India Strategy 2008

Only a matter of time

April 2008

Investment summary

23% correction in Sensex in 4QFY08

- Sensex corrected by 23% in 4QFY08 to close at 15,644, reducing the total returns in FY08 to 19.7%, the fifth consecutive year of positive return for the market.
- Sharp correction came on the back of global woes – expectation of a slowdown in the US.
- Concerns of a possible slowdown in the domestic economy emerging and hopes of an interest rate cut fading, as inflation inched up (6.7% now from 4.7% in July 2006) further aggravated the situation.

Downgrade in earnings after eight quarters of upgrades

- Significant upgrades in earnings witnessed till Dec-07. Sensex EPS was revised to Rs883 in Dec-07 vs Rs810 in Dec-06 for FY08 and Rs1064 in Dec-07vs Rs891 in Dec-06 for FY09.
- Earnings downgrade by 5.5% for FY08 to Rs834 and 5.8% for FY09 to Rs1002, to factor in higher commodity prices, currency fluctuation, slowdown in volumes, etc.
- Despite the current downgrade in earnings, the growth in FY09 EPS is still robust at 20.1% over FY08 earnings.

Valuations reasonable; time to invest

- Broader indices have come off the high of 21x one-year forward earnings in the peak of December 2007 to 15.6x FY09E earnings. This is comparable to 15-year average of 17.5x.
- The headwinds (inflation, interest rate, oil prices, etc) may remain stronger in near term, but we see limited downside. Risk-reward equation favorable; we recommend investing now.

Investment summary

Sensex target of 19,000-21,000

- Given the increased risks on earnings and other macro indicators, we are reducing our target Sensex P/E range to 16-18x FY09E EPS.
- Our 12-month target range for the BSE Sensex is 19,000 – 21,000 based on target Sensex P/E range of 16-18x FY09E EPS and adding to that the embedded value of 2,800

Our top picks

- Our top large-cap bets are Reliance Industries, Bharti Airtel, Tata Steel, Axis Bank, Hero Honda, ITC, Gail, Ranbaxy, and TCS.
- Amongst the mid-caps, we like LIC Housing, IVRCL, Sintex, Blue Star, and Amtek Auto.

SUMMARY VALUATION FOR TOP PICKS

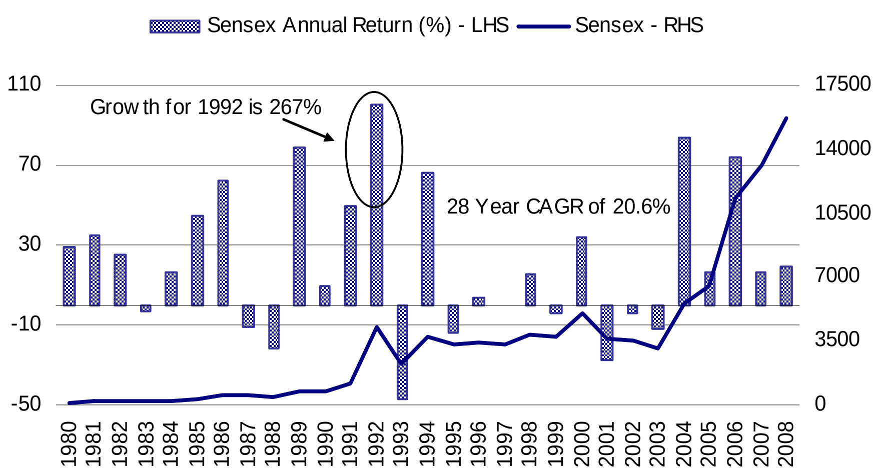
	CMP (Rs)	Reco	EPS (Rs)			PE (x)			EV/EBIDTA			ROE (%)		
			FY 08	FY 09	FY 10	FY 08	FY 09	FY 10	FY 08	FY 09	FY 10	FY 08	FY 09	FY 10
Large Caps														
Reliance Inds.	2,348	Buy	104.4	109.1	238.4	22.5	21.5	9.8	15.7	15.5	7.4	21.4	18.0	27.8
Bharti Airtel	826	Buy	34.7	44.5	52.6	23.8	18.5	15.7	14.4	10.5	8.6	38.6	35.5	31.9
Tata Steel	717	Buy	82.8	114.3	128.4	8.7	6.3	5.6	5.2	4.5	4.1	14.5	17.2	16.7
Axis Bank *	805	Buy	27.9	36.8	49.6	28.9	21.9	16.2	3.4	3.0	2.6	16.9	14.7	17.3
Hero Honda	701	Buy	46.2	50.5	55.6	15.2	13.9	12.6	9.3	8.2	7.0	33.8	30.8	26.7
ITC	206	Buy	8.3	9.6	11.4	24.9	21.6	18.1	16.6	14.1	11.5	26.1	26.3	27.4
GAIL	442	Buy	30.5	35.1	38.0	14.5	12.6	11.6	9.9	7.9	7.2	19.9	20.1	19.3
Ranbaxy Labs	439	Buy	19.2	19.5	22.2	22.8	22.5	19.7	19.5	15.7	12.6	25.9	23.2	23.3
TCS	870	Buy	52.0	59.8	67.1	16.7	14.6	13.0	13.6	11.4	9.1	46.3	39.2	33.9
Mid Caps														
LIC Housing *	271	Buy	38.2	48.3	60.0	7.1	5.6	4.5	1.2	1.0	0.9	19.3	19.3	20.4
IVRCL Infra.	406	Buy	16.2	21.2	29.4	25.1	19.2	13.8	16.6	12.0	8.5	14.5	17.0	20.2
Sintex Inds.	360	Buy	15.5	31.8	43.7	23.2	11.3	8.2	10.6	6.0	2.8	14.5	17.5	18.4
Blue Star	407	Buy	18.4	25.7	35.9	22.1	15.8	11.3	14.8	10.3	7.4	73.4	59.3	58.6
Amtek Auto	260	Buy	28.1	33.9	39.0	9.3	7.7	6.7	6.7	5.7	4.7	17.4	17.4	16.6

**** For Axis Bank & LIC Housing the values appearing in EV / EBIDTA are P/B.***

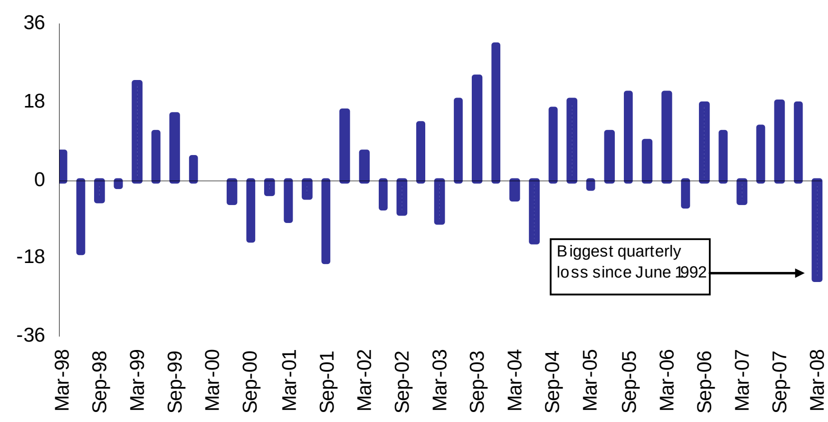
FY08 – 5th consecutive year of positive returns

- BSE Sensex corrected by 23% in 4QFY08 to close at 15,644, reducing the total returns in FY08 to 19.7% (vs 55.2% till Dec-07).
- While this is the fifth consecutive year of positive returns for the markets, the sharp correction in the last couple of months has resulted in FY08 returns being much lower than what was anticipated till mid-January.
- The sharp correction came on the back of global woes – expectation of a slowdown in the US.
- This was further aggravated, with concerns of a possible slowdown in the domestic economy emerging and hopes of an interest rate cut fading, as inflation inched up.

YEARLY RETURNS ON BSE SENSEX



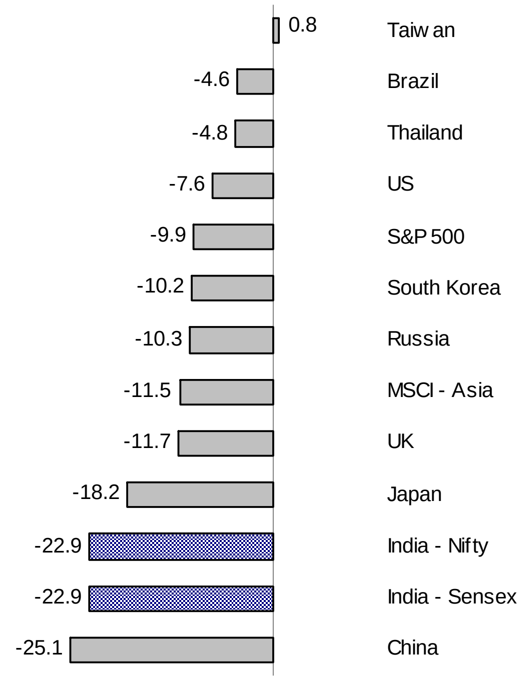
QUATERLY RETURNS ON BSE SENSEX



Risk-reward equation has turned favorable

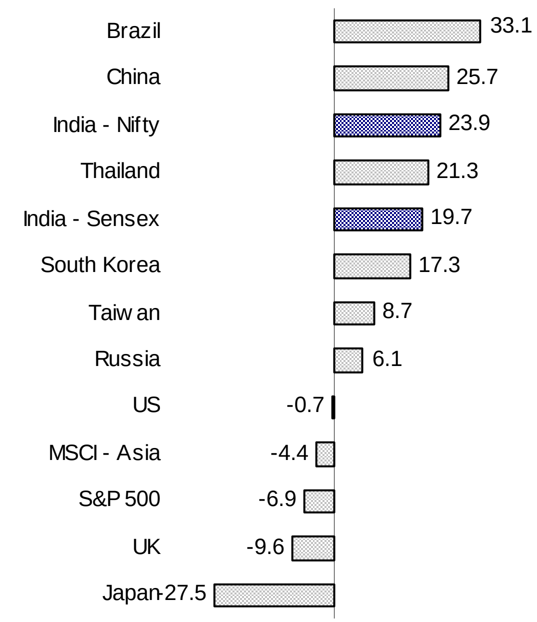
- In our opinion, market valuations have become reasonable post the recent correction and the risk-reward equation has turned favorable. In the near term, the headwinds (inflation, interest rate, oil prices, etc) may become stronger, but we see limited downside to markets from current levels.
- **We believe that the recent correction has reduced several excesses relating to valuations, earnings optimism, primary market offerings and responses, fund flows, leveraging, etc.**
- Given our belief that the downside from current levels is limited, we strongly recommend investing now.

PERFORMANCE OF MAJOR MARKETS - 4QFY08 (%)



During the quarter, the Indian markets underperformed most global markets by a significant margin.

PERFORMANCE OF MAJOR MARKETS - FY08 (%)



India's valuation premium has narrowed

Following the sharp underperformance over the last few months, the valuation gap vis-à-vis other global markets has narrowed.

COMPARISON OF INDIAN MARKETS WITH GLOBAL MARKETS

INDEX	Index Value	EPS (Rs)		PE (x)		P/BV (x)		ROE (%)	
		CY07 / FY08	CY08 / FY09	CY07 / FY08	CY08 / FY09	CY07 / FY08	CY08 / FY09	CY07 / FY08	CY08 / FY09
Russia	2,054	246	234	8.3	8.8	1.9	1.7	22.2	19.7
UK - FTSE	5,702	496	524	11.5	10.9	2.1	2.0	18.0	18.2
Thailand	817	49	72	16.6	11.3	1.9	1.9	11.2	16.9
Brazil	60,968	4,325	5,177	14.1	11.8	2.1	2.1	15.2	17.7
Korea	1,704	120	143	14.2	12.0	1.5	1.7	10.3	14.2
Malyasia	1,248	91	98	13.6	12.7	2.0	2.0	14.3	15.5
Taiwan	8,573	467	665	18.4	12.9	2.3	2.1	12.4	16.2
Philippines	2,985	247	222	12.1	13.5	2.2	2.0	18.1	15.2
US - S&P 500	1,323	66	96	20.0	13.8	2.5	2.3	12.5	16.8
Singapore	3,007	279	214	10.8	14.0	1.9	1.8	17.5	13.0
Indonesia	2,447	145	168	16.9	14.6	2.1	3.3	12.5	22.7
Nikkei	12,526	880	854	14.2	14.7	NA	NA	10.1	NA
Hong Kong	22,849	1,715	1,550	13.3	14.7	2.3	2.1	17.2	14.2
India - Sensex	**15,644**	**834**	**1,002**	**18.8**	**15.6**	**3.9**	**3.1**	**21.0**	**19.6**
China	3,473	124	166	28.1	21.0	2.2	4.4	8.0	21.1

Sensex returns skewed in favor of select stocks

- FY08 was the fifth consecutive year of positive returns for Indian equities. While the BSE Sensex delivered returns of 19.7%, **8 of the 30 Sensex stocks delivered negative returns.**
- The stocks that outperformed the Sensex by a significant margin were Reliance Energy, Jaiprakash, L&T, BHEL and Tata Steel.
- Technology and Autos delivered negative returns during the year.
- **Key observation from FY08** – Of the top 6 performers in FY08, 5 stocks had underperformed in FY07. Reliance, HDFC Bank, L&T, Reliance Com outperformed in each of the year.

Company Name	Price 31 Mar 08 (Rs)	Return FY08 (%)	Return FY07 (%)
Reliance Energy	1,251	152.7	-19.1
Jaiprakash Assoc	227	110.3	14.5
Larsen & Toubro	3,025	86.8	33.1
B H E L	2,057	81.9	0.6
Tata Steel	693	74.4	-16.2
St Bk of India	1,599	70.7	2.6
Reliance Inds.	2,265	65.5	71.8
H D F C	2,384	56.8	13.8
HDFC Bank	1,320	39.0	22.7
ITC	206	37.2	-22.9
NTPC	197	31.6	11.8
Hindalco Inds.	165	26.4	-28.6
Ranbaxy Labs.	439	24.4	-18.3
Grasim Inds.	2,575	23.1	1.6
Reliance Communi	508	21.0	36.0
BSE Sensex	**15,644**	**19.7**	**15.9**
Ambuja Cem.	121	13.4	3.3
DLF	647	13.4 -	
ACC	826	12.4	-6.1
O N G C	981	11.8	0.6
Hind. Unilever	229	11.4	-24.6
Bharti Airtel	826	8.2	84.9
Maruti Suzuki	830	1.2	-6.3
Cipla	220	-6.8	-11.0
ICICI Bank	770	-9.7	44.8
M & M	696	-10.8	24.4
Tata Motors	623	-14.3	-22.0
Satyam Computer	395	-16.1	10.7
Wipro	425	-23.8	0.0
Infosys Tech.	1,430	-28.9	35.0
TCS	811	-34.1	28.6

Sharp correction has reduced several excesses

1) Valuations have corrected and are reasonable

- The broader indices have come off the high of 21x one-year forward earnings at the peak in December 2007.
- The BSE Sensex now trades at 15.6x FY09E earnings v/s the 15-year average of 17.5x. Over the last three years, the BSE Sensex has traded at a forward P/E of 15.7x at the end of March.
- It is important to note here that the embedded value of the Sensex has increased considerably in the last three years, which is reflected in higher valuations compared to the pre-FY06 multiples. Adjusted for the embedded value, Sensex is trading at par with the averages of last 6 years.

CURRENT VALUATIONS ARE REASONABLE

Year	FY02	FY03	FY04	FY05	FY06	FY07	FY08	15 Year Average
Sensex	3469	3049	5591	6493	11280	13072	15644	-
Sensex Return (%)	-3.7	-12.1	83.4	16.1	73.7	15.9	19.7	13.7
EPS (Rs)	201	272	348	450	523	718	834	-
EPS Growth (%)	16.3	35.8	28.0	29.1	16.4	37.3	16.0	20.3
Sensex PE (x, 12 Months Trailing)	**17.3**	**11.2**	**16.0**	**14.4**	**21.6**	**18.2**	**18.8**	**23.2**
Sensex PE (x, 12 Months Forward)	**12.7**	**8.8**	**12.4**	**12.4**	**15.7**	**15.7**	**15.6**	**17.5**

Sharp correction has reduced several excesses

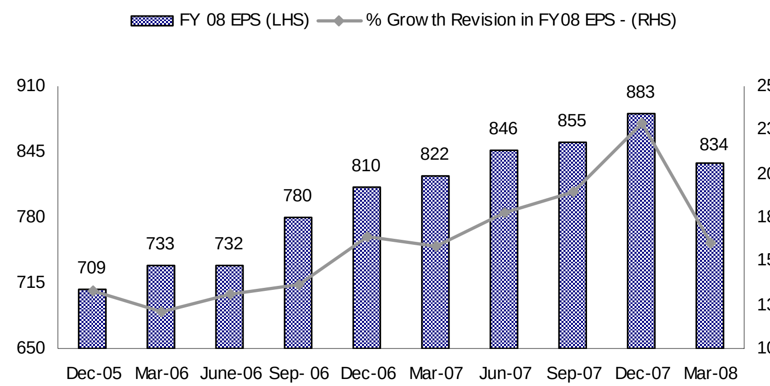
2) Earnings optimism is being reduced

- Over the last few quarters, we have witnessed consistent upgrades to our earnings estimates.
- Sensex EPS estimate for FY08 was upgraded 7% in Dec-07 to Rs883 from Rs846 in Jun-07 while FY09 EPS was up 11% from Rs955 in Jun-07 to Rs1,064 in Dec-07.
- **However, in 4QFY08, we have seen downgrades in our earnings estimates. We have downgraded EPS estimate for FY08 by over 5.5%, and FY09 by 5.9%.**
- While the Sensex EPS got lowered by 2.4% due to change in index constituents and SBI rights issue, it was impacted by another 3.1% by earnings downgrades.
- **Earnings optimism was the key factor contributing to the positive sentiment in the market.**
- However, recent developments such as increase in commodity prices, lower volumes and adverse impact of currency fluctuations are amongst the few reasons leading to downgrade in earnings.

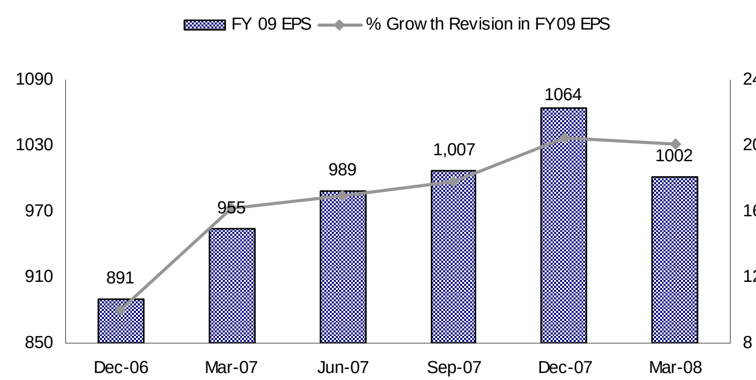
TREND IN SENSEX EPS REVISION

Year	FY 08	FY 09
Preview Dec 07	**883**	**1,064**
Review Jan 08	**873**	**1,056**
SBI Rights Issue	862	1,045
Change in Sensex (Incl of Jaiprakash Associate)	852	1,034
Preview Mar 08	**834**	**1,002**

TREND IN FY08E EPS AND REVISION



TREND IN FY08E EPS AND REVISION



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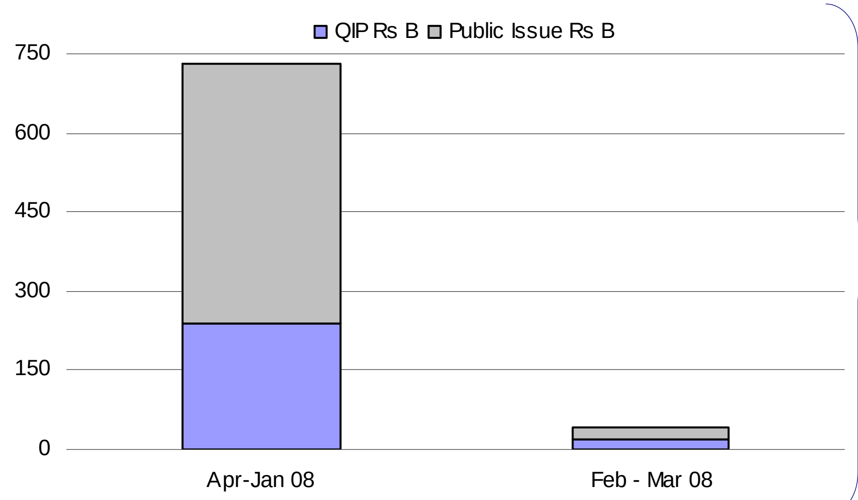
Sharp correction has reduced several excesses

3) Buoyancy in primary market has vanished

- The Indian capital market witnessed its largest primary market offerings in FY08 – Rs535b v/s the previous highest of Rs292b in FY07.
- Of the Rs535b, IPOs completed before January 2008 constituted Rs494b; IPOs worth just Rs23.5b were concluded after January 2008.
- Some of the large equity issues like Reliance Power (Rs117b), ICICI Bank (Rs100b), DLF (Rs92b), Power Grid (Rs29.8b), Idea Cellular (Rs21.2b), Rural Electrification (Rs16.4b), etc witnessed significant over subscription.

MONEY RAISED FROM CAPITAL MARKET (RS B)



- Against the total equity offering of Rs535b, the total demand (based on subscriptions) stood at Rs18.4t, an average subscription of 34.3x.
- The Reliance Power issue was subscribed 61x – a total demand of Rs7.2t v/s the IPO size of Rs117b.
- Primary market euphoria ended in Jan 2008, post which subscriptions to IPOs declined significantly.
- Companies like Emmar MGF (proposed equity offering of Rs65b) and Wockhardt Hospitals (proposed equity offering of Rs7.8b) withdrew IPOs even after downward revision in price band
- **The total money raised through IPOs and QIPs post-January 2008 is Rs43b v/s Rs732b during the period April 2007 - January 2008.**

Sharp correction has reduced several excesses

3) Buoyancy in primary market has vanished

PUBLIC ISSUE SUBSCRIPTION PRE 18TH JAN 08

Company Name	Issue size (Rs B)	Subscription Amount (Rs B)	No. of times Oversubscribed
Reliance Power	117.0	7,198	61.5
ICICI Bank	100.6	976	9.7
DLF	91.9	303	3.3
Power Grid Corporation of India	29.8	1,925	64.5
Mundra Port & SEZ	17.7	2,042	115.3
Housing Development & Infra	14.9	83	5.6
Puravankara Projects	8.6	16	1.9
Central Bank of India	8.2	502	61.5
IVR-Prime Urban Developers	7.8	43	5.5
Edelweiss Capital	6.9	763	110.3
Brigade Enterprises	6.5	70	10.8
Omaxe	5.5	376	68.1
BEML	5.3	159	30.2
Spice Communications	5.2	195	37.6
Fortis Healthcare	5.0	14	2.8
Future Capital Holdings	4.9	648	131.8
BGR Energy Systems	4.4	505	115.1
Total of above	**440**	**15,818**	**35.9**

PUBLIC ISSUE SUBSCRIPTION SINCE 18TH JAN 08

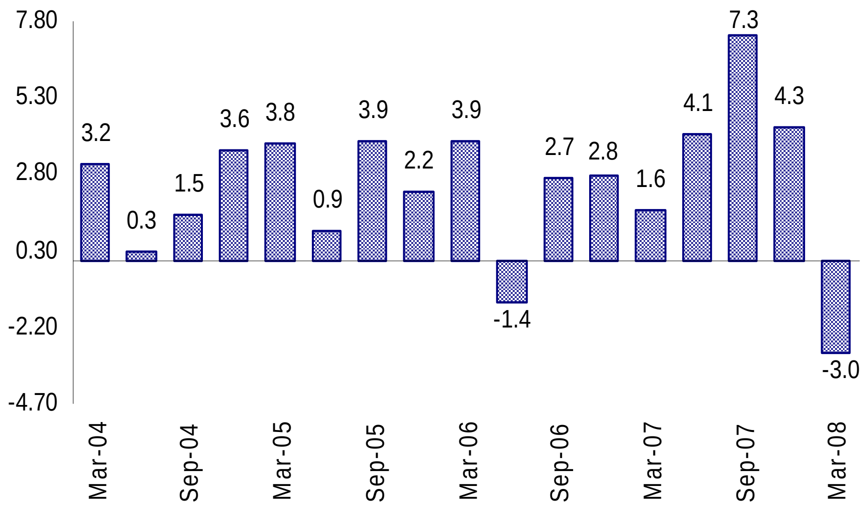
Company Name	Issue size (Rs B)	Subscription Amount (Rs B)	No. of times Oversubscribed
Emaar MGF	65.0	-	Withdrawn
Rural Electrification	16.4	448	27.4
IRB Infrastructure	9.4	40	4.2
Wockhardt Hospitals	7.8	-	Withdrawn
OnMobile Global	4.8	52	10.9
Gammon Infrastructure	2.8	10	3.5
Shriram EPC	1.5	6	3.9
Titagarh Wagons	1.5	10	6.8
GSS America Infotech	1.4	1	1.1
KNR Constructions	1.3	2	1.2
Bang Overseas	0.7	1	1.1
J Kumar Infraprojects	0.7	1	2.0
V-Guard Industries	0.7	2	2.5
Tulsi Extrusions	0.5	1	1.8
Cords Cable Industries	0.4	2	4.6
Sita Shree Food Products	0.3	1	2.4
Manjushree Extrusions	0.2	0	1.2
Total of above	**43**	**576**	**13.5**

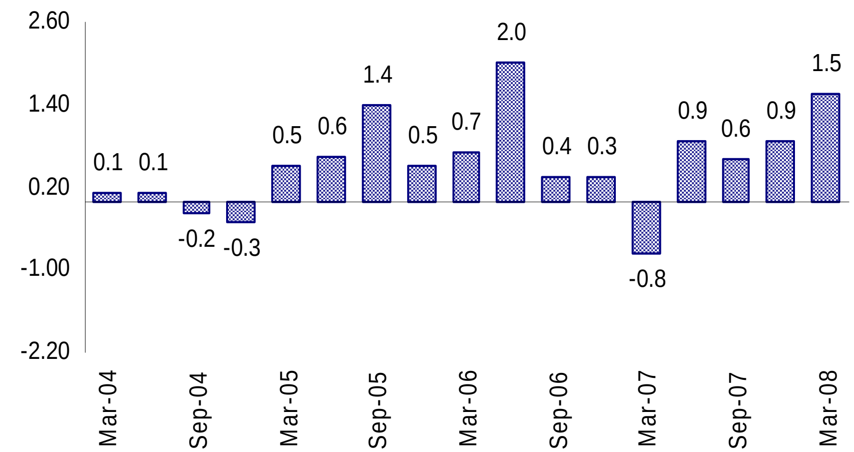
Sharp correction has reduced several excesses

4) Fund flows have been strained

- There was a significant decline in total investments from FIIs in the period December 2007 - March 2008, though domestic mutual funds remained net buyers.
- FIIs recorded a net sale of US$3b in 4QFY08, the highest ever since they began investing in India.
- The heavy selling came on the back of net buying of US$4.3b in 3QFY08 and US$7.3b in 2QFY08.
- Domestic mutual funds remained net buyers for Indian equities to the tune of US$1.5b, indicating no redemption pressure despite the sharp market correction. Insurance companies have seen huge growth in their equity investments in FY08, outpacing MFs by a wide margin.

QUARTERLY TREND IN INVESTMENT (US$ B) BY FIIS (LEFT) AND DOMESTIC MFS (RIGHT)



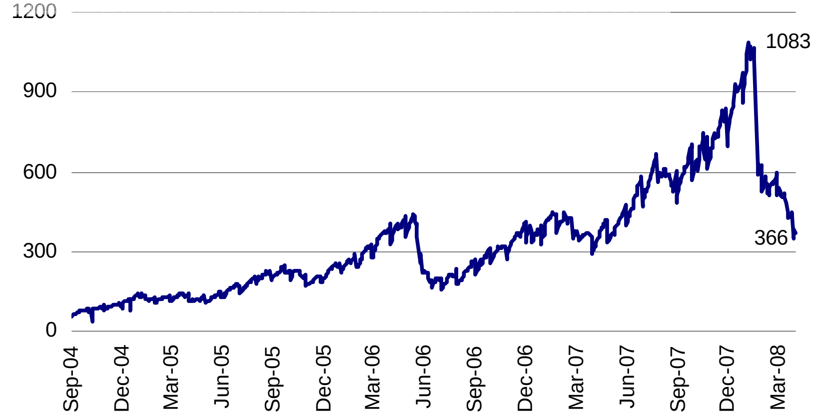


Sharp correction has reduced several excesses

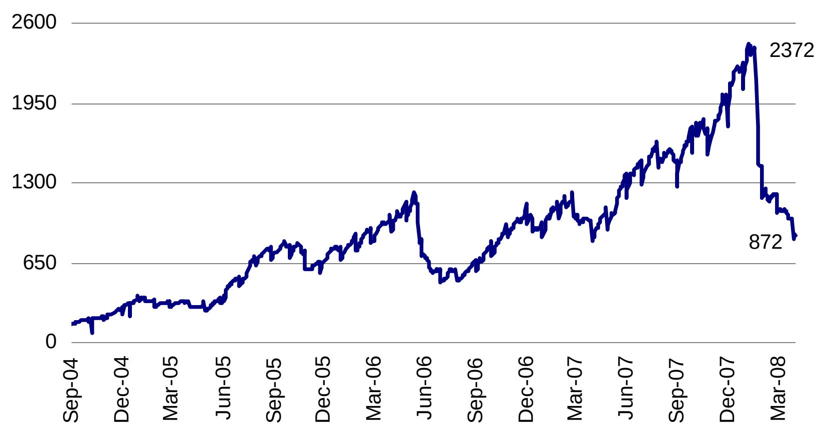
5) Leverage positions have declined

- The leveraged positions in the market have been a key source of excessive exposure.
- The open interest in March 2008 was 0.4x of the peak open interest position of Rs1,083b in January 2008. Even in terms of number of shares, the outstanding interest is just 0.9b shares v/s 2.4b shares in January 2008.

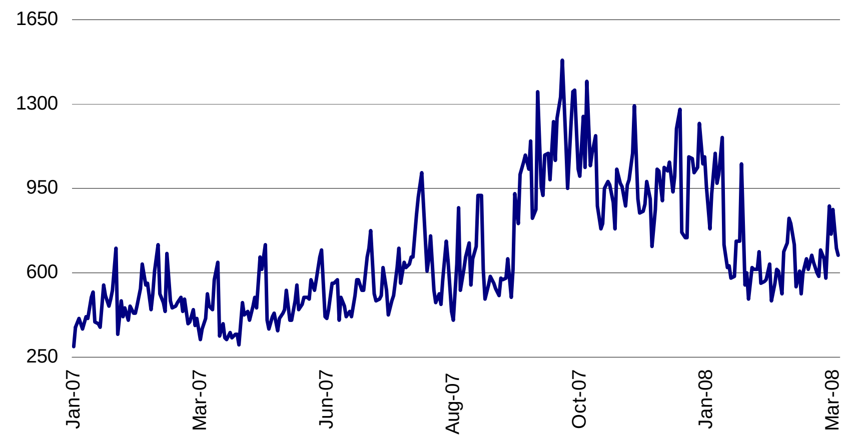
TOTAL FUTURE OPEN INTEREST (RS B)



TOTAL FUTURE OPEN INTEREST (M SHARES)



TOTAL MARKET VOLUMES (RS B)

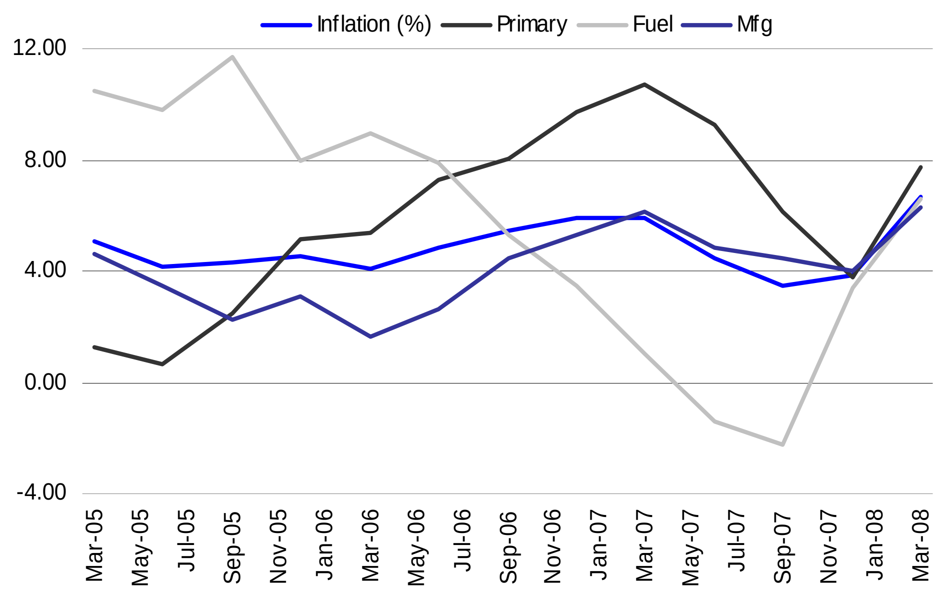


Few headwinds have become stronger

1) Rising Inflation

- Since July 2006, inflation up from 4.7% to ~7% last week, well above RBI's target range of 5-5.5%.
- An analysis of the constituents of the wholesale price index (WPI) – primary articles, fuel, and manufacturing products – indicates that the upward price movement in all the three items has led to a significant jump in inflation, despite higher base effect.
- **In fact, for the first time in the last seven years, all the three constituents have crossed 6%.**
- With no base impact to help, we believe inflation is likely to remain high and taming it will require multiple measures from the government.

MOVEMENT OF WPI INDEX AND KEY CONSTITUENTS SINCE MARCH 2005



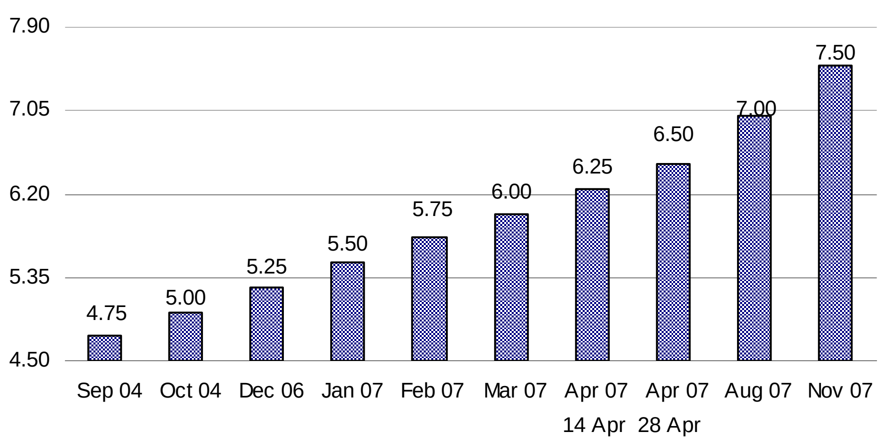
- Government has got into action by announcing a few measures on the fiscal front.
- With inflation expected to remain high, it can resort to more duty cuts on certain commodities.
- However, the challenge lies with RBI to control inflation through monetary policy measures.
- The two measures which RBI used very aggressively in 2007 and which could be used again are CRR hikes and allow strong currency gains.

Few headwinds have become stronger

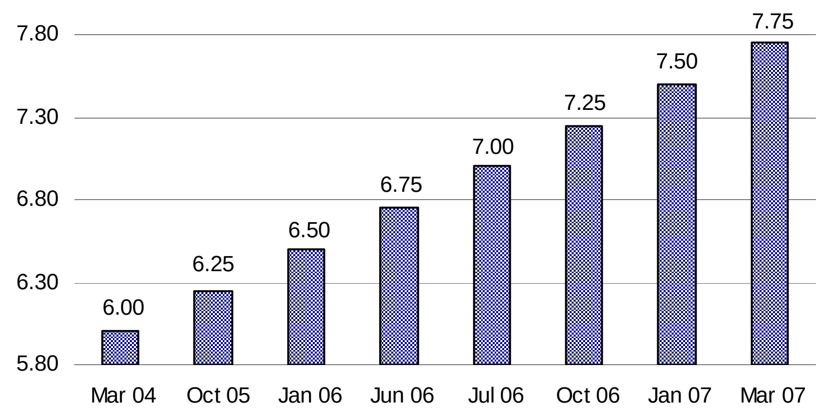
1) Rising Inflation

- **Impact of CRR hike:** Since Dec-06, the RBI has hiked CRR by 250bp, last being in Nov-07.
- As banks do not earn any interest on CRR, they have to hike lending rates to offset the impact.
- Besides leading to overall hardening of rates, this has also resulted in a squeeze on credit availability in a few sectors, which has impacted demand.
- If RBI were to resort to any further CRR hikes, we believe banks would be put in a tight spot – credit growth has already slowed down to 21% (from 28% a year back) and higher lending rates would result in further slowdown.

TREND IN CRR HIKE (%)



TREND IN REPO RATE HIKE (%)



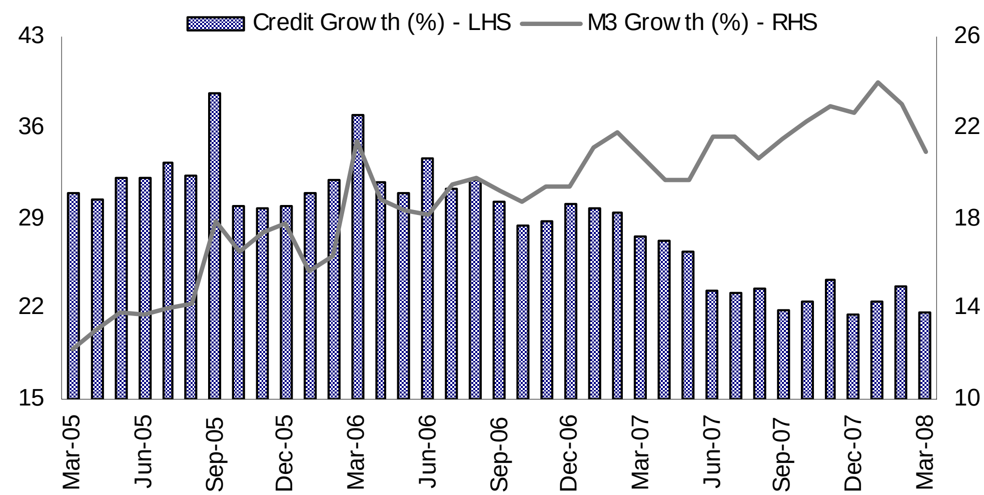
Few headwinds have become stronger

1) Rising Inflation

IMPACT OF CRR HIKE ON BANKS (RS B)

Deposits	30,752
Other Time Liabilities	4,087
Total NDTL	**34,839**
CRR Hike (%)	1
Liquidity Outflow	348
Revenue Loss to Banks at 9% Yield	**31**
Total Advances Book	**22,726**
Incr in Yields (bp) to cover rev. loss	**13.8**

M3 GROWTH VS CREDIT GROWTH (%)



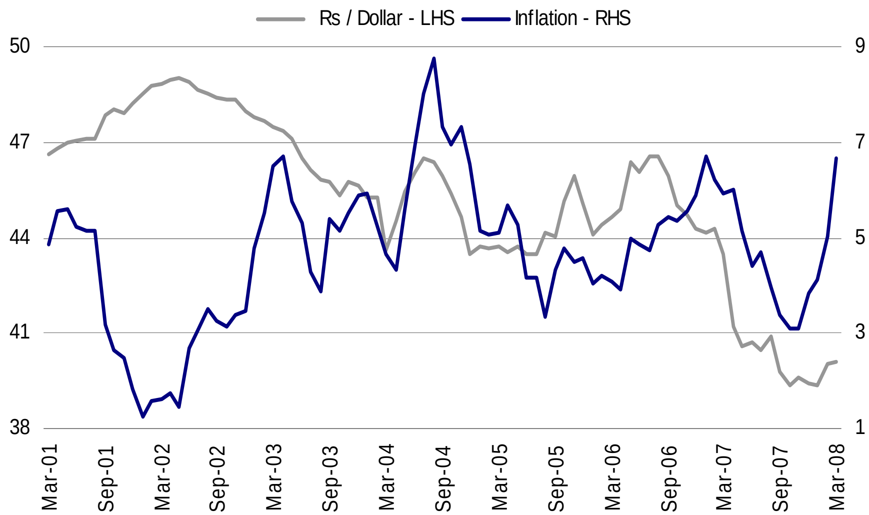
- **Every 100bp hike in CRR increases bank lending rates by 14bp**
- With margins of banks already under pressure due to higher cost of funds, any CRR hike will result in banks tightening their lending rates.
- We also believe that banks will be unable to pass the entire impact, as credit growth is slowing down and banks would like to maintain an average growth of 20% in FY09.

Few headwinds have become stronger

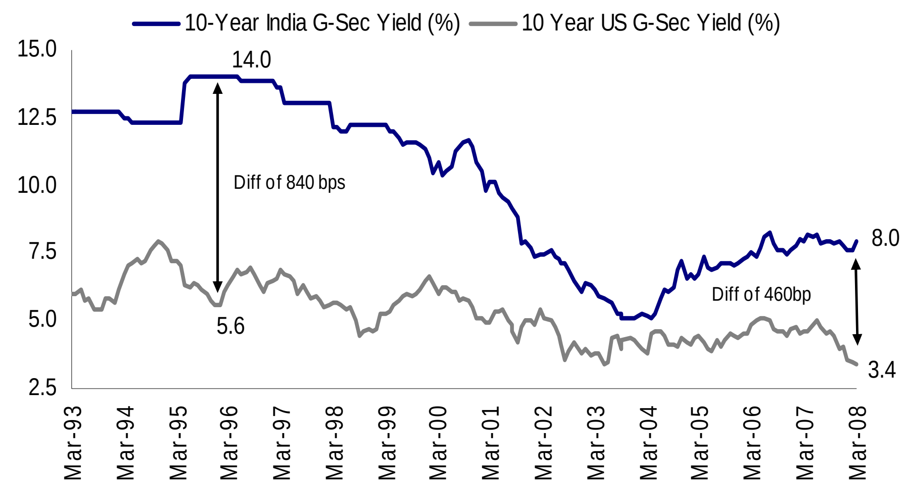
1) Rising Inflation

- **Impact of currency gains:** In 2007, the RBI allowed the Indian rupee to appreciate significantly to control inflation. In the first nine-months of 2007, the rupee appreciated 10% vis-à-vis the US dollar, which helped to lower inflation.
- As the differential between the benchmark rates of India widens with other global economies, higher capital flows in the system could also lead to rupee appreciation.

INFLATION V/S RUPEE/DOLLAR RATE



WIDENING SPREAD 10-YR INDIAN AND US G-SEC YIELD



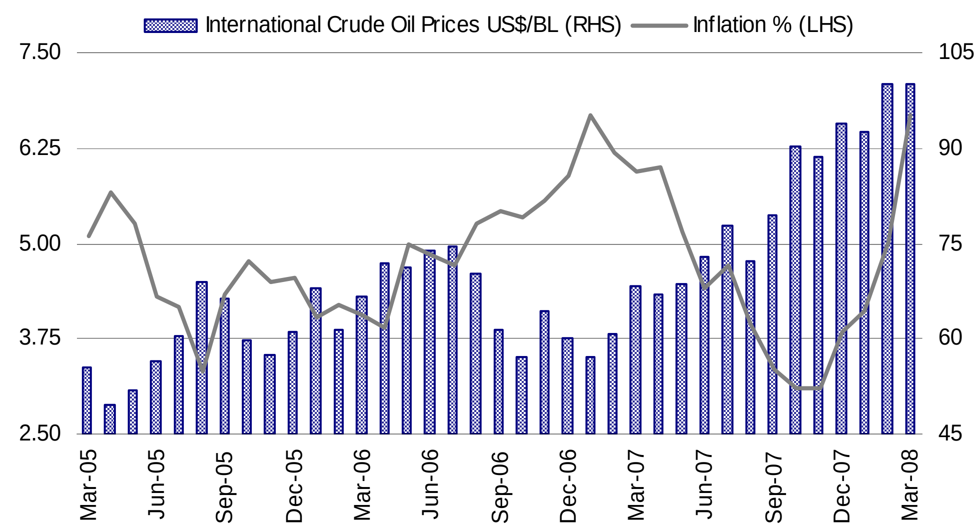
- **While a strong rupee can have a positive impact on inflation in the near term, it has a negative impact on corporate profits.**
- For the Sensex companies, almost 50% of profits get negatively impacted by rupee appreciation. This is more severe for the IT sector, which constitutes 11.2% of the Sensex profits.

Few headwinds have become stronger

2) Oil prices

- In March 2008, crude prices hit an all-time high of US$110/bbl. Domestic oil prices are shielded from global prices to a large extent, as the government has made very modest price hikes in the last couple of years.
- The impact of higher oil prices has been borne by ONGC and the government (via issue of oil bonds).
- The domestic environment will not allow the government to make any further price hikes in the system, which would result in significant sharing of losses by ONGC and very high growth in the oil bond issuance.

CRUDE OIL V/S INFLATION



FUEL UNDER RECOVERIES AT DIFFERENT OIL PRICES (RS B)

		FY08E	FY09 Scenarios						
Oil Price - Brent	**US$/bbl**	82	80	85	90	95	100	110	120
Under recoveries	**Rsb**	780	605	751	898	1,045	1,191	1,484	1,777

Note: Shading areas denotes the base case scenario

Few headwinds have become stronger

2) Oil prices

DISCOUNTS TO OIL MARKETING COMPANIES BY ONGC (RS B)

Upstream sharing	Oil Price (US$/bbl) - FY09						
	80	85	90	95	100	110	120
33.3%	172	215	258	301	344	429	515
40.0%	206	258	309	361	412	515	618
45.0%	232	290	348	406	464	580	696
50.0%	257	322	386	451	515	644	773

OIL BONDS V/S FISCAL DEFICIT

Year	Oil Bonds (Rs B)	Fiscal Deficit (Rs B)	Oil bonds as a % to Fiscal deficit
FY06	115	1464	7.9%
FY07	241	1426	16.9%
FY08E	377	1437	26.2%
FY09E (@ Oil US$ 80/bbl)	321	1333	24.1%
FY09E (@ Oil US$ 100/bbl)	679	1333	50.9%

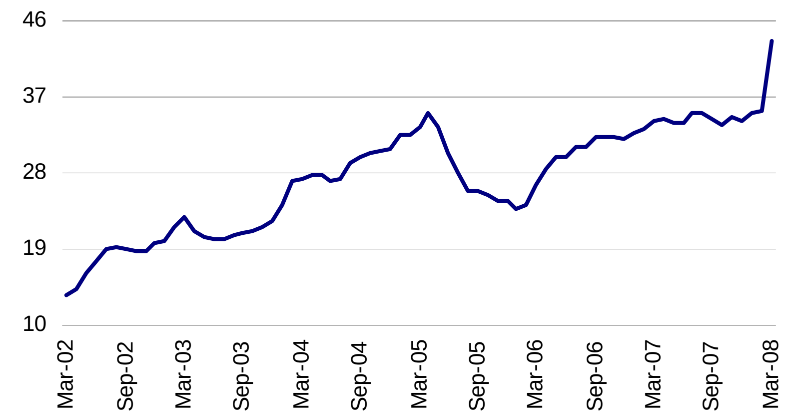
Note: Shading areas denotes the base case scenario

Few headwinds have become stronger

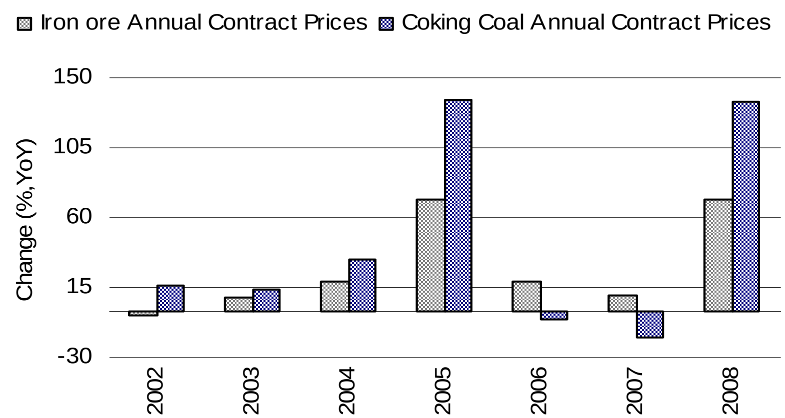
3) Metals prices

- Metal prices at all-time highs, globally owing to: (1) strong demand-supply mismatch, and (2) supply constrained by lower availability of minerals (like coking coal, iron ore, etc).
- Since the beginning of January 2008, major metal prices have increased sharply – steel (flat products) - 28%, steel (long products) - 42%, aluminum - 15-18%, and copper - 20%, etc.
- Steel prices are driven by demand-supply mismatch, as production growth was restricted due to shortage of coking coal in Jan-Feb' 08, 65-71% increase in iron ore prices and 140% increase in coking coal prices.
- Sharp rise in metals prices likely to impact margins of user industries significantly.
- We believe this could also lead to a valuation distortion in the overall market capitalization, as global cyclical command lower multiples

HRC PRICES RS 000'/TON (INCL. EXCISE, VAT)



IRON ORE AND COOKING COAL PRICES



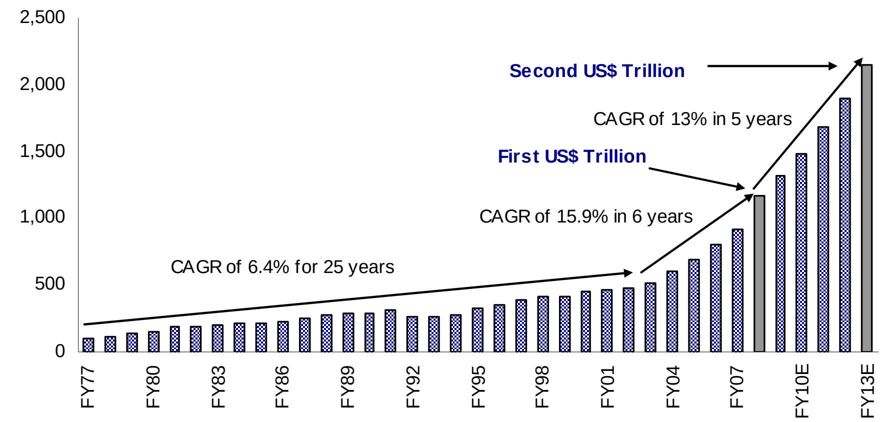
India: The Next Trillion Dollar (NTD) Opportunity !!

India's first trillion dollars: 1977 to 2008

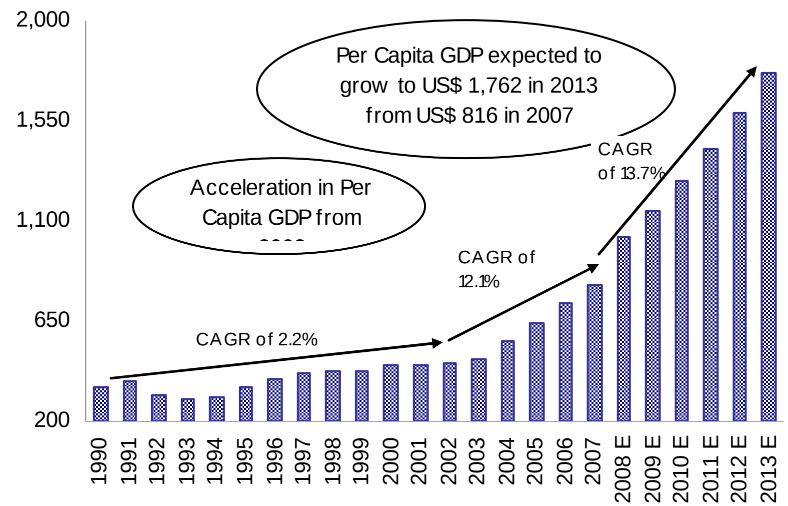
- In FY08, India will achieve the landmark of US$1 trillion GDP.
- The first 25 years of the journey saw India's nominal GDP growing at 6.4% per annum to just under US$0.5 trillion in 2002
- In the last 6 years, India's GDP more than doubled to US$1 trillion at a CAGR of 15.9%
- Higher GDP growth rate combined with lower population growth rate has led to accelerated growth in per capita GDP.

30 years for the first US$1 trillion; 6 years to the next trillion

INDIA'S JOURNEY – 1977 TO 2013



ACCELERATING PER CAPITA GDP



India: The Next Trillion Dollar (NTD) Opportunity !!

Recent policy measures to boost consumerism

- India is currently in the **golden phase** of its growth trajectory – **average GDP growth in the last four years has been 8.8%.**
- High GDP growth has resulted in **per capita GDP increasing from US$561 to US$1,023 in the last four years.**
- We expect per capita GDP to increase to US$1,572 in the next four years.
- We believe that US$1,000-1,200 will act as an inflexion point, beyond which higher proportion of income would be allocated to discretionary spending.
- According to F&R Research, the **share of grocery in the consumer spending basket is currently 63%; this share is expected to decline to 53% by 2015.**
- The government has taken a few initiatives in the recent past, which will further boost disposable income.

Budget proposal for Direct tax

- The budget has altered personal income tax slabs to benefit individual tax payers.
- The threshold of exemption has been increased
- from Rs110,000 to Rs150,000, and the tax slabs have been raised (please see table below).
- We estimate that for taxable income level of Rs300,000 the savings would be Rs2,000 per month while for Rs400,000 the savings would be about Rs3,000 per month.

CHANGES IN TAX SLABS

Old Slab	%	New Slab	%
Upto Rs110,000	0	Upto Rs150,000	0
Rs110,000 to Rs150,000	10	Rs150,000 to Rs300,000	10
Rs150,000 to Rs250,000	20	Rs300,000 to Rs500,000	20
Rs250,000 and above	30	Rs500,000 and above	30

India: The Next Trillion Dollar (NTD) Opportunity !!

Recent policy measures to boost consumerism

Sixth Pay Commission recommendations to increase salaries by 20-25%

- The central government has announced the implementation of the Sixth Pay Commission recommendations, which would result in a 20-25% increase in the salaries of nearly 5.5m central government employees.
- In addition, more than 7m state government employees, and central and state pensioners would also witness an increase in income. As the recommendations are to be implemented with effect from January 2006, employees will get arrears of more than two years.
- Increase in monthly take home salary and payment of one-time arrears bodes well for consumer demand. The Commission has also made recommendations of soft loans for two-wheelers (Rs60k), cars (Rs360k) and housing (Rs1,500k) at 2% interest rate subsidy from state-owned banks, which would boost demand for automobiles and real estate.

Waiver of farm loans positive for rural demand

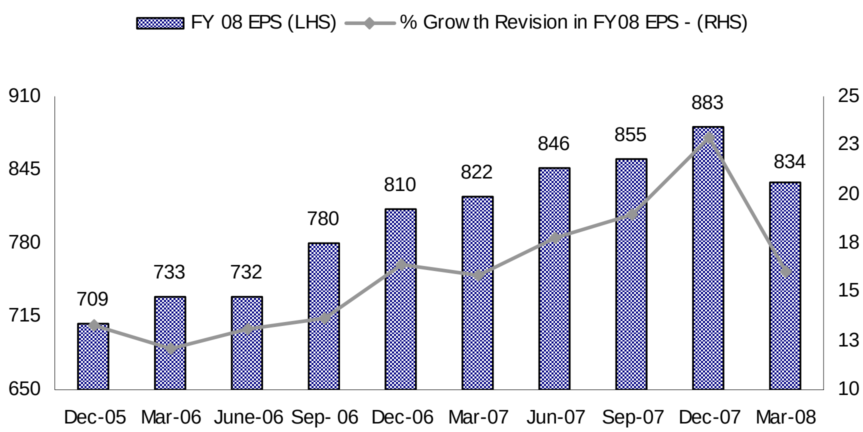
- The government has provided for waiver of farm loans worth Rs600b. The waiver would be 100% for land holdings up to two hectares and 25% for others.
- The move would remove the burden of loan repayment for a large number of small and marginal farmers.
- It would also make them eligible for further loans from other banks.
- The resultant increase in credit flow to the rural economy would boost consumer demand.

Sensex earnings growth still healthy

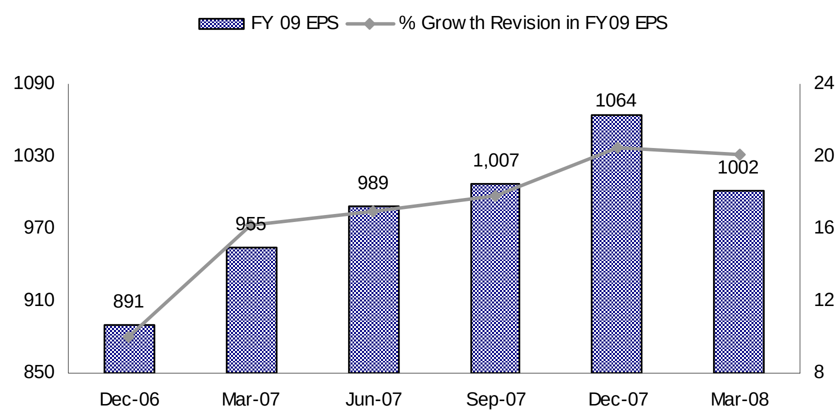
Earnings estimates – downgrade after eight quarters of upgrades

- Over the last eight quarters, we have witnessed consistent upgrades to our earnings estimates.
- Our Sensex EPS estimate for FY08 was upgraded from Rs810 in December 2006 to Rs846 in June 2007 to Rs883 in December 2007.
- Similarly, our Sensex EPS estimate for FY09 was revised from Rs891 in December 2006 to Rs955 in June 2007 to Rs1,064 in December 2007.

TREND IN FY08E EPS AND REVISION



TREND IN FY08E EPS AND REVISION



Sensex earnings still healthy

Earnings estimates – downgrade after eight quarters of upgrades

- After a series of upgrades, we have now downgraded our Sensex EPS estimates by 5.5% to Rs834 for FY08 and by 5.8% to Rs1,002 for FY09.
- While the Sensex EPS got lowered by 2.4% due to change in index constituents and SBI rights issue, it was impacted by another 3.1% by earnings downgrades.
- Key contributors to downgrades in FY08 earnings are: Metals, Real Estate, Oil & Gas, Cement, and Engineering; while sectors that witnessing upgrades are Banking, Autos, Pharma, and Telecom.
- The key contributors to downgrades in FY09 earnings are: Metals, IT, Telecom, Cement and Autos; while sectors that have witnessed upgrades include Banking, and Oil & Gas.

TOP 10 UPGRADES (LEFT) AND DOWNGRADES (RIGHT) IN FY08 EPS (RS)

Name	Preview EPS for FY08		% Upgrade
	Mar-08	Dec-07	
Hindalco	14.0	12.4	13.3
Tata Motors	51.9	47.8	8.6
Cipla	8.5	7.9	8.0
HDFC	87.2	84.5	3.3
HDFC Bank	44.6	43.7	2.1
Hind. Unilever	8.1	8.0	2.0
TCS	52.0	51.2	1.5
ITC	8.3	8.2	1.4
Infosys	82.7	81.6	1.3
Mahindra & Mahindra	62.8	62.1	1.1
Ranbaxy Labs	19.2	19.1	0.9
Reliance Comm	26.1	25.9	0.8
Grasim Industries	295.9	293.5	0.8
State Bank	141.3	141.1	0.1

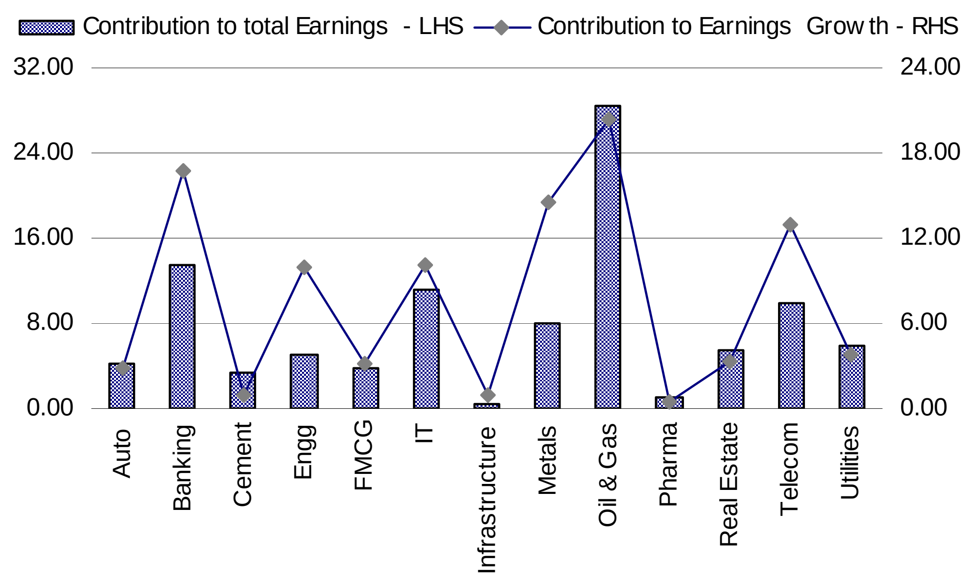
Name	Preview EPS for FY08		% Downgrade
	Mar-08	Dec-07	
Tata Steel	82.8	114.7	-27.7
Ambuja Cements	7.1	9.6	-26.1
Reliance Energy	25.3	33.8	-25.0
Larsen & Toubro	78.9	89.0	-11.3
ACC	64.0	70.0	-8.6
DLF	44.1	47.0	-6.0
Wipro	22.4	23.6	-5.1
BHEL	60.2	63.1	-4.7
ICICI Bank	35.5	36.5	-2.8
Maruti Suzuki	66.4	68.1	-2.6
ONGC	107.4	109.5	-2.0
Satyam Computer	25.4	25.7	-1.1
NTPC	10.1	10.1	-0.1
Bharti Airtel	34.7	34.7	-0.1

Sensex earnings still healthy

Sensex earnings growth still at healthy levels

- We estimate Sensex EPS at Rs1,002 for FY09, 20.1% higher than our FY08 Sensex EPS estimate of Rs834.
- A significant part of this growth would be contributed by Oil & Gas, Banking, Telecom, IT, and Metals.
- **The top-10 companies account for 70% of the total Sensex EPS for FY09 (v/s 61% in FY07).**

'LOW/AVERAGE P/E' SECTORS TO DRIVE EARNINGS GROWTH IN FY09



Sensex earnings growth in FY09 would largely be driven by 'low/average P/E' sectors like Oil & Gas, Metals, IT, etc (contributing 52.1% of the growth).

Even during FY10, we expect the share of 'lower average P/E' sectors at 62%, which is high.

Sensex earnings still healthy

Composition of earnings moving in favor of leaders

- Going forward, a large part of the contribution to incremental earnings will be by leaders like ONGC, Tata Steel, Reliance Industries, Bharti Airtel and SBI.
- In fact, nearly 52.4% of the incremental Sensex earnings in FY10 would be contributed by Reliance Industries, driven by monetization of gas and oil reserves, and commencement of production at Reliance Petroleum's greenfield refinery.
- **The top-10 companies account for 70% of the total Sensex EPS for FY09 (v/s 61% in FY07).**

TOP 5 ABSOLUTE CONTRIBUTORS TO SENSEX EPS VARIANCE IN FY09 (LEFT) AND FY10 (RIGHT)

Copmpany	Rs m	%
ONGC	26,531	11.6
Tata Steel	25,889	11.3
Reliance	20,050	8.8
Bharti	18,654	8.2
SBI	16,966	7.4

Copmpany	Rs m	%
Reliance	205,477	52.4
SBI	23,035	5.9
Bharti	15,281	3.9
BHEL	14,616	3.7
ICICI Bank	13,595	3.6

Sensex earnings still healthy

Sensitivity of earnings to key Sensex stocks

- We present below the sensitivity of few of the Sensex stocks to our assumptions.
- We believe that some of these stocks may witness significant changes in estimates, as the underlying assumptions change over the next few quarters.

ONGC FY09 EPS - SENSITIVITY TO OIL PRICE AND UPSTREAM SHARING

Upstream sharing	Oil Price (US$/bbl) - FY09						
	80	85	90	95	100	110	120
33.3%	**116**	113	112	111	110	109	107
40.0%	106	100	97	93	90	83	76
45.0%	98	91	85	80	75	64	54
50.0%	91	81	74	67	59	45	31

SENSITIVITY TO FY09 EPS FOR TATA STEEL

Increase in realn from FY08 price ($/T)	FY09 EPS
50	86.1
90	114.3
100	121.4
150	156.7
200	192.1

SENSITIVITY TO FY09 EPS FOR SAIL

Increase in realn from FY08 price ($/T)	FY09 EPS
50	18.3
100	23.2
150	27.3
200	31.4

SENSITIVITY TO FY09 EPS FOR BHEL

EBITDA margin (%)	Revenue Growth (%) - FY09				
	30	35	42.2	45	50
20.4	76.4	79.3	83.5	85.4	88.4
21.4	80.0	83.3	87.8	89.4	92.5
22.4	83.9	87.1	91.7	93.8	97.0

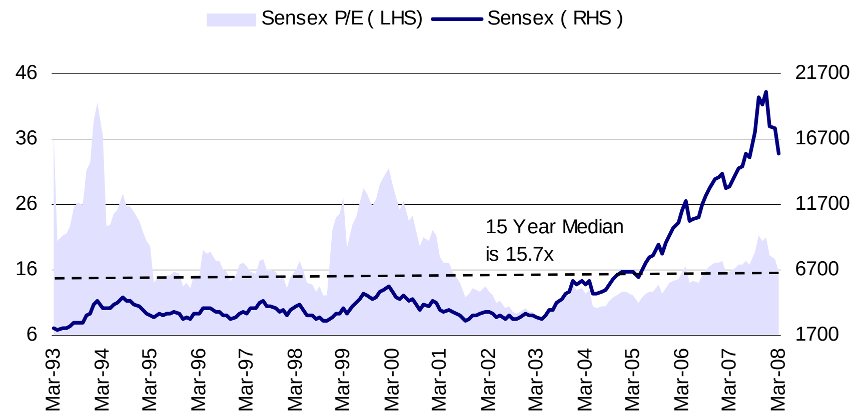
SENSITIVITY TO FY09 EPS FOR MARUTI

EBIDTA Margin (%)	Volume growth (%)			
	8	12	Existing (16.1)	20
-200	62.5	64.7	66.9	69.0
Existing (-90)	66.8	69.5	72.2	74.8
No change	72.2	74.7	77.3	79.7
+100	77.1	79.7	82.5	85.0

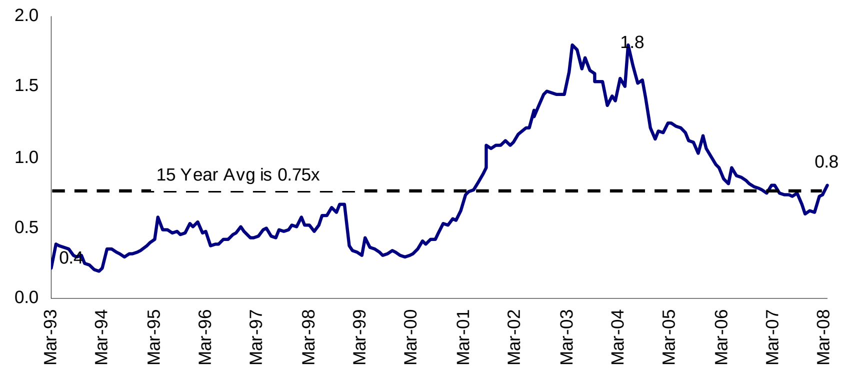
Note: Shading areas denotes the base case scenario

Valuations have corrected; are reasonable

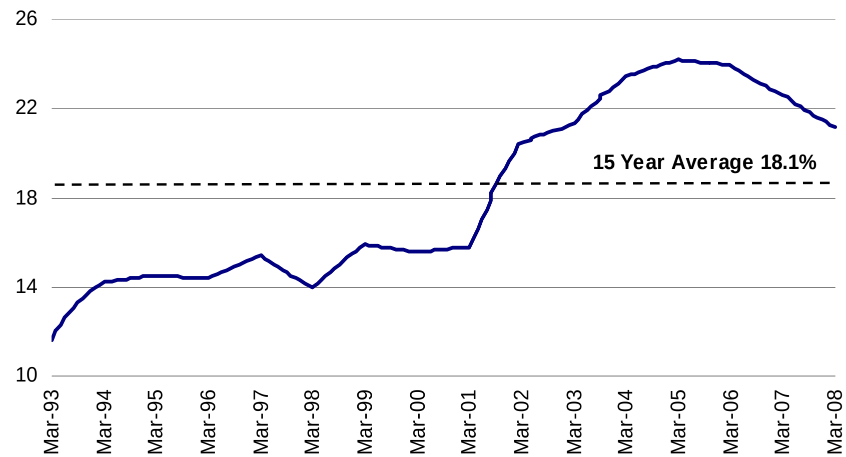
SENSEX P/E (X)



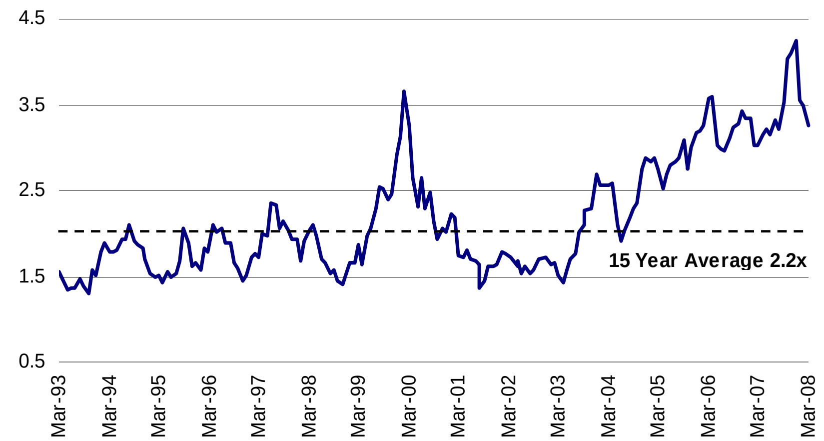
SENSEX EARNING YIELD VS BOND YIELD



SENSEX ROE (%)



SENSEX P/BV (X)



Recommend investing; biased towards quality large caps

- We are estimating 20.1% growth in Sensex EPS in FY09 to Rs1,002 and 29.6% growth in FY10 to Rs1,299.
- We arrive at a 12-mnoth target range for BSE Sensex at 19,000-21,000 (PE of 16-18x FY09 EPS), after considering the embedded value of 2,800.
- Our top large-cap bets are Reliance Industries, Bharti Airtel, Tata Steel, Axis Bank, Hero Honda, ITC, Gail, Ranbaxy, and TCS.
- Amongst the mid-caps, we like LIC Housing, IVRCL, Sintex, Blue Star, and Amtek Auto.

SUMMARY VALUATION FOR TOP PICKS

	CMP (Rs)	Reco	EPS (Rs)			PE (x)			EV/EBIDTA			ROE (%)		
			FY 08	FY 09	FY 10	FY 08	FY 09	FY 10	FY 08	FY 09	FY 10	FY 08	FY 09	FY 10
Large Caps														
Reliance Inds.	2,348	Buy	104.4	109.1	238.4	22.5	21.5	9.8	15.7	15.5	7.4	21.4	18.0	27.8
Bharti Airtel	826	Buy	34.7	44.5	52.6	23.8	18.5	15.7	14.4	10.5	8.6	38.6	35.5	31.9
Tata Steel	717	Buy	82.8	114.3	128.4	8.7	6.3	5.6	5.2	4.5	4.1	14.5	17.2	16.7
Axis Bank *	805	Buy	27.9	36.8	49.6	28.9	21.9	16.2	3.4	3.0	2.6	16.9	14.7	17.3
Hero Honda	701	Buy	46.2	50.5	55.6	15.2	13.9	12.6	9.3	8.2	7.0	33.8	30.8	26.7
ITC	206	Buy	8.3	9.6	11.4	24.9	21.6	18.1	16.6	14.1	11.5	26.1	26.3	27.4
GAIL	442	Buy	30.5	35.1	38.0	14.5	12.6	11.6	9.9	7.9	7.2	19.9	20.1	19.3
Ranbaxy Labs	439	Buy	19.2	19.5	22.2	22.8	22.5	19.7	19.5	15.7	12.6	25.9	23.2	23.3
TCS	870	Buy	52.0	59.8	67.1	16.7	14.6	13.0	13.6	11.4	9.1	46.3	39.2	33.9
Mid Caps														
LIC Housing *	271	Buy	38.2	48.3	60.0	7.1	5.6	4.5	1.2	1.0	0.9	19.3	19.3	20.4
IVRCL Infra.	406	Buy	16.2	21.2	29.4	25.1	19.2	13.8	16.6	12.0	8.5	14.5	17.0	20.2
Sintex Inds.	360	Buy	15.5	31.8	43.7	23.2	11.3	8.2	10.6	6.0	2.8	14.5	17.5	18.4
Blue Star	407	Buy	18.4	25.7	35.9	22.1	15.8	11.3	14.8	10.3	7.4	73.4	59.3	58.6
Amtek Auto	260	Buy	28.1	33.9	39.0	9.3	7.7	6.7	6.7	5.7	4.7	17.4	17.4	16.6

For Axis Bank & LIC Housing the values appearing in EV / EBIDTA are P/B.

Financial performance (MOSL Universe)

ANNUAL PERFORMANCE - MOST UNIVERSE (RS BILLION)

SECTOR	SALES				EBITDA				NET PROFIT			
Y/E MARCH	FY08E	FY09E	FY10E	CH. (%)*	FY08E	FY09E	FY10E	CH. (%)*	FY08E	FY09E	FY10E	CH. (%)*
Auto (11)	986	1,135	1,299	15.1	120	134	155	11.6	78	87	100	10.7
Banks (20)	691	847	1,030	22.5	537	664	814	23.6	295	355	429	20.6
Cement (7)	413	473	528	14.5	135	142	144	5.4	75	79	80	6.2
Engineering (10)	916	1,238	1,560	35.2	136	189	247	39.1	95	135	176	42.6
FMCG (12)	536	621	714	15.9	106	125	148	17.8	77	92	111	20.5
IT (8)	842	1,025	1,276	21.7	204	243	302	18.7	174	202	229	15.8
Infrastructure (9)	234	324	438	38.5	35	55	81	58.2	16	23	30	45.1
Media (6)	56	69	81	21.9	22	27	33	25.3	13	18	22	32.0
Metals (8)	2,890	3,313	3,509	14.6	575	671	721	16.8	295	360	411	21.9
Oil Gas & Petchem (10)	7,827	7,978	8,489	1.9	954	1,087	1,375	14.0	570	658	880	15.5
Pharma (17)	409	475	481	16.0	81	95	113	17.1	62	69	83	12.3
Real Estate (2)	184	259	340	40.7	115	150	202	30.1	92	110	149	19.5
Retail (3)	95	138	184	44.1	7	11	15	43.4	3	4	7	56.7
Telecom (3)	524	691	838	32.1	217	297	366	36.8	129	161	194	25.1
Textiles (7)	116	140	171	20.5	17	25	30	47.9	5	9	12	74.4
Utilities (5)	553	633	762	14.4	135	158	186	16.4	93	103	112	10.8
Others (8)	115	157	195	36.0	23	34	44	46.3	14	21	27	53.0
MOSt (146)	17,388	19,514	21,896	12.2	3,419	4,106	4,976	20.1	2,085	2,487	3,050	19.3
MOSt Excl. Banks (126)	16,697	18,667	20,865	11.8	2,882	3,442	4,162	19.4	1,791	2,132	2,621	19.1
MOSt Excl.Oil & Gas (136)	9,561	11,536	13,406	20.7	2,465	3,018	3,601	22.4	1,515	1,829	2,170	20.7
MOST Excl. RMs (143)	12,674	14,787	17,424	16.7	3,212	3,839	4,697	19.5	1,947	2,311	2,867	18.7

** Growth FY09 over FY08; For Banks : Sales = Net Interest Income, EBITDA = Operating Profits; Tata Steel figures are consolidated incl. Corus.*

Valuations (MOSL Universe)

VALUATIONS - MOST UNIVERSE

SECTOR	P/E (X)			EV/EBITDA (X)			P/BV (X)		ROE (%)			DIV. YLD (%)	EARN. CAGR
(NO. OF COMPANIES)	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY08E	FY09E	FY10E	FY08E	(FY10-08)
Auto (11)	15.4	13.9	12.1	9.1	7.9	6.6	3.2	2.7	20.7	19.7	19.5	2.0	12.9
Banks (20)	15.2	12.6	10.5	N.M	N.M	N.M	2.6	2.0	16.8	15.6	16.7	1.4	20.7
Cement (7)	10.6	10.0	9.9	5.9	5.3	4.9	3.4	2.6	32.1	26.3	21.9	1.7	3.8
Engineering (10)	33.8	23.7	18.2	23.0	16.7	12.8	8.7	6.8	25.7	28.8	30.1	0.9	36.2
FMCG (12)	26.5	22.0	18.4	18.5	15.4	12.8	8.6	7.3	32.3	33.0	34.0	2.3	20.1
IT (8)	17.2	14.8	13.1	13.4	11.0	8.5	5.2	4.1	30.1	27.8	25.5	1.4	14.6
Infrastructure (9)	53.9	37.1	29.2	27.7	18.8	13.4	4.9	4.0	9.1	10.9	12.5	0.3	35.7
Media (6)	25.1	19.0	15.4	15.0	11.6	9.1	4.7	3.9	18.6	20.4	20.8	0.6	27.5
Metals (8)	10.8	8.9	7.8	6.2	5.1	4.6	2.3	1.9	21.2	21.0	19.7	1.3	18.0
Oil Gas & Petchem (10)	13.0	11.3	8.5	8.1	7.1	5.5	2.7	2.2	20.9	19.7	21.6	1.9	24.2
Pharma (17)	19.2	17.1	14.3	15.1	12.6	10.3	4.3	3.6	22.5	20.8	21.0	1.4	15.8
Real Estate (2)	18.0	15.0	11.2	15.4	11.5	7.9	8.1	5.9	45.2	39.4	38.4	1.0	26.9
Retail (3)	44.8	28.6	17.5	19.2	13.6	9.3	6.2	5.3	13.8	18.4	17.7	0.3	59.9
Telecom (3)	22.8	18.2	15.1	14.4	11.0	8.7	6.0	4.8	26.5	26.1	25.2	0.0	22.8
Textiles (7)	11.7	6.7	5.2	9.3	6.8	5.8	0.8	0.8	7.1	11.3	13.0	2.2	50.1
Utilities (5)	25.9	23.4	21.6	17.1	15.3	13.4	3.1	2.6	11.8	11.2	11.2	1.3	9.7
Others (8)	14.4	9.4	7.3	9.3	6.3	4.5	3.5	2.5	24.6	26.1	26.8	1.3	41.1
MOSt (146)	**16.8**	**14.1**	**11.5**	**N.M**	**N.M**	**N.M**	**3.6**	**2.9**	**21.2**	**20.4**	**21.0**	**1.3**	**20.9**
MOSt Excl. Banks (126)	**17.1**	**14.4**	**11.7**	**10.8**	**9.0**	**7.3**	**3.8**	**3.1**	**22.2**	**21.5**	**21.9**	**1.3**	**21.0**
MOSt Excl.Oil & Gas (136)	**18.3**	**15.1**	**12.8**	**N.M**	**N.M**	**N.M**	**3.9**	**3.1**	**21.4**	**20.7**	**20.7**	**1.2**	**19.7**
MOST Excl. RMs (143)	**17.6**	**14.9**	**12.0**	**N.M**	**N.M**	**N.M**	**3.8**	**3.0**	**21.3**	**20.4**	**21.2**	**1.3**	**21.4**

N.M. - Not Meaningful

Source: Motilal Oswal Securities

4QFY08 Preview

QUARTERLY PERFORMANCE - MOST UNIVERSE									(RS MILLION)
SECTOR	SALES			EBITDA			NET PROFIT		
(NO. OF COMPANIES)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Auto (11)	259,427	276,299	6.5	31,205	34,287	9.9	21,551	22,472	4.3
Banks (20)	175,866	189,951	8.0	148,469	151,324	1.9	63,264	74,260	17.4
Cement (7)	84,260	96,011	13.9	26,672	30,356	13.8	16,366	18,282	11.7
Engineering (10)	239,956	320,364	33.5	41,740	57,397	37.5	30,050	39,162	30.3
FMCG (12)	127,333	140,646	10.5	21,938	25,481	16.2	15,050	18,393	22.2
IT (8)	171,946	211,984	23.3	48,048	56,813	18.2	41,952	47,768	13.9
Infrastructure (9)	60,445	73,033	20.8	8,367	10,807	29.2	3,815	4,789	25.5
Media (6)	14,082	15,152	7.6	5,121	5,668	10.7	2,564	2,818	9.9
Metals (8)	333,892	374,314	12.1	119,212	133,988	12.4	71,420	83,649	17.1
Oil Gas & Petchem (10)	1,554,451	2,041,356	31.3	195,485	208,690	6.8	106,676	127,765	19.8
Pharma (17)	95,315	105,590	10.8	20,005	21,257	6.3	15,652	14,220	-9.1
Real Estate (2)	8,487	14,592	71.9	5,101	6,073	19.1	3,571	4,051	13.5
Retail (3)	16,725	24,769	48.1	1,447	2,110	45.8	730	919	25.9
Telecom (3)	106,386	146,478	37.7	43,123	60,951	41.3	25,682	33,132	29.0
Textiles (7)	25,131	32,058	27.6	3,975	4,634	16.6	1,370	1,177	-14.1
Utilities (5)	127,954	145,716	13.9	27,508	35,685	29.7	21,693	25,794	18.9
Others (8)	25,372	32,866	29.5	4,701	6,202	31.9	3,086	4,021	30.3
MOSt (146)*	**3,427,027**	**4,241,179**	**23.8**	**752,117**	**851,723**	**13.2**	**444,489**	**522,672**	**17.6**
MOSt Excl. Banks (126)	**3,251,161**	**4,051,228**	**24.6**	**603,648**	**700,399**	**16.0**	**381,226**	**448,413**	**17.6**
MOSt Excl.Oil & Gas (136)	**1,872,576**	**2,199,822**	**17.5**	**556,632**	**643,033**	**15.5**	**337,814**	**394,907**	**16.9**
MOST Excl. RMs (143)	**2,438,377**	**2,920,888**	**19.8**	**680,102**	**801,894**	**17.9**	**404,084**	**489,521**	**21.1**
Sensex (Excl DLF)	**1,351,846**	**1,612,965**	**19.3**	**388,987**	**476,550**	**22.5**	**245,138**	**296,579**	**21.0**
Sensex (Tata Steel Cons)	**1,376,739**	**1,889,211**	**37.2**	**389,631**	**497,448**	**27.7**	**243,732**	**303,216**	**24.4**

** Tata Steel Standalone; Bajaj Auto numbers are pre-demerger*

Source: Motilal Oswal Securities

4QFY08 Preview

QUARTERLY PERFORMANCE - MOST UNIVERSE

SECTOR	EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
(NO. OF COMPANIES)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Auto (11)	12.0	12.4	0.4	8.3	8.1	-0.2
Banks (20)	84.4	79.7	-4.8	36.0	39.1	3.1
Cement (7)	31.7	31.6	0.0	19.4	19.0	-0.4
Engineering (10)	17.4	17.9	0.5	12.5	12.2	-0.3
FMCG (12)	17.2	18.1	0.9	11.8	13.1	1.3
IT (8)	27.9	26.8	-1.1	24.4	22.5	-1.9
Infrastructure (9)	13.8	14.8	1.0	6.3	6.6	0.2
Media (6)	36.4	37.4	1.0	18.2	18.6	0.4
Metals (8)	35.7	35.8	0.1	21.4	22.3	1.0
Oil Gas & Petchem (10)	12.6	10.2	-2.4	6.9	6.3	-0.6
Pharma (17)	21.0	20.1	-0.9	16.4	13.5	-3.0
Real Estate (2)	60.1	41.6	-18.5	42.1	27.8	-14.3
Retail (3)	8.7	8.5	-0.1	4.4	3.7	-0.7
Telecom (3)	40.5	41.6	1.1	24.1	22.6	-1.5
Textiles (7)	15.8	14.5	-1.4	5.5	3.7	-1.8
Utilities (5)	21.5	24.5	3.0	17.0	17.7	0.7
Others (8)	18.5	18.9	0.3	12.2	12.2	0.1
MOSt (146) *	**21.9**	**20.1**	**-1.9**	**13.0**	**12.3**	**-0.6**
MOSt Excl. Banks (126)	**18.6**	**17.3**	**-1.3**	**11.7**	**11.1**	**-0.7**
MOSt Excl.Oil & Gas (136)	**29.7**	**29.2**	**-0.5**	**18.0**	**18.0**	**-0.1**
MOST Excl. RMs (143)	**27.9**	**27.5**	**-0.4**	**16.6**	**16.8**	**0.2**
Sensex (Excl DLF)	**28.8**	**29.5**	**0.8**	**18.1**	**18.4**	**0.3**
Sensex (Tata Steel Cons)	**28.3**	**26.3**	**-2.0**	**17.7**	**16.0**	**-1.7**

**Tata Steel Standalone*

Source: Motilal Oswal Securities

4QFY08 Preview

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.
Oil Gas & Petchem (10)	59.8	Telecom (3)	17.9	Oil Gas & Petchem (10)	27.0
Engineering (10)	9.9	Engineering (10)	15.7	Metals (8)	15.6
Metals (8)	5.0	Metals (8)	14.8	Banks (20)	14.1
Telecom (3)	4.9	Oil Gas & Petchem (10)	13.3	Engineering (10)	11.7
IT (8)	4.9	IT (8)	8.8	Telecom (3)	9.5
Utilities (5)	2.2	Utilities (5)	8.2	IT (8)	7.4
Auto (11)	2.1	Cement (7)	3.7	Utilities (5)	5.2
Banks (20)	1.7	FMCG (12)	3.6	FMCG (12)	4.3
FMCG (12)	1.6	Auto (11)	3.1	Cement (7)	2.5
Infrastructure (9)	1.5	Banks (20)	2.9	Infrastructure (9)	1.2
Cement (7)	1.4	Infrastructure (9)	2.5	Others (8)	1.2
Pharma (17)	1.3	Others (8)	1.5	Auto (11)	1.2
Retail (3)	1.0	Pharma (17)	1.3	Real Estate (2)	0.6
Others (8)	0.9	Real Estate (2)	1.0	Media (6)	0.3
Textiles (7)	0.9	Retail (3)	0.7	Retail (3)	0.2
Real Estate (2)	0.7	Textiles (7)	0.7	Textiles (7)	-0.2
Media (6)	0.1	Media (6)	0.5	Pharma (17)	-1.8

Source: Motilal Oswal Securities

Model portfolio

MOST MODEL PORTFOLIO

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOST WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
Banks	19.2	18.0	-1.2	Neutral
ICICI Bank	5.5	5.0	-0.5	Buy
Axis Bank	1.1	5.0	3.9	Buy
PNB	0.5	4.0	3.5	Buy
Kotak Mahindra Bank	0.7	2.0	1.3	Buy
Union Bank	0.2	2.0	1.8	Buy
Engg./ Infrastrcuture / Real Estate	14.1	14.0	-0.1	Neutral
Larsen & Toubro	5.1	5.0	-0.1	Neutral
MRCL Infra.	0.3	4.0	3.7	Buy
IndiaBulls Real Estate	0.6	3.0	2.4	Buy
Simplex Infra.	0.0	2.0	2.0	Buy
Telecom	6.5	9.0	2.5	Overweight
Bharti Airtel	3.5	6.0	2.5	Buy
Reliance Comm	2.3	3.0	0.7	Buy
Petrochemicals	12.9	9.0	-3.9	Underweight
Reliance Inds.	10.5	9.0	-1.5	Buy
FMCG	6.1	8.0	1.9	Overweight
ITC	3.5	4.0	0.5	Buy
Nestle India	0.4	2.0	1.6	Buy
United Spirit	0.5	2.0	1.5	Buy

… Continued

Model portfolio

Metals	**6.7**	**8.0**	**1.3**	**Overweight**
Tata Steel	2.3	5.0	2.7	Buy
SAIL	0.7	3.0	2.3	Buy
Information Technology	**9.0**	**8.0**	**-1.0**	**Neutral**
TCS	1.3	4.0	2.7	Buy
HCL Tech.	0.4	4.0	3.6	Buy
Oil & Gas	**5.5**	**7.0**	**1.5**	**Overweight**
Cairn India	0.6	4.0	3.4	Buy
GAIL	0.9	3.0	2.1	Buy
Auto	**3.6**	**6.0**	**2.4**	**Overweight**
Hero Honda	0.4	3.0	2.6	Buy
Maruti Suzuki	0.8	3.0	2.2	Buy
Pharmaceuticals	**3.4**	**5.0**	**1.6**	**Overweight**
Ranbaxy Labs	0.7	3.0	2.3	Buy
Glaxo Pharma	0.3	2.0	1.7	Buy
Cement	**2.8**	**2.0**	**-0.8**	**Underweight**
Grasim Industries	1.1	2.0	0.9	Buy
Others	**9.9**	**6.0**	**-3.9**	**Underweight**
Blue Star	0.0	2.0	2.0	Buy
LIC Housing	0.0	2.0	2.0	Buy
Sintex Inds.	0.0	2.0	2.0	Buy
Cash	**0.0**	**0.0**		
Total	**100.0**	**100.0**		

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