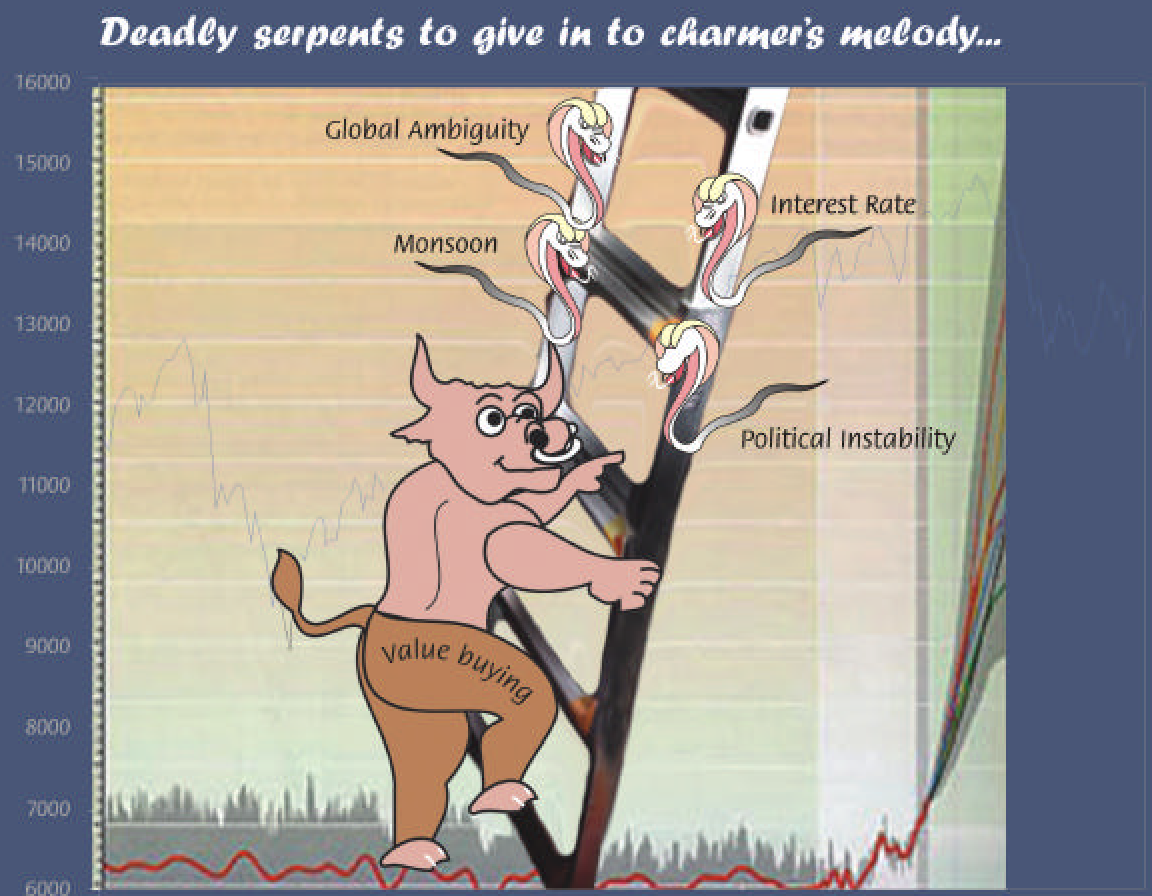
Quarterly
Result Preview

April 2007



TAKE CHARGE

Networth[SM]
Stock Broking Ltd.

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Markets remain volatile

Market remained volatile during the quarter on the back of global re-rating and lost around 5.2%. After touching an all time high of 14723 on 9th Feb 2007, Sensex lost around 11.2%. The performance of mid cap and small cap index also remained subdued owing to lower participation from investors. The P/E multiple for Sensex moved from 22.61x to 20.33x on FY07E earnings during the quarter.

Inflation - a cause of concern

During the quarter, inflation was the biggest concern for the country which is hovering above 6%. To curb the same, government has taken various measures like:

- **Monetary measures**
  - Hike in Repo rate & CRR
- **Fiscal measures**
  - Cut in customs duty on inorganic chemicals, capital goods, alumina, refractories and cement
  - Banned futures trading in certain sensitive commodities like tur (red gram), wheat, rice and pulses
  - Banned export of wheat
  - Petrol prices cut by Rs.2 and diesel prices by Re.1
  - Excise duty on petrol and diesel reduced from 8% to 6%
  - Tax imposed on iron ore exports
  - Introduced dual excise duty structure in cement
  - Edible oil exempted from countervailing customs duty of 4%.

In spite of the various rigorous monetary and fiscal measures undertaken by the Government, inflation refused to come down to the level desired by the government at 5.0-5.5% level and is hovering above the 6% mark. Looking at the domestic political situation and ahead of state elections in key states, government will be compelled to take more harsh measures to contain inflation, which may be at the cost of economic growth. As we know, industries are running at full capacity utilisation levels and Indian companies are expanding capacities to meet the growing demand. However, rising interest rates may defer certain expansion plans. This may accentuate the supply side concerns of the economy. In order to contain the rising prices through tighter monetary and credit measures, we feel Government is compromising on the much talked about 9% GDP growth. In this milieu, investors naturally fear that the growth bubble might burst if physical infrastructure does not keep pace in the absence of second-generation reforms.

Rupee strengthened against dollar

Rupee has appreciated by 1.8% during the quarter, supported by fresh infusion of FII funds in the Indian markets. Rising interest rates also fuelled dollar inflow into the country. RBI slowed down absorbing dollar as this would increase the money supply and translate into higher inflation.

Trade deficit-alarming signal

We have also seen that export growth remained subdued during the quarter and country's merchandise trade deficit widened to US$55.86bn in April-Feb 2007 from US$37.58bn in the same period last year. The sharp rise in trade deficit was seen on the back of ban on exports of few commodities, allowing duty free imports and sharp uptrend in imports of capital goods. Appreciation of rupee also made exports unattractive for companies. All the above factors had a negative effect on trade deficit. At the same time, we have built a huge forex reserve of US $199bn which gives some comfort.

Factors to decide momentum

Going forward, concerns are looming on the Indian economy namely monsoon, higher inflation and interest rate, political situation and lack of clarity on the global economic scene that may work against economic growth. Progress of monsoon in the coming months is expected to decide rural demand. On the other hand, we expect inflation to ease on the back of higher base effect and increase in supplies. As inflation is likely to ease in the coming months, we expect interest rates to stabilize at these levels. Looking at the ensuing election in the country, we believe government may take more populist reform measures. A glimpse of the same was seen when UPA government provided free power to farmers in Punjab and Andhra Pradesh and hiked MSP prices for wheat ahead of UP elections. Government will prefer to go slow on reforms like SEZs and liberalizing retail trade.

Outlook

Despite macro economic concerns, we are confident about India's growth story as manufacturing is growing in double digits and services contribute higher to the GDP. Corporate earnings growth is expected to be supported by domestic demand. We expect market to remain firm as inflation alone cannot derail the equity market growth because growing economies have higher inflation. We opine that market is driven by economic growth and corporate earnings. Inflation is expected to ease in the coming months and interest rates are likely to stabilize. We expect value buying to emerge in the market as the shadow on concerns fade.

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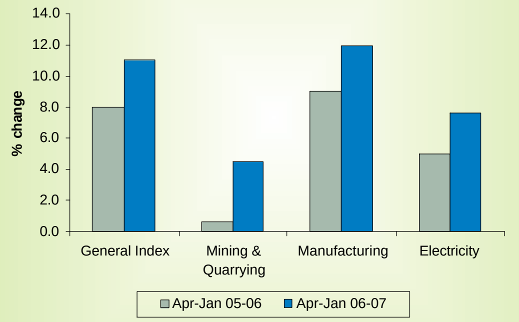
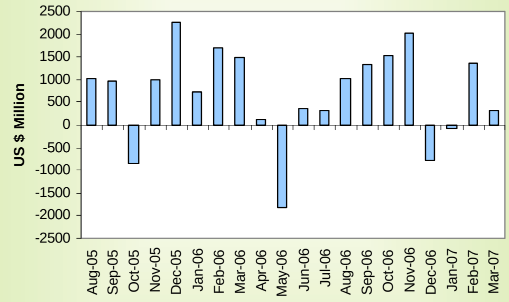
Sectoral Outlook

	March 2007	June 2007
Aviation	Market Performer	Market Performer
Banking	Market Performer	Market Underperformer
Capital Goods	Market Outperformer	Market Performer
Cement	Market Outperformer	Market Performer
IT	Market Performer	Market Underperformer
Metals	Market Performer	Market Outperformer
Shipping	Market Performer	Market Performer
Telecom	Market Outperformer	Market Performer

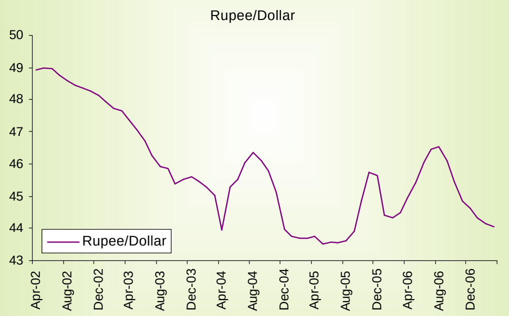
Buoyancy in industrial growth continues



FII inflows slowdown due to economy concerns

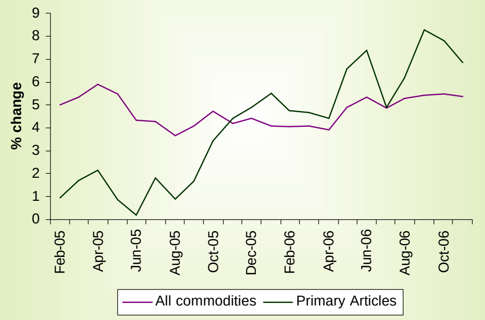


Rising interest rate fuel dollar inflows

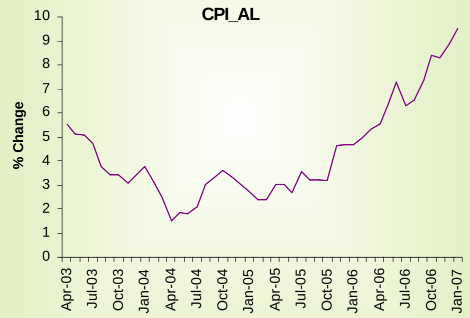


Slowdown in export growth may lead to higher trade deficit

Higher Agri prices taking inflation to higher levels



Consumer price index hovering above 9%



Improved Outlook on PLFs and airfares...

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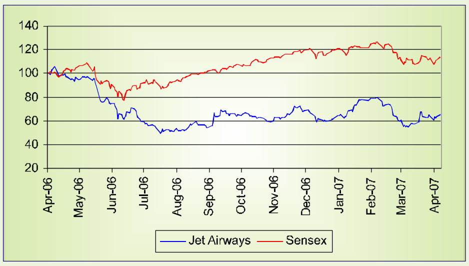
	Reco*
Jet Airways	-
CMP : 644.85	NR

* NR - Not Rated

Relative performance of Jet Airways / Sensex



- **Domestic** air passenger traffic accelerated by 40.5% to 57.55 mn for the period Apr-06 to Jan-07 as opposed to 40.97 mn passengers in the corresponding period a year ago. The **international** traffic to and from India continued to grow by 15.1% to 21.16mn (Apr-Jan 07).
- There has been an aggressive price war in the past due to industry capacity growth being higher than demand growth. In addition to that, increase in ATF prices during first half of this year played havoc with the financials of airlines. Hence in coming months a **slowdown** will be seen in the **expansion plans** of the players. As a result of this we can expect an improvement in passenger yields and profitability going forward.
- In one of the recent developments - the Ministry of Civil Aviation has raised the minimum equity capital requirement for airlines to start or continue operations, thus **raising the entry barriers for carriers**. Also the government has limited the no of flights during an hour to 30 for Mumbai and Delhi airports this summer. Thus, even with the lean season approaching, **downside in airfares** in Q1FY08 will be limited.
- **Jet Airways (India) Ltd** showed a marked improvement in its passenger load factors (PLF) for the peak months of Jan 07 and Feb 07 to 75.1% and 73.8% respectively. The daily flights from Delhi to Bangkok introduced in January 07 were well received and registered PLF's of 57.3 % and 68.2% in the respective 2 months.
- **Key triggers** to watch for are – permission from GOI to fly on Gulf routes (if received) and improvement in PLF's and yields in FY08. Looking at the longer term, the company's international operations represent a long-term growth opportunity and commencement of flights to US in August 07 holds the key to profitability.
- In the near-medium term the **acquisition of Air Sahara** is likely be a drag in the financials of Jet, as Sahara's financials are believed to be in a bad shape currently. It will depend on how effectively Jet manages to turnaround the operations of Air Sahara in the next 2-3 years. The situation is still under our review and a formal announcement of the deal by the company's management is awaited.

Quarterly Estimates

Particulars	**Total Revenues**			**EBIDTAR**			**Net Profit**			**Valuations (FY08E)**	
(Rs.Mn)	**Q4 FY07E**	**% QoQ**	**% YoY**	**Q4 FY07E**	**% QoQ**	**% YoY**	**Q4 FY07E**	**% QoQ**	**% YoY**	**CEPS**	**P/CEPS**
Jet Airways	21,624.4	11.7	33.1	3653.1	18.5	96.7	448.8	12.1	(80.2)	117.7	5.5

Pressure on margins to prevail

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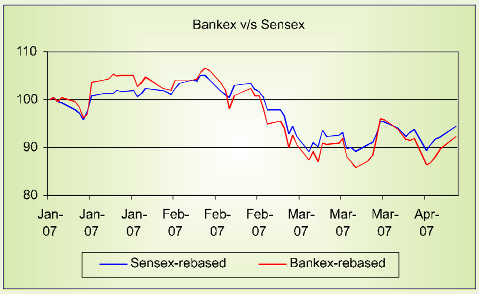
	Reco*
Allahabad CMP: 72.3	Buy 112.0
Bank of Maharashtra CMP: 38.7	Buy 50.0
Corporation CMP: 273.9	Buy 362.0
PNB CMP: 450.8	Buy 564.0
SBI CMP: 989.8	Buy 1250.0
Union CMP: 103.1	Buy 141.0
IndusInd CMP: 40.4	Hold 48.0
UTI CMP: 489.2	Accu 520.0

* Target for FY08E



- The sector outlook took a dramatic U turn with inflationary concerns looming large over the economy. BSE Sensex declined by 5.5% during the January-March (JFM07) quarter while BSE Bankex declined by 7.6%.
- In order to control inflation, govt. has taken several monetary measures during the quarter to curtail the steepening liquidity (M3) that is growing at the rate of 22.2% y-o-y. The increase in repo rate and CRR has led to a hike in PLR across banks making credit expensive. Certain measures were also taken to watch credit flow to sensitive sectors like housing and real estate.
- During the quarter, the key focus of banks has been to increase the CASA (Current and Savings Account) mix in the deposits portfolio. This would not only enable banks to maintain the robust credit demand in a tightening liquidity scenario but also keep a check on its increasing cost of deposits and manage margin pressure. Deposits have risen by 25% y-o-y while advances witnessed a growth of 29.4% y-o-y as on March 16. However, term deposit growth rate has been faster than that of demand deposits, as it has become a lucrative investment option post PLR hikes.
- We expect the performance of banks during the JFM quarter to be impacted due to pressure on net interest margins and higher provisioning requirement for sensitive sectors as well as for the AS (15) gratuity norm.
- Although valuations have come to attractive levels, we foresee further concerns on the sector in Q1FY08 due to continuation of margin pressure. Going forward, if inflation eases out, as expected, in Q1FY08, we may observe value buying in the sector on the back of the robust economic outlook.
- Our top picks in the sector are SBI, PNB, IOB and ICICI Bank.

Quarterly Estimates

Particulars	Net Interest Income			Profit before Provisions			Net Profit			Valuations (FY08E)	
(Rs. Mn.)	JFM 07 E	% QoQ	% YoY	JFM 07 E	% QoQ	% YoY	JFM 07 E	% QoQ	% YoY	P/Adj BV	P/E
Allahabad	5,061.6	4.4	10.3	2,981.6	(8.6)	(10.8)	1,319.0	(53.9)	(12.4)	0.8	3.5
BOM	2,485.0	3.6	8.3	1,876.5	9.5	137.8	656.2	(11.7)	(296.4)	1.0	4.6
Corporation	3,290.3	(1.3)	5.8	2,538.9	(13.4)	(5.7)	808.0	(44.8)	(19.4)	1.0	6.2
PNB	15,702.9	8.6	33.1	10,447.2	9.2	4.7	3,678.9	(14.4)	27.4	1.2	5.7
SBI	42,515.7	7.6	19.6	28,130.2	(1.5)	(14.2)	13,220.5	24.1	54.9	1.2*	7.8*
Union	7,072.8	3.1	18.3	4,938.5	(2.2)	7.7	2,684.3	4.9	85.6	1.1	5.2
IndusInd	508.3	(19.1)	(35.5)	290.9	(58.4)	(27.4)	78.8	(63.6)	(112.6)	1.4	10.7
UTI	4,208.6	1.2	34.5	3,290.7	(8.2)	10.4	1,741.0	(5.7)	14.7	4.1	18.8

*Note: * for consolidated numbers*

Economies of scale leads to better profitability...

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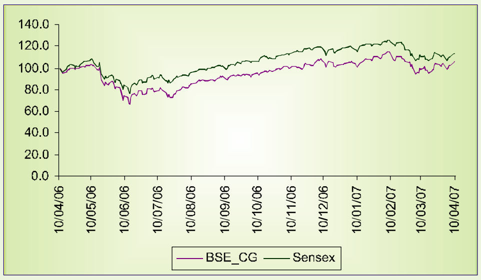
	Reco*
BHEL CMP: 2463.0	Buy 2639.0
L&T CMP: 1582.0	Buy 1700.0
Siemens CMP: 1115.0	Accu 1150.0

* Target for FY08E

Relative performance of Capital Goods / Sensex



- Continuous order inflow and strong order backlog augur well for all engineering and construction companies. In the current quarter, many engineering and construction companies have won new domestic and overseas contracts.
- Companies have shown significant improvement in margins in the last quarter due to rising average ticket size, and price escalation clause. We believe this trend will continue in short to medium term.
- Government emphasis on the infrastructure development and private sector spending in various projects is likely to boost order inflow in the coming years. We expect major order would come from sectors like food processing, sugar, cement, steel, power, mining, power distribution, SEZ's and automobile.
- Recent sharp correction in the market offers value buying opportunities in the sector at lower levels.

Outlook

The government has indicated their focus on rapid infrastructure development, power project, coal mining, refining projects. Added to this, the capacity expansion plans in industries like steel, cement, power refinery, sugar and chemicals have propelled the demand for capital goods and is expected to continue driving it in the future. The order book position of the companies is healthy and provides good visibility to their earnings for the next 2-4 years. We expect the order book position of all companies to remain strong during the current year. Our outlook for the sector is positive.

Quarterly Estimates

Particulars	Sales Turnover			Operating Profit			Net Profit			Valuations (FY08E)	
(Rs.Mn)	Q4 FY07	% QoQ	% YoY	Q4 FY07	% QoQ	% YoY	Q4 FY07	% QoQ	% YoY	EPS	P/E
BHEL	83647.80	92.75	51.65	16729.60	80.04	40.01	10756.10	61.10	23.92	119.98	20.53
L & T	67132.04	63.00	45.06	7369.06	73.17	27.63	5397.42	56.95	17.65	73.69	21.47
Siemens	20048.16	23.23	79.81	1844.23	57.69	79.21	1414.74	44.25	20.07	49.47	22.54

CEMENT

Transition to a Political Commodity...

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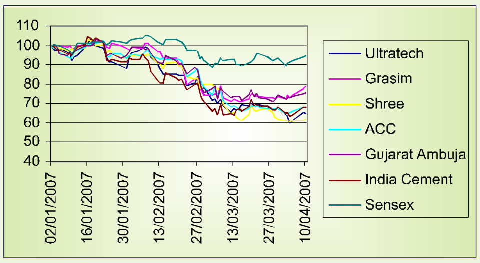
	Reco*
ACC CMP: 746.0	Neutral 810.0
Grasim CMP: 2235.0	Buy 2497.0
Gujarat Ambuja CMP: 109.0	Accu 120.0
India Cement CMP: 162.0	Accu 180.0
Shree Cement CMP: 915.0	Buy 1120.0
Ultratech CMP: 737.0	Buy 850.0

* Target for FY08E

Sensex Vs Cement Stocks



- The Sector remained an underperformer due to government intervention which led to the correction of cement stocks to the tune of 20 to 50%. The intervention in the form of differential excise duty and abolition of import duty, CVD and SAD has finally brought down the effective landed cost of imported cement to Rs.215 per bag for retail in the coastal market and Rs.184 per bag for direct users as against Rs.235 per bag prevailing in Mumbai and Rs.230 per bag in Chennai.
- During Jan-Feb 07, production and consumption grew 6.8 and 8.3% respectively led by South (9.2% and 11.6%), West (8.2% and 10.8%), North (8.9% and 0.6%), East (5.4% and 7.1%) and Central (-0.75% and -0.9%). The all-India capacity utilization hovered at 102% and 100% respectively for January and February 2007 respectively.
- On the price front, all-India average prices were up 25% y-o-y to Rs.220 per bag with South, West, North and East showing 36%, 25%, 23% and 16% y-o-y and 3.6%, 2.1%, 2.8% and 3.3% q-o-q growth respectively.
- Going ahead, we anticipate the demand-supply scenario to be favorable to maintain the current price level in FY08 with prices softening only from FY09 end. Our estimate factors in Q3FY07 realizations for FY08 and an average decline of Rs.150 per ton in FY09.
- During Q4FY07, led by 1% volume degrowth (ACC) to 28% growth (Shree Cement) in sales volume and 26% to 32% Y-o-Y increase in realization, cement companies are expected to post a top line growth of 25 to 57% (Gujarat Ambuja Numbers not comparable due to merger of ACEL), robust EBIDTA growth (76% to 160%) and PAT growth (44% to 316%).

Valuation Attractive

We maintain a positive stance on the sector in the light of sustainable volume growth of industry, ongoing capacity expansion and cost savings through CPP mainly funded through internal accruals and de-leveraged balance sheet of cement companies. At current valuation, Cement stocks are trading near asset replacement cost adjusted for their cash flows of next 4 years. This gives us the comfort to reiterate a positive stance on the sector with Shree Cement, Ultratech and Grasim as our top picks.

Quarterly Estimates

Particulars	**Sales Volume**		**Turnover**		**Operating Profit**		**Net Profit**		**Valuation (FY08E/CY07E)**			
(Rs.mn)	**JFM 07 (MT)**	**% y-o-y**	**JFM 07 (RSM)**	**% y-o-y**	**JFM 07 (RSM)**	**% y-o-y**	**JFM 07 (RSM)**	**% y-o-y**	**EPS** (Rs)	**PE** (x)	**EV/ EBIDTA (x)**	**EV/Ton** ($)
ACC	4.88	-1	16570	0	5541	76	3846	63	75.6	9.9	6.6	132.1
Gujarat Ambuja	4.50	23	14867	22	6073	91	3479	44	10.5	10.3	6.5	186.4
Ultratech	5.05	19	14360	14	4692	108	2600	97	75.7	9.7	6.6	140.5
Grasim	3.96	2	37851	3	12062	83	6067	75	233.0	9.6	5.9	-
Shree	1.26	28	3652	0	1635	100	775	28	134.6	6.8	4.7	93.2
India Cement	2.05	8	5781	22	1998	161	1006	316	26.0	6.2	5.5	102.2

Check Mate...

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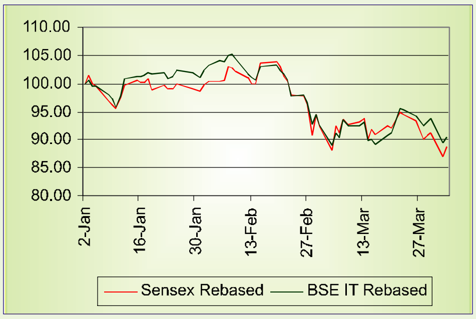
	Reco*
Infosys Technologies CMP: 1998.1	Accu 2581.0

* Target for FY08E

Relative performance of BSE IT / Sensex



The BSE IT index has been a market performer to the Sensex in Q4FY07.

The budget in Q4FY07 as well as the appreciating rupee have largely spelt short term concerns for the Indian IT industry.

Few factors that have impeded IT stocks in this quarter were : MAT @ 11.3%, ESOPs to be taxed as Fringe Benefit Tax and an appreciating rupee (2.6% from an estimated Rs.44.11 to Rs.43.0 as on the last date of the quata) hitting the bottomline significantly. Also, the fourth quarter is usually meant for management budgets and therefore the high activity spending is low. Therefore, unlike Q3FY07, this quarter has not witnessed the big contracts coming through. The companies will, however, see more number of working days and increased utilization with more freshers (inducted in June-August) coming onto the billing cycle.

Factors worth noting for future growth will be:

- **Companies' view of US economy and IT spending by US companies**: Our view is neutral to positive. Offshoring may continue to be the same or may increase in the future.
- **Impact of an appreciating rupee against dollar**: Most companies have more than 50% of their invoices done in dollars (in some companies-even 80%). This certainly increase their risk exposure towards a weakening dollar against rupee. Though TCS, HCL Tech and Infosys (in the same order) seem well hedged to cover up the rupee appreciation, Wipro and Satyam may take a hit. The mid-size/ smaller companies usually have to bear the brunt to a larger degree.
- **Pricing -Stable to positive**: We believe the pricing environment is largely on an appreciative mode with more niche work like Consultancy, Infrastructure Management, High-end Testing and Embedded Systems commanding better pricing.
- **Infosys Guidance**: The guidance issued by Infosys usually set the trend for the industry's expectation of the year to follow. We expect the guidance to be a little subdued as compared to last year. However, we believe, the company will outperform its guidance by the end of the year. We expect revenue to grow by 31% and EPS to grow by 27% in FY08. Infosys' current quarter results will be inline with our earlier expectation. This will be fuelled by its BPO operations which is growing by 20% q-o-q and is expected to perform similarly. Amongst the verticals, Testing, Package Implementation and Consultancy will gain grounds because of its increasing acceptance by CIOs across the world.

Quarterly Estimates

Particulars	**Sales Turnover**			**Operating Profit**			**Net Profit**			**Valuations (FY08E)**	
(Rs.Bn)	**Q4 FY07**	**% QoQ**	**% YoY**	**Q4 FY07**	**% QoQ**	**% YoY**	**Q4 FY07**	**% QoQ**	**% YoY**	**EPS**	**P/E**
Infosys	38.55	5.5	47	12.52	5	50	10.03	2	48	86.06	23.2

Short-term outlook positive...

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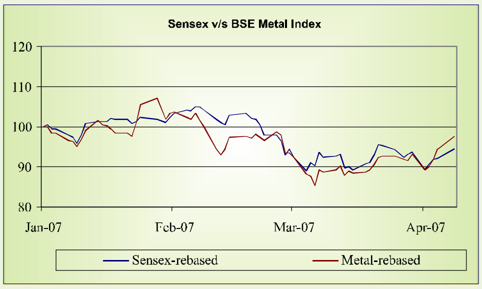
	Reco*
Tata Steel CMP: 495.6	Accu 538.0
Hindalco CMP: 136.1	Accu 181.0
Nalco CMP: 231.7	Hold 240.0

* Target for FY08E



- The sector was a 'Market Performer' through the January-March quarter (JFM07) with renewed buying across commodities. The BSE Sensex corrected 5.5% during the quarter as against a 2.4% decline in the BSE Metal index.
- Steel prices have been hiked globally but faced resistance in the domestic market due to inflationary concerns on the economy. The key factor has been the increase in input costs like scrap, iron ore and coke. We expect steel prices to remain robust for Q1FY08 but likely to correct in H2FY08. Our top picks in the sector would be integrated steel players like SAIL and JSW Steel.
- Non-ferrous metals witnessed an across the board correction with speculative fund buying being eliminated during the quarter. Inventory levels also observed an increase across non-ferrous metals, boosting the downfall.
- Aluminium prices declined by 20.4% from Dec'06 averaging $2801/tonne for the JFM quarter. Inventory is on a gradual increase. Alumina prices, on the other hand, seem to have bottomed out. Going forward, demand will also be guided by the US and China economic outlook. We maintain a trading call on the sector with short-term outlook on the sector being positive due to balanced demand-supply scenario.
- Although, copper declined by 16.1% during the quarter, it has risen by 20.1% on a yearly basis. Copper inventories are on a rising trend and we expect some resistance in prices at higher levels. We expect a trend similar to that of aluminium to prevail in copper as well.
- Zinc, on the other hand, did observe a spike in inventory and a correction in prices, but regained strength. We expect zinc prices to consolidate after a huge upside seen in CY06. We recommend investors to buy Hindustan Zinc.

Quarterly Estimates

Particulars	Sales			Operating Profit			Net Profit (incl EO)			Valuations	
(Rs. Mn.)	JFM 07E	% QoQ	% YoY	JFM 07E	% QoQ	% YoY	JFM 07E	% QoQ	% YoY	EPS FY08E	P/E
Tata Steel	52,735.8	4.7	14.6	18,685.6	4.8	43.7	9,909.0	(6.9)	26.5	73.4*	6.8
Hindalco	43,018.1	(7.6)	17.6	9,834.7	(5.9)	5.8	5,844.9	(9.2)	(6.7)	22.7	6.0
Nalco	15,240.9	(4.0)	(8.2)	7,829.0	(7.3)	(19.3)	5,259.6	(8.2)	(13.5)	35.9	7.7

Note: * for consolidated entity

Renewed bullishness on robust demand...

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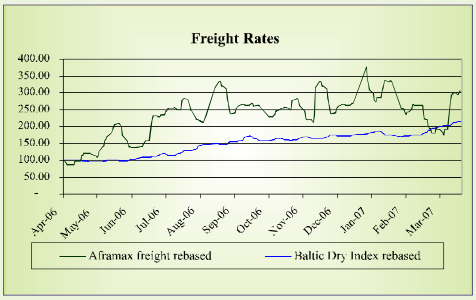
	Reco*
Mercator Lines CMP: 39.1	Hold 33.0
GE Shipping CMP: 208.1	Buy 232.0
Great Offshore CMP: 653.2	Buy 815.0
SCI CMP: 157.05	Buy 205.0

* Target for FY08E



- Freight rates have remained firm over January-March (JFM07) quarter in the wet bulk as well as the dry bulk segment. This would ensure the robust performance of the sector during the quarter.
- The outlook for the sector remains positive in the short term. We are particularly bullish on the dry bulk and offshore segment. The wet bulk segment, although volatile, is likely to be firm in the near term till the new deliveries hit the market. Container shipping segment has witnessed major correction and we opine that the freight rates on this segment have also bottomed out in the short term. The shipbuilding segment is also likely to see a favourable demand scenario.
- Our top picks in the sector are GE Shipping and Great Offshore.

($/day)	**Q4 FY07E**	**Q4 FY06**	**y-o-y ch (%)**	**Q3 FY07**	**q-o-q ch (%)**	**FY06**	**FY07E**	**FY08E**
VLCC	36,049	53,666	(32.83)	33,185	8.63	45,947	40,219	34,186
Suezmax	33,674	44,175	(23.77)	35,425	(4.94)	40,471	36,811	33,129
Aframax	26,948	25,580	5.35	25,625	5.16	25,337	23,879	21,491
Clean	18,368	20,257	(9.33)	15,091	21.71	20,315	17,165	13,732
Baltic Dry Index	4,684	2,433	92.52	4,161	12.59	2,855	3,744	3,557
Baltic Capesize Index	6,608	3,439	92.17	5,599	18.02	3,943	5,075	4,821
Baltic Panamax Index	4,545	2,248	102.19	4,027	12.88	2,577	3,596	3,416
Baltic Supramax Index	1,525	1,627	(6.27)	2,844	(46.37)	1,627	2,225	2,002

Quarterly Estimates

Particulars	**Sales**			**Operating Profit**			**Net Profit (incl EO)**			**Valuations**	
(Rs. Mn.)	**JFM 07E**	**% QoQ**	**% YoY**	**JFM 07E**	**% QoQ**	**% YoY**	**JFM 07E**	**% QoQ**	**% YoY**	**EPS FY08E**	**P/E**
Mercator	2,963.0	20.0	97.2	907.4	22.9	14.9	395.1	33.1	(20.1)	4.2*	9.4
G E Ship	5,598.2	13.0	NA	2,713.5	13.9	NA	2,394.4	35.5	NA	61.6	3.4
Gr Offshore	1,000.0	(32.6)	NA	495.0	(31.4)	NA	159.1	(57.6)	NA	54.3	12.0
SCI	10,883.9	13.0	3.6	2,484.2	(8.9)	(32.7)	1,897.2	(10.4)	(45.8)	37.3	4.4

Note: * EPS of consolidated entity

Growth momentum set to accelerate further...

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	Reco*
Bharti Airtel CMP: 764.0	Buy 920.0
Reliance Communications CMP: 418.5	Buy 540.0

* Target for FY09E

Highlights for the quarter

- We expect the telecom sector to continue to post strong numbers and add around 20 million subscribers during Q4FY07.
- Reducing national roaming charges can have little impact on the earnings of the companies for next two quarters before the volume growth picks up.
- We expect that impact of roaming charges would cut would influence the GSM players more than the CDMA players.
- ADC cut effecting April ‘2007 will further help to accelerate the volume growth on international routes.
- 3G services got delayed once again to mid’2008 as defense has refused to vacate the spectrum till the completion of the alternative security efficient network.
- Union cabinet has revised Press note 5, paving the way for 74% FDI in telecom sector.
- **Top Picks**: Bharti Airtel Ltd. and Reliance Communication Ltd.

Outlook

We expect pressure on ARPU will continue as the major portion of this growth is contributed by Circle B and C but we believe that on the back of economies of scale and new initiatives like passive infrastructure sharing and backed by the government initiatives like subsidies in rural areas will help the companies to sustain or improve margins at current levels. Looking at the aggressive expansion plans of the operators in order to increase their population coverage and introduction of low cost handset (Under Rs.1000); we believe subscriber additions to accelerate further from the current level in the coming quarters. We maintain our positive outlook at current overall tele-density and mobile penetration of 18.3% and 14.6% respectively as on Feb’2007.

Quarterly Estimates

Particulars	Revenue			Operating Profit			PAT			Valuations (FY09E)	
(Rs.mn)	JFM 07E	Q-o-Q	Y-o-Y	JFM 07E	O-o-Q	Y-o-Y	JFM 07E	O-o-Q	Y-o-Y	EPS	P/E
Bharti Airtel	57076	16.2%	67.3%	22374	11.6%	76.7%	12341	1.6%	80.9%	46	16.6
R Com	42082	12.1%	41.7%	17043	11.6%	62.7%	8683	-6.1%	215.5%	27	15.5

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