

India Update


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Highlights from the previous week

Samajwadi Party leader, Mulayam Singh Yadav, has conceded defeat in the UP elections as BSP has taken a huge lead - media.

The Supreme Court has reserved its order on the Centre's plea to refer to a Constitution bench the issue of 27% quota for OBC in IIMs and IITs - media.

Corporate Highlights This Week

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GIPCL: 4QFY07 sales fell 5%YoY - Rs1.72bn; EBITDA by 1%YoY - Rs549mn.

Asian Paints: 4Q consolidated profit at Rs718m, up 55%; Group EBIT grew 34%.

GAIL: 4Q rec PAT Rs3.4bn, down 26% YoY; FY07 EPS - Rs24.2/sh, down 13%.

Ratings/ Estimates Change

Page 8

Ashok Leyland: Lowering EPS by 3% and 5% in FY08E and FY09E; Sell.

Ranbaxy Labs: Upgraded to Buy from Neutral; PO of Rs492/sh. tweaking CY07E EPS by 3% (24% growth) and estimate 32% EPS growth in CY08E (Rs21.5).

Reliance Petroleum: earnings upgraded by 16-17% in FY09-FY11E.

Rolta India: Initiating a Buy; local PO at Rs540/GDR PO at US\$13.1.

Tech Mahindra: tweaking FY08 and FY09 by -4% and 1%.

Union Bank: Cut PO by 6% to Rs160; earnings by 16-17% for FY08E & FY09E.

Wockhardt: CY07E EPS raised 16% to reflect Negma & Pinewood deals

Oil R&M: Upgraded R&M companies' FY07E rec EPS by 47-59% to Rs52-64/sh.

Two Wheelers: Downgraded Bajaj Auto to Sell; cutting EPS by 9.7% - FY08 & 9.5% - FY09; upgraded Hero Honda to Neutral

ExlService Holdings: Raised CY07 & CY08 EPS by 16% and 9%, resp. Sell.

Economic Overview

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Forex reserves was down to US\$204mn from US\$254bn as on 4 May 2007.

Inflation fell to 5.66% for week ended 28 April 2007.

Stock Market Overview

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The BSE Sensex was down by 1% last week. Trading volumes were up by 1% and the Advance/Decline ratio was 0.9 at BSE.

Top performers of the week: Britannia, UTI Bank, BPCL, Rel Capital and Bajaj Auto. Worst performers: GAIL, M&M, Colgate, Cipla and Tata Power.

New Reports Published

Model Portfolio: Switch from Dr Reddy's to Ranbaxy

UP Elections: UP Elections – Hung Assembly; No Impact on UPA Govt Likely

Telecom Services-Wireless/Cellular: Key takeaways – Infrastructure meet

ONGC: Negative subsidy surprise in FY07

Table 1: Model Portfolio

	MSCI Wt	Recommended ML Wt.
Telecom	4.7%	11.0%
: Bharti Tele		6.0%
: Reliance Com		5.0%
Industrials/Cement	9.9%	17.0%
: Grasim		5.5%
: BHEL		6.0%
: L&T		5.5%
Software	20.8%	24.0%
: TCS		10.0%
: Infosys		8.0%
: Satyam		6.0%
Financials	21.2%	21.0%
: ICICI Bank		9.0%
: SBI		7.0%
Energy	17.8%	15.0%
: Reliance		15.0%
Pharma	5.1%	4.0%
: Ranbaxy		4.0%
Consumer Discretionary	7.1%	5.0%
: Maruti Udyog		5.0%
Consumer Staples	6.0%	3.0%
: ITC		3.0%
Metals	3.2%	0.0%
Others	4.2%	0.0%

Source: ML Research

News This Week

Economics

- RBI has permitted banks to give loans and non-funded credits to wholly-owned entities of overseas subsidiaries floated by Indian companies - media.

Politics

- President A P J Abdul Kalam has favoured a stable two-party system, saying its absence was one of the many challenges facing the nation - media.

Corporate

- GAIL plans to raise over Rs150bn through overseas borrowings over next five years (part of the Rs250bn 11th FYP spend until 2012) - media.
- Essar Oil is in final negotiations to raise US\$100mn through ECB. - media
- LIC, the single largest shareholder in L&T has moved the Mumbai HC against the latter for issuing Esops to its nominee director, Kranti Sinha, without keeping it in the loop - media.
- Two Reliance arms have raised \$925mn (Rs37.54bn) in term loans to meet the infrastructural needs of the \$6bn RPL greenfield refinery - media.
- Tata Steel is considering the Singapore Stock Exchange for listing a GDR to mobilize US\$500mn to part-finance its \$12.9bn acquisition of Corus - media.
- Sinosteel plans to spend \$4bn to build a steel plant in India - media.
- Tata Steel, Baosteel of China and Evraz of Russia are in the race to pick up a majority stake in an integrated steel plant in Vietnam. The project will have local enterprises as minority partners - media.
- Concerned over poor track record of ISPs, TRAI has recommended lowering FDI on par with telecom sector at 74 % from the existing 100% - media.
- UK's Vodafone has paid US\$10.9bn in cash to acquire HTIL's 52% in Indian mobile firm Hutch-Essar - media.
- The government has sold its residual stake of 10.27% in Maruti Udyog for Rs23.6bn to a clutch of FIs, including LIC - media.
- DaimlerChrysler India is to invest Rs2.75bn on its new facility to be constructed near Pune over the next two years - media.
- Ashok Leyland plans a foray into airport passenger buses - media.
- Reliance Retail will soon open a new format of stores to sell FMCG goods, apparel, lifestyle brands, footwear *et al* in Punjab - media.
- Tata Tea has signed a JV with Zhejiang Tea Import and Export company of People's Republic of China - media.
- Starbucks Coffee Int is to open its first store in India by end 2007 - media.
- Canara Bank has appointed Ernst & Young to explore the possibility of acquiring Dena Bank - media.
- The Indian shareholders of Lintas India have agreed to sell their 51% stake in Interpublic Group, which holds the balance 49% - media.

Source: Collated from Bloomberg and the following news papers-Economic Times, Business Standard & Financial Express dated 7-11 May 2007

Corporate Highlights This week Gujarat Industries Power Co. – Generation Disappoints

Earnings Review

4QFY07 Sales Disappoint But PAT Above Expectations

GIPCL's weak 4QFY07 results reinforce our Neutral rating, with sales down 5%YoY & much below MLe, on lower generation (-19.6%YoY). Further, on a like-to-like basis, EBITDA declined 1%YoY at Rs549mn (MLe Rs573mn). However, lower than expected interest expense & low effective tax rate on account of 80-IA tax benefits for Vadodara Station-II and Surat Lignite plant led to Rec. PAT growth of 43.9%YoY at Rs238mn (MLe Rs205mn). After including one-time items, GIPCL reported PAT at Rs521mn (+186.7%YoY). Maintain Neutral despite inexpensive valuations, in absence of stock triggers & continued gas supply problems.

Operational performance weak on lower generation

GIPCL's 4QFY07 sales registered a decline of 5%YoY at Rs1.72bn led by lower generation at all three power stations, aggregating to 916mu (down 19.6%YoY). Generation at Vadodara Station-I was down 20.6%YoY on account of gas unavailability, Vadodara Station-II generation suffered 39.7%YoY on account of a major shutdown (once in 6 years) scheduled in 4QFY07 and generation at Surat plant was impacted by 7.9%YoY on account of unplanned outages. However, the balance sheet improved, with the company writing-off all bad debts greater than 6 months, aggregating to Rs551mn.

EBITDA down 1%YoY; Recurring PAT up 43.9%YoY

Led by lower sales, GIPCL's 4QFY07 EBITDA at Rs549mn (like-to-like basis) was down 1%YoY, even as other expenditures declined by 13%YoY. However, on account of 80-IA tax benefits available for Vadodara Station-II & Surat Lignite plant; , the effective tax rate was lower at 20.4% (vs 34.5% in 4QFY06), resulting in recurring PAT growth of 43.9%YoY at Rs238mn. After incorporating the one-time items of Rs284mn (post-tax), relating to the reversal of deferred tax liability and wage settlement of earlier years, reported PAT was up 186.7%YoY at Rs521mn.

Delayed capacity expansion in progress

GIPCL has placed equipment order for its 2x125 MW (45% of current capacity) expansion program at its Surat site on BHEL after almost a year of delay. The first unit of 125MW is expected to operational by November 2008, while the second unit is expected to be operational by March 2009. We see little stock trigger before these plants commission in FY09E.

Maintain neutral rating in absence of near-term triggers

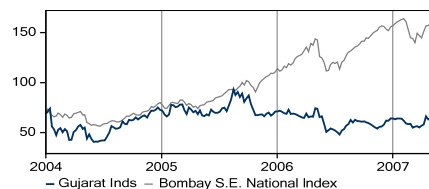
We maintain our Neutral rating on GIPCL despite its attractive valuation at 6.2x FY08E PER, due to lack of potential near term triggers. We expect the stock to move side-ways, as we believe the stock lacks earnings growth due to flat capacity and declining RoE over FY07-09E.

Stock Data

Price	Rs64.55
Investment Opinion	C-2-7
Volatility Risk	HIGH
ML Symbol / Exchange	GUJIF / BSE
Bloomberg / Reuters	GIP IN / GJIP.BO

Source: Merrill Lynch Research

Chart 1: Stock price performance



Source: Merrill Lynch Research

Table 2: GIPCL - 4QFY07 Results Review

Year End Mar31 (Rs mn)	4Q06	4Q07	% YoY
Unit Generated	1,139	916	-19.6%
Total Sales	1811	1720	-5.0%
Fuel Cost	(1090)	(937)	-14.0%
% of Sales	60.2%	54.5%	
Consumption of stores and spares	18	(63)	N.A.
% of Sales	-1.0%	3.6%	
Employee cost	(34)	(41)	19.0%
% of Sales	1.9%	2.4%	
Other Expenses	(150)	(130)	-13.1%
% of Sales	8.3%	7.6%	
EBITDA	555	549	-1.1%
EBITDA Margin %	30.6%	31.9%	
Depreciation	(256)	(232)	-9.5%
EBIT	299	317	6.0%
EBIT Margin %	16.5%	18.4%	
Interest	(108)	(96)	-10.8%
Other income	61	78	27.6%
PBT	252	299	18.4%
PBT Margin %	13.9%	17.4%	
Current tax provision (MAT)	(87)	(75)	
Deferred tax provision		14	
Total tax provision	(87)	(61)	-30.0%
Effective Tax Rate	34.5%	20.4%	
Recurring PAT	165	238	43.9%
Recurring PAT Margin %	9.1%	13.8%	
Prior Period Income/ (Expenses)	17	284	
Reported PAT	182	521	186.7%

Source: Company

Bharat Parekh >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Gujarat Industries Power Co. — Generation Disappoints by Bharat Parekh >> 7 May, 2007 for additional information, as well as important footnotes and disclaimers

Chart 2: Ranbaxy has under-performed Dr. Reddy's 45% since 2006



Source: Bloomberg

Model Portfolio – Switch from Dr Reddy's to Ranbaxy

Country Overview

Model Portfolio: Adding Ranbaxy due to strong EPS growth

We are switching our entire pharma weight from Dr Reddys to Ranbaxy led by (1) sharp underperformance to Dr Reddys, the sector and the market (2) strong growth prospects (2-year EPS CAGR of 27%) and (3) more exciting triggers in the form of Lipitor upside. We are also adding Reliance Capital to our model portfolio by adjusting the weights of existing financial stocks (but keeping overall financial weights unchanged).

Ranbaxy - Significant Underperformance to sector/market

Ranbaxy has underperformed both the market and BSE Pharma Index since 2005 due to earnings disappointments, FDA issues and low visibility on big ticket product upsides. It has underperformed the market and Dr.Reddy's by nearly 45% since 2006.

Ranbaxy - Strong Earnings Growth of 27% CAGR

We expect Ranbaxy's EPS to grow strongly at 27% CAGR over CY06-08E led by 16% revenue CAGR and 150bp increase in EBITDA margin (16.2% from 14.7). Key drivers for the growth are Generic pravastatin exclusivity in CY07E, significant scale-up of revenues from BRICS markets (55% of revenues by CY08E vs. 48% at present) and impact of Be-Tabs (S. Africa) and Terapia (Romania) acquisitions.

Ranbaxy - 35% upside to CY08 EPS possible, led by Lipitor

Our estimates have a possible upward surprise in CY08 of around 35% if some product launches get approvals. The big upside could come from Lipitor launch in Canada (US\$800 mn) in early 2008 (decision expected in late 2007). Other surprises could come from generic Valtrex (herpes) marketing exclusivity and R&D milestones from GSK Plc as part of the US\$100mn R&D deal with GSK.

Reliance Capital - Best play on the financials (ex-banking)

We believe Reliance Cap is one of the best plays on India's rapidly growing financial sector (ex-banking) by virtue of its various businesses- Life and general insurance, asset management, retail brokerage and consumer finance. We expect it to emerge among the top 3-5 in each of its businesses.

RCap's offers leverage to insurance, AMC

The life insurance business, contributing over 40% of value of RCap could see a re-rating as growth surprises and other companies get listed. Similarly, the AMC business may be undervalued given the recent multiples being paid for AMC buyouts.

Jyoti Jaipuria >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Model Portfolio — Switch from Dr Reddy's to Ranbaxy by Jyoti Jaipuria >> 7 May, 2007 for additional information, as well as important footnotes and disclaimers

Asian Paints Ltd. — Buoyant Demand

Earnings Review

Earnings Review

Stock Data

Price	Rs782.35
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs501.10-Rs835.00
Mrkt Val / Shares Out (mn)	US\$1,833 / 95.9
Average Daily Volume	16,838
ML Symbol / Exchange	XAPNF / BSE
Bloomberg / Reuters	APNT IN / ASPN.BO
ROE (2007E)	39.5%
Net Dbt to Eqty (Mar-2006A)	26.6%
Est. 5-Yr EPS / DPS Growth	20.0% / 20.0%
Free Float	53.0%

Source: ML Research Estimates

March Q beat expectations

4Q cons. profit is Rs718m, up 55% and 7% ahead of our estimates. For full year, this implies profit of Rs2.8bn, a growth of 32%. Group EBIT in 4Q grew 34%. This was 3% ahead of our expectations, led primarily by the domestic business.

Benefiting from very strong demand

We have been positively surprised by domestic paint sales growth of 29% in 4Q. Clearly underlying consumer demand is very strong. For the full year, domestic paint sales are up 22%, of which we estimate volume growth is 16%. International paint volume growth is stronger at 22%; however this is significantly lower margin.

Margins holding up despite input cost inflation

Group EBITDA margin grew 20bp in 4Q and was flat for the full year. Retail price hikes were in line with input cost hikes. Mgmt expects this strategy to continue. We highlight that over the last 10 years, A Paints' EBITDA per ton of paint sold has been flat in the domestic biz and hence volume is the key variable to track.

Does it get any better?

FY07 volume growth has been the strongest in the last seven years. High base coupled with rising interest rates is posing issues of sustainability of the strong growth trend. At the analyst meet, mgmt stated that demand, at least in FY08, is likely to be fairly insensitive to rising interest rates. We have built in 15% domestic volume growth in FY08E and FY09E.

We remain Neutral

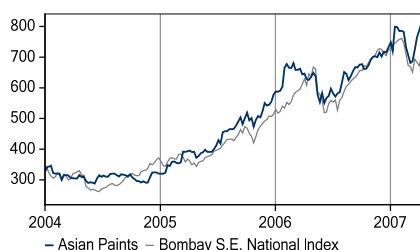
We believe Asian Paints is a very high quality play on India's growing consumption. However, at P/E of 22x FY08E, valuation upside appears limited.

Estimates and valuations

Mar (Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	1,741	2,122	2,778	3,457	4,044
EPS	18.20	22.23	28.96	36.05	42.17
EPS Change (YoY)	20.7%	22.2%	30.3%	24.5%	17.0%
Dividend / Share	9.50	12.50	15.03	18.54	21.73
Free Cash Flow / Share	4.91	14.91	9.19	30.31	35.23
P/E	42.98x	35.19x	27.01x	21.70x	18.55x
Dividend Yield	1.21%	1.60%	1.92%	2.37%	2.78%
EV / EBITDA*	22.84x	19.54x	16.45x	13.53x	11.73x
Free Cash Flow Yield*	0.627%	1.91%	1.17%	3.87%	4.50%

Source: Merrill Lynch Research

Chart 3: Stock price performance



Source: Merrill Lynch Research

Vandana Luthra >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Asian Paints Ltd. — Buoyant Demand by Vandana Luthra >> 10 May, 2007 for additional information, as well as important footnotes and disclaimers

Stock Data

Price	Rs909.35
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs620.33-Rs1,009
Mrkt Val / Shares Out (mn)	US\$47,525 / 2,138.9
Average Daily Volume	202,641
ML Symbol / Exchange	ONGCF / BSE
Bloomberg / Reuters	ONGC IN / ONGC.BO
ROE (2007E)	29.0%
Net Dbt to Eqty (Mar-2006A)	-5.3%
Est. 5-Yr EPS / DPS Growth	-1.0% / 0%
Free Float	25.9%

Source: Merrill Lynch Research

Oil & Natural Gas Corp. Ltd. — Negative subsidy surprise in FY07

Company Update

3-9% downside risk to FY07 earnings due to higher subsidy

ONGC's FY07 subsidy seems set to be 16% higher than expected at Rs170bn (US\$3.75bn). This rise is mainly due to government decision to raise upstream companies' share in subsidy to 42% from the expected 35%. Higher than expected subsidy will shave Rs7.2/share off ONGC's FY07E EPS. Downside to FY07E EPS may be 3-9% depending on whether other potential positive surprises materialize. We are however not changing FY07 earnings forecast. Our real concern is the raising of share of upstream companies in subsidy to 42% from 33% in the past. It would adversely affect valuation if it continues even in future.

FY07 subsidy of ONGC 16% higher than expected

Upstream companies were to bear 42% of FY07 subsidy as per the sharing finalized by the government in June 2006. However upstream companies had to bear only 35% of 9M subsidy, which we assumed would continue in 4Q. In 4Q their subsidy was so fixed as to take their FY07 share to the originally envisaged 42%. ONGC's FY07 subsidy at Rs170bn therefore is 16% higher than our estimate, which assumed upstream share in FY07 subsidy at 35%.

Higher than expected subsidy to shave 9% of FY07E EPS

ONGC's FY07E EPS will likely be hit by Rs7.2 due to its subsidy being Rs23bn higher than expected at Rs170bn. Its EPS would therefore be 9% lower than our estimate of Rs82.2 at Rs75. However other potential positive surprises may materialize. Its EPS in that case would be 3% lower than our estimate at Rs79.6.

Long term unfavorable shift in subsidy sharing for ONGC?

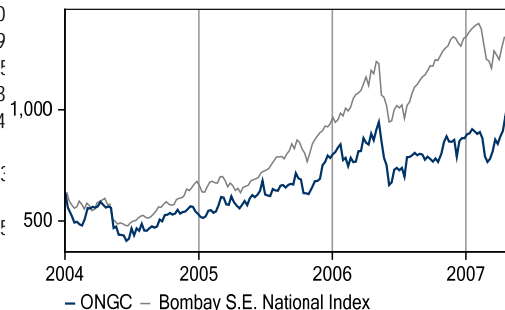
The raising of upstream companies' share in subsidy to 42% in FY07 may have signaled a long term shift in subsidy sharing, which is unfavorable for ONGC. The Rangarajan committee proposals had first hinted at such unfavorable change.

Estimates and valuations

Mar (Rs)	2005A	2006A	2007E	2008E	20
Net Income (Adjusted - mn)	140,523	151,631	175,821	211,791	200
EPS	65.70	70.89	82.20	99.02	9
EPS Change (YoY)	49.5%	7.9%	16.0%	20.5%	-5
Dividend / Share	26.67	30.00	29.00	36.00	3
Free Cash Flow / Share	20.49	18.28	56.96	54.94	4
P/E	13.8x	12.8x	11.1x	9.2x	2
Dividend Yield	2.9%	3.3%	3.2%	4.0%	2
EV / EBITDA*	6.9x	6.1x	5.4x	4.7x	2
Free Cash Flow Yield*	2.3%	2.0%	6.3%	6.0%	2

Source: Merrill Lynch Research

Chart 4: Stock price performance



Source: Merrill Lynch Research

Vidyadhar Ginde >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Oil & Natural Gas Corp. Ltd. — Negative subsidy surprise in FY07 by Vidyadhar Ginde >> 10 May, 2007 for additional information, as well as important footnotes and disclaimers

Ratings / Estimates Change

Ranbaxy Laboratories – Risk/Reward attractive; Up to Buy

Country Overview

Stock Data

Price (Common / GDR)	Rs381.95 / US\$7.58
Price Objective	Rs492.00 / US\$9.70
Date Established	7-May-2007 / 7-May-2007
Investment Opinion (Common)	C-2-7 to C-1-7
Investment Opinion (GDR)	C-2-7 to C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs305.50-Rs519.80
Market Value (mn)	US\$3,730
Shares Outstanding (mn)	399.0 / 399.0
Average Daily Volume	367,152
ML Symbol / Exchange	XANBF / BSE
ML Symbol / Exchange	RBXZF / NAS
Bloomberg / Reuters	RBXY IN / RANB.BO
ROE (2007E)	23.5%
Net Dbt to Eqty (Dec-2006A)	139.7%
Est. 5-Yr EPS / DPS Growth	17.0% / 10.0%
Free Float	64.2%

Source: Merrill Lynch Research

Recommendation upgraded to Buy from Neutral

We upgrade Ranbaxy Laboratories to a Buy from Neutral with PO of Rs492/share (28% upside potential). Our upgrade is driven by robust 27% EPS CAGR (CY06-08E) given higher visibility in scale-up of international operations and US products/R&D milestone upsides. Our PO includes Rs30/sh for Lipitor early entry into US.

27% EPS CAGR(CY06-08E) discounts risks but not upsides

We are tweaking CY07E EPS by 3% (24% growth) and estimate 32% EPS growth in CY08E (Rs21.5), slightly ahead of consensus which factors known risks like US pricing pressure / FDA issues. However, this does not factor a potential 37% EPS upside in CY08E from (a) generic Lipitor launch in Canada (b) generic Valtrex (herpes) exclusivity and (c) R&D milestones from GSK plc.

Bull-Bear analysis: risk vs. reward highly attractive

In a bull case scenario, we estimate 37% EPS upside from various product/R&D upsides which would result in potential PO of Rs634/sh (65% upside) whereas in a bear-case scenario (higher than expected pricing pressure, prolonged FDA issues, no product upsides), we estimate 14% EPS upside would result in potential PO of Rs333/sh (13% downside)

Significant stock underperformance prices in FDA issues

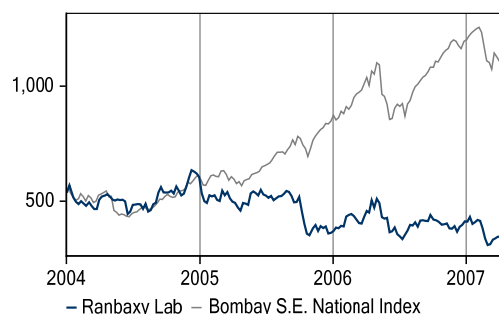
In our view, the stock's significant 40%+ relative underperformance in the past years on back of FDA issues and lack of big product visibility is now nearing an end. This is due to the robust earnings outlook, likely upsides from products like Lipitor (Canada), Valtrex, and impact of de-risking through collaborations.

Estimates and valuations

Dec (Rs)	2005A	2006A	2007E	2008E	2
Net Income (Adjusted - mn)	2,284	5,320	6,510	8,557	
EPS	6.13	13.33	16.32	21.45	
EPS Change (YoY)	-69.0%	117.4%	22.4%	31.5%	
Dividend / Share	4.50	9.00	9.00	9.00	
Free Cash Flow / Share	(20.95)	9.49	13.19	15.29	
GDR EPS (US\$)	0.139	0.295	0.399	0.525	
GDR Dividend / Share (US\$)	0.102	0.199	0.220	0.220	
P/E	62.29x	28.65x	23.41x	17.81x	
Dividend Yield	1.18%	2.36%	2.36%	2.36%	
EV / EBITDA*	62.26x	17.71x	14.75x	11.92x	
Free Cash Flow Yield*	-5.12%	2.48%	3.45%	4.00%	
EV / Sales	3.05x	2.60x	2.27x	1.94x	

Source: Merrill Lynch Research

Chart 5: Stock price performance



Source: Merrill Lynch Research

C. Visalakshi >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Ranbaxy Laboratories — Risk/Reward attractive; Up to Buy by C. Visalakshi >>7 May, 2007 for additional information, as well as important footnotes and disclaimers

Stock Data

Price	Rs80.60
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs51.00-Rs101.95
Mrkt Val / Shares Out (mn)	US\$8,877 / 4,500.0
Average Daily Volume	2,485,172
ML Symbol / Exchange	RPLUF / BSE
Bloomberg / Reuters	RPET IN / RPET.BO
ROE (2007E)	0%
Net Dbt to Eqty (Mar-2006A)	-14.3%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	10.0%

Source: Merrill Lynch Research

Reliance Petroleum Ltd. — Early commissioning key to further upside

Estimate Change

16-17% upgrade in FY09-FY11E earnings but retain Neutral

Reliance Petroleum's (RPL) refinery construction is progressing well. Reliance Industries (RIL) meanwhile is turning in a stellar refinery performance, which has prompted us to upgrade RPL's refining margin by 9% and its FY09-FY11E earnings by 16-17%. RPL's PE based valuation works out to Rs92/share, which offers 15% potential upside. There are also other potential upsides, which are not factored in. However the main trigger for more upside in the next 12 months is the refinery starting before schedule, which is not certain. We remain Neutral on RPL.

More upside possible to RPL's refining margin and earnings

We have assumed RPL's refining margin being US\$1.5-2/bbl higher than RIL's and RIL's margin being higher than Singapore also by US\$1.5-2/bbl in FY09-FY11E. However, RIL's average premium to Singapore margins in the last five quarters was much higher, at US\$3.3/bbl. RPL could attain an additional premium of US\$2/bbl to RIL's margin due to higher exports to the US than RIL, which we have not factored in. RPL could get commissioned 3-6 months ahead of schedule, which could mean FY09E EPS is Rs5.4-9.4 vis-à-vis base case of Rs1.9.

Valuation conservative as potential upsides not factored in

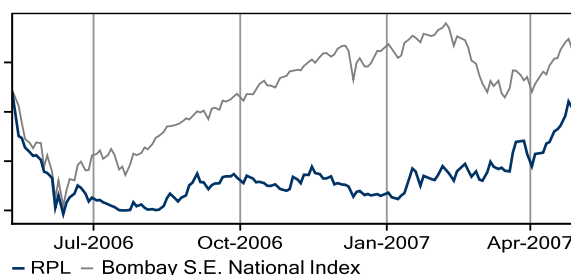
Our theoretical fair value for RPL may prove to be conservative as several potential upsides are not factored in. Even if some of the potential upsides to refining margin discussed above materialize, valuation would be higher. RPL could be expected to enjoy a higher multiple than 10.0x (Caltex Australia at 14.6x 2009E) assumed by us if Chevron exercises its option to hike its stake in RPL to 29%. Big upside is possible in 12-18 months if Chevron hikes its stake in RPL within 12 months driven by RPL's refinery starting six months before schedule. RPL could trade at 12-13x FY09E EPS of Rs9.4/share in that scenario.

Estimates and valuations

(Rs)	2007E	2008E	2009E	2010E
Net Income (Adjusted - mn)	0	0	8,553	52,283
EPS	0	0	1.90	11.62
EPS Change (YoY)	NA	NA	NA	511.3%
Dividend / Share	0	0	0.190	2.90
Free Cash Flow / Share	(13.55)	(27.78)	(8.39)	10.85
P/E	NA	NA	42.40x	6.94x
Dividend Yield	0%	0%	0.236%	3.60%
EV / EBITDA*	NA	NA	37.98x	6.65x
Free Cash Flow Yield*	-16.81%	-34.46%	-10.41%	13.46%

Source: Merrill Lynch Research

Chart 6: Stock price performance



Source: Merrill Lynch Research

Vidyadhar Ginde >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Reliance Petroleum Ltd. — Early commissioning key to further upside by Vidyadhar Ginde >> 8 May, 2007 for additional information, as well as important footnotes and disclaimers

Rolta India Ltd. — Dominant in growth niches, India IT play

Country Overview

25% upside, local PO at Rs540/GDR PO at USD13.1

We forecast 32% FY07-09 EPS CAGR on strong demand from Rolta's niche areas, especially engineering services and eSolutions and mix/leverage led EBIT margin expansion. Some 60% of revenues from India provide a hedge against Re appreciation and any US slowdown. Our PO is at 14x FY09e, at ~10% discount to our DCF value.

Dominant in high growth niches

Rolta's derives 59%, 29% and 12% revenues from Geographic Information Systems (GIS), engineering services (plant design) and eSolutions. We forecast GIS growth at ~25% as for peers like Infotech. Engineering services is at the start of a secular trend and forecast to grow at 24% CAGR until 2020. Rolta is well-entrenched with sticky client relationships, early start in engineering services, its partnerships with Intergraph & CA in India and JVs with Stone & Webster (SWRL) & Thales.

EBIT margin expansion helped by mix and leverage

We forecast 90bps expansion over FY07-09 to 27.5% led by growing proportion of engineering services, increasing capability to provide end to end solutions post SWRL and Thales JV and likely operating leverage.

Visible growth with upside risk; Domestic play

Growing order book, which supports 45% of our 1yr revenue forecast, potential to penetrate Stone & Webster's engineering work and targeted US\$500m/5yr rev from Thales JV supports our 35% rev CAGR over FY07-09. We see upside risk to estimates from new initiatives like ship design or liberalization of National Map Policy. Rolta stands out as a domestic play with 60% India revs. Risks: Non annuity business, risk related to acquisitions, dependence on partnerships.

Stock Data

Price (Common / GDR)	Rs439.00 / US\$10.40
Price Objective	Rs540.00 / US\$13.10
Date Established	7-May-2007 / 7-May-2007
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs124.00-Rs444.60
Market Value (mn)	US\$858
Shares Outstanding (mn)	79.9 / 79.9
Average Daily Volume	593,448
ML Symbol / Exchange	RLTAF / BSE
ML Symbol / Exchange	XLROF / LIN
Bloomberg / Reuters	RLTA IN / ROLT.BO
ROE (2007E)	17.2%
Net Dbt to Eqty (Dec-2006A)	-8.4%
Est. 5-Yr EPS / DPS Growth	28.0% / 28.0%
Free Float	59.2%

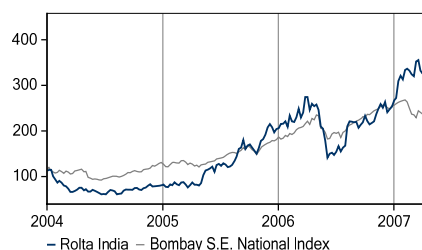
Source: Merrill Lynch Research

Estimates and valuations

(Jun) (Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	902	1,274	1,739	2,330	3,035
EPS	14.2	18.9	21.7	29.1	37.9
EPS Change (YoY)	NA	33.3%	15.0%	34.0%	30.3%
Dividend / Share	3.5	3.7	4.3	5.7	7.4
Free Cash Flow / Share	7.04	(3.74)	5.15	6.84	17.63
GDR EPS (US\$)	0.32	0.42	0.53	0.71	0.93
GDR Dividend / Share (US\$)	0.08	0.08	0.10	0.14	0.18
P/E	30.99x	23.25x	20.22x	15.09x	11.59x
Dividend Yield	0.790%	0.853%	0.970%	1.30%	1.69%
EV / EBITDA*	23.27x	15.38x	11.93x	8.92x	6.76x
Free Cash Flow Yield*	1.28%	-0.719%	1.18%	1.56%	4.03%

Source: Merrill Lynch Research

Chart 7: Stock price performance



Source: Merrill Lynch Research

Prasad Deshmukh >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Rolta India Ltd. — Dominant in growth niches, India IT play by Prasad Deshmukh >> 7 May, 2007 for additional information, as well as important footnotes and disclaimers

Union Bank Of India – Cutting PO; but earnings quality better

Country Overview

Results lower than est.; but earnings quality better

Union Bank's 4QFY07 earnings at Rs2.28bn (up 58% yoy) came in about 6-7% lower than our estimates owing to higher provisions and taxes. However, the quality of earnings was much better, led by a 41% yoy top line growth supported by higher CASA, 38% rise in fee revenues and sharp improvement in asset quality as fresh delinquencies declined and recoveries increased by 50% yoy. Gross NPL's were at 2.9%; net NPL's were 0.96% (0.4% incl general provisions).

Earnings cut by 16-17%; but may get higher rating

We are cutting earnings by 16-17% for FY08E and FY09E primarily owing to higher general provisions (owing to new RBI norms). We are, however, cutting our PO by only 6% to Rs160 (in sync with BV) as we believe the stock could also re-rate to 1.3-1.4x FY09E book owing to improved quality of earnings and rising ROE. This underpins our new PO. Sharp rise in NPLs/interest rates key risk to PO.

Earnings to still grow at 26% in FY08E; 21% in FY09E

We still forecast a 26% growth in FY08 earnings and 21% in FY09 led by 18% loan growth, benign margin pressure and 25% rise in fees. We are factoring in much higher provisions as we build in a rising NPL cycle (despite the bank doing well) and higher general provisions. ROE to rise to 20.8% by FY09E as bank focuses on profitability v/s growth owing to capital constraints – the key challenge as Tier I could fall to <6.5% post Basle II. Net NPLs to fall to <0.5% by FY09E and to be nil by FY08 itself including general provisions despite a rising NPL cycle.

Stock Data

Price	Rs108.85
Price Objective	Rs160.00
Date Established	7-May-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs80.50-Rs142.00
Mrkt Val / Shares Out (mn)	US\$1,346 / 505.1
Average Daily Volume	189,720
ML Symbol / Exchange	UBOIF / BSE
Bloomberg / Reuters	UNBK IN / UNBK.BO
ROE (2007E)	19.7%
Total Dbt to Cap (Mar-2006A)	NA
Est. 5-Yr EPS / DPS Growth	17.0% / 12.0%
Free Float	39.2%

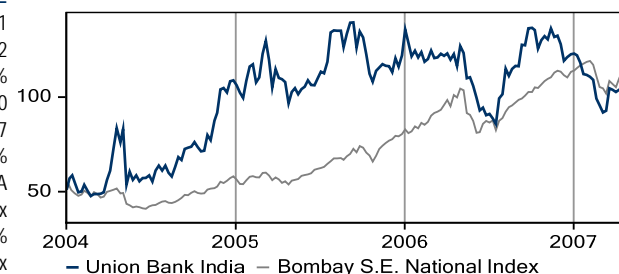
Source: Merrill Lynch Research

Estimates and valuations

(Rs)	2005A	2006A	2007E	2008E
Net Income (Adjusted - mn)	7,191	6,752	9,648	12,791
EPS	15.63	13.37	19.10	25.32
EPS Change (YoY)	1.0%	-14.5%	42.9%	32.6%
Dividend / Share	3.50	3.50	5.00	7.00
Pre-exceptional EPS	25.69	22.28	21.87	28.57
Pre-exceptional EPS Change (YoY)	312.5%	-13.3%	-1.8%	30.6%
Book Value / Share	NA	NA	NA	NA
P/E	7.0x	8.1x	5.7x	4.3x
Dividend Yield	3.12%	3.12%	4.46%	6.24%
Pre-exceptional PE	4.24x	4.89x	4.98x	3.81x
Price / Book	1.52x	1.21x	1.05x	0.898x
RoE / PB	14.11x	13.70x	18.77x	25.07x
Price / Pre-Provision Profit	3.81x	3.66x	2.93x	2.21x

Source: Merrill Lynch Research

Chart 8: Stock price performance



Source: Merrill Lynch Research

Rajeev Varma >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Union Bank Of India – Cutting PO; but earnings quality better by Rajeev Varma >> 7 May, 2007 for additional information, as well as important footnotes and disclaimers

Oil Refining & Marketing – Favorable subsidy sharing to boost FY07 earnings

Estimate Change

Upgrade FY07 earnings of R&M on favorable subsidy sharing

Generous issue of oil bonds to R&M companies has meant that they will cover 49% of FY07 subsidy. The decision to require upstream companies to bear another 42% of subsidy has meant R&M companies will have to bear only 10% of FY07 subsidy of US\$11bn. We therefore are upgrading R&M companies' FY07E recurring earnings by 47-59% to Rs52-64/share.

Table 3: FY08E earnings kept unchanged

Rs/share	HPCL	BPCL	IOC
FY08E	41.8	42.8	49
FY07E	54.3	64.1	51.7
YoY change	-23%	-33%	-5%

Source: DSP Merrill Lynch

Table 4: PE based on FY07E-08E EPS

(x)	HPCL	BPCL	IOC
FY07E	5.3	5.5	8.9
FY08E	6.9	8.3	9.4

Source: DSP Merrill Lynch

R&M companies to bear only 10% of FY07 subsidy

In June 2006 the government had approved a subsidy sharing formula under which oil bonds were to cover 49% of subsidy, upstream oil companies were to bear 42% of subsidy and R&M companies the balance 10%. The subsidy sharing formula looked too good to be true for R&M companies. In 9M FY07 oil bonds and upstream companies had covered 80% of the subsidy with R&M companies bearing the balance 20%. In 4Q upstream oil companies have been required to bear disproportionately high subsidy. This has ensured that R&M companies bear only 10% of FY07 subsidy as envisaged in the government approved formula.

R&M companies' FY07 earnings upgraded to Rs52-64/share

Our FY07 earnings estimates for R&M companies were Rs34-40/share. We were not sure whether any more oil bonds would be issued in 4Q. Also, the subsidy upstream companies would be required to bear in 4Q was not clear. Another Rs50bn of oil bonds were issued in 4Q to R&M companies, taking overall bonds to Rs241bn in FY07. Upstream companies have been asked to bear Rs57bn of subsidy (vis-à-vis Rs29bn expected by us) in 4Q, taking their FY07 subsidy to Rs205bn. The issue of bonds and upstream bearing Rs28bn more subsidy than expected has meant we are upgrading FY07 earnings estimates for R&M companies. We now expect their FY07 earnings to be Rs52-64/share.

Maintain FY08E earnings estimates

Our estimates of R&M companies' at FY08E earnings at Rs42-49/share are lower than FY07E earnings. We are, however, keeping FY08E earnings unchanged. This is because we are not sure the government will be as generous in issuing oil bonds in FY08E as in FY07. If the government is generous there is upside risk to earnings.

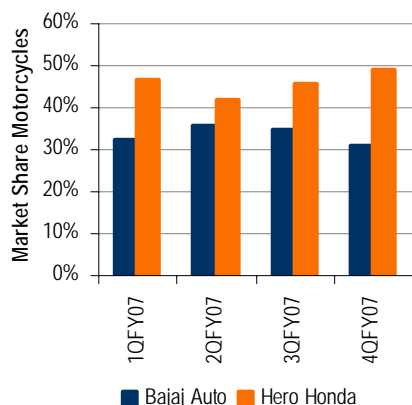
R&M company stocks remain trading plays

Despite their expected strong earnings in FY07E R&M companies remain trading plays at best. This is because we remain pessimistic on oil sector reforms, which can significantly reduce subsidy, at least until 2009 parliamentary elections. In the absence of reforms R&M companies' earnings are entirely dependent on how much oil bonds government will issue. Even in FY07E R&M companies would have been in the red if it had not been for oil bonds (see Table 10). However, we maintain Buy on HPCL as it's cheaper than peers based on PE multiple on FY07E and FY08E earnings.

Vidyadhar Ginde >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Oil Refining & Marketing – Favorable subsidy sharing to boost FY07 earnings by Vidyadhar Ginde >> 11 May, 2007 for additional information, as well as important footnotes and disclaimers

Chart 9: Bajaj Auto losing to Hero Honda


Source: Merrill Lynch Research, Society of Indian Automobile Manufacturers

Table 5: Revision of EPS - Bajaj Auto

(Rs)	FY08E	FY09E
Earlier	121.6	136.3
Revised	109.8	123.3
Chg	-9.7%	-9.5%

Source: Merrill Lynch Research Estimates

Table 6: Revision of EPS - Hero Honda

(Rs)	FY08E	FY09E
Earlier	43.6	47.9
Revised	47.5	55.5
Chg	9.0%	15.9%

Source: Merrill Lynch Research Estimates

Two Wheelers – Switch out from Bajaj Auto Country Overview

Downgrade Bajaj Auto to Sell

This is a non-consensus call, and based on worsening fundamentals of Bajaj Auto's domestic two wheeler business, both on demand and pricing. This is reflected in sharp downward revision of forecasts. Also, our revised rating factors positive news flow on restructuring involving spinoff of financial assets. We are also upgrading Hero Honda (XHROF; Rs705; C-3-7 to C-2-7) to Neutral, which is expanding market presence in the two wheeler space, at the expense of Bajaj Auto (BJJAF/BJAUF; Rs2609/US\$63.50; C-2-7 to C-3-7).

Upgrade Hero Honda to Neutral

We prefer Hero Honda in two wheelers, and upgrade from our Sell rating. This is based on relative valuations, on expectations of (1) sustained expansion in market share, and (2) superior earnings trajectory.

Market share differential is expanding

Bajaj Auto's competitive position in key motorcycle segments (100cc and 125cc) has diluted, as Hero Honda has hit back with recent product successes. This has resulted in a massive 360bps erosion of market share these past months, a position which is unlikely to reverse over the medium term.

Forecasts revised down for Bajaj Auto

We are slashing EPS estimates for Bajaj Auto by 9.7% in FY08, and 9.5% in FY09, pulled down by slowing volumes and declining margins. The impact should be acutely evident in H1 FY08 (estimate ~13% YoY decline). We are raising estimates sharply for Hero Honda.

Bajaj Auto overvalued on current fundamentals

Revised sum of parts value of Rs 2,448 (earlier Rs 2,568) is based on FY09E financials, and factors full value of insurance businesses on imminent spinoff to a separate financial arm.

Table 7: Valuation summary

	Inv. Rating	PER			PEG	ROE	EV/EBITDA
		FY07E	FY08E	FY09E			
Bajaj Auto*	Sell	16.3	16.0	12.7	23.8	24.9	7.8
Hero Honda	Neutral	16.3	14.8	12.6	1.2	38.8	7.4

Source: Merrill Lynch Research Estimates * Bajaj Auto's multiple excludes value of insurance subsidiaries for relevant years

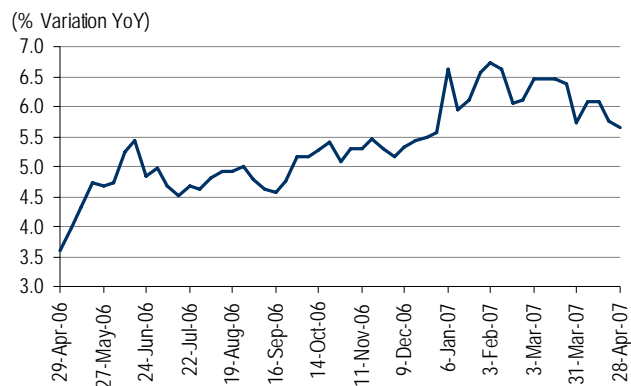
S. Arun >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Two Wheelers – Switch out from Bajaj Auto by S. Arun >> 11 May, 2007 for additional information, as well as important footnotes and disclaimers

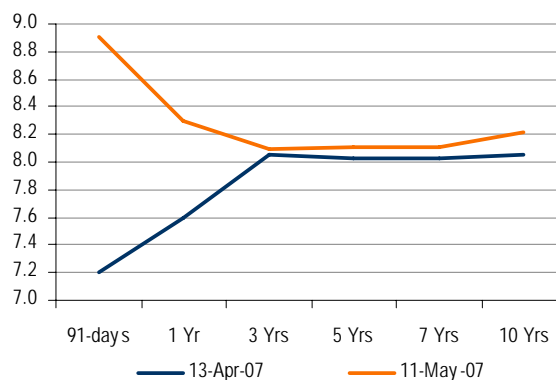
Economic Overview

Chart 10: WPI Inflation



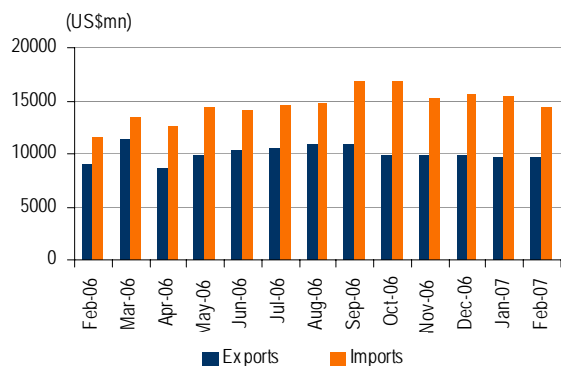
Source: ML Research

Chart 11: Yield Curve (%) – Govt. Bonds



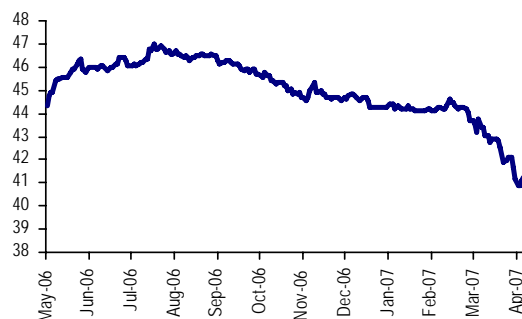
Source: ML Research

Chart 12: Exports and Imports



Source: ML Research

Chart 13: Exchange Rate (Rs vs US\$)



Source: ML Research

Table8: India Economic Forecasts

	FY05	FY06	FY07 MLE	FY08 MLE
Real GDP (%)	7.5%	9.1%	8.9%	8.3%
Agriculture	0.7%	6.3%	2.0%	1.8%
Industry	7.4%	8.0%	10.0%	9.0%
Services	10.2%	10.3%	10.8%	10.0%
Wholesale Price Index (Year end)	5.1%	4.0%	5.4%	4.2%
- Oil imports (US\$ bn)	29.86	43.84	58.00	62.00
- Non-oil imports, incl. defense (US\$ bn)	88.92	112.49	140.60	169.30
Imports (fob.; US\$ bn)	118.78	156.33	198.60	231.30
Imports (% YoY)	48.5%	31.6%	27.0%	16.0%
- Non-oil imports (%YoY)	49.7%	26.5%	25.0%	20.4%
Trade Balance (US\$ bn)	(36.6)	(51.6)	(72.9)	(83.9)
Current account (% GDP)	0.8%	-1.1%	-2.1%	-1.9%
Capital Account (US\$ bn)	31	23.4	40.2	37.2

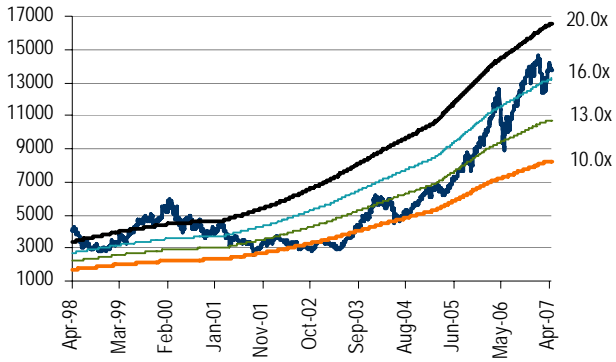
Source: Gol, ML Estimates

14 May 2007

Stock Market Overview

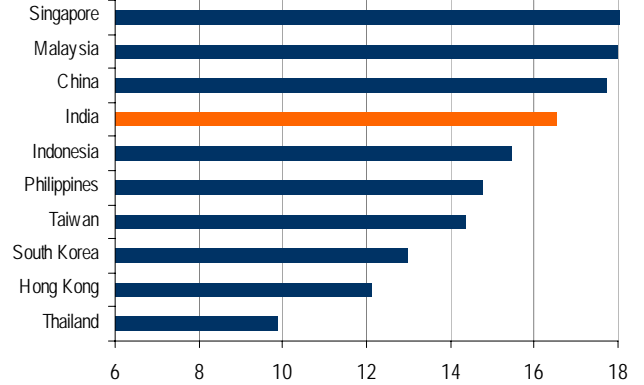
Market Data

Chart 14: 1 Year forward PE



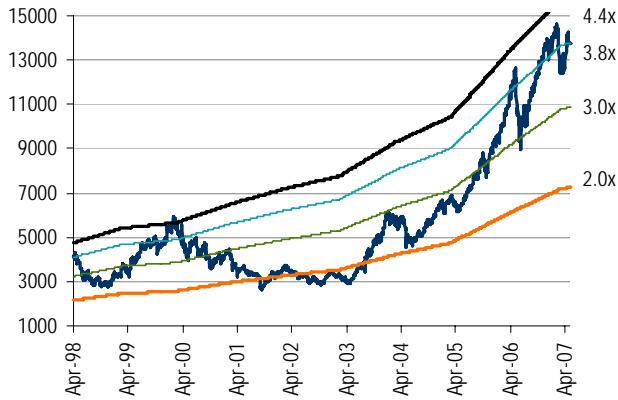
Source: ML Research

Chart 15: PE Regional (x)



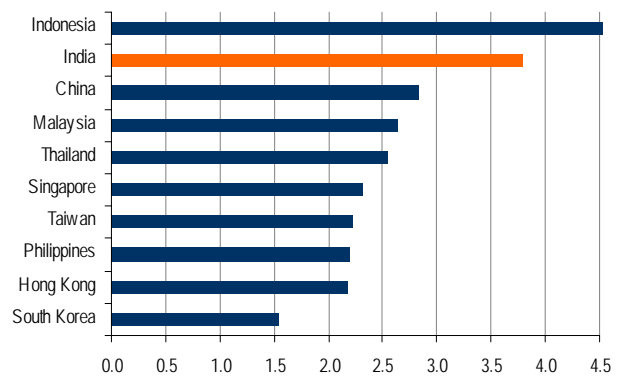
Source: ML Research

Chart 16: 1 Year forward price to book value



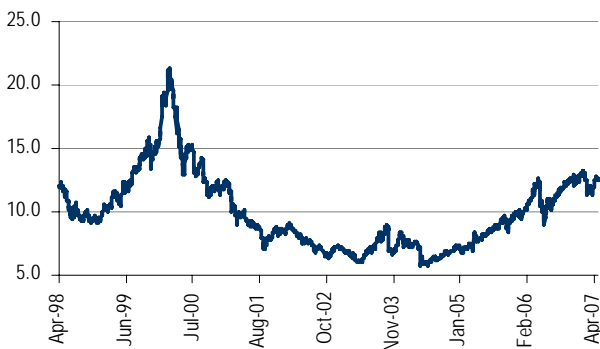
Source: ML Research

Chart 17: P/BV Regional (x)



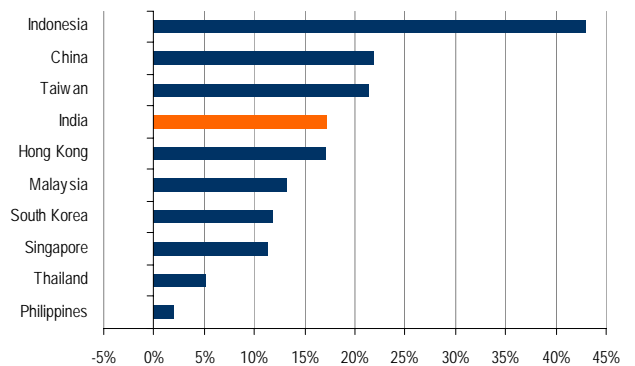
Source: ML Research

Chart 18: EV/EBITDA



Source: ML Research

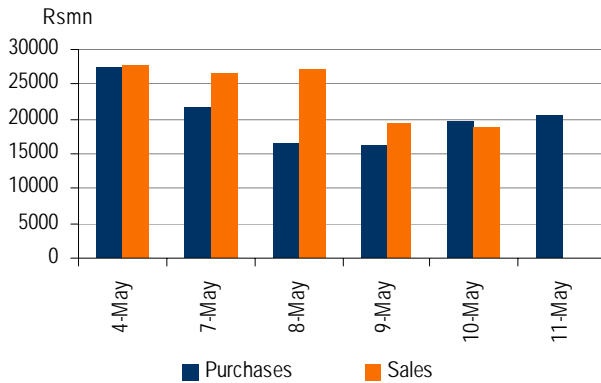
Chart 19: EPS Growth Regional (%)



Source: ML Research

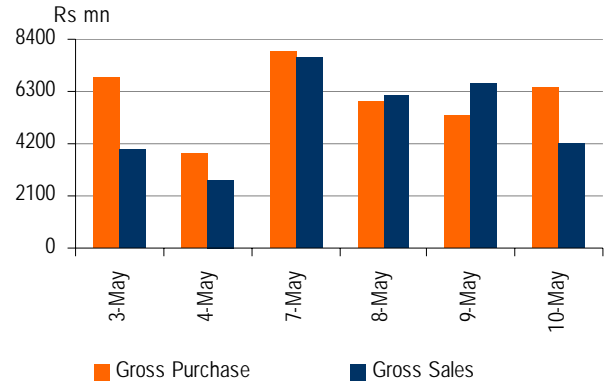
Market Data

Chart 20: Daily FII Purchases and Sales (Rsmn)



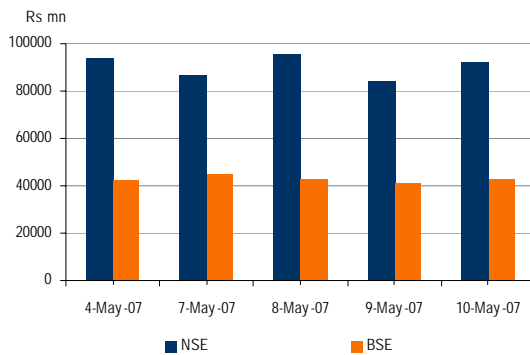
Source: SEBI

Chart 21: Daily Mutual Fund Purchase and Sales (Rsmn)



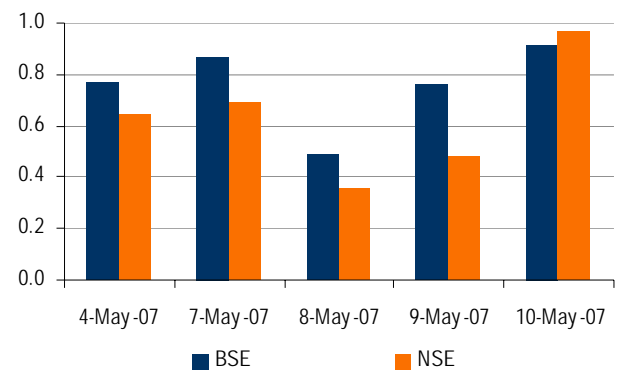
Source: SEBI

Chart 22: Daily Turnover



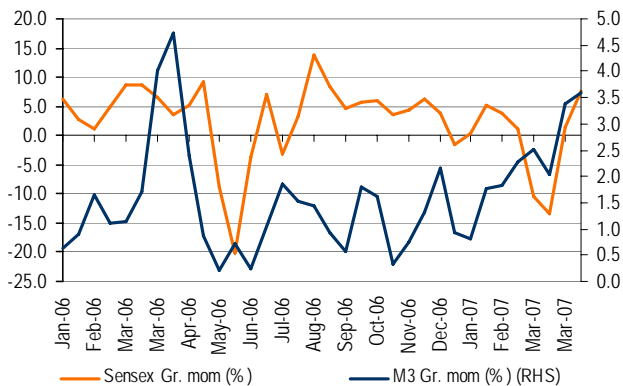
Source: Media

Chart 23: Daily Advance: Decline Ratio



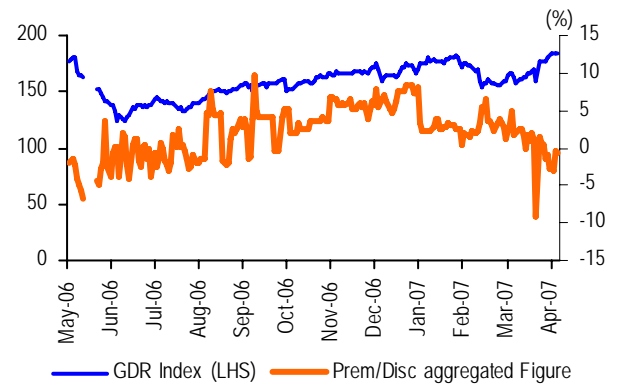
Source: Media

Chart 24: M3 vs. Index



Source: RBI; ML Research

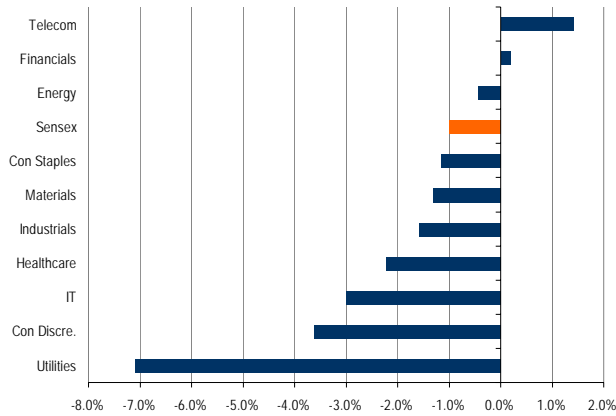
Chart 25: Merrill Lynch GDR Index and Premium/Discount



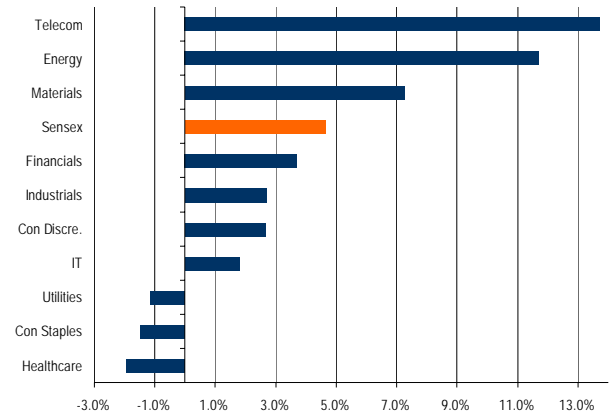
Source: RBI; ML Research

14 May 2007

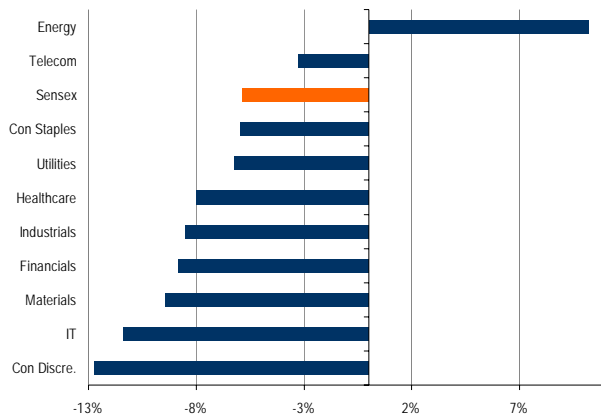
Sectoral Performance Charts

Chart 26: 1-Week


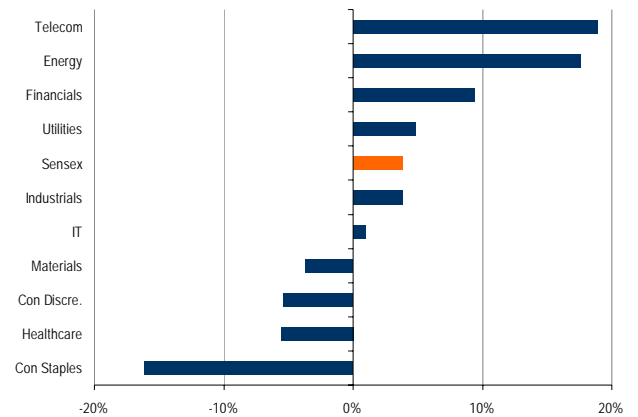
Source: ML Research

Chart 27: 1-Month


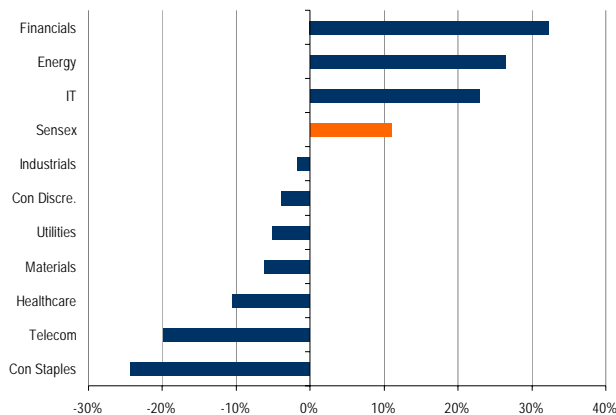
Source: ML Research

Chart 28: 3-Months


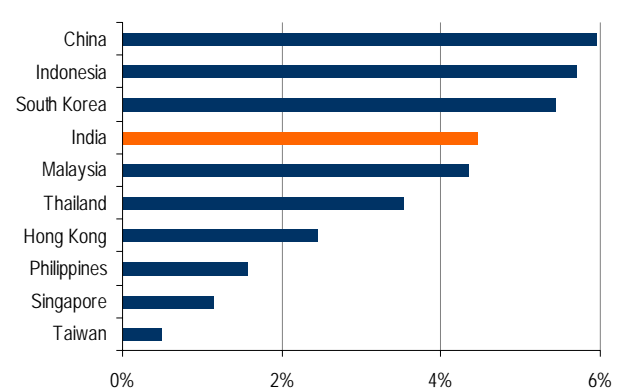
Source: ML Research

Chart 29: 6-Months


Source: ML Research

Chart 30: 1-Year


Source: ML Research

Chart 31: Regional Markets 1 Month (%)


Source: ML Research

14 May 2007

Table 8: Indian Stock Valuations

Company Name	ML Symbol	Recco.	Price	Market Cap	Net Profit			P/E (x)			RoE (%)	P/BV
			11 May 2007		US\$m	2006	2007E	2008E	2006	2007E	2008E	2007E
ABB	ABVFF	C-1-7	4212.45	3898.0	2187.7	3403.1	4897.6	81.6	52.5	36.5	32.9	15.1
Arvind Mills Ltd	ARVZF	C-3-7	45.25	206.8	806.2	421.0	784.9	11.8	22.5	12.1	2.8	0.6
Ashok Leyland	XDBVF	C-3-7	37.25	1082.5	3116.1	4520.8	4418.9	14.6	11.0	11.2	26.8	2.5
Asian Paints	XAPNF	C-2-7	777.55	1627.4	2122.2	2777.6	3457.0	35.0	26.8	21.6	39.5	9.8
Assoc. Cement	ADCLF	C-2-7	850.35	3477.7	6352.6	12396.0	14124.7	34.9	14.4	11.3	38.5	3.8
Automotive Axles	XATOF	C-1-7	564.95	186.3	368.6	433.6	545.0	23.2	19.7	15.7	51.2	9.0
Bajaj Auto	BJJAF/BJAUF	C-3-7/C-3-7	2718.60	6003.2	11242.7	12308.9	11113.3	24.6	22.3	24.8	24.1	5.0
Balaji Tele	BLJIF	C-1-7	179.35	255.2	611.1	759.4	868.3	19.1	15.4	13.5	27.9	4.0
Bank of Baroda	BKBAF	C-1-7	258.75	2064.2	8269.7	10654.8	14918.2	11.4	8.9	6.3	12.9	1.1
Bank of India	XDIIF	C-1-7	195.90	2087.0	5840.7	11236.3	13526.4	16.4	8.5	7.1	20.7	1.6
Bharat Forge	XRRGF	C-1-7	345.45	1676.1	2492.4	3103.8	4480.9	30.8	26.8	18.6	22.7	5.2
Bharat Heavy	BHRVF	C-1-7	2429.55	12978.1	16827.7	23812.6	28233.7	35.3	25.0	21.1	28.8	6.4
BPCL	XBPCF	C-2-7	357.25	2818.9	3676.1	23185.0	15469.6	35.8	5.6	8.3	21.9	1.2
Bharti	BHTIF	C-1-9	813.90	33674.0	22566.5	42571.0	64689.6	68.3	36.2	23.9	37.4	11.4
BIOCON LTD	BCLTF	C-1-7	459.50	1002.8	1739.9	2004.1	2532.1	26.4	22.9	18.1	20.5	4.3
CADILA HEALTHCAR	CDLHF	C-1-7	321.60	881.6	1639.0	2078.0	2635.3	24.6	19.4	15.3	25.8	4.4
Cairn India	XCANF	B-1-7	133.55	5184.7	na	1540.0	1370.1	na	154.3	173.4	0.5	0.7
Canara Bank	CNRKF	C-2-7	218.95	1959.2	13432.2	14297.2	17728.8	6.7	6.3	5.1	18.6	1.1
Cipla Ltd.	XCLAF	C-3-7	204.95	3476.8	6076.4	6608.0	7579.2	25.3	24.1	21.0	24.8	4.8
Colgate India	CPIYF	C-1-7	369.70	1097.2	1616.5	1879.1	2252.6	31.1	26.8	22.3	63.5	15.7
Corporation Bank	XCRRF	C-3-7	313.05	980.0	4444.5	5364.3	6313.3	10.1	8.4	7.1	15.0	1.2
Dabur India	DBUIF	C-1-7	92.95	1746.6	2270.5	2789.6	3355.3	35.2	28.7	23.9	52.5	13.4
Divi's Lab	XXQPF	C-1-7	3853.00	1077.9	695.3	1066.3	1751.2	71.0	46.3	28.2	26.7	10.8
Dr Reddy's Lab	DRYBF/RDY	C-1-7/C-1-7	683.45	2492.5	1467.4	8173.1	7618.0	77.8	14.0	15.0	27.5	3.0
Educomp Solu	EUSOF	C-1-7	1505.30	565.4	133.5	270.4	625.3	179.1	95.8	41.4	17.1	11.5
Eicher Motors	XEICF	C-3-7	252.10	154.6	361.8	675.8	560.9	19.6	10.5	12.6	15.9	1.7
Federal Bank	XFDRF	C-1-7	262.60	490.6	2252.1	2577.7	3400.0	10.0	8.7	6.6	18.8	1.5
Firstsource	FSSOF	C-1-7	84.90	787.5	246.8	972.4	1521.3	106.7	34.0	25.7	13.0	3.4
Gail India	XGLAF/GAILF	C-2-7/C-2-7	278.30	5136.3	23627.6	20466.0	22174.3	9.9	11.5	10.6	19.1	2.1
GSK India	GXOLF	C-1-7	1196.00	2210.9	3109.9	3672.2	4340.0	32.6	27.6	23.3	34.0	8.4
Glenmark Pharm	XVQWF	C-2-7	636.85	1752.4	864.8	3096.7	5232.1	92.8	25.9	15.3	59.0	11.2
Gokaldas Exports	GKLDF	C-2-7	195.00	73.1	609.7	744.2	902.6	5.5	4.5	3.7	19.6	0.8
Grasim	GRSJF/GRSJY	C-2-7/C-2-7	2428.80	4860.2	10364.7	19675.1	22749.1	21.5	11.3	9.8	50.5	4.7
GREAVES COTTON	XGRVF	C-1-7	311.45	332.0	850.9	1069.3	1310.3	17.9	14.2	11.6	44.8	5.8
Ambuja Cements	AMBUF/GUJRF	C-2-7/C-2-7	119.25	3957.7	4682.8	14086.6	15968.3	34.4	12.8	11.4	46.4	4.6
Gujarat Gas Co	GJGCF	C-3-8	1477.20	413.5	981.3	867.6	865.7	21.2	21.8	21.9	21.0	4.2
Gujarat Inds	GUJIF	C-2-7	62.75	151.8	1095.4	1145.7	1157.2	6.3	6.1	6.0	15.8	1.1
Gujarat State	GJRSF	C-1-7	55.70	659.2	466.8	976.1	1267.3	64.7	30.9	23.8	10.5	3.1
HCL	HCLTF	C-2-7	330.50	4616.0	7732.0	10645.3	11868.8	27.4	19.9	17.8	24.5	4.6
HDFC	HGDF	C-1-7	1656.40	9021.6	12573.1	15391.7	18601.3	32.8	26.9	22.2	31.4	7.8
HDFC Bank	XHDFF/HDB	C-1-7/C-1-7	997.85	6819.4	8708.3	11421.0	14744.7	35.7	27.4	21.2	19.9	5.0
Hero Honda	HRHDF	C-2-7	704.80	3071.8	9713.4	8573.7	9486.6	14.5	16.4	14.8	38.8	5.8
Hexaware Tech	XFTCF	C-1-7	166.10	473.6	915.0	1242.3	1525.7	22.1	17.7	15.8	22.5	2.9
Himatsingka Seid	HMKFF	C-2-7	117.85	250.6	486.2	598.5	796.6	23.6	19.2	14.4	10.2	1.9
Hindalco	HNDF/HINDSP	C-3-7/C-3-7	144.55	3659.5	15771.9	26878.9	17325.7	8.9	6.2	9.7	25.0	1.4
Hindustan Petro.	XHTPF	C-1-7	287.10	2123.7	4043.7	18390.2	14171.5	24.1	5.3	6.9	19.8	1.0
HLL	HINLF	C-3-7	185.45	8909.2	13104.7	15398.8	17967.3	31.2	26.5	22.7	61.9	15.3
ICICI Bank	ICIJF/IBN	C-1-7/C-1-7	848.55	16479.0	25400.7	31103.7	38898.4	27.2	24.3	19.4	13.4	3.1
IDBI	XDBIF	C-2-7	94.55	1493.5	5608.9	6300.2	7475.6	12.2	10.9	9.2	9.7	1.0
Infrastruct Dev	IFDFF	C-2-7	106.70	2613.8	3909.3	4804.3	5610.9	30.6	24.9	21.3	17.7	4.2
Indraprastha Gas	IAGSF	C-3-7	98.25	300.2	1061.4	1337.4	1444.8	12.9	10.3	9.5	31.9	3.0
i-flex	IFXXF	C-2-7	2361.10	4037.4	2190.4	3328.3	4402.0	84.5	55.6	42.0	22.3	11.3
India Cements	INIAF	C-2-9	183.05	1038.7	398.7	5526.7	6784.7	92.7	8.4	6.9	38.8	2.2
Infosys Tech	INFYF/INFY	C-1-7/C-1-7	2000.15	24307.8	24599.5	37260.0	47445.9	45.7	30.7	24.2	40.9	9.9
Infotech India	IFKFF	C-1-7	359.60	358.3	503.3	836.7	1132.1	32.6	19.6	14.7	33.7	5.8
IOC	IOCOF	C-2-7	454.90	11596.0	44944.3	61662.2	58392.2	11.8	8.8	9.3	18.4	1.5
ITC Limited	ITCTF/ITCTY	C-2-7/C-2-7	162.05	13280.9	22758.2	27498.8	29007.3	26.7	22.1	21.0	28.5	5.9
IVRCL Infrastruc	IIFRF	C-1-7	307.80	867.6	929.6	1184.6	1823.9	46.9	36.8	23.9	13.8	3.2
Jaiprakash Hydro	XJSHF	C-3-7	33.95	363.8	785.0	1095.3	1247.2	21.2	15.2	13.4	15.9	2.4
Jet Airways	JTAIF	C-1-9	707.85	1333.7	2910.8	-1684.2	-1690.0	21.0	-36.3	-46.6	-7.4	2.7
Larsen & Toubro	LTOUF	C-1-7	1688.45	10330.9	10707.2	15300.9	19378.9	44.1	31.3	24.5	28.0	7.8

14 May 2007

Table 8: Indian Stock Valuations

Company Name	ML Symbol	Recco.	Price 11 May 2007	Market Cap US\$mn	Net Profit			P/E (x)			RoE (%) 2007E	P/BV 2007E
					2006	2007E	2008E	2006	2007E	2008E		
M & M	MAHFF/MAHFF	C-2-7/C-2-7	721.20	3673.7	10688.7	14510.3	17488.6	15.7	11.8	9.8	32.7	3.3
Maruti Udyog	MUDGF	C-1-7	795.30	5016.2	11890.5	15619.8	17876.2	19.3	14.7	12.9	25.3	3.3
Mastek	MSKDF	C-1-7	315.05	195.4	690.9	898.1	1136.2	12.8	10.0	7.9	28.0	2.5
Matrix Lab Ltd	MXLBF	C-1-7	198.85	666.6	1375.6	625.8	1368.8	15.2	48.8	22.3	26.1	3.0
Mphasis	MPSSF	C-1-7	318.60	1439.3	1498.6	1789.1	2873.5	34.2	36.9	23.0	23.0	7.4
MTNL	XMTNF/MTE	C-3-7/C-3-7	152.10	2091.3	4103.1	4006.8	4614.3	23.4	23.9	20.8	3.6	0.8
NALCO	NAUDF	C-3-7	256.90	3612.5	14766.1	22769.5	14069.4	11.2	7.3	11.8	33.3	2.1
Nagarjuna Const	NGRJF	C-1-7	163.35	737.0	1039.5	1023.3	2106.4	32.4	22.5	16.0	10.4	3.3
NTPC Ltd	NTHPF	C-1-7	154.90	27874.9	55710.0	64217.9	78622.6	22.9	19.9	16.2	13.7	2.6
Nestle India	XNTEF	C-3-7	1099.25	2313.2	3095.7	3164.7	3786.5	34.2	33.5	28.0	83.6	26.3
Neyveli Lignite	NEYVF	C-2-7	62.70	2295.8	11169.6	12049.1	12665.3	9.4	8.7	8.3	12.7	1.1
Nicholas	XNIGF	C-2-7	269.20	1232.6	1238.9	2285.4	2858.4	45.6	24.7	19.8	22.6	5.3
ONGC	ONGCF	C-2-7	886.80	41395.3	151630.8	175821.0	211790.6	12.3	10.8	9.0	29.0	2.9
ORBC	ORBCF	C-1-7	191.80	1048.7	8031.9	8168.7	10110.5	6.0	5.9	4.8	15.9	0.9
Panacea Biotech	XPEAF	C-1-7	428.30	665.8	604.3	1483.0	1908.7	50.5	20.6	16.0	65.4	10.2
Patni	PATIF	C-1-7	468.25	1409.2	2680.1	2655.6	4376.1	22.7	24.6	15.2	12.6	2.9
Pantaloon	PFIAP	C-3-7	402.70	1236.5	385.5	537.1	713.3	109.9	100.8	79.4	14.3	10.3
Petronet LNG Ltd	POLNF	C-3-7	45.65	747.2	1949.3	3132.7	3596.5	17.6	10.9	9.5	26.6	2.7
Punjab National Bank	PUJBF	C-1-7	513.10	3530.8	14393.2	18345.4	25017.4	11.2	8.8	6.5	18.0	1.5
Ranbaxy Lab	XIZZF/RBXZF	C-1-7/C-1-7	390.75	3402.6	2283.9	5320.0	6509.9	63.7	29.3	23.9	21.0	6.0
Raymond Ltd	XRAMF	C-3-7	339.85	455.3	854.1	1377.8	1399.9	18.9	14.6	20.6	11.3	1.6
RCVL	RLCMF	C-1-7	478.05	21331.8	4813.0	31934.1	47779.6		31.5	21.6	19.9	4.8
Reliance Energy	RCTDF	C-1-7	508.70	2357.5	6503.4	7859.2	8595.5	16.6	13.7	12.6	10.6	1.4
Reliance Inds	XRELF/RLNIY	B-1-7/B-1-7	1590.25	48352.0	90693.4	122259.4	140257.3	24.4	18.9	17.8	21.7	3.7
Rico Auto Ind	RCATF	C-2-7	46.40	127.2	449.3	452.4	575.7	12.3	12.7	10.1	17.5	2.2
Rolta India	RLTAF	C-1-7	464.90	810.7	1273.9	1739.0	2329.9	24.7	21.8	16.3	17.2	3.4
Sasken Communic	SKNCF	C-1-7	487.15	303.0	229.2	442.7	783.5	48.7	32.6	18.4	11.0	3.3
Satyam	SAYPF/SAY	C-1-7/C-1-7	454.35	6633.8	9819.3	14047.4	17218.4	29.6	21.5	17.8	27.9	5.2
SBI	SBINF/SBKFF	C-1-7/C-1-7	1149.20	13200.0	44066.7	48182.3	60245.7	13.7	12.6	10.0	16.3	1.9
Shree Cements	SREEF	C-2-7	1037.25	788.6	1461.4	4053.5	3889.5	24.7	8.9	9.3	41.5	6.8
Shoppers' Stop	SHPSF	C-3-7	604.75	455.3	242.7	360.1	471.9	85.7	57.9	44.2	13.7	7.2
SIFY Limited US\$	SIFY	C-2-9	8.06	335.3	-3.4	7.5	7.5	-98.8	44.7	44.5	-4.5	3.2
Steel Authority	SLAUF	C-1-7	135.10	12178.5	40219.9	59321.4	67928.8	13.9	9.4	8.2	40.4	3.3
Sun Pharma	SPCEF	C-1-7	977.30	4417.5	5732.5	7249.7	9311.5	35.3	27.9	21.7	37.7	9.0
Suzlon Energy	SZEYF	C-2-7	1231.60	7734.9	7598.8	10704.0	16189.3	45.9	33.2	21.9	34.2	10.0
Tata Consultancy	TACSF	C-1-7	1252.70	26153.1	28831.0	40728.1	53701.5	42.5	30.1	22.8	55.0	13.7
Tata Motors Ltd.	TENJF/TTM	C-2-7/C-2-7	715.45	6285.1	16139.2	22215.0	23852.4	17.4	13.0	12.1	32.0	3.7
Tata Pwr. Co.	XTAWF	C-2-7	573.00	2474.8	4020.4	5265.4	NA	28.2	21.5	NA	NA	1.9
Tata Steel	TAELF	C-2-7	569.05	7211.5	35063.8	42117.2	52862.2	9.0	8.0	7.8	35.2	2.3
Tech Mahindra	TMHAF	C-1-7	1511.45	4018.4	2421.9	6126.0	9893.6	81.1	32.1	19.9	90.5	25.0
Triveni Engg	TVIEF	C-1-7	52.55	295.8	1315.0	1641.6	2087.0	10.3	8.3	6.5	26.9	2.0
TVS Motor	XFKMF	C-3-7	62.85	325.8	1170.0	666.5	713.0	12.8	22.4	20.9	8.5	1.9
UltraTech Cemen	XDJNF	C-2-7	796.80	2164.9	2298.8	7823.0	9332.2	49.2	12.7	10.6	55.8	5.6
Union Bank India	UBOIF	C-1-7	113.05	1246.3	6751.8	9647.8	12791.3	8.5	5.9	4.5	19.7	1.1
United Phosphoru	UPHHF	C-1-7	298.05	1301.0	2162.8	2774.2	3934.7	27.6	21.5	15.1	19.7	3.9
UTI Bank	UTBKF/UTIBY	C-1-7/C-1-7	520.45	3165.5	4852.3	6590.3	8685.1	29.6	22.0	16.7	21.0	4.3
Vijaya Bank	VJYAF	C-3-7	48.40	457.9	1268.8	3172.0	3443.6	16.5	6.6	6.1	17.7	1.1
VSNL	VSLSF/VSL	C-2-8/C-2-8	452.05	2811.7	4499.0	4107.4	4275.3	28.6	31.4	30.1	6.6	2.0
Welspun India	WPNIF	C-1-9	67.80	108.2	382.0	560.1	844.4	13.0	8.8	5.9	10.2	0.9
Wipro	WIPRF/WIT	C-2-7	545.70	16758.5	20673.9	29315.4	35393.6	37.6	26.5	22.1	36.2	8.1
WNS (Holdings) L	WNS	C-2-7	26.25	21.9	18.3	27.2	37.8	50.2	40.5	30.3	20.1	5.2
Wockhardt	XDUVF/WKHZF	C-2-7/C-2-7	399.60	1029.1	2571.1	2393.5	3361.4	17.0	16.2	14.0	25.4	4.4
Yes Bank Ltd	YESBF	C-1-7	154.25	908.9	NA	916.5	1610.4	NA	46.3	26.8	13.8	5.7
Zee Entertainmen	XZETF	C-1-7	282.80	2676.0	2025.2	2195.4	3778.3	60.7	56.0	32.6	16.5	7.6

*Dec, # June, @Sept. Year ending companies: FY05A is March 05 and Dec 04 for Dec end cos.; Source: ML Estimates

Table 9: Wted. BSE Sensex Valuation

13796.16	FY04	FY05	FY06	FY07E	FY08E
PE	38.9	31.0	25.9	19.4	16.6
EPS Growth	21.4%	27.2%	17.9%	36.5%	17.2%
P/Cash Eps	21.92	23.36	20.30	15.30	13.13
CEPS Growth	16.2%	14.8%	14.8%	33.2%	16.5%
P/BV	7.80	6.53	5.82	4.50	3.81
RoE	19.8%	23.2%	24.2%	25.4%	24.9%
Cor Gearing	27.6%	14.6%	14.3%	3.5%	1.2%
Dividend Yield	1.1%	1.1%	1.0%	1.3%	1.5%
EV/EBIDTA	12.49	10.22	12.64	12.51	11.24

Source: ML Research

Price Objective Basis & Risk

Ranbaxy Lab

We upgrade Ranbaxy Laboratories to a Buy from Neutral with PO of Rs492/share (28% upside potential). Our upgrade is driven by robust 27% EPS CAGR (CY06-08E) given higher visibility in scale-up of international operations and US products/R&D milestone upsides. Our PO includes Rs30/sh for Lipitor early entry into US.

The stock currently trades at 22.4x CY07E earnings and 17.25x CY08E earnings estimate.

Risks to our PO: Regulatory delays in product launches, Litigation risks, higher than expected US generic pricing pressure, prolonged FDA manufacturing issues and EU healthcare reform pressure.

Rolta India

Our PO on local at Rs540 is at 14x FY09e PE at 7% discount to our target multiple for Infotech Enterprises and at about 10% discount to the DCF value. Our GDR PO at USD13.1 is at par with the local PO.

Risks: a) Non annuity nature of business b) risk related to possible acquisitions

c) risk posed due to high dependence on partnerships d) industry wide risk of increasing wages, increasing taxes, rupee appreciation

Union Bank of India

We believe the stock could also re-rate to 1.3-1.4x FY09E book owing to improved quality of earnings and rising ROE. This underpins our new PO. Sharp rise in NPLs/interest rates key risk to PO.

Analyst Certification

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

Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

DSPML is advisor to the shareholders of Lintas India Private Limited who have agreed to sell their 51% stake in the agency to their international partners the Interpublic Group as announced on May 8, 2007.

14 May 2007

Important Disclosures

Investment Rating Distribution: Banks Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	119	44.57%	Buy	49	52.13%
Neutral	122	45.69%	Neutral	57	54.81%
Sell	26	9.74%	Sell	14	58.33%

Investment Rating Distribution: Building Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	47	47.96%	Buy	10	22.73%
Neutral	37	37.76%	Neutral	7	20.59%
Sell	14	14.29%	Sell	1	9.09%

Investment Rating Distribution: Energy Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	137	57.81%	Buy	48	41.03%
Neutral	92	38.82%	Neutral	24	30.38%
Sell	8	3.38%	Sell	0	0.00%

Investment Rating Distribution: Health Care Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	97	46.86%	Buy	25	27.78%
Neutral	100	48.31%	Neutral	32	34.41%
Sell	10	4.83%	Sell	3	33.33%

Investment Rating Distribution: Technology Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	114	41.76%	Buy	21	20.39%
Neutral	146	53.48%	Neutral	31	22.79%
Sell	13	4.76%	Sell	1	9.09%

Investment Rating Distribution: Utilities Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	62	37.35%	Buy	19	37.25%
Neutral	89	53.61%	Neutral	39	51.32%
Sell	15	9.04%	Sell	2	14.29%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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