhattisgarh	848
Manipur	362
Kerala	126
Madhya Pradesh	205
<b>Total</b>	<b>47,930</b>

Source: CEA, As on 31.08.2006

Although most states have awarded the Hydro power projects to garner its full potential, the norms for competitive bidding are free power, upfront payment etc. The CERC is now contemplating to direct states to strictly adhere to tariff-based competitive bidding so that the end-user is benefited from the lower tariff rate.

### Valuation and view

During 4QFY07, we expect utilities to report steady performance in terms of revenues and profitability. Attracting private sector investments in generation, privatization of distribution, improvement in the financial health of SEBs etc. have proved to be significant challenges. Nonetheless, the various pieces of evidence at the ground level suggest that reforms are back on track. We do believe that incumbents enjoy growth optionality, which would not be equity dilutive.



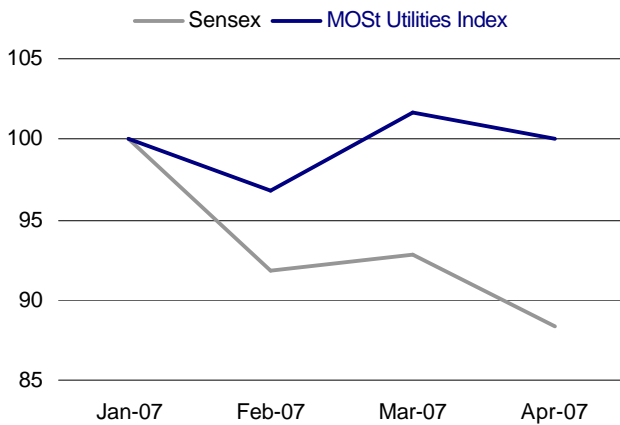
<http://deadpresident.blogspot.com>

## Stock performance and valuations

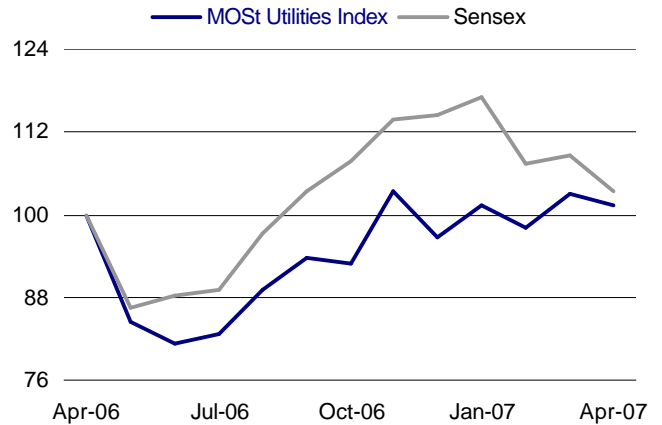
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Utilities</b>						
CESC	14	4	25	-4	10	2
Neyveli Lignite Corporation	-8	-31	3	-39	-12	-32
NTPC	7	9	17	1	3	7
PTC India	5	1	15	-7	1	-1
Reliance Energy	-9	-23	2	-30	-13	-24
Tata Power	-12	-15	-1	-23	-16	-17

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	2.4.07													
<b>Utilities</b>														
CESC	366	Buy	28.5	29.4	31.3	12.8	12.4	11.7	8.3	8.2	8.0	12.6	11.7	11.1
Neyveli Lignite Corp.	53	Buy	4.3	3.8	3.9	12.3	13.8	13.5	5.4	6.0	6.8	8.8	7.6	7.5
NTPC	147	Neutral	8.1	8.9	9.5	18.2	16.6	15.4	11.5	10.0	9.8	14.2	14.3	14.1
PTC India	60	Buy	2.6	3.4	4.4	23.3	17.7	13.5	24.8	17.0	14.0	14.8	17.5	20.1
Reliance Energy	477	Buy	31.6	33.8	38.1	15.1	14.1	12.5	7.9	5.3	3.5	9.5	9.0	9.4
Tata Power	496	Buy	28.1	31.3	31.6	17.7	15.9	15.7	10.9	9.8	9.0	9.1	8.4	8.2
<b>Sector Aggregate</b>						<b>17.1</b>	<b>15.9</b>	<b>14.8</b>	<b>10.8</b>	<b>9.4</b>	<b>9.2</b>	<b>12.7</b>	<b>12.5</b>	<b>12.5</b>

<http://deadpresident.blogspot.com> **CESC**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CESC IN
	REUTERS CODE
S&P CNX: 3,634	CESC.BO

2 April 2007

Buy

Rs366

Previous Recommendation: Buy

Equity Shares (m)	84.3
52-Week Range	387/198
1,6,12 Rel. Perf. (%)	11/16/-4
M.Cap. (Rs b)	30.9
M.Cap. (US\$ b)	0.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS* GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	24,895	2,400	28.5	35.2	12.8	1.7	12.6	10.8	1.7	8.3
3/08E	25,841	2,480	29.4	3.3	12.4	1.5	11.7	10.6	1.7	8.2
3/09E	27,202	2,637	31.3	6.3	11.7	1.4	11.1	10.9	1.7	8.0

\* Excl impact of Budge Budge plant capital account adjustment; fully diluted

- ✍ We expect CESC to post revenue of Rs5.7b and net profit of Rs396m, up 7% YoY for 4QFY07.
- ✍ The company has initiated the process for scrap sale of its plant at the Mulajore unit (shut down in May 2004). CESC has already announced its plans for real estate development at the location.
- ✍ The company also floated a 100% subsidiary, named as CESC Properties, to diversify into the real estate business. The company will execute the upcoming shopping mall venture in Kolkata in partnership with Godrej Properties and thereafter, development of an industrial complex (including a residential colony) over 43 acres in Mulajore. CESC is yet to identify a partner for the Mulajore real estate venture.
- ✍ Its JV with Godrej Projects (CESC's share, 50%) is to develop a retail mall on three acres of land, with constructed area of 0.4m sq. ft. CESC's contribution will be in the form of land, while the entire development expense would be borne by the Godrej group. The expected average rental is Rs80-125/sq ft/month, which translates into annual rental income of Rs400-600m. WBERC norms permit the company to retain two-thirds the non tariff income, thus entailing CESC's share at Rs160-240m. Construction began in 3QFY07 and is likely to be completed by October 2008.
- ✍ CESC is expanding capacity at Budge Budge by 250MW, targeted to be completed by end-FY09. It has announced setting up of pit head-based power plants: Jharkhand (2,000MW), Orissa (2,000MW) and Haldia (1,000MW) through the SPV route, and is also a bidder for the ultra mega power projects. On the distribution front, the company has indicated its interest in participating in the SEB privatization process. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>6,740</b>	<b>6,720</b>	<b>5,780</b>	<b>5,840</b>	<b>6,740</b>	<b>6,750</b>	<b>5,930</b>	<b>5,475</b>	<b>25,080</b>	<b>24,895</b>
Change (%)	6.0	15.7	7.2	3.7	0.0	0.4	2.6	-6.2	8.0	-0.7
<b>EBITDA</b>	<b>1,510</b>	<b>1,540</b>	<b>1,330</b>	<b>1,440</b>	<b>1,360</b>	<b>1,400</b>	<b>1,250</b>	<b>1,243</b>	<b>5,820</b>	<b>5,253</b>
Change (%)	-17.5	-8.3	-9.5	0.0	-9.9	-9.1	-6.0	-13.7	-9.8	-9.7
As of % Sales	22.4	22.9	23.0	24.7	20.2	20.7	21.1	22.7	23.2	21.1
Depreciation	640	630	640	610	410	410	410	440	2,520	1,670
Interest	560	440	490	560	540	420	370	365	2,050	1,695
Other Income	140	160	200	210	210	220	220	173	710	823
<b>PBT</b>	<b>450</b>	<b>630</b>	<b>400</b>	<b>480</b>	<b>620</b>	<b>790</b>	<b>690</b>	<b>612</b>	<b>1,960</b>	<b>2,712</b>
Tax	40	60	30	40	70	100	80	62	170	312
Effective Tax Rate (%)	8.9	9.5	7.5	8.3	11.3	12.7	11.6	10.1	8.7	11.5
<b>Reported PAT</b>	<b>410</b>	<b>570</b>	<b>370</b>	<b>440</b>	<b>550</b>	<b>690</b>	<b>610</b>	<b>550</b>	<b>1,790</b>	<b>2,400</b>
<b>Adjusted PAT</b>	<b>410</b>	<b>570</b>	<b>370</b>	<b>440</b>	<b>550</b>	<b>690</b>	<b>610</b>	<b>550</b>	<b>1,790</b>	<b>2,400</b>
Change (%)	10.8	9.6	15.6	68.3	34.1	21.1	64.9	25.0	29.1	34.1

E: MOST Estimates

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<http://deadpresident.blogspot.com>  
National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	NTPC IN
	REUTERS CODE
S&P CNX: 3,634	NTPC.BO
Equity Shares (m)	8,245.5
52-Week Range	158/91
1,6,12 Rel. Perf. (%)	7/10/1
M.Cap. (Rs b)	1,124.6
M.Cap. (US\$ b)	27.9

2 April 2007

Neutral

Previous Recommendation: Neutral

Rs147

YEAR END*	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	306,891	66,778	8.1	25.6	18.2	2.5	14.2	17.8	3.8	11.5
3/08E	364,111	73,264	8.9	9.7	16.6	2.3	14.3	17.4	3.4	10.0
3/09E	402,760	78,742	9.5	7.5	15.4	2.1	14.1	17.8	0.3	9.8

\* Pre-exceptional earnings

- During 4QFY07, we expect NTPC to report revenue of Rs85.8b (up 17.6% YoY) and net profit of Rs19.1b (up 21.9% YoY).
- The board of NTPC has recently approved its foray into nuclear power generation. The company envisages establishing a capacity of around 2,000MW by FY17. It has formed a 50:50 JV with Coal India Ltd. (CIL) for undertaking coal mining projects. Whilst CIL will handle development of coal blocks, NTPC will take up power plant operations.
- During 4QFY07, the company has commissioned the 500MW unit of Vindhyachal Super Thermal Power Project - Stage III. Post this, the installed capacity of Vindhyachal Super Thermal Power Project would stand at 3,260MW (largest station in the country) and the total owned installed capacity of company would be 26,904 MW. The company is also likely to award EPC contracts for the 1,000MW expansion project at Simhadri and 1,000MW power plant at Ennore.
- Cabinet Committee on Economic Affairs (CCEA) has approved a joint venture between NTPC Ltd and the Indian Railways for setting up Rs5.2b, 1,000MW thermal power plant at Nabinagar in Bihar to meet the requirements of the rail network across the country.
- The XI<sup>th</sup> Plan would mark the entry of Hydro power in NTPC's portfolio with projects totaling 2,211MW by 2012 viz. Koldam 800MW, Loharinag Pala 600MW, Tapovan Vishnugad 520MW, Lata Tapovan 171MW and Rammam III 120MW.
- We recommend **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>60,567</b>	<b>59,259</b>	<b>68,689</b>	<b>72,914</b>	<b>71,536</b>	<b>68,138</b>	<b>81,468</b>	<b>85,749</b>	<b>261,429</b>	<b>306,891</b>
Change (%)	16.7	12.9	20.5	13.5	18.1	15.0	18.6	17.6	15.9	17.4
<b>EBITDA</b>	<b>15,426</b>	<b>12,977</b>	<b>18,199</b>	<b>17,583</b>	<b>19,960</b>	<b>18,408</b>	<b>22,595</b>	<b>20,565</b>	<b>64,185</b>	<b>81,528</b>
Change (%)	16.2	-6.0	15.7	-1.8	29.4	41.9	24.2	17.0	5.8	27.0
As of % Sales	25.5	21.9	26.5	24.1	27.9	27.0	27.7	24.0	24.6	26.6
Depreciation	4,873	5,280	5,063	5,261	4,755	4,780	5,138	5,584	20,477	20,257
Interest	2,357	1,545	2,829	2,854	5,238	4,630	2,807	3,988	9,585	16,663
Other Income	5,528	6,315	8,026	6,232	6,369	6,505	7,752	9,403	26,101	30,029
<b>PBT</b>	<b>13,724</b>	<b>12,467</b>	<b>18,333</b>	<b>15,700</b>	<b>16,336</b>	<b>15,503</b>	<b>22,402</b>	<b>20,396</b>	<b>60,224</b>	<b>74,637</b>
Tax	637	832	516	37	808	764	1,369	1,299	2,022	4,240
Effective Tax Rate (%)	4.6	6.7	2.8	0.2	4.9	4.9	6.1	6.4	3.4	5.7
<b>Reported PAT</b>	<b>13,087</b>	<b>11,635</b>	<b>17,817</b>	<b>15,663</b>	<b>15,528</b>	<b>14,739</b>	<b>21,033</b>	<b>19,096</b>	<b>58,202</b>	<b>70,396</b>
<b>Adj. PAT (Pre Exceptional)</b>	<b>12,214</b>	<b>11,544</b>	<b>12,672</b>	<b>15,662</b>	<b>15,318</b>	<b>14,410</b>	<b>17,415</b>	<b>19,096</b>	<b>53,149</b>	<b>66,778</b>
Change (%)	9.1	12.3	15.5	16.8	25.4	24.8	37.4	21.9	16.0	25.6

E: MOST Estimates

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http://deadpresident.blogspot.com  
Neyveli Lignite Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	NLC IN
	REUTERS CODE
S&P CNX: 3,634	NELG.BO
Equity Shares (m)	1,677.7
52-Week Range	100/47
1,6,12 Rel. Perf. (%)	-1/-22/-39
M.Cap. (Rs b)	88.2
M.Cap. (US\$ b)	2.0

2 April 2007

Buy

Previous Recommendation: Buy

Rs53

YEAR END *	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	24,425	7,168	4.3	-8.0	12.3	1.1	8.8	10.1	2.2	5.4
3/08E	24,583	6,397	3.8	-10.8	13.8	1.0	7.6	8.5	2.6	6.0
3/09E	26,020	6,543	3.9	2.3	13.5	1.0	7.5	7.8	3.1	6.8

\* Pre-exceptional earnings

- ✗ We expect Neyveli Lignite to report net profit of Rs1.8b in 4QFY07, up 49.1% YoY. This growth will largely be a result of the hit taken by the company in 4QFY06 due to the revised lignite transfer policy announced by the Ministry of Coal and applicable w.e.f. January 2006.
- ✗ As per the revised lignite transfer policy, Neyveli Lignite has been impacted up to Rs1.3b p.a. (the company made provision of Rs6.36b in FY06 for a 5-year span). The company has also changed the depreciation policy from the rates prescribed in the Companies Act (5.28% Straight Line Method) to Electricity Act, 2003 (3.60% SLM), which would result in a lower depreciation, by Rs560m, for FY07.
- ✗ The company has struck a JV with Northern Coalfields (NCL), a subsidiary of Coal India, to set up a 1,000MW plant in MP near Sasan. Neyveli will have 70% stake in the project while the balance will be held by NCL.
- ✗ Earlier this year, Neyveli Lignite picked up a 15% stake in a joint venture with Mahanadi Coalfields Ltd. (MCL 70%) and Hindalco Industries (15%) for coal mining in Orissa, to provide fuel linkage to its proposed 2,000MW thermal power project in Orissa. It has also entered into a JV with the Gujarat state government for an integrated power plant of 1,000MW with a lignite mine of 8m tons p.a. in the first phase, which will be enhanced to 1,500MW and 12m ton p.a. in the second phase. NLC would have a minimum stake of 74% (89% on higher side) in the JV.
- ✗ The government has sanctioned Neyveli Mine II expansion of 4.5m ton p.a. and Barsingsar Lignite Mine, Rajasthan of 2.1m ton p.a. Post this, the company's lignite mining capacity will increase from 24m ton to 30.6m ton and power generation capacity from 2,490MW to 3,240MW by FY10. It has significant cash and cash equivalents up to ~Rs50b as of March 2006, which will facilitate scalability. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>8,460</b>	<b>7,190</b>	<b>5,700</b>	<b>3,676</b>	<b>6,397</b>	<b>6,079</b>	<b>5,102</b>	<b>6,847</b>	<b>21,986</b>	<b>24,425</b>
Change (%)	28.9	-5.3	4.2	-64.6	-24.4	-15.4	-10.5	86.3	-26.8	11.1
<b>EBITDA</b>	<b>5,000</b>	<b>3,360</b>	<b>2,170</b>	<b>130</b>	<b>3,085</b>	<b>2,143</b>	<b>1,894</b>	<b>3,006</b>	<b>7,641</b>	<b>10,128</b>
Change (%)	54.7	-23.7	-18.4	-98.1	-38.3	-36.2	-12.7	2,210.6	-55.1	32.6
As of % Sales	59.1	46.7	38.1	3.5	48.2	35.3	37.1	43.9	34.8	41.5
Depreciation	1,300	1,320	1,220	-347	1,070	1,064	1,045	1,072	3,495	4,250
Interest	140	140	140	128	134	121	120	181	543	556
Other Income	2,030	1,320	1,180	1,585	1,213	1,260	1,326	1,191	6,270	4,989
<b>PBT</b>	<b>5,590</b>	<b>3,220</b>	<b>1,990</b>	<b>1,935</b>	<b>3,095</b>	<b>2,218</b>	<b>2,055</b>	<b>2,944</b>	<b>9,874</b>	<b>10,312</b>
Tax	1,640	860	600	-254	856	580	529	1,180	2,850	3,144
Effective Tax Rate (%)	29.3	26.7	30.2	-13.1	27.7	26.1	25.7	40.1	28.9	30.5
<b>Reported PAT</b>	<b>3,950</b>	<b>2,370</b>	<b>1,370</b>	<b>-658</b>	<b>2,238</b>	<b>1,639</b>	<b>1,527</b>	<b>1,774</b>	<b>7,024</b>	<b>7,168</b>
<b>Adj. PAT (Pre Exceptionals)</b>	<b>2,980</b>	<b>2,230</b>	<b>1,390</b>	<b>1,190</b>	<b>2,238</b>	<b>1,639</b>	<b>1,527</b>	<b>1,774</b>	<b>7,790</b>	<b>7,168</b>
Change (%)	41.3	-12.2	21.9	-70.9	-24.9	-26.5	9.8	49.1	-20.5	-8.0

E: MOST Estimates

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<http://deadpresident.blogspot.com> PTC India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	PWTC IN
	REUTERS CODE
S&P CNX: 3,634	PTCL.BO
Equity Shares (m)	150.0
52-Week Range	83/44
1,6,12 Rel. Perf. (%)	4/4/-7
M.Cap. (Rs b)	8.9
M.Cap. (US\$ b)	0.2

2 April 2007

Buy

Previous Recommendation: Buy

Rs60

	YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	3/07E	42,269	383	2.6	-5.7	23.3	3.3	14.8	19.1	0.2	24.8
	3/08E	73,495	506	3.4	32.0	17.7	2.9	17.5	19.6	0.1	17.0
	3/09E	94,309	659	4.4	30.4	13.5	2.6	20.1	19.6	0.1	14.0

\* Pre-exceptional

- During 4QFY07, we expect PTC to report revenue of Rs10.6b, up 40.8% YoY and net profit of Rs89m, up 27.9% YoY, driven mainly by higher other income. EBITDA for the quarter is however likely to be lower by 23.8% YoY to Rs70m, largely on account of lower trading margins at Rs0.04/unit, post the CERC directive in January 2006.
- PTC is witnessing a substantial change in its business model – short term trading, which accounts for 80% of the traded volumes now will decline to 35% in FY08. Long term contracts are typically for 10-35 years, and also mitigate the threat on margins. PTC has decided to set up a SPV to subscribe to the equity capital of electricity generation projects. It intends to take 10-11% stakes in power projects for 100% assured off take.
- As at December 2006, the company has signed power purchase agreements (PPA) for 6,741MW and MoUs for 16,013MW of power capacity on a long term basis. The company has also entered into back-to-back power sale agreement for 5,352MW.
- PTC has also been notified as a nodal agency by GoI to trade power with Bhutan and Nepal, with sizeable Hydro power potential. The Tala Transmission network, with capacity of 3,000MW, connecting Bhutan to New Delhi has been commissioned during 2QFY07, which would facilitate power transfer between the NE-north regions.
- PTC's FY07 traded volumes of 11.6BUs is expected to increase to 20BUs+ by FY08. This would be driven by the commissioning of the Tala project in Bhutan (1,020MW) and part of the greenfield projects where PTC has signed long-term PPAs. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Power Traded (MUs)	1,523	3,148	3,280	2,168	2,625	3,268	2,211	3,487	10,119	11,591
<b>Sales</b>	<b>4,373</b>	<b>8,620</b>	<b>10,546</b>	<b>7,547</b>	<b>10,421</b>	<b>13,147</b>	<b>8,074</b>	<b>10,627</b>	<b>31,085</b>	<b>42,269</b>
Change (%)	-11.5	45.3	74.5	121.9	138.3	52.5	-23.4	40.8	59.2	36.0
<b>EBITDA</b>	<b>81</b>	<b>142</b>	<b>184</b>	<b>92</b>	<b>88</b>	<b>95</b>	<b>82</b>	<b>70</b>	<b>499</b>	<b>335</b>
Change (%)	-27.3	52.0	81.1	85.1	8.0	-32.7	-55.3	-23.8	42.7	-32.8
As of % Sales	1.9	1.6	1.7	1.2	1.3	0.7	1.0	0.7	1.6	0.8
Depreciation	8	9	9	9	8	8	8	10	34	34
Interest	1	4	5	3	3	7	7	2	13	19
Other Income	67	13	20	21	79	39	44	88	120	250
EO Income/(Expense)	0	2	0	0	-1	0	0	0	2	0
<b>PBT</b>	<b>139</b>	<b>140</b>	<b>190</b>	<b>101</b>	<b>155</b>	<b>119</b>	<b>111</b>	<b>147</b>	<b>570</b>	<b>532</b>
Tax	26	45	62	31	35	32	25	58	164	149
Effective Tax Rate (%)	18.5	32.0	32.8	31.0	22.3	30.0	30.0	39.3	28.8	28.0
<b>Reported PAT</b>	<b>113</b>	<b>95</b>	<b>128</b>	<b>70</b>	<b>120</b>	<b>86</b>	<b>86</b>	<b>89</b>	<b>406</b>	<b>383</b>
<b>Adjusted PAT</b>	<b>113</b>	<b>97</b>	<b>128</b>	<b>70</b>	<b>120</b>	<b>86</b>	<b>86</b>	<b>89</b>	<b>408</b>	<b>383</b>
Change (%)	39.0	81.4	89.2	78.1	6.3	-11.2	-32.7	27.9	67.3	-6.1

E: MOST Estimates

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<http://deadpresident.blogspot.com> Reliance Energy

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	RELE IN
	REUTERS CODE
S&P CNX: 3,634	RLEN.BO

2 April 2007

Buy

Previous Recommendation: Buy

Rs477

Equity Shares (m)	212.4
52-Week Range	652/362
1,6,12 Rel. Perf. (%)	4/-3/-30
M.Cap. (Rs b)	101.2
M.Cap. (US\$ b)	2.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	55,439	7,410	31.6	13.9	15.1	1.3	9.5	9.4	1.0	10.6
3/08E	55,718	7,938	33.8	7.1	14.1	1.2	9.0	9.3	0.8	7.0
3/09E	62,004	8,943	38.1	12.7	12.5	1.1	9.0	9.3	0.6	5.1

\* Consolidated , pre-exceptionals, fully diluted

- During 4QFY07, we expect Reliance Energy to report revenue of Rs14.5b, up 39.4% YoY and net profit of Rs1.9b, up 4.5% YoY, on a reported basis.
- The company bagged two road BOT projects viz. development of Namakkal-Karur highway — a stretch of 80km in Tamil Nadu for Rs5.2b in March 2007 and contract for developing the Trichy-Dindigul National Highway four-laning project. The project covers a stretch of 88km and construction cost would be Rs5.8b
- In power, the company won its single largest EPC bid from Haryana Power Generation Corporation to set up a 1,200MW coal-based power project on a turnkey basis for Rs37.6b. The project will be implemented in a schedule of 35-38 months. The company also bagged 'balance of plant package' from Uttar Pradesh Rajya Vidyut Utpadan Nigam for the 500MW extension of the Parichha Thermal Power Station. The value of the order is Rs4b.
- Apart from this, the company is also executing the following projects on BOT basis: (a) Mumbai Mass Rapid Transit system: Rs23b; (b) NHAI road projects: Rs7b; (c) Interstate transmission network: Rs8b; (d) Hydro power projects (MoU) in Arunachal Pradesh: Rs100b; and (e) Hydro power projects in Uttaranchal: Rs15b.
- The work on the 620MW Rosa project in Uttar Pradesh, acquired from the Aditya Birla group, has commenced during the quarter. The UPSEB has approved plans to double this capacity at an investment of Rs56b. It is also working on the Shahpur project (2,000MW) and is in the process of acquiring land for the project.
- We believe that the stock is largely a play on the future growth opportunities rather than on existing assured return businesses. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>9,497</b>	<b>10,429</b>	<b>9,884</b>	<b>10,382</b>	<b>11,549</b>	<b>14,076</b>	<b>15,337</b>	<b>14,477</b>	<b>40,191</b>	<b>55,439</b>
Change (%)	0.7	31.7	6.4	-29.2	21.6	35.0	55.2	39.4	-2.9	37.9
<b>EBITDA</b>	<b>1,615</b>	<b>2,034</b>	<b>1,793</b>	<b>1,901</b>	<b>1,334</b>	<b>1,775</b>	<b>827</b>	<b>1,541</b>	<b>7,332</b>	<b>5,477</b>
Change (%)	9.6	25.1	200.7	0.6	-17.4	-12.8	-53.9	-19.0	4.4	-25.3
As of % Sales	17.0	19.5	18.1	18.3	11.6	17.0	17.0	10.6	18.2	9.9
Depreciation	817	871	907	891	619	635	612	787	3,486	2,653
Interest	433	553	467	477	459	671	551	526	1,919	2,207
Other Income	1,348	1,185	1,493	1,863	1,711	1,761	2,867	2,216	5,890	8,555
<b>PBT</b>	<b>1,712</b>	<b>1,796</b>	<b>1,912</b>	<b>2,396</b>	<b>1,967</b>	<b>2,230</b>	<b>2,531</b>	<b>2,445</b>	<b>7,817</b>	<b>9,173</b>
Tax (incl contingencies)	146	200	265	701	201	366	522	674	1,311	1,763
Effective Tax Rate (%)	8.5	11.1	13.9	29.3	10.2	15.0	20.6	27.6	6.5	12.5
<b>Reported PAT</b>	<b>1,567</b>	<b>1,596</b>	<b>1,646</b>	<b>1,695</b>	<b>1,766</b>	<b>1,864</b>	<b>2,009</b>	<b>1,771</b>	<b>6,505</b>	<b>7,410</b>
<b>PAT (Pre Exceptionals)</b>	<b>1,567</b>	<b>1,596</b>	<b>1,646</b>	<b>1,695</b>	<b>1,666</b>	<b>1,864</b>	<b>2,009</b>	<b>1,871</b>	<b>6,505</b>	<b>7,410</b>
Change (%)	52.3	24.5	22.1	14.6	12.7	16.8	22.0	4.5	25.1	13.9

E: MOST Estimates; Quarterly numbers are on standalone basis

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<http://deadpresident.blogspot.com> **Tata Power**

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	TPWR IN
	REUTERS CODE
S&P CNX: 3,634	TTPW.BO
Equity Shares (m)	197.9
52-Week Range	640/390
1,6,12 Rel. Perf. (%)	-2/-11/-23
M.Cap. (Rs b)	98.2
M.Cap. (US\$ b)	2.3

2 April 2007

Buy

Previous Recommendation: Buy

Rs496

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	51,095	5,965	28.1	31.1	17.7	1.7	9.1	7.9	2.3	12.1
3/08E	53,085	6,648	31.3	11.4	15.9	1.6	8.4	8.0	2.2	10.2
3/09E	56,053	6,723	31.6	1.1	15.7	1.5	8.2	8.2	2.1	9.6

\* Consolidated , pre-exceptionals, fully diluted

- ⚡ During 4QFY07, Tata Power is expected to report net profit of Rs1.1b, up 7.4% YoY.
- ⚡ The company emerged as the lowest cost bidder for the Mundra ultra mega power project to be set up on imported coal basis with Doosan as its partner for boilers. It is in the process of identifying a partner for turbines currently. The company quoted a tariff of Rs2.22/unit for Mundra UMPP.
- ⚡ Tata Power has acquired 30% stake in the Indonesian company, Bumi Resources and a trading company for US\$1.1b. This will enable Tata Power to offtake 10mt of high calorific value coal per annum from its two coal mines KPC and Arutmin. This ensures fuel supply availability for its Mundra UMPP, awarded recently.
- ⚡ Besides this, the company has outlined extensive expansion plans which include: (1) 4,000MW pithead coal-based project in Jharkhand and Orissa; (2) expansion of 250MW at Jojobera; (3) 1,000MW diesel-run generation plant in Maharashtra; (4) 1,000MW Maithon power project and others.
- ⚡ The company has received seven licenses for its Strategic Electronics Division that enables it to be the prime contractor for sale to the Ministry of Defense (MoD) for designing, development, manufacturing, assembling and upgrading mission critical systems in seven core areas of Defense Strategic Electronics. The addressable market for the company is likely to reach over Rs200b, according to management, in next 4-5 years.
- ⚡ We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07E				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Total Operating Income</b>	<b>10,988</b>	<b>10,616</b>	<b>12,314</b>	<b>11,711</b>	<b>13,766</b>	<b>12,008</b>	<b>12,005</b>	<b>13,316</b>	<b>45,628</b>	<b>51,095</b>
Change (%)	1.1	12.9	30.9	21.7	25.3	13.1	-2.5	13.7	16.1	12.0
<b>EBITDA</b>	<b>2,410</b>	<b>2,403</b>	<b>1,968</b>	<b>1,573</b>	<b>2,581</b>	<b>2,495</b>	<b>2,108</b>	<b>2,573</b>	<b>8,355</b>	<b>9,756</b>
Change (%)	-31.6	8.9	-12.0	0.3	7.1	3.8	7.1	63.6	-9.5	16.8
As of % Sales	21.9	22.6	16.0	13.4	18.7	20.8	17.6	19.3	18.3	19.1
Depreciation	656	682	712	734	760	731	735	768	2,783	2,994
Interest	379	430	424	420	524	388	510	471	1,653	1,893
Other Income	315	421	1,766	754	410	783	460	207	3,256	1,860
<b>PBT</b>	<b>1,691</b>	<b>1,712</b>	<b>2,598</b>	<b>1,173</b>	<b>1,706</b>	<b>2,160</b>	<b>1,322</b>	<b>1,541</b>	<b>7,475</b>	<b>6,729</b>
Tax	507	456	321	85	488	137	-1,477	500	1,369	-352
Effective Tax Rate (%)	30.0	26.6	12.4	7.3	28.6	6.3	-111.7	32.5	18.3	-5.2
<b>Reported PAT</b>	<b>1,184</b>	<b>1,257</b>	<b>2,277</b>	<b>1,088</b>	<b>1,218</b>	<b>2,023</b>	<b>2,799</b>	<b>1,041</b>	<b>6,105</b>	<b>7,081</b>
<b>Adjusted PAT</b>	<b>1,096</b>	<b>1,257</b>	<b>957</b>	<b>1,052</b>	<b>1,130</b>	<b>1,682</b>	<b>1,205</b>	<b>1,129</b>	<b>4,361</b>	<b>5,146</b>
Change (%)	-0.8	20.0	-3.5	692.4	3.1	33.8	26.0	7.4	33.1	18.0

E: M0St Estimates; Quarterly numbers are on standalone basis



<http://deadpresident.blogspot.com>  
Container Corporation of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	CCRI IN
	REUTERS CODE
S&P CNX: 3,634	CCRI.BO
Equity Shares (m)	65.0
52-Week Range	2,288/1,286
1,6,12 Rel. Perf. (%)	3/11/26
M.Cap. (Rs b)	122.2
M.Cap. (US\$ b)	2.8

2 April 2007

Buy

Previous Recommendation: Buy

Rs1,880

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07E	30,562	6,652	102.4	32.3	18.4	4.7	28.4	36.6	3.6	12.0
3/08E	37,242	7,725	118.9	16.1	15.8	3.8	26.4	34.5	2.8	10.0
3/09E	44,816	9,226	142.0	19.4	13.2	3.0	25.4	33.5	2.2	7.9

- During 4QFY07, we expect revenue to grow 20% YoY to Rs8.2b, EBITDA to grow 14.5% YoY to Rs2.3b and a net profit growth of 5.5% YoY to Rs1.4b.
- The slowdown in revenue growth is mainly due to the strike in jute factories in West Bengal. The jute goods traffic accounts for an estimated 23% of Concor's domestic traffic in the eastern region. Though the strike has been called off recently, normalcy would be restored only after a lag of 3-4 weeks.
- Gateway Distriparks has entered into a JV with Concor through its subsidiary, Gateway Rail Freight (GRFPL), to undertake rail movement of containers from its ICD at Gurgaon. Concor is also in talks with the government of Himachal Pradesh for establishing a depot at Baddi.
- Concor also signed an MoU with the Transport Corporation of India Limited (TCIL) to provide door-to-door logistics and warehousing services for all categories of customers. The synergy will flow as TCIL is currently the largest road network operator in India.
- In the last quarter, it entered into a joint working agreement with Secunderabad-based logistics major Seaways group to provide end-to-end logistics for exports from Punjab region to Chittagong, Bangladesh.
- We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>5,388</b>	<b>5,857</b>	<b>6,358</b>	<b>6,806</b>	<b>7,213</b>	<b>7,693</b>	<b>7,472</b>	<b>8,184</b>	<b>24,408</b>	<b>30,562</b>
Change (%)	19.6	19.3	24.8	24.6	33.9	31.3	17.5	20.2	21.8	25.2
<b>EBITDA</b>	<b>1,553</b>	<b>1,751</b>	<b>1,765</b>	<b>1,966</b>	<b>2,160</b>	<b>2,522</b>	<b>2,224</b>	<b>2,251</b>	<b>7,036</b>	<b>9,158</b>
Change (%)	9.7	6.6	16.5	21.9	39.1	44.0	26.0	14.5	12.0	30.2
OPM (%)	28.8	29.9	27.8	28.9	30.0	32.8	29.8	27.5	28.8	30.0
Depreciation	192	208	207	242	223	232	242	286	849	983
Interest	1	2	0	0	0	0	0	2	2	2
Other Income	104	130	146	162	163	169	205	196	542	732
Extra-ordinary items	0	0	1	0	0	0	1	-1	1	0
<b>PBT</b>	<b>1,464</b>	<b>1,671</b>	<b>1,705</b>	<b>1,886</b>	<b>2,100</b>	<b>2,458</b>	<b>2,187</b>	<b>2,159</b>	<b>6,725</b>	<b>8,905</b>
Tax	390	450	336	524	437	563	530	723	1,699	2,253
Effective Tax Rate (%)	26.6	26.9	19.7	27.8	20.8	22.9	24.2	33.5	25.3	25.3
<b>Reported PAT</b>	<b>1,075</b>	<b>1,221</b>	<b>1,368</b>	<b>1,362</b>	<b>1,663</b>	<b>1,895</b>	<b>1,657</b>	<b>1,437</b>	<b>5,026</b>	<b>6,652</b>
Change (%)	10.5	8.4	34.4	6.5	54.8	55.2	21.1	5.5	17.2	32.3
<b>Adjusted PAT</b>	<b>1,075</b>	<b>1,221</b>	<b>1,369</b>	<b>1,362</b>	<b>1,663</b>	<b>1,895</b>	<b>1,657</b>	<b>1,437</b>	<b>5,027</b>	<b>6,652</b>
Change (%)	10.5	8.4	34.5	6.4	54.8	55.2	21.1	5.5	17.2	32.3

E: MOST Estimates

<http://deadpresident.blogspot.com> United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,455	UNTP IN
	REUTERS CODE
S&P CNX: 3,634	UNPO.BO
Equity Shares (m)	187.2
52-Week Range	352/204
1,6,12 Rel. Perf. (%)	4/27/8
M.Cap. (Rs b)	58.5
M.Cap. (US\$ b)	1.3

2 April 2007

Buy

Previous Recommendation: Buy

Rs312

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07E	21,646	2,912	14.4	34.7	21.7	3.8	20.7	16.8	2.8	10.0
3/08E	25,219	3,806	18.8	30.7	16.6	3.1	22.2	18.7	2.3	8.0
3/09E	28,261	4,403	21.8	15.7	14.3	2.6	21.1	19.0	1.9	6.6

Excluding Advanta &amp; Cerexagri

- United Phosphorus (UPL) is expected to report 27% YoY growth in consolidated revenues to Rs6.8b, driven primarily by five product acquisitions since August 2006, although numbers may not be strictly comparable. Also, our estimates do not yet factor in acquisition of Cerexagri, as we would wait for further details of the company.
- Cerexagri is expected to contribute around Rs2.5b-Rs3b to sales and Rs200m-Rs240m to EBITDA for the quarter.
- EBITDA margins are expected to improve by 100bp to 32.8%, resulting in EBITDA growth of 23% to Rs2.2b. However, higher depreciation (up by 17%) and higher tax provisioning (at 11.9% of PBT v/s marginal tax writeback in 4QFY06), will restrict PAT growth to 24% to Rs1.38b.
- Advanta India, the acquired seeds business, has recently announced an IPO for 3.38m shares for Rs600-Rs650/share, translating into a value of Rs5.5b for the 49.9% holding of UPL in Advanta.
- Current valuations at 14x FY08E and 11.5x FY09E based on our proforma consolidated EPS (fully diluted including Advanta and Cerexagri acquisition) do not fully reflect strong business fundamentals and any upside from potential acquisitions. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Revenues</b>	<b>4,075</b>	<b>4,381</b>	<b>3,847</b>	<b>5,717</b>	<b>4,804</b>	<b>5,169</b>	<b>4,840</b>	<b>6,834</b>	<b>18,020</b>	<b>21,646</b>
YoY Change (%)	21.3	22.7	26.3	34.5	17.9	18.0	25.8	19.5	26.7	20.1
Total Expenditure	3,055	3,255	2,914	3,899	3,589	3,824	3,671	4,593	13,123	15,677
<b>EBITDA</b>	<b>1,020</b>	<b>1,126</b>	<b>933</b>	<b>1,818</b>	<b>1,215</b>	<b>1,345</b>	<b>1,169</b>	<b>2,241</b>	<b>4,897</b>	<b>5,969</b>
Margins (%)	25.0	25.7	24.2	31.8	25.3	26.0	24.1	32.8	27.2	27.6
Depreciation	326	353	351	373	360	370	409	439	1,402	1,578
Interest	230	212	206	340	241	219	183	236	988	879
<b>PBT after EO Expense</b>	<b>464</b>	<b>561</b>	<b>376</b>	<b>1,106</b>	<b>614</b>	<b>755</b>	<b>577</b>	<b>1,565</b>	<b>2,507</b>	<b>3,512</b>
Tax	5	22	44	17	22	4	47	348	107	421
Deferred Tax	75	68	100	-23	51	94	174	-162	221	158
Rate (%)	17.2	16.0	38.5	-0.5	12.0	13.1	38.2	11.9	13.1	16.5
<b>Reported PAT</b>	<b>384</b>	<b>472</b>	<b>231</b>	<b>1,111</b>	<b>541</b>	<b>656</b>	<b>357</b>	<b>1,379</b>	<b>2,179</b>	<b>2,932</b>
<b>Adjusted PAT</b>	<b>384</b>	<b>472</b>	<b>231</b>	<b>1,111</b>	<b>541</b>	<b>656</b>	<b>357</b>	<b>1,379</b>	<b>2,179</b>	<b>2,932</b>
YoY Change (%)	78.4	50.9	53.8	24.3	40.8	39.1	54.2	24.1	38.6	34.5
Margins (%)	9.4	10.8	6.0	19.4	11.3	12.7	7.4	20.2	12.1	13.5

E: MOST Estimates; Excluding Cerexagri

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