



India Strategy

2007 was the sixth consecutive year of positive returns for Indian equities

We believe that 2008 would be another eventful year...

...with earnings growth expected to remain robust...

...lower inflation and possible softening of interest rates

India will achieve the landmark of US\$1 trillion GDP in 2008...

...and add another US\$1 trillion in the next 5-6 years

Get ready for the next trillion dollar opportunity!!!



RESULTS PREVIEW



Quarter ended December 2007

Welcome 2008!

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India Strategy

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

2007 has been an eventful year: Sensex at an all-time high, continued earnings momentum, new norms on p-notes by SEBI, record foreign flows, large-size IPOs, etc made 2007 an eventful year for Indian equities. The Sensex rose 47% during the year to close at its highest ever annual closing of 20,287, following similar gains in 2006 (47%) and 2005 (42%). On the macro-economics front, the two highlights of 2007 were: significant rupee appreciation, and continuous RBI intervention to control inflation.

2008 – another eventful year ahead: We believe that 2008 would be another eventful year. While we expect robust earnings growth to continue, liquidity would be a key factor driving markets. A possible rate cut would not only boost liquidity but also market sentiment. The forthcoming Budget and elections would be key events to watch for. We expect policy measures hereon to take populist hues.

India – the next trillion dollar opportunity: 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%. In the next five years, we expect India's GDP at US\$2 trillion (assuming current Re/US\$ parity).

Forecasting strong earnings growth in FY09 & FY10: We expect Sensex EPS to grow 23% in FY08 after 27% CAGR during FY03-07. In FY09, we estimate 21% growth in Sensex EPS to Rs 1,064. We are now introducing our Sensex EPS estimate of Rs 1,373 for FY10 - a growth of 29%. Significant growth drivers in FY10 would be the commissioning of Reliance Petroleum and E&P of Reliance Industries.

Sensex target of 21,000-25,000: With strong earnings growth ahead and positive outlook on interest rates, we believe that valuations will remain rich for Indian equities. We base our Sensex target range on a P/E band of 14-17x FY10E EPS of Rs 1,373. We also add an embedded value of 1,800 points. Our Sensex target range is now 21,000-25,000, which implies an upside range of 4-24% based on FY10 estimates.

Our top picks: Our top large cap bets are HDFC, Bharti, Tata Steel, GAIL, ITC, Bajaj Auto, JSPL, Ranbaxy, and Grasim. Amongst the mid caps, we prefer Sintex, Mahindra Lifespaces, Bombay Rayon, Indian Bank, United Phosphorus, Amtek Auto, Birla Corp and Dish TV. Our top contrarian bets for 2008 are TCS, M&M and ICICI Bank.



2007 has been an eventful year

Sensex at an all-time high, continued earnings momentum, new norms on p-notes by SEBI, record foreign flows, large-size IPOs, etc made 2007 an eventful year for Indian equities. 2007 has been the sixth consecutive year of positive returns for the Indian capital markets. The Sensex rose 47% during the year to close at its highest ever annual closing of 20,287, following similar gains in 2006 (47%) and 2005 (42%).

The sharp appreciation was a result of continued momentum in corporate earnings growth (Sensex EPS to grow 22.9% in FY08) and sustained investor confidence in Indian equities. Primary market offerings (IPOs) during the year totaled about Rs445b – the highest ever and 1.5x the total primary offerings of Rs296b in 2006. FIIs continued to be net buyers of Indian equities for the 9th year in a row, investing US\$17.4b – the highest ever and 2x the FII inflows of US\$8b in 2006. Domestic mutual funds, however, made a net investment of US\$1.6b in 2007, lower than US\$3.4b in 2006.

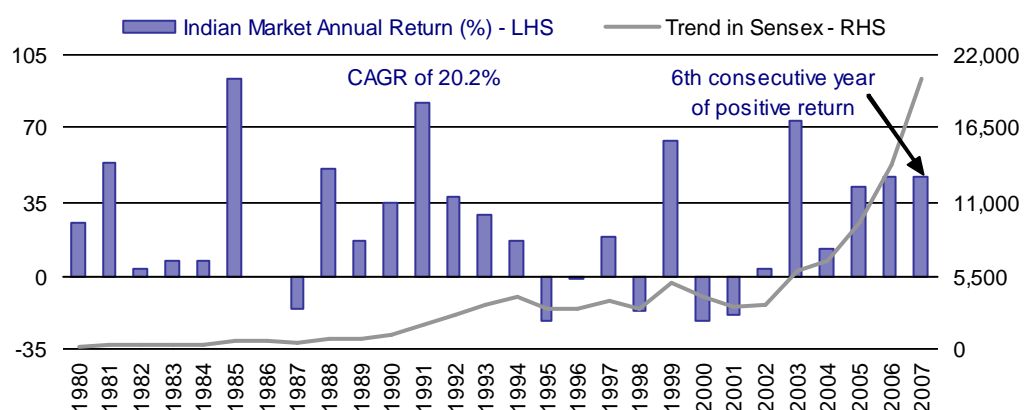
On the macro-economics front, the two highlights of 2007 were: significant rupee appreciation, and continuous RBI intervention to control inflation.

Sensex closed above 20,000

2007 was the 6th consecutive year of positive returns for Indian equities, with the BSE Sensex appreciating 47% to close at its highest ever annual closing of 20,287.

2007 was the sixth consecutive year of positive returns for Indian equities

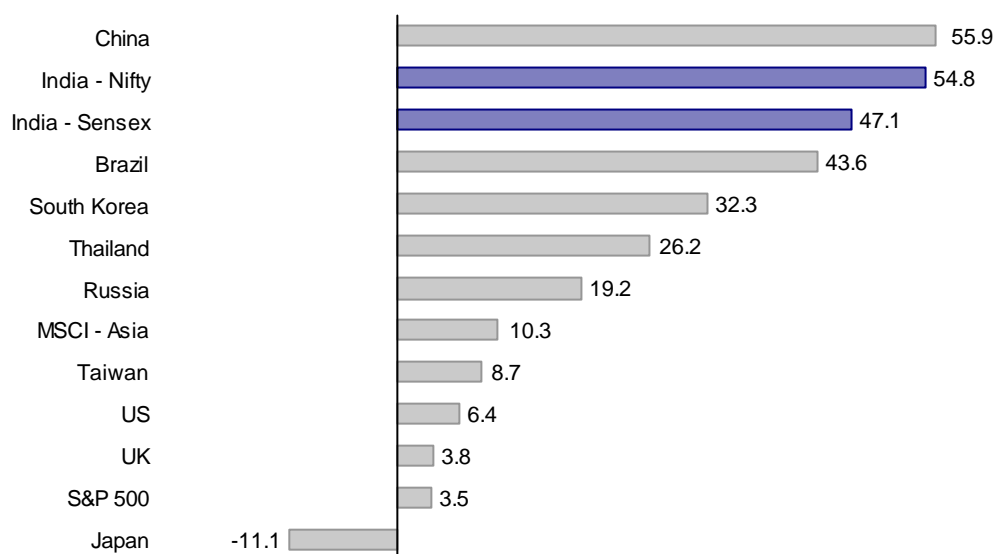
YEARLY RETURNS ON BSE SENSEX



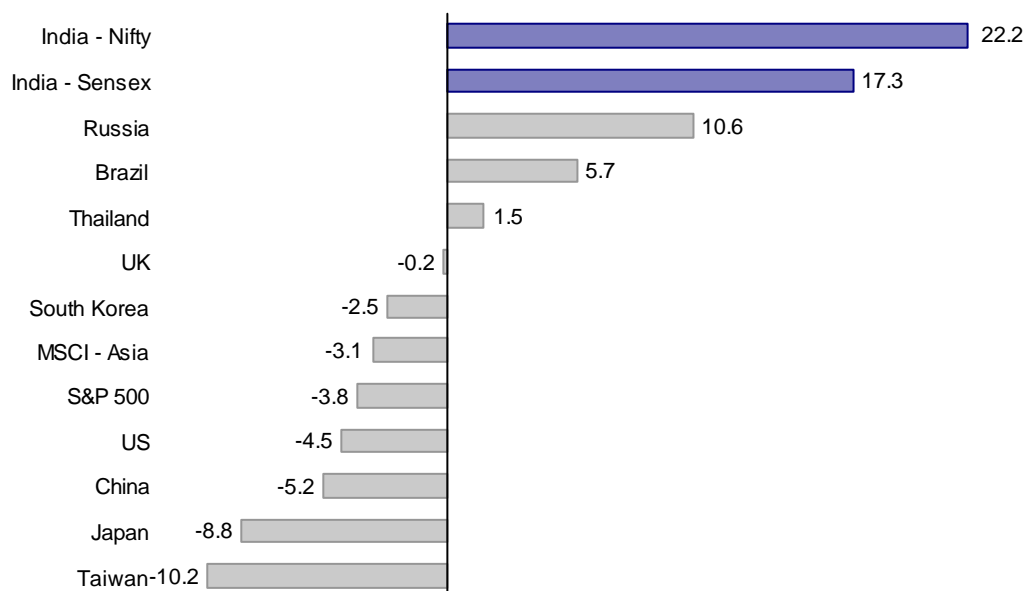
Source: Motilal Oswal Securities

India emerged as one of the best performing markets globally in 2007. The second half of the year saw significant outperformance by Indian equities over the rest of the world. As the earnings growth continued to remain strong and interest rate risks reduced, Indian equities witnessed significant upmove. In 4QCY07, Indian markets were amongst the very few to deliver positive returns.

PERFORMANCE OF MAJOR MARKETS – CY07 (%)



PERFORMANCE OF MAJOR MARKETS – 4QCY07 (%)



In 4QCY07, Indian markets were amongst the very few to deliver positive returns

Source: Bloomberg/Motilal Oswal Securities

CY07 PERFORMANCE OF INDIVIDUAL SENSEX STOCKS

COMPANY NAME	SECTOR	PRICE 29/12/2006	PRICE 31/12/2007	YTD CHG (%)
Reliance Energy	Utilities	520	2,135	310.7
Larsen & Toubro	Engineering	1,443	4,172	189.1
Reliance Inds.	Oil & Gas	1,270	2,881	126.8
B H E L	Engineering	1,149	2,584	124.9
Tata Steel	Metals	426	935	119.3
St Bk of India	Banking	1,246	2,371	90.3
DLF	Real Estate	570	1,074	88.4
NTPC	Utilities	136	250	83.3
H D F C	Banking	1,625	2,872	76.8
HDFC Bank	Banking	1,070	1,728	61.5
Reliance Comm	Telecom	471	747	58.4
Bharti Airtel	Telecom	629	995	58.2
BSE Sensex	Index	13,787	20,287	47.1
O N G C	Oil & Gas	870	1,237	42.1
ICICI Bank	Banking	890	1,232	38.4
Grasim Industries	Cement	2,789	3,652	30.9
Hindalco Industries	Metals	174	215	23.4
ITC	FMCG	176	210	19.5
Ranbaxy Labarotary.	Pharma	392	426	8.7
Maruti Suzuki	Auto	927	990	6.8
Ambuja Cement	Cement	141	147	4.0
Bajaj Auto	Auto	2,619	2,613	-0.2
Hindustan Unilever	FMCG	217	214	-1.2
M & M	Auto	906	861	-5.0
ACC	Cement	1,086	1,025	-5.6
Satyam Computer	IT	484	449	-7.2
TCS	IT	1,219	1,083	-11.1
Wipro	IT	605	526	-13.1
Cipla	Pharma	251	213	-15.2
Tata Motors	Auto	900	742	-17.6
Infosys Technologies	IT	2,241	1,768	-21.1

Note: DLF price is from the listing day

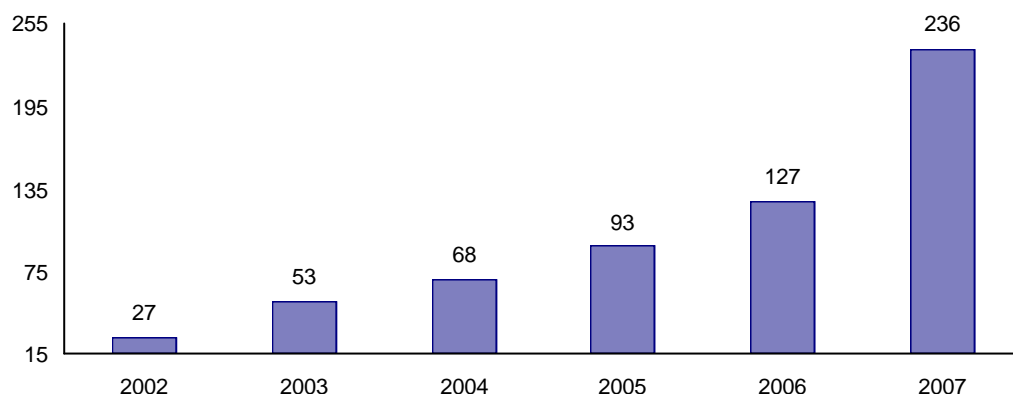
Source: Motilal Oswal Securities

Sensex: highlights for the quarter ended December 2007

- ✎ Highest absolute rise in any quarter – 2,996 points (or 17%)
- ✎ Highest ever single-day absolute rise – 894 points on 14 November 2007
- ✎ All the benchmark indices hit the lower circuit on 17 October 2007, post the SEBI proposals on P-notes
- ✎ The fastest 1,000-point rise from 18,000-19,000 in five trading sessions; another 1,000-point rise (19,000 to 20,000) in eleven trading sessions

Market capitalization has increased to US\$1,823b from US\$549b in 2005 and US\$281b in 2003. The number of >US\$1b market cap companies have increased to 236 in 2007 from 127 in 2006, 93 in 2005 and 68 in 2004. Several emerging sectors such as wireless, media, real estate, and infrastructure have provided significant investment opportunities. Going forward, we expect such investment opportunities to expand, which will drive newer investors into India.

NUMBER OF COMPANIES WITH MARKET CAP OVER US\$1B



Source: Motilal Oswal Securities

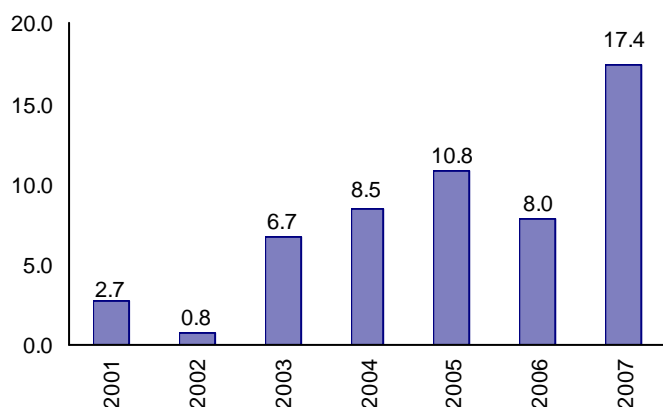
The key factors driving this unprecedented performance are: (1) Continued earnings momentum (FY08E EPS revised to Rs 883 from Rs 822 in March 2007; FY09E EPS revised 11.4% to Rs 1,064 from Rs 955 in March 2007); (2) significant inflows from FIIs; and (3) strong participation from investors in primary market (indicated by robust subscription to initial public offerings).

Strong inflows have kept markets buoyant

Strong inflows kept markets buoyant

Indian capital markets have been attracting strong inflows from both foreign and local investors (collective investment of US\$19b by FIIs and domestic mutual funds in 2007 v/s US\$11.4b in 2006). In 2007, net FII investment in Indian equities was US\$17.4b as against US\$8b in 2006 and US\$10.8b in 2005. Domestic mutual funds have invested US\$1.6b in 2007 against US\$3.4b in 2006. Insurance companies have emerged as yet another large investor group – their net investments in equities in 2007 is multiple times of the domestic mutual funds and will continue to grow at a significant pace going forward.

FII NET INVESTMENT (US\$B)



MUTUAL FUND NET INVESTMENT (US\$B)



Source: SEBI/Motilal Oswal Securities

Highest new equity offerings in 2007; overwhelming response

The response to record new equity offerings was overwhelming

The Indian market witnessed new equity offerings of around Rs445b in 2007, the highest ever since 2001 and 1.5x the new equity offerings of Rs296b in 2006. The total number of companies that made new offerings was 106 and the total bids submitted by various classes of investors amounted to Rs13,107b v/s equity offerings of Rs445b, an average oversubscription of 29.5x. The largest primary offering by a debutant was Rs92b by DLF. ICICI Bank raised Rs101b to top the chart of largest public offerings.

DOMESTIC PUBLIC ISSUE SUBSCRIPTION

TOP 10 ISSUES BY SIZE	ISSUE SIZE (RS B)	TOTAL SUBSCRIPTION (RS B)	NO. OF TIMES OVERSUBSCRIBED
ICICI Bank Ltd	101	976	9.7
DLF Ltd	92	303	3.3
Power Grid Corporation of India Ltd	30	1,925	64.5
Idea Cellular Ltd	21	1,053	49.6
Mundra Port & Special Economic Zone Ltd	18	2,042	115.3
Housing Development & Infrastructure Ltd	15	83	5.6
Power Finance Corporation Ltd	10	769	77.2
Puravankara Projects Ltd	9	16	1.9
Central Bank of India	8	502	61.5
Indian Bank	8	251	32.1
Total of above	311	7,921	25.5
Grand total (106 companies) - CY07	445	13,107	29.5
Grand total (92 companies) - CY06	296	8,214	27.7

Source: Motilal Oswal Securities

SEBI ushered in some new guidelines

Though SEBI guidelines on p-notes had resulted in a negative market reaction initially...

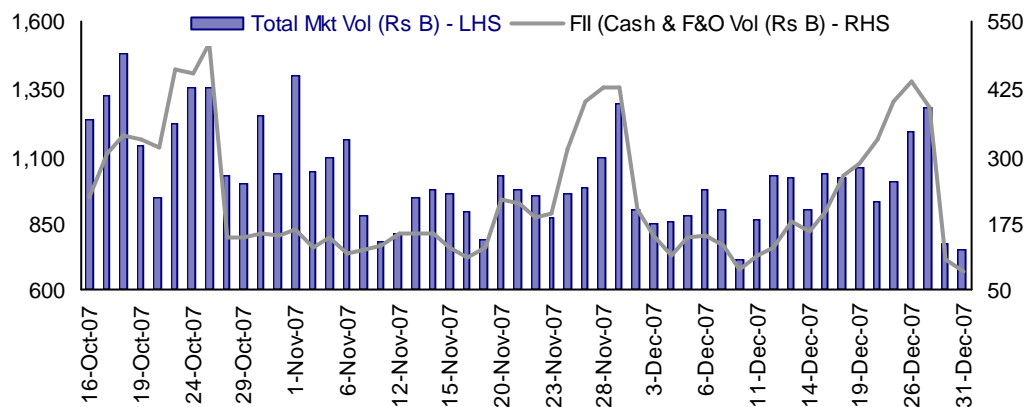
The Securities and Exchange Board of India (SEBI) ushered in guidelines regarding promissory notes (p-notes), has now allowed short-selling by FIIs and recently published guidelines on insider trading. The guidelines on p-notes shook market confidence for a while but normalcy was restored after further clarifications on the issue.

Guidelines on p-notes: SEBI announced guidelines relating to p-notes on 16 October 2007 and the market reacted negatively. The Sensex lost 1,400 points over the next four trading sessions. Clarifications on certain issues relating to the guidelines, however, restored normalcy. Key features of the guidelines were:

...subsequent clarifications restored normalcy

- ✘ No more issuing of p-notes by sub-accounts.
- ✘ No more issuing of derivative-based p-notes.
- ✘ Existing positions with above conditions should be squared off in the next 18 months.
- ✘ No fresh p-notes to be issued by any FII having more than 40% of its investments in p-notes.
- ✘ If derivative-based p-note positions are less than 40% of total investments, then fresh p-note based investments to be made only at an incremental rate of 5%.

FII AND MARKET VOLUMES AFTER P-NOTES



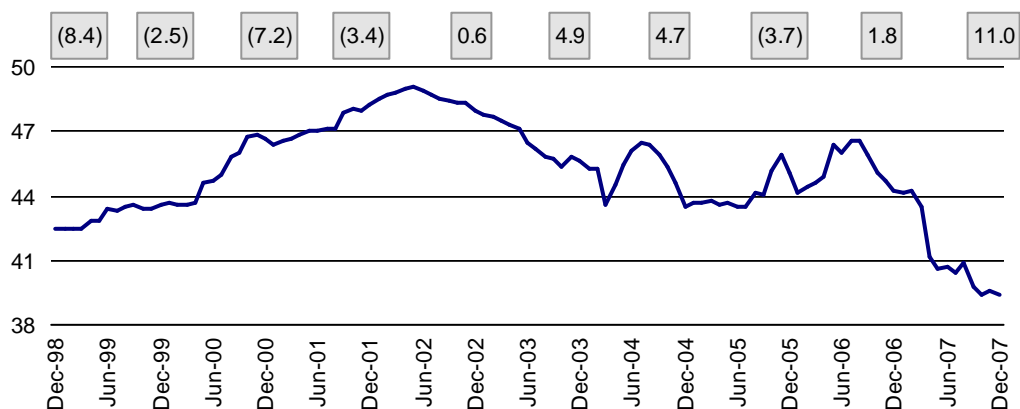
Source: Motilal Oswal Securities

Rupee appreciated 11% v/s the dollar

The unprecedented rupee appreciation has not had a material impact on overall corporate growth

The Indian rupee appreciated 11% v/s the US dollar in 2007 to close at a 9-year high of Rs39.42/US\$. Strong capital flows in the system and higher interest rates in the domestic market have led to an unprecedented rally in the Indian rupee. Moreover, as the RBI's key concern during the year was to fight inflation, it allowed the rupee to appreciate to make imports cheaper. While strong rupee appreciation has had a significant impact on the earnings of export-oriented sectors such as technology, textiles, global commodities, it did not have a material impact on the overall growth of the corporate sector.

RUPEE V/S DOLLAR RATE (RS/US\$)



Annual appreciation/(depreciation)

Source: Bloomberg/Motilal Oswal Securities

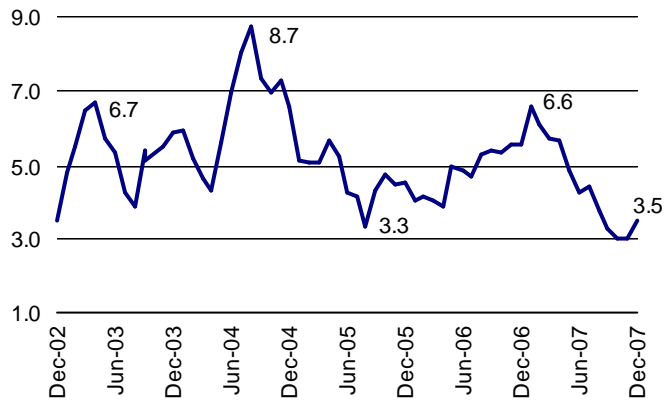
RBI raised CRR by 225bp in 2007

Through 2007, RBI was preoccupied with inflation control

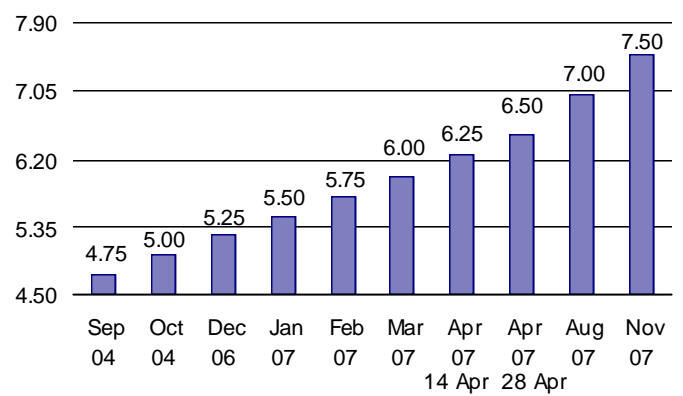
In the beginning of 2007, as the inflation numbers rose significantly above 6%, the RBI acted swiftly to raise CRR and benchmark interest rates. The central bank maintained its stance of tightening money supply throughout the year and raised CRR by 225bp in various tranches. It also raised the benchmark interest rates by 50bp. As a result, banks had to

increase their lending and deposit rates. Overall, the system saw an increase of 150-200bp in lending rates over an 100-150bp increase in the previous year, which impacted the retail asset finance business.

TREND IN INFLATION (%)

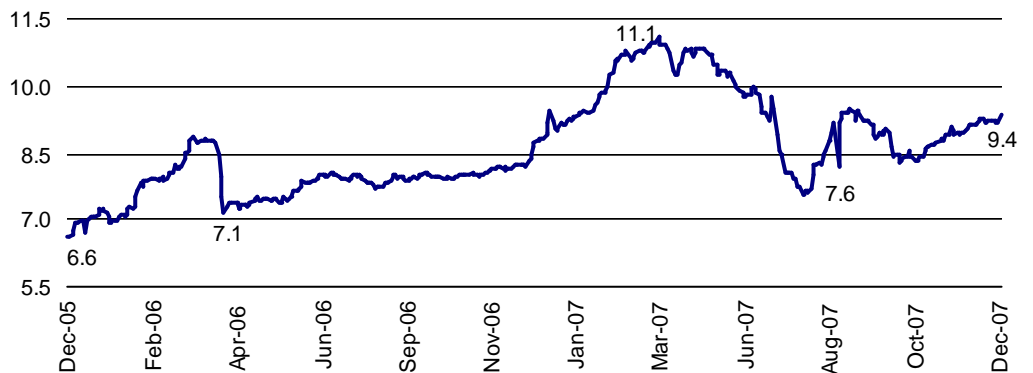


TREND IN CRR RATE HIKE (%)



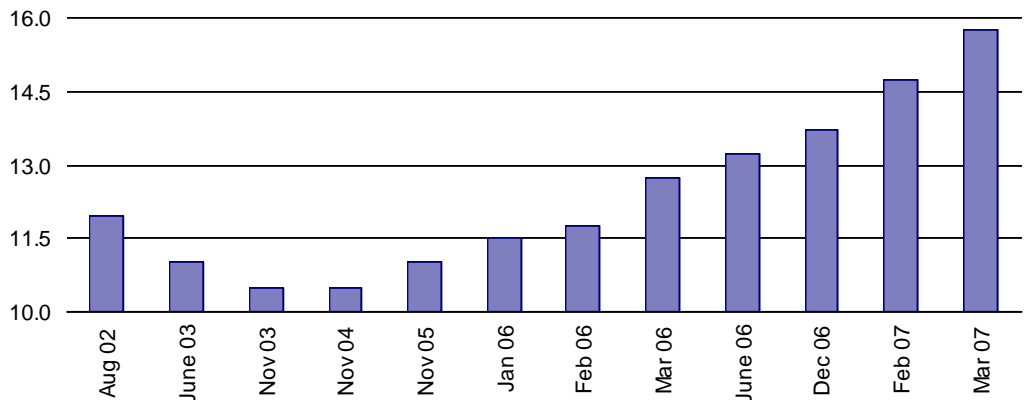
Source: RBI/Motilal Oswal Securities

12-MONTH COMMERCIAL PAPER RATES (%)



Source: Bloomberg/Motilal Oswal Securities

ICICI HIKES PLR BY 300BP IN FY07 (%)



Source: Motilal Oswal Securities

2008 – another eventful year ahead

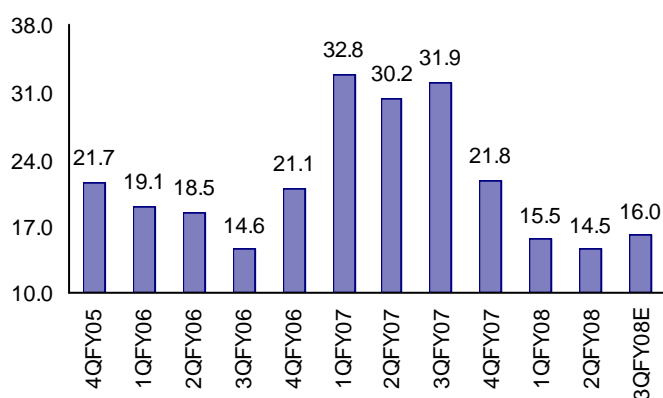
We believe that 2008 would be another eventful year as 2007. While we expect robust earnings growth to continue, liquidity would be a key factor driving markets. With inflation under control, credit growth slowing down, and a stable currency, the RBI could cut interest rates. A rate cut would not only boost liquidity but also market sentiment. The forthcoming Budget and elections would be key events to watch for. We expect policy measures hereon to take populist hues. As India is largely a domestic growth story, we do not expect any significant impact on corporate earnings from a US slowdown.

Robust earnings growth to keep the momentum going

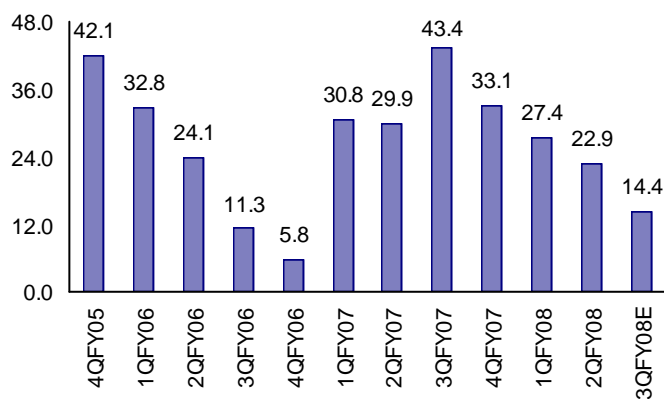
We expect earnings growth to remain robust for the next two years

Earnings growth for the Indian corporate sector is likely to remain strong. We expect a robust 22.9% growth in Sensex EPS in FY08 to Rs883 and 20.5% growth in FY09 to Rs1,064. The fundamental factors underpinning India's growth story remain intact: (1) continued strong growth and positive surprises in corporate earnings; (2) multiple growth engines of consumption, investment and outsourcing driving consistent surprises in economic growth; and (3) reduction in macro-level risks of inflation and interest rates.

QUARTERLY SENSEX SALES GROWTH (%)



QUARTERLY SENSEX PAT GROWTH (%)



Source: Motilal Oswal Securities

Buoyant corporate earnings growth coupled with the lower interest rate risk and inflation will continue to provide further momentum to Indian equities. We expect 2008 to be eventful as well, with strong pipeline of large public offerings (Reliance Power, L&T Infotech, NHPC, etc), value unlocking initiatives by various companies, likely earnings upgrades, etc.

Liquidity to be a key factor driving markets

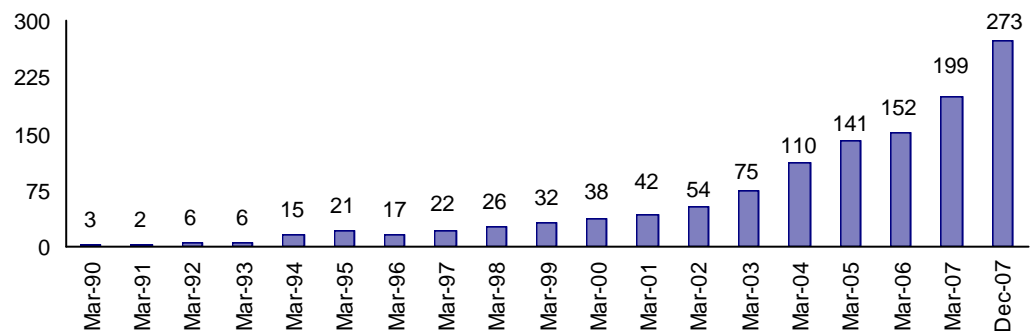
During the next couple of quarters, liquidity will be an important factor to watch for. While global markets are seeing significant correction, Indian markets are still making new highs, driven by strong domestic liquidity. Indian companies have lined up huge capital raising

plans. Liquidity has to be supportive to ensure subscription to these primary issues and also create positive demand in secondary markets. Foreign flows have been subdued post the new SEBI norms; strong domestic liquidity has been driving markets. We expect foreign flows to increase, as more hedge funds get registration.

Domestic liquidity is likely to remain strong through 2008...

The key driver of domestic liquidity has been strong government finances, which has resulted in less crowding out of money from the system. Given the strong returns generated by equities, more conservative institutions have also begun investing in equities. The government has proposed to make relaxations to channelize some part of the corpus of postal deposits, money managed by trusts, etc into stock markets. Overall, we expect significant growth in liquidity. However, there is a risk of bunching of large primary issues, which could either result in lukewarm response to a few issues or selling in the secondary market to invest in the primary market.

TREND IN FOREX RESERVES (US\$B)



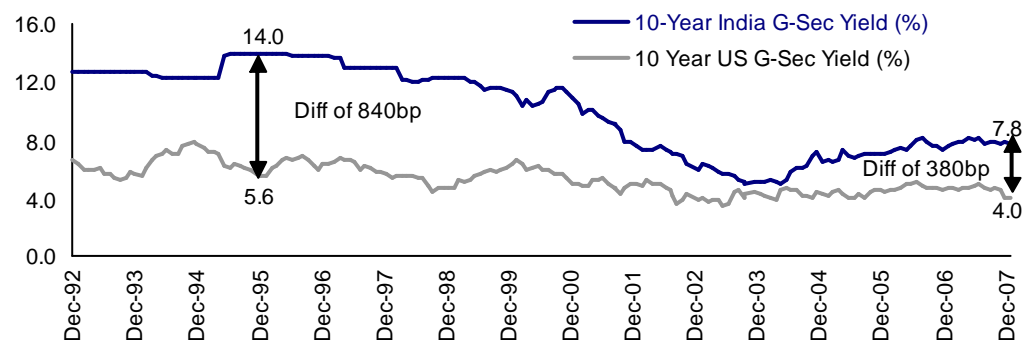
Source: Bloomberg/Motilal Oswal Securities

Interest rates could soften

...and RBI could consider reducing rates or CRR in 2HCY08

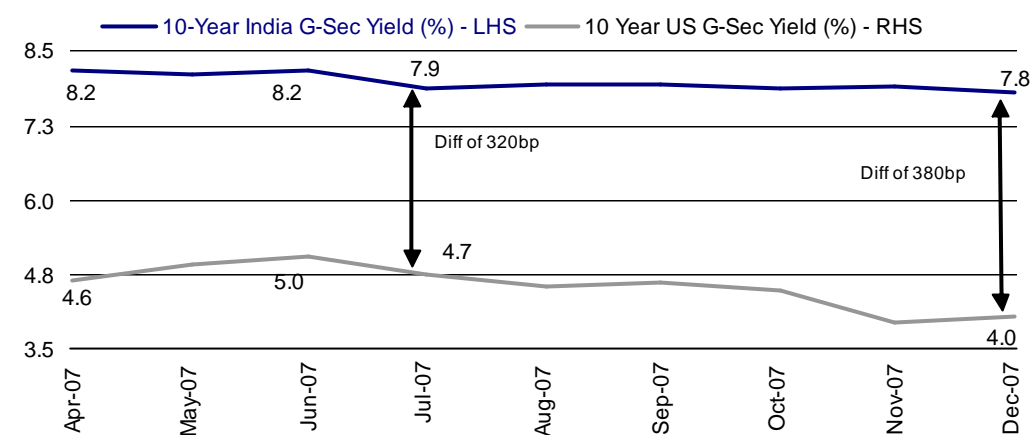
Another important macro-economic indicator to watch in 2008 would be domestic interest rates. With inflation under control, credit growth slowing down, and a stable currency, the RBI could reverse some of the measures it took in 2007. We believe that if inflation were to remain below 5% and M3 growth remains at ~20%, RBI could consider reducing rates or CRR in 2HCY08. Moreover, as global central banks reduce rates, the spread between Indian and global benchmark rates will further widen.

SPREAD OF 10 YEAR G-SEC YIELD – INDIA AND US



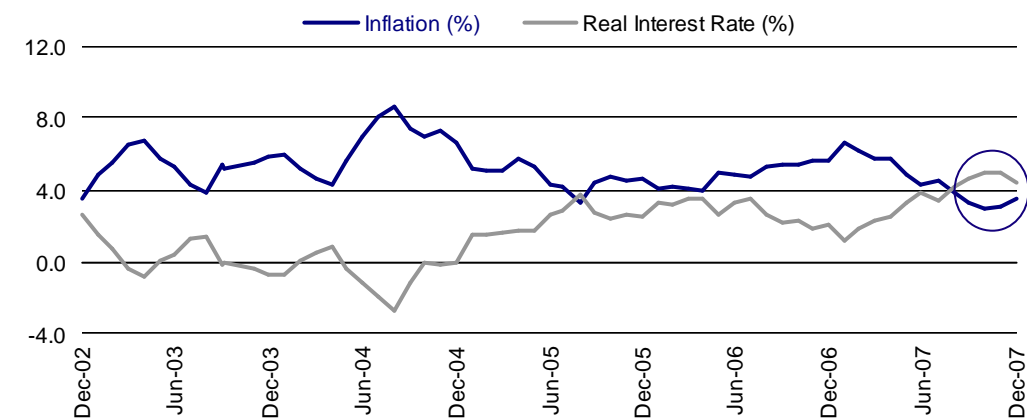
Source: Bloomberg/Motilal Oswal Securities

US BOND YIELDS V/S INDIAN BOND YIELDS YTD (%)



Source: Bloomberg/Motilal Oswal Securities

INFLATION V/S REAL INTEREST RATE (%)



Source: Bloomberg/Motilal Oswal Securities

Primary market to hog the limelight

Primary market offerings are likely to remain buoyant in 2008

Primary market offerings are likely to remain buoyant in 2008, with issues like Reliance Power, L&T Infotech, National Hydro Power Corporation, SBI, etc lined up. The Reliance Power IPO itself is likely to raise US\$3b. With markets trading at all-time highs and significant expansion plans by Indian corporates, we expect more capital raising plans to be announced. Indian companies raised significantly higher capital in 2007 than in 2006. We believe that 2008 would see even higher capital raising than 2007.

Budget, elections – key events to watch

The key catalyst for Indian markets in the next couple of months could be the Union Budget, to be presented in February-end. As the central elections are just 14 months away and this Budget would be effectively the last one before the elections, we expect the government to announce measures to boost consumer confidence and rural sentiment.

The verdict of the recent state elections has gone against the ruling Congress coalition

The verdict of the recent state elections has gone against the ruling Congress coalition. Also, prior to the central elections in early 2009, there would be several important states going for elections in 2008. We expect the policy direction from the Budget onwards to tilt more towards populist measures.

INDIA: ELECTION SCHEDULE

OFFICE/STATE	MONTH YEAR	LOKSABHA SEAT	ASSEMBLY SEAT
Karnataka *	Feb/Mar-08	28	224
Meghalaya	Mar-08	2	60
Nagaland	Mar-08	1	60
Tripura	Mar-08	2	60
Jammu & Kashmir	Nov-08	6	87
Madhya Pradesh	Dec-08	29	230
Mizoram	Dec-08	1	40
Nct Delhi	Dec-08	7	70
Chhatisgarh	Dec-08	11	90
Rajasthan	Jan-09	25	200
Sikkim	May-09	1	32
Andhra Pradesh	May-09	42	294
Central Elections	May-09	543	

* for Karnataka, the month is tentative

Source: Election Commission

We expect policy decisions hereon to take populist hues

We expect the government to announce a populist Budget, and as tax collection has been growing at ~20% CAGR for the last couple of years, a decline in tax rates is also a possibility. Any reduction in individual and corporate tax rates will be viewed very positively by the markets.

In FY08 YTD, direct tax collections have been strong at 42% YoY, with corporate tax collections higher by 40% YoY. The government has already collected almost 77% of its annual estimates v/s 63% in the corresponding period last year.

IMPRESSIVE TAX COLLECTION (RS B)

	APRIL-DECEMBER			BUDGETED	ACHIEVED	BUDGETED	ACHIEVED
	FY08	FY07	% RISE	FY08	%	FY07	%
Direct Tax	2,050	1,440	42.4	2,672	76.7	2,290	62.9
Corporate Tax	1,277	913	39.8	1,684	75.8	1,465	62.3
Income Tax	774	516	50.1	988	78.3	825	62.5

Source: Motilal Oswal Securities

US slowdown – impact on India to be limited

Possible slowdown in the US and its consequent impact on global markets has been a concern for the last few months. We believe that India is more a domestic growth story, driven by rising consumption and an unprecedented step up in spending on infrastructure and capex. Sectors such as Banking, Real Estate, Construction and Engineering are pure plays on India's domestic economy. The only impact of a US slowdown in terms of corporate earnings would be for IT, driven by relatively lower spending by global IT companies.

India would not be totally insulated from a US slowdown...

The contribution of the IT sector to the overall GDP is just 5.4% while it contributes 11.2% of the FY08E Sensex EPS of Rs883, 11.7% of the FY09E Sensex EPS of Rs1,064, and 10.5% of the FY10E Sensex EPS of Rs1,373.

SECTOR-WISE CONTRIBUTION TO OVERALL SENSEX PROFIT (%)

SECTOR	FY02	FY07	FY08E	FY09E	FY10E	MKT CAP CONTRIBUTION (%)
Automobiles	4.1	6.0	5.2	5.2	4.7	3.7
Banking	17.9	12.6	11.3	11.8	11.5	14.3
Cement	3.6	4.5	4.2	3.8	2.9	2.6
Engineering	4.2	4.4	4.3	4.8	5.0	8.6
FMCG	14.8	4.4	3.7	3.6	3.3	4.4
Global Cyclicals	32.9	37.9	37.9	36.8	41.1	27.7
IT	8.3	12.5	11.2	11.7	10.5	11.1
Others	1.5	-	-	-	-	-
Pharma	5.2	2.2	1.0	1.0	0.9	1.1
Real Estate	-	-	6.1	5.4	4.7	6.4
Telecom	6.3	7.7	9.0	10.3	10.6	11.5
Utilities	1.4	7.8	6.2	5.7	4.8	8.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Motilal Oswal Securities

..but the impact would be limited

The slowdown in US could, however, impact global interest rates, liquidity, and commodity prices. The impact of some of these global macro-economic variables will be visible in the near-term on Indian equities.

India – the next trillion dollar opportunity

From the “Hindu rate of growth” of 3.5% till 1980, India’s real GDP growth accelerated to 6% following the reforms during early 1990s. Since FY03, the GDP growth has averaged 8.5% per annum; and during FY07 the momentum increased to 9.4%. Faster growth has resulted in India becoming the world’s 12th largest economy in FY07, with GDP of US\$911b; or the third largest (after the US and China) in purchasing power parity terms.

India's first trillion dollars: 1977 to 2008

In FY08, India will achieve the landmark of US\$1 trillion GDP...

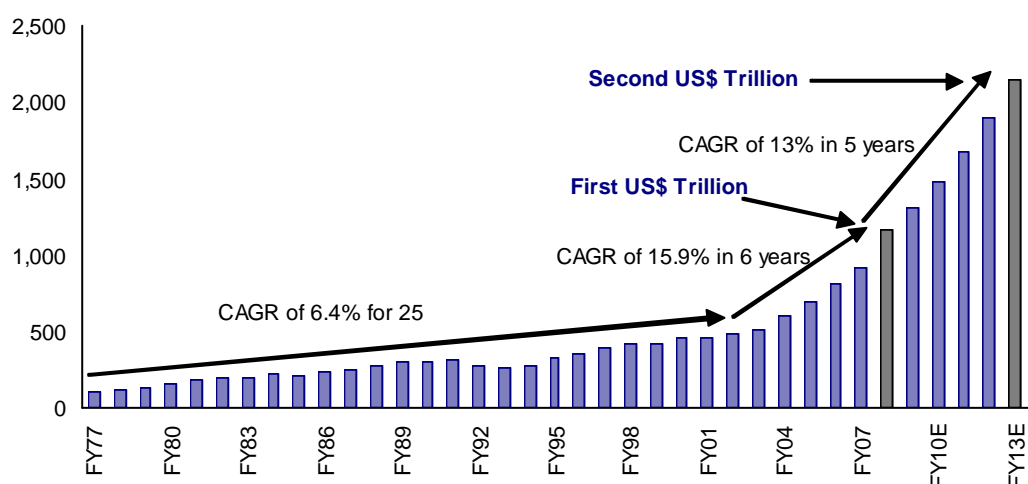
In FY08, India will achieve the landmark of US\$1 trillion GDP. The first 25 years of the journey saw India’s nominal GDP growing at 6.4% per annum to just under US\$0.5 trillion in 2002. In the last 6 years, India’s GDP more than doubled to US\$1 trillion at a CAGR of 15.9%. Higher GDP growth rate combined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

The next trillion dollar (NTD) era: 2008 to 2013

...and in the next five years, we expect India’s GDP at US\$2 trillion

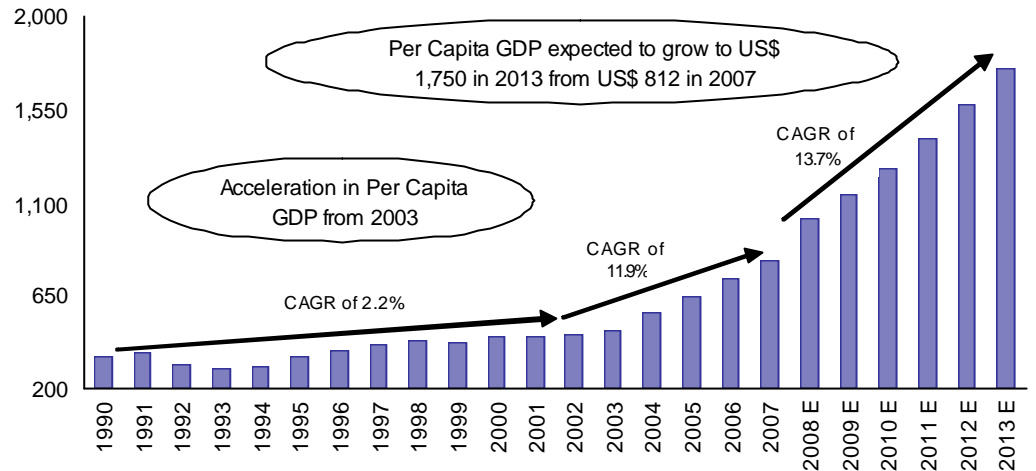
In the next five years, we expect India’s GDP at US\$2 trillion. The growth rate in the NTD era will be almost the same as that of the last 6 years. However, given the high base, the GDP added in the next 5 years will be more than what got added in the last 30 years, and twice that of the last 6 years.

30 YEARS FOR THE FIRST US\$1 TRILLION; 6 YEARS TO THE NEXT TRILLION



Source: Motilal Oswal Securities

ACCELERATED GROWTH IN PER CAPITA GDP (US\$)

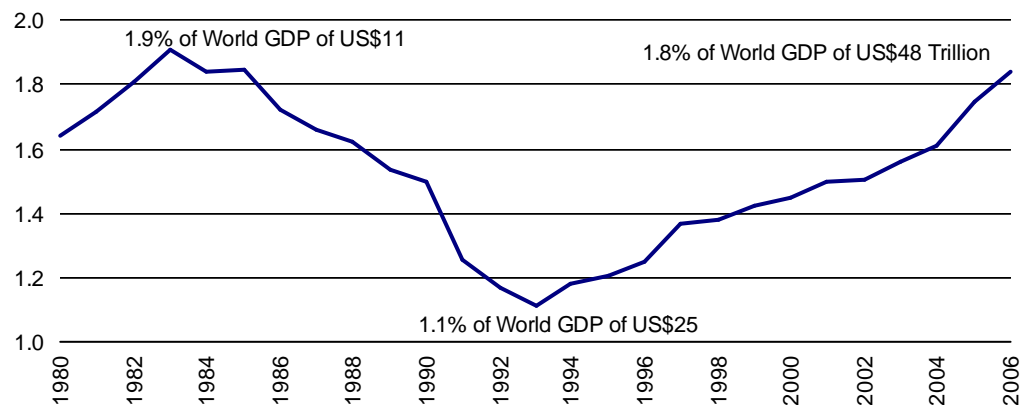


Source: Motilal Oswal Securities

India bounces back to world reckoning

India’s resurgence in the global economy started in 1993. It has been going from strength to strength ever since, including the dotcom era. The pace of growth has only accentuated from 2004, with India rapidly integrating with the global financial markets.

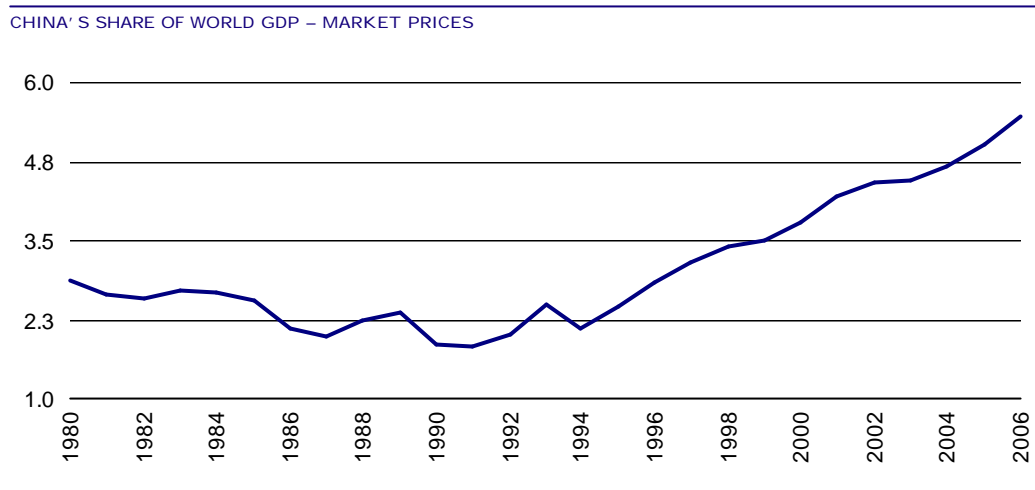
INDIA’S SHARE OF WORLD GDP – MARKET PRICES



Source: IMF / Motilal Oswal Securities

India is now one of the world’s fastest growing trillion dollar plus economies

Today, India is among the world’s fastest growing trillion dollar plus economies. Its share of world market capitalization at 2% mirrors its share of world GDP. India continues to grow much faster than the developed world. As a large, well-populated economy, India can strive to significantly improve its global standing along the lines of China, which has rapidly increased its share of world GDP to the current 5.5%.



Source: IMF/Motilal Oswal Securities

Exponentiality in the NTD era

Steady GDP growth would lead to exponential growth in various businesses

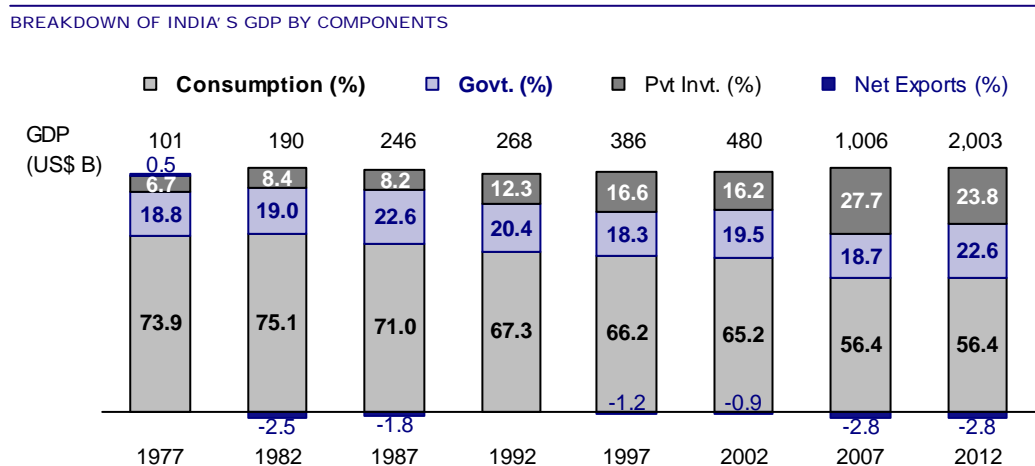
A steady GDP growth rate of 16% between 2002 and 2007 has led to exponential growth in various businesses in India. We believe the next five years will accentuate this exponentiality, which will also spread to several more sectors of the economy.

We have analyzed major exponentialities/discontinuities in the following three areas:

1. Macro economy
2. Key industries
3. Corporate sector profits

Macro economic exponentialities

We have analyzed the components of India's GDP: C + I + G + X, i.e. private Consumption expenditure, private Investment, Government expenditure, and net eXports (or eXternal sector).



Source: CSO / Motilal Oswal Securities

We see the following macroeconomic exponentialities in the NTD era:

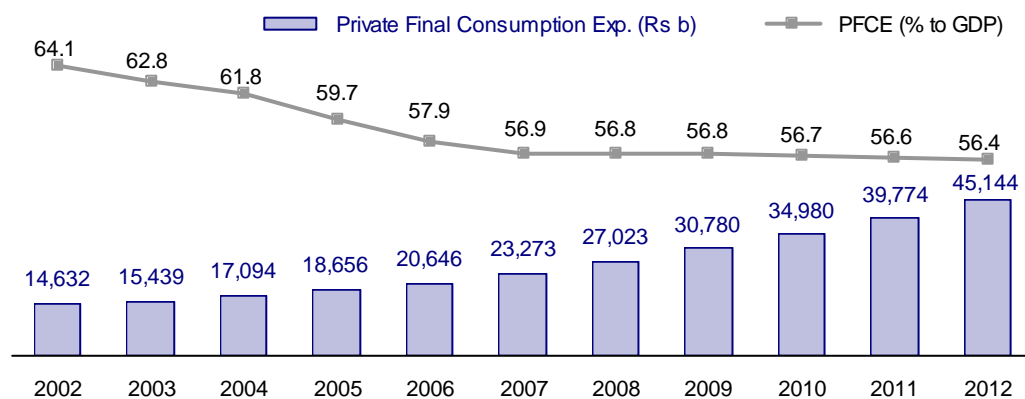
- ✦ **Consumption (C):** Rising affluence levels will result in sustained growth for luxuries like cars, ACs and travel
- ✦ **Government expenditure (G):** Quantum improvement in government finances; with zero revenue deficit for the Centre government for the first time ever
- ✦ **Private capex (I):** Mega thrust on infrastructure – accentuating India’s capex-led growth story
- ✦ **External sector (X):** Forex capital flows consistently higher than current account deficit – helping to keep interest rates benign

Consumption: sustained demand for luxury goods

We foresee sustained demand for luxury goods...

Like most emerging economies, India’s private final consumption expenditure is lagging GDP growth. The main reason is that given India’s low per capita GDP of US\$1,000, much of private consumption goes into necessities – food, clothing and home utilities (rent, fuel, power) – which do not rise in the same proportion as income levels. Also, middle income households tend to curtail current consumption in favor of saving for assets such as house, jewelry, etc.

PRIVATE FINAL CONSUMPTION EXPENDITURE LAGGING GDP GROWTH ... LIKELY TO STABILIZE



Source: Motilal Oswal Securities

Rising affluence to drive demand for comforts and luxuries: The top 40% of India’s population accounts for about 70% of income, and 67% of consumption expenditure. In this segment, the propensity to consume is much lower than the bottom 60%, which also explains the fall in final consumption expenditure.

INCOME AND CONSUMPTION DISTRIBUTION (2003-04)

% OF POPULATION BY INCOME PERCENTILE	POPULATION (MILLION)	PER CAPITA GDP (US\$)	SHARE OF INCOME (%)	SHARE OF CONS. EXP. (%)
Top 10%	109	1,878	34.1	30.0
Next 30%	326	662	36.1	36.6
Bottom 60%	653	265	29.7	33.4

Source: Rama Bijapurkar’s book “We Are Like That Only”

The consumption pie of the top 40% is marked by a higher share of comforts and luxuries. The NTD era will see affluence levels rising. As a result, there will continue to be a sustained rise in demand for luxury goods and services such as cars, ACs and travel. Comforts such as low-end household appliances (TVs, refrigerators), cellphones, healthcare and education will also grow much faster than necessities.

...and a quantum improvement in government finances

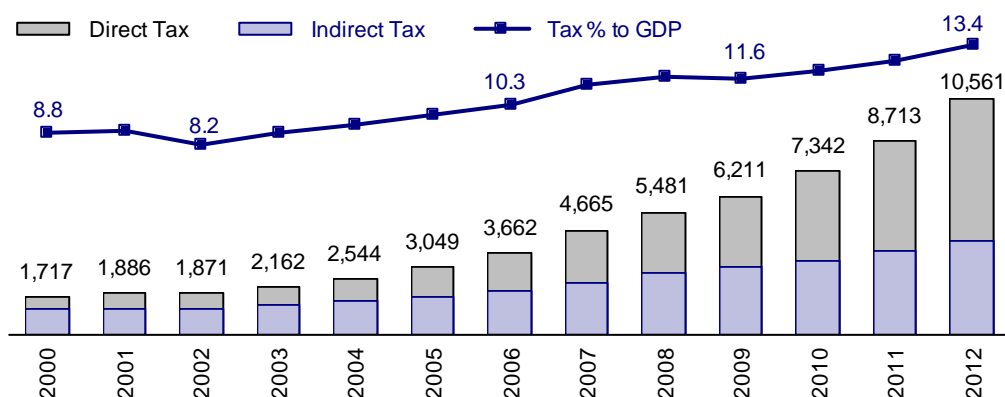
Government: quantum improvement in finances

For two decades beginning 1982, government finances steadily worsened, marked by high revenue and fiscal deficits, both at the Center and at the combined Center and State levels. The situation turned into a crisis in 2002, with combined revenue deficit hitting a new high of 7% of GDP and fiscal deficit almost at 10% of GDP.

To address this crisis, in 2003, the government passed the FRBM Act (Fiscal Responsibility and Budgetary Management Act). The FRBM provides, inter alia, for zero revenue deficit and 3% fiscal deficit by financial year FY08. Since then, there has been a marked improvement in government finances. Going forward, we have assumed that revenue deficit will remain zero, whereas the FRBM actually provides for revenue surpluses.

This quantum improvement in government finances has been possible – and seems sustainable – due to a surge in tax collections. Corporate tax in particular is witnessing significant buoyancy due to high 30% compounded growth in corporate profits in the last five years. For the first time in 2009, direct tax collections are expected to exceed indirect taxes (customs and excise). Government's dependence on buoyant tax collections to manage its finances is significantly higher than in the past.

BUOYANT TAX COLLECTIONS HELP IMPROVE GOVERNMENT FINANCES



Source: India Union Budget Documents / Planning Commission / Motilal Oswal Securities

The government's fiscal discipline has huge positive implications in the NTD era:

- ✗ End to government dis-savings, freeing resources (6% of GDP) for developmental expenditure, mainly infrastructure
- ✗ Significantly lower crowding out of private sector debt, helping to keep interest rates in check

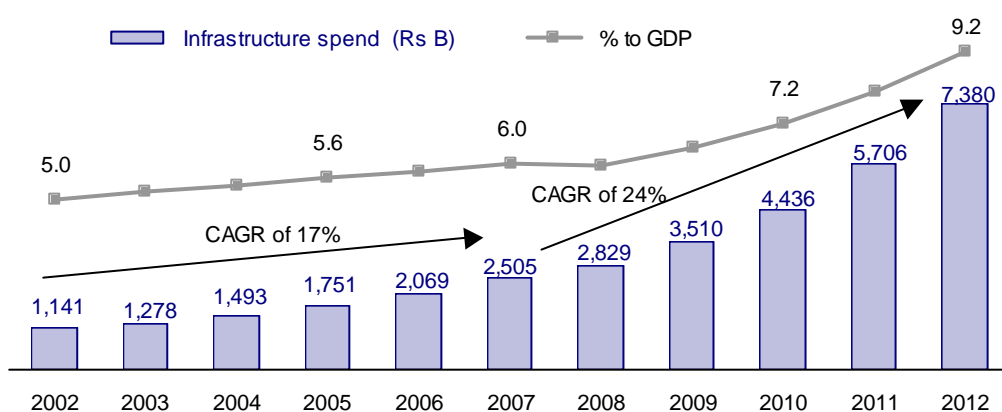
Investment: major thrust on infrastructure

The thrust on infrastructure spending would continue

The NTD era coincides with India's XIth Five-Year Plan (2008-12), which is about two main issues – (1) high, inclusive real GDP growth rate of 9%, with inflation not exceeding 4.5%; and (2) massive infrastructure growth.

The Xth Plan infrastructure spend is estimated at Rs8.8 trillion (US\$220 billion), an average 5.5% of GDP. The XIth Plan projection for infrastructure spend is 2.3x at Rs20 trillion (US\$500 billion) – average 7.5% of GDP, with terminal year spend as high as 9.2% of GDP.

INFRASTRUCTURE SPEND TO RISE FROM 6% OF GDP IN 2007 TO 9.2% OF GDP BY 2012

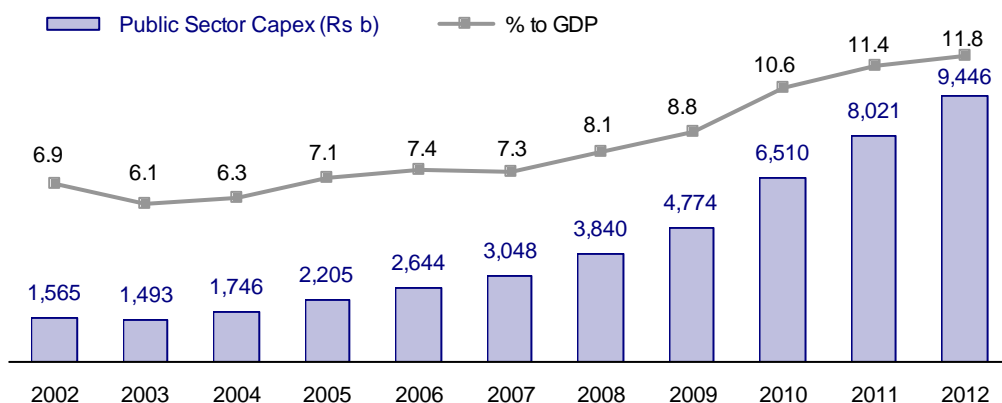


Source: Planning Commission / Motilal Oswal Securities

The government's track record of slippages in previous plans puts a question mark on the above targets. However, this time around, the environment is far more enabling by way of:

- ✗ Improved finances of the government, allowing it to lead infrastructure capex; and
- ✗ Rising private sector participation in infrastructure spend (public-private mix of 70:30 in the XIth Plan, compared to 88:12 in the Xth Plan).

IMPROVED GOVERNMENT FINANCES TO PROPEL PUBLIC SECTOR CAPEX

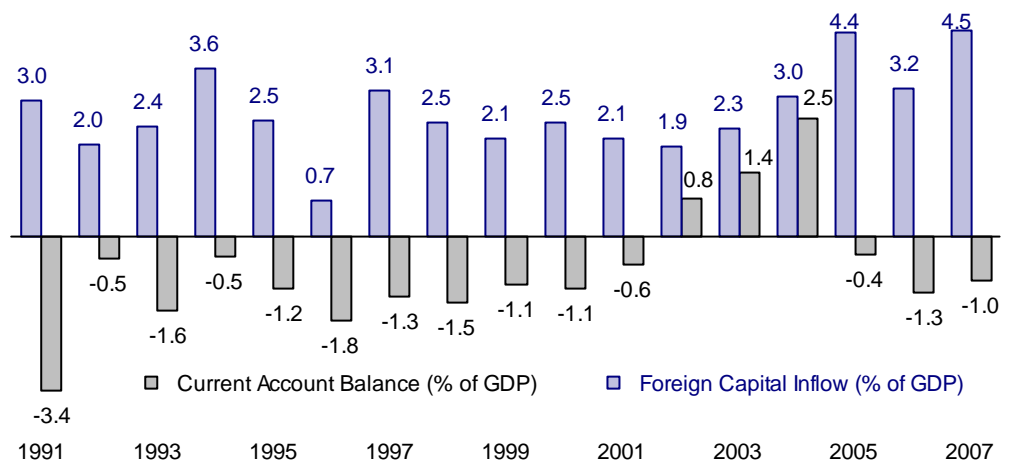


Source: Planning Commission / Motilal Oswal Securities

External sector: huge forex capital flows rein in interest rates

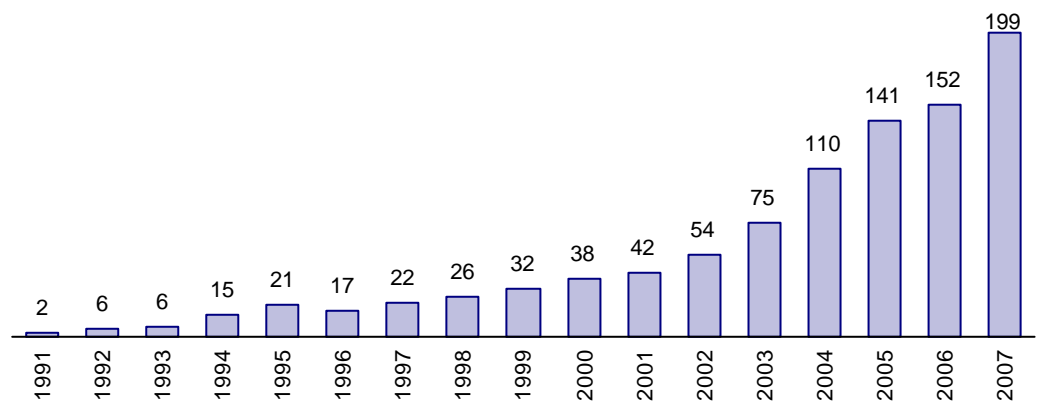
Ever since India opened up its economy in 1992, its forex capital flows have consistently been higher than its current account deficit. As a result, forex reserves have bulged from close to zero in 1991 to a healthy US\$200 billion in 2007.

CAPITAL INFLOWS CONSISTENTLY HIGHER THAN CURRENT ACCOUNT DEFICIT



INDIA'S FOREX RESERVES ARE BULGING (US\$ BILLION)

Bulging forex reserves suggest a benign to favorable interest rate scenario



Source: RBI / Motilal Oswal Securities

Huge forex capital flows do pose problems for the RBI (India's central bank), to manage the triad of exchange rate, interest rate and inflation. However, the overall impact of such flows has been positive for India. The industry now has access to almost unlimited capital at very low cost. The trend of forex capital flows is likely to continue, suggesting a benign-to-favorable interest rate scenario.

Exponentiality in key industries

In the NTD era, we clearly see exponential opportunity in some key industries based on:

- (1) Emerging trends in India, and
- (2) The experience in China during its journey from US\$1 trillion in 1998 to US\$2 trillion in 2003.

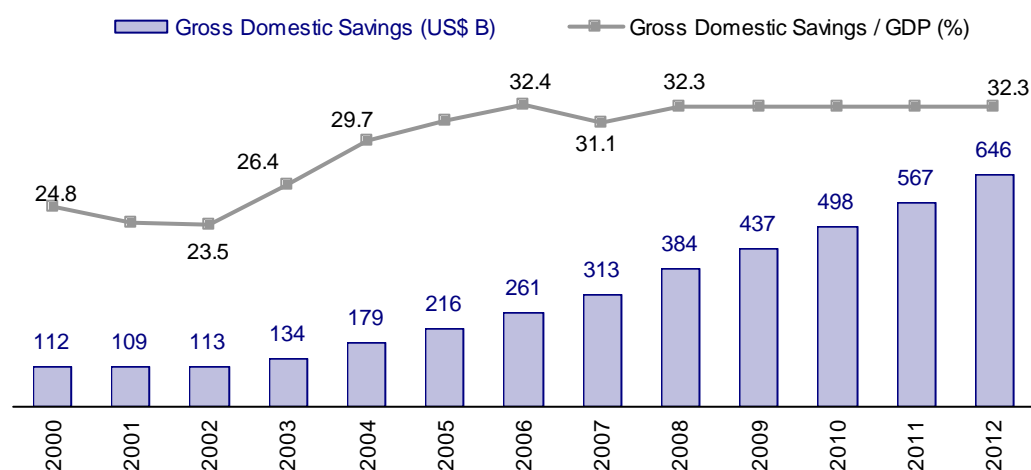
We discuss below the key drivers for some of the clear winners in the NTD era – Financial Services, Wireless Telecom, Cars, Engineering & Construction, Cement, and Steel.

Financial Services

Financial Services, Wireless Telecom, Cars, Engineering & Construction, Cement, and Steel would be some of the sectors to watch

- ✎ Domestic savings rate has risen exponentially in the last 5 years from 23.5% of GDP to 32.4% of GDP. Total savings in last five years was ~US\$1.1 trillion. In the NTD era, we expect the savings to increase to US\$2.5 trillion. This large savings base implies huge opportunity for financial intermediation.

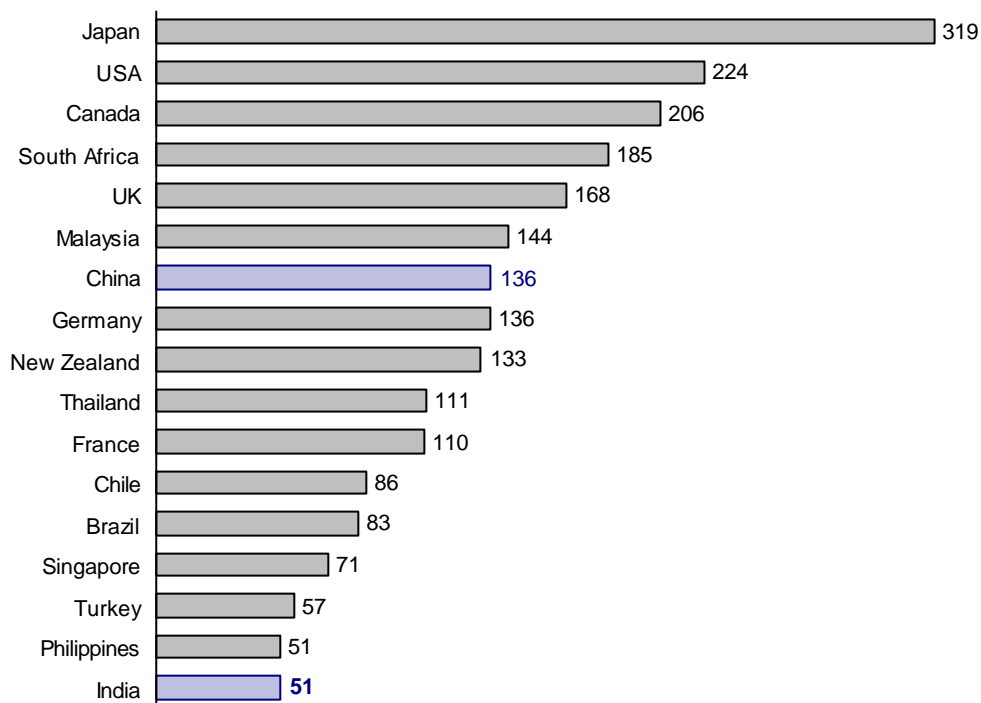
INDIA'S DOMESTIC SAVINGS ARE CONTINUOUSLY RISING



Source: CMIE / Motilal Oswal Securities

- ✎ Increased foreign capital flows further expand financial intermediation opportunity.
- ✎ Bank credit has grown at 24% compounded in the last five years. India's low credit-GDP ratio compared to many other countries implies higher growth potential for banks and NBFCs.
- ✎ Penetration of financial services such as brokerage and insurance in India remains low.

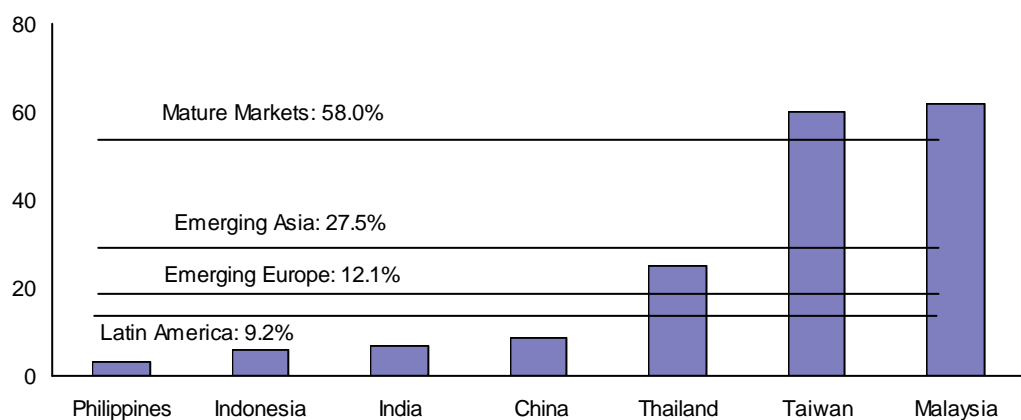
CREDIT TO GDP RATIO (%) - INDIA IS LOWER THAN MANY COUNTRIES



Source: RBI Annual Report, 2006-07

✎ India's consumer finance to GDP ratio at 10% is very low as compared to the global average of 28%. Other developing economies like Thailand, Taiwan, and Malaysia have consumer finance to GDP ratio of 22%, 55%, and 60% respectively. Hence, there is a tremendous scope for retail loans to grow in India.

HOUSEHOLD CREDIT % TO GDP

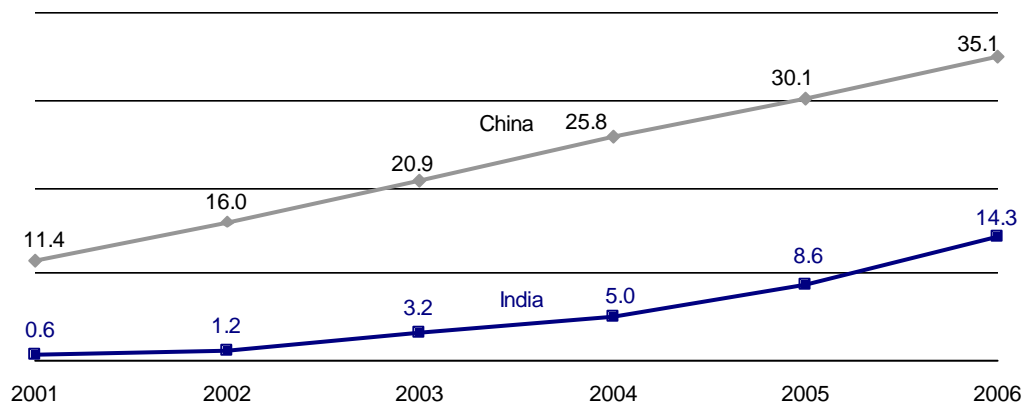


Source: Motilal Oswal Securities

Wireless Telecom

- ✎ India's wireless sector has been the biggest success story in infrastructure reforms, with total number of phone subscribers increasing to 241m in August 2007, up from 55m in FY03. Planning Commission projects 600m subscribers by FY12, of which 90% are likely to be wireless connections. The bulk of the growth is coming from the rural areas, where tele-density remains low.
- ✎ Current penetration of mobile phone services in India at 14% (in 2006) is much lower than China's 35%, which itself is rising at an exponential rate. India is expected to catch up with China over time, implying a sustained phase of high growth. Further monthly additions at 8m have already outpaced connections growth in China.
- ✎ Over time, the "network effect" and rising income levels will lead to higher minutes of usage and expand ARPU (average revenue per user) despite declining rates per minute.
- ✎ Value-added services such as GPRS and special SMSs will also help expand ARPU.

MOBILE PENETRATION (% OF POPULATION) – INDIA V/S CHINA

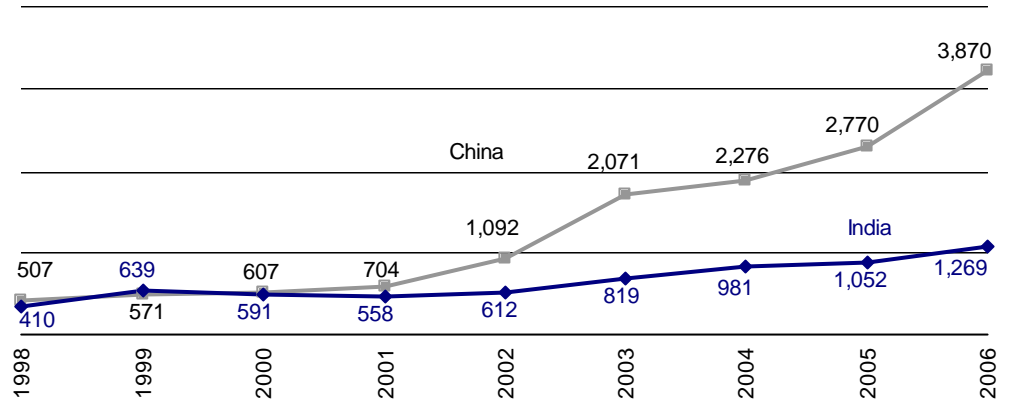


Source: China National Bureau of Statistics / Motilal Oswal Securities

Cars

- ✎ In 1999, numbers of car sold in China was lower than in India. Growth rate in China has significantly accelerated since then, and currently, the number is thrice that of India.
- ✎ In India, unequal distribution of incremental GDP will lead to a rise in higher income groups, who also have access to higher credit, driving demand for cars.
- ✎ The government is implementing National Highways Development Project, the largest highway project ever undertaken, covering ~25,000kms of highway development. Besides this, through Bharat Nirman, the government aims to connect all rural areas with over 500 people with all weather roads by FY12. Construction of new roads and improvement in existing roads, including in rural India, will drive demand for automobiles.

CARS ('000S) – INDIA V/S CHINA



Source: China National Bureau of Statistics / Motilal Oswal Securities

Engineering & Construction

- ✦ The NTD era coincides with the XIth Five-Year Plan, which proposes a major thrust on infrastructure. As per the Planning Commission, the investments in Infrastructure sector is envisaged at US\$494b, representing 7.5% of GDP during the XIth Five Year Plan, vs 5.5% of GDP in the Xth Plan, implying a 5-year CAGR of 26% through 2012. Also, the infrastructure spending in FY12 is estimated at US\$143b, at 9.2% of GDP.
- ✦ The share of private sector in the overall spending is expected to increase from 16.7% in the Xth Plan to 29.7% in the XIth plan. This trend will facilitate faster project awards, and also lead to industry consolidation.
- ✦ Much of engineering and construction activity – especially services – is non-tradable i.e. local players will continue to enjoy lion's share of the opportunity pie.
- ✦ Bulging order books allow engineering and construction companies to cherry pick orders with healthy margins and other terms of trade, mainly payments.
- ✦ Higher spend on infrastructure and rise in residential and commercial real estate activity are positive for both cement and steel.

INFRASTRUCTURE INVESTMENT BY SECTOR

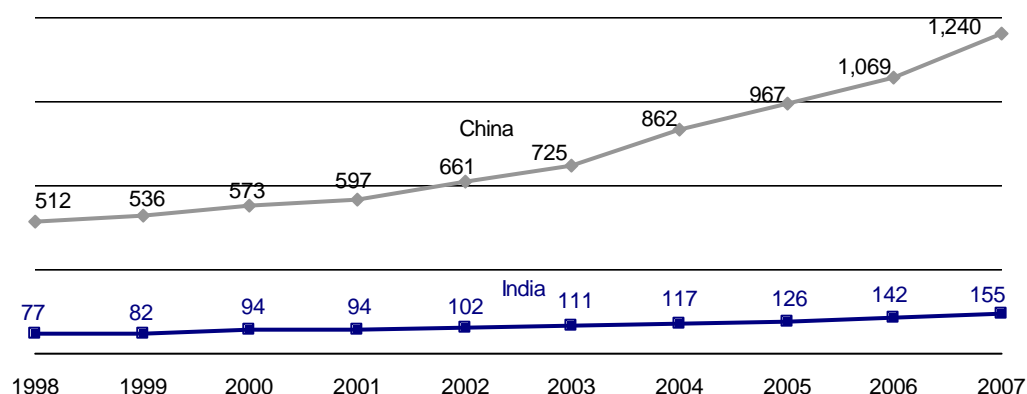
SECTOR	TENTH PLAN		ELEVENTH PLAN		GROWTH (X)
	RS B	% SHARE	RS B	% SHARE	
Electricity	2,982	33.6	6,165	30.4	2.1
Roads & Bridges	1,449	16.3	3,118	15.4	2.2
Telecom	1,234	13.9	2,670	13.2	2.2
Railways	1,197	13.5	2,580	12.7	2.2
Irrigation	1,115	12.6	2,231	11.0	2.0
Water Supply, Sanitation	648	7.3	1,991	9.8	3.1
Ports	41	0.5	739	3.6	18.1
Airports	68	0.8	347	1.7	5.1
Storage	48	0.5	224	1.1	4.6
Gas	87	1.0	205	1.0	2.4
Total	8,868	100.0	20,272	100.0	2.3

Source: Planning Commission

Cement

- ✦ In 1998, when China was a trillion dollar economy, it consumed 3.3 times the cement that India consumes today. The main reason was China's huge spend on infrastructure. Acceleration of India's infrastructure spend in the NTD era should drive cement demand at higher pace than the past track record of 1.3-1.5x real GDP growth.
- ✦ Cement companies are currently operating at 100% capacity, constraining supplies. About 130 million tonnes of fresh cement capacity addition is expected in the NTD era. However, if cement demand grows at 14-15% per annum (against the past 10-12%), we believe that the threat of possible oversupply situation would be delayed and prices could sustain at reasonably high levels.

CEMENT PRODUCTION (MILLION TONNES) – INDIA VS CHINA

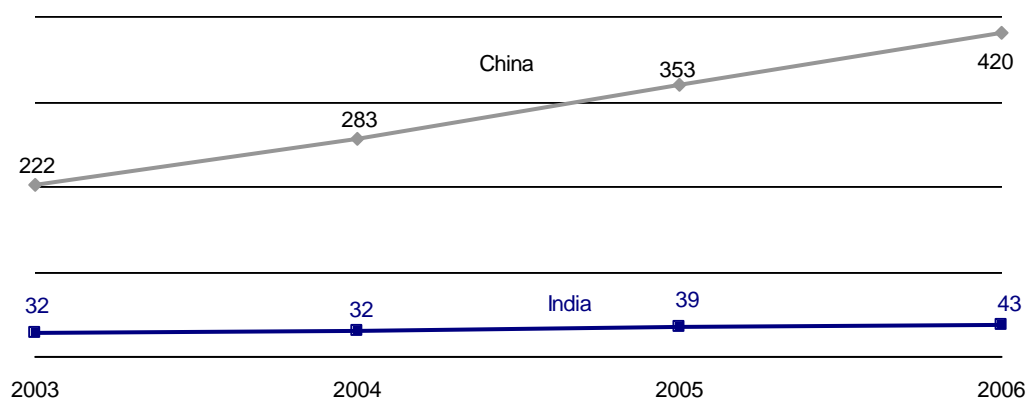


Source: China National Bureau of Statistics/Motilal Oswal Securities

Steel

- ✦ Current steel production level gap between India and China is 10x.
- ✦ India has significant global competitive advantage in terms of captive iron ore and coal. Rising oil prices and freight costs have further strengthened this competitive advantage.
- ✦ Global consolidation in the steel industry will also lead to higher control on pricing.

CRUDE STEEL PRODUCTION (MILLION TONNES) – INDIA VS CHINA



Source: China National Bureau of Statistics / Motilal Oswal Securities

Exponentiality in corporate sector profits

Rising private sector participation in the Indian economy and easy access to capital (both domestic and foreign) are the two key drivers of exponentiality in India's corporate sector sales and profits. We present below a more structured analysis of the same.

ANALYSIS OF EXPONENTIALITY IN CORPORATE SECTOR PROFITS

AREA OF PROFITABILITY	MAJOR REASONS FOR EXPONENTIALITY
Across-the-board	<ul style="list-style-type: none"> ✂ Privatization and corporatization of businesses ✂ Increasing shift from unorganized to organized sector ✂ Easy access to capital, both debt and equity, and both domestic and foreign ✂ Global market opportunity for certain products and services (e.g. textiles, IT) ✂ Technology advancement and product innovations (e.g. laptops, cellphones, etc)
Engineering, Construction	<ul style="list-style-type: none"> ✂ Exponential capex spend in the public sector due to (1) improving government finances, and (2) PSU and Capital goods sector divestment, leading to greater autonomy and easier access to capital ✂ Exponential capex in the private sector to meet demand from both, consumers as well as government
Specific consumer goods sectors	<ul style="list-style-type: none"> ✂ Natural shift in consumer spend pie from necessities to comforts and luxuries ✂ Exponentially higher purchasing power of the affluent class due to unequal distribution of incomes ✂ Rising affordability of many products and services due to (1) rising per capita GDP, (2) availability of credit and (3) economies of scale, driving down product prices ✂ Low penetration of several products and services (e.g. cellphones, air travel, etc) ✂ Demand for newer products and services with higher exposure to global trends via various media

Source: Motilal Oswal Securities

TAX BUOYANCY

FINANCIAL YEAR	CORP. TAX	PERSONAL TAX
1995-96	2.19	1.75
1996-97	2.21	1.77
1997-98	2.18	1.78
1998-99	2.22	1.79
1999-00	2.25	1.81
2000-01	2.26	1.80
2001-02	2.29	1.78
2002-03	2.29	1.82
2003-04	2.33	1.84
2004-05	2.29	1.83
2005-06	2.31	1.84

Source: Report of Working Group on Centre's Resources for XI Plan

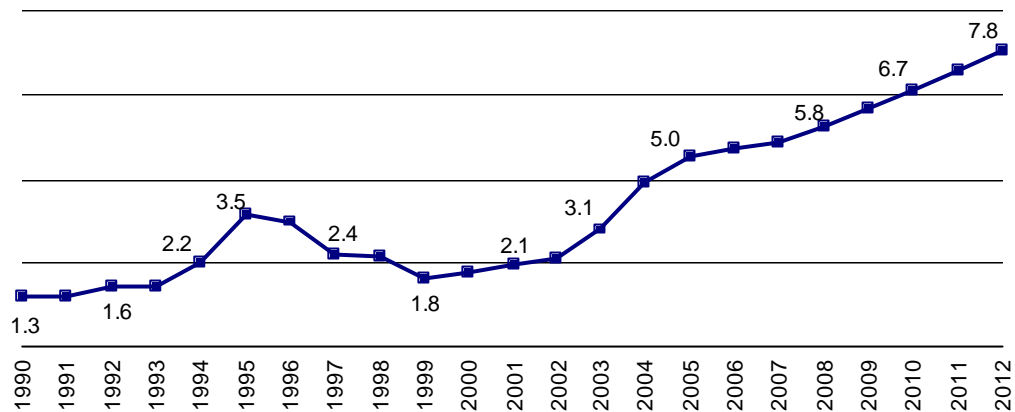
Corporate profitability in the NTD era

Projecting corporate sector profits going forward is a challenging task. We have relied on the concept of corporate tax buoyancy used by Indian economic planners to forecast corporate taxes in the XIth Five Year Plan.

Tax buoyancy is the factor or multiple at which taxes grow for a given growth in nominal GDP. The observed tax buoyancy in India for the last 10 years is tabled alongside.

In the XIth Plan, which coincides with the NTD era, India's Planning Commission has factored in gross corporate tax buoyancy of 2.1x. Adjusting for loss of taxes due to SEZs, the net corporate tax buoyancy over the XIth Plan period works out to 1.62x i.e. a 5-year corporate profit CAGR of 22.5% (1.62 x nominal GDP growth rate of 13.9%). Assuming this holds true, corporate profits to GDP should rise from 5% of GDP in 2007 to 7.8% in the NTD era.

CORPORATE PROFITS TO GDP (%)



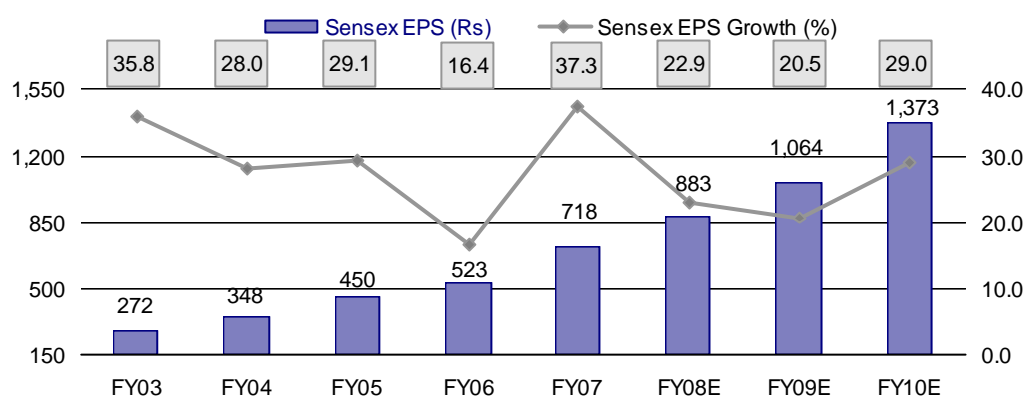
Source: Motilal Oswal Securities

Forecasting strong earnings growth in FY09 & FY10

We estimate 21% growth in Sensex EPS in FY09 followed by 29% growth in FY10

We expect Sensex EPS to grow 23% in FY08 after 27% CAGR during FY03-07. In FY09, we estimate 21% growth in Sensex EPS to Rs 1,064. We are now introducing our Sensex EPS estimate of Rs 1,373 for FY10 - a growth of 29%.

TREND IN SENSEX EPS AND GROWTH

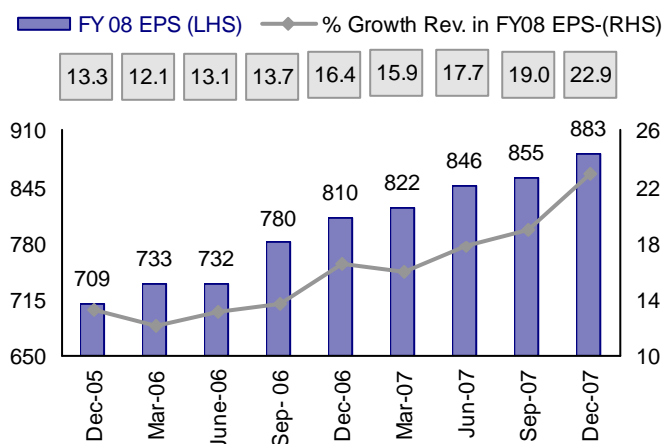


EPS growth YoY (%)

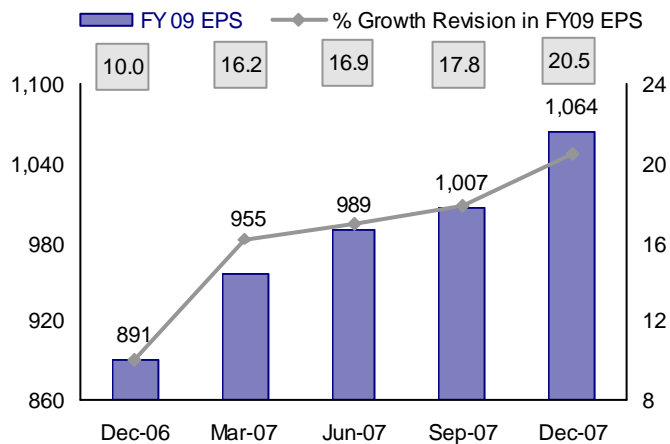
Source: Motilal Oswal Securities

Over the last several quarters, we have witnessed consistent upgrades to our earnings estimates. We had revised our Sensex EPS estimate to Rs 846 for FY08 and to Rs 989 for FY09, post 1QFY08 results. Post 2QFY08, we had further upgraded our EPS estimates to Rs 855 for FY08 and Rs 1,007 for FY09. With improving visibility on earnings, we have further revised our EPS estimates to Rs 883 for FY08 and Rs 1,064 for FY09.

TREND IN FY08 SENSEX EPS OVER LAST NINE QUARTERS (RS)



TREND IN FY09 SENSEX EPS OVER LAST FIVE QUARTERS (RS)



EPS growth YoY (%)

Source: Motilal Oswal Securities

We did a top-down analysis of the key assumptions in arriving at our earnings growth estimates for various sectors. While rupee appreciation remains a key threat to earnings estimates, the high base impact in sectors such as Metals and Cement may slow down earnings momentum during FY10. Sectors that could positively surprise are Banking, Engineering, FMCG and Pharma. We believe that earnings risk of global commodities, which constitute over 1/3rd of the earnings of our Universe, is evenly balanced. As we gain greater visibility of the various commodity cycles during the year, we would revise our estimates.

Composition of earnings moving in favor of high growth sectors

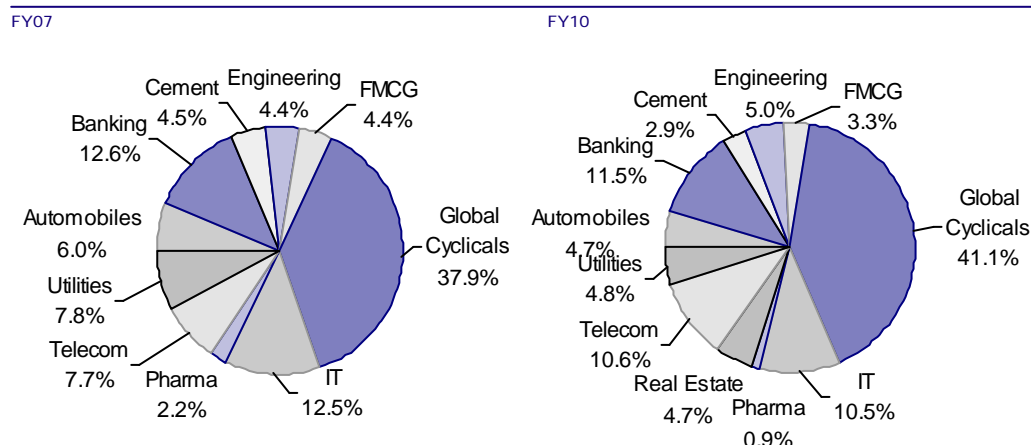
The earnings contribution of sectors such as IT, Telecom, Utilities and Global Cyclical has increased considerably over the last six years. During FY07-10, we expect contribution from sectors like Engineering, Real Estate and Telecom to increase. The significant increase in the proportion of Global Cyclical is due to commissioning of operations of Reliance Petroleum and also the monetisation of gas reserves.

SECTORAL CONTRIBUTION TO SENSEX EARNINGS

SECTOR	FY02	FY07	FY10	MKT CAP CONTRIBUTION (%)
Automobiles	4.1	6.0	4.7	3.7
Banking	17.9	12.6	11.5	14.3
Cement	3.6	4.5	2.9	2.6
Engineering	4.2	4.4	5.0	8.6
FMCG	14.8	4.4	3.3	4.4
Global Cyclical	32.9	37.9	41.1	27.7
IT	8.3	12.5	10.5	11.1
Others	1.5	-	-	-
Pharma	5.2	2.2	0.9	1.1
Real Estate	-	-	4.7	6.4
Telecom	6.3	7.7	10.6	11.5
Utilities	1.4	7.8	4.8	8.7
Total	100.0	100.0	100.0	100.0

Global Cyclical comprises of ONGC, Reliance, Tata Steel and Hindalco.

SECTORAL CONTRIBUTION TO TOTAL SENSEX EARNINGS



Source: Motilal Oswal Securities

Sensex target of 21,000-25,000

We have upgraded our Sensex EPS estimates for FY08 and FY09 by 3% and 6%, respectively. We are also introducing our Sensex EPS estimate of Rs 1,373 for FY10 – a growth of 29%. Significant growth drivers in FY10 would be the commissioning of Reliance Petroleum and E&P of Reliance Industries. Our estimates factor an EPS CAGR of 25% over FY08-10. With strong earnings growth ahead and positive outlook on interest rates, we believe that valuations will remain rich for Indian equities. We base our Sensex target range on a P/E band of 14-17x FY10E EPS of Rs 1,373. We also add an embedded value of 1,800 points. Our Sensex target range is now 21,000-25,000, which implies an upside range of 4-24% based on FY10 estimates.

In our view, the key themes to bet on in 2008 are financial services, consumer goods, and value unlocking stories.

Financial services: We expect financial services to be a major beneficiary of sustained economic growth and higher penetration of various financial products. With interest rates expected to remain stable/soft, banks will be able to improve their margins. Credit growth will remain at 22-24% in FY09, and banks are expected to make significant treasury gains, going forward. Within financial services, we also like brokerages and insurance plays. Our top bets in financials are HDFC, ICICI Bank, Bank of India and IndiaBulls.

Large cap bets

- ✂ HDFC
- ✂ Bharti
- ✂ Tata Steel
- ✂ GAIL
- ✂ ITC
- ✂ Bajaj Auto
- ✂ JSPL
- ✂ Ranbaxy
- ✂ Grasim

Mid-cap bets

- ✂ Sintex
- ✂ Mahindra Lifespaces
- ✂ Bombay Rayon
- ✂ Indian Bank
- ✂ United Phosphorus
- ✂ Amtek Auto
- ✂ Birla Corporation
- ✂ Dish TV

Contrarian bets

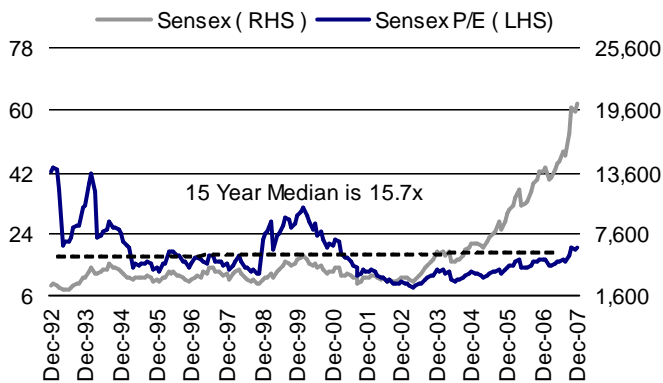
- ✂ TCS
 - ✂ M&M
 - ✂ ICICI Bank
-

Consumer goods: We expect FMCG volume growth to improve in the coming year due to rising consumer confidence and income levels. We believe that rural demand could be at an inflection point, as positive outlook on agri commodity prices will boost farm incomes, substantially. Infrastructure development will create employment for semi-skilled and unskilled labor. The middle class should gain from expected reduction in income tax rates, resulting in consumer upgradation in skin care and processed foods. Although strong raw material prices will limit significant margin expansion, companies with dominant market shares in select categories will grow ahead of the market. We are positive on segments like Processed Foods, Skin Care, Alcoholic Beverages and Paints. We prefer a stock specific approach, with United Spirits and ITC as our top bets in large caps; Nestle and Asian Paints in mid caps and GSK Consumer in small caps.

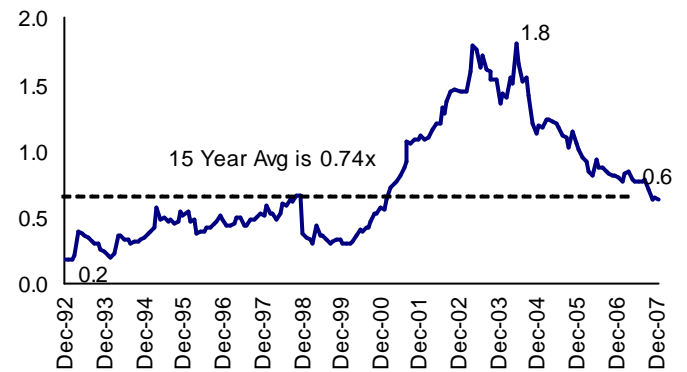
Value unlocking opportunities: Corporate India has been on a value unlocking drive. In 2007, companies like IndiaBulls, RCom, Bharti, ICICI Bank, Zee, DLF, etc benefited from this trend. In 2008, given the strong liquidity environment and increasing appetite for Indian equities, we expect the pace of value unlocking to accelerate and expect more companies to be involved in this process. Some of the companies with corporate action lined up include Reliance Energy, Jaiprakash, Bajaj Auto, JSPL, M&M, SBI, L&T, HCC, and Pantaloon.

Our top picks: Our top large cap bets are HDFC, Bharti, Tata Steel, GAIL, ITC, Bajaj Auto, JSPL, Ranbaxy, and Grasim. Amongst the mid caps, we prefer Sintex, Mahindra Life, Bombay Rayon, Indian Bank, United Phosphorus, Amtek Auto, Birla Corp and Dish TV. Our top contrarian bets for 2008 are TCS, M&M and ICICI Bank.

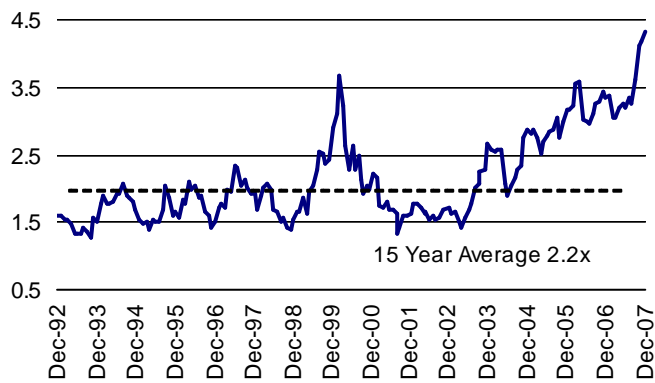
SENSEX P/E (X)



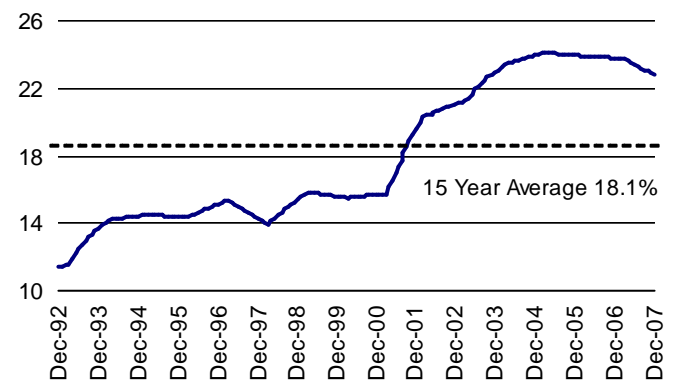
SENSEX EARNINGS YIELD V/S BOND YIELD



SENSEX P/BV (X)



SENSEX ROE (%)



Source: Motilal Oswal Securities

MOST MODEL PORTFOLIO

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOST WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
Banks	20.3	22.0	1.7	Overweight
HDFC	3.3	6.0	2.7	Buy
ICICI Bank	6.5	5.0	-1.5	Neutral
SBI	2.7	4.0	1.3	Buy
Bank of India	0.3	4.0	3.7	Buy
Indian Bank	0.0	3.0	3.0	Buy
Engg./Infrastructure/Real Estate	15.1	15.0	-0.1	Neutral
Larsen & Toubro	5.2	5.0	-0.2	Neutral
DLF	1.3	3.0	1.7	Buy
BHEL	2.1	3.0	0.9	Neutral
Mahindra Life	0.0	2.0	2.0	Buy
Nagarjuna Construction	0.0	2.0	2.0	Buy
Information Technology	8.6	10.0	1.4	Overweight
TCS	1.3	6.0	4.7	Buy
HCL Tech	0.4	4.0	3.6	Buy
Telecom	6.3	8.0	1.7	Overweight
Bharti Airtel	3.0	5.0	2.0	Buy
Reliance Comm	2.5	3.0	0.5	Buy
FMCG	4.7	7.0	2.3	Overweight
ITC	2.6	3.0	0.4	Buy
Nestle India	0.3	2.0	1.7	Buy
United Spirit	0.5	2.0	1.5	Buy
Metals	7.1	7.0	-0.1	Neutral
Tata Steel	2.3	3.0	0.7	Buy
Jindal Steel & Power	1.0	2.0	1.0	Buy
SAIL	0.8	2.0	1.2	Buy
Petrochemicals	12.6	7.0	-5.6	Underweight
Reliance Inds.	10.1	7.0	-3.1	Buy
Auto	4.1	6.0	1.9	Overweight
Mahindra & Mahindra	0.8	2.0	1.2	Buy
Maruti Suzuki	0.7	2.0	1.3	Buy
Bajaj Auto	0.8	2.0	1.2	Buy
Oil & Gas	5.2	6.0	0.8	Overweight
GAIL	0.9	3.0	2.1	Buy
ONGC	2.5	3.0	0.5	Buy
Others	10.4	6.0	-4.4	Underweight
Sintex Inds.	0.0	2.0	2.0	Buy
Dish TV	0.0	2.0	2.0	Buy
Bombay Rayon	0.0	2.0	2.0	Buy
Cement	2.9	4.0	1.1	Overweight
Grasim Industries	1.2	2.0	0.8	Buy
Birla Corp	0.0	2.0	2.0	Buy
Pharmaceuticals	2.7	2.0	-0.7	Neutral
Ranbaxy Labs	0.5	2.0	1.5	Buy
Cash	0.0	0.0		
Total	100.0	100.0		

ANNUAL PERFORMANCE - MOST UNIVERSE

(RS BILLION)

SECTOR Y/E MARCH	SALES				EBITDA				NET PROFIT			
	FY08E	FY09E	FY10E	CH. (%)*	FY08E	FY09E	FY10E	CH. (%)*	FY08E	FY09E	FY10E	CH. (%)*
Auto (11)	1,000	1,145	1,306	14.5	121	142	162	17.4	79	92	104	16.6
Banks (20)	693	847	1,046	22.3	527	655	814	24.1	281	339	418	20.7
Cement (7)	419	492	532	17.2	139	159	157	14.5	81	88	86	9.7
Engineering (10)	946	1,234	1,552	30.5	142	189	249	33.8	101	135	176	33.1
FMCG (12)	555	642	732	15.7	107	125	148	17.0	76	91	110	19.9
IT (9)	854	1,090	1,372	27.6	208	260	325	25.0	176	215	245	22.0
Infrastructure (8)	216	296	401	37.5	36	52	77	44.9	15	21	29	38.6
Media (1)	17	21	25	22.5	6	8	10	36.1	4	5	6	39.3
Metals (8)	2,874	3,125	3,297	8.7	594	698	744	17.6	322	394	439	22.4
Oil Gas & Petchem (10)	7,536	6,858	7,666	-9.0	923	979	1,259	6.0	540	575	794	6.6
Pharma (17)	408	471	476	15.6	81	96	111	18.4	64	70	82	9.4
Real Estate (2)	188	261	368	39.1	114	151	219	32.0	97	114	164	16.5
Retail (3)	96	139	187	44.3	7	11	15	46.4	3	5	7	55.5
Telecom (3)	527	714	894	35.4	219	307	394	40.4	129	172	228	33.4
Textiles (7)	119	141	172	18.6	19	25	30	31.6	6	9	12	45.6
Utilities (6)	605	683	835	12.9	162	176	214	8.4	101	110	120	8.0
Others (8)	148	187	229	26.9	32	43	54	33.1	20	29	35	39.4
Most (142)	17,201	18,346	21,092	6.7	3,437	4,076	4,981	18.6	2,096	2,464	3,054	17.5
MOST Excl. Banks (122)	16,508	17,499	20,046	6.0	2,910	3,421	4,167	17.6	1,815	2,125	2,637	17.0
MOST Excl. Oil & Gas (132)	9,665	11,489	13,426	18.9	2,514	3,097	3,722	23.2	1,557	1,888	2,260	21.3
MOST Excl. Tata Steel (141)	15,929	17,012	19,730	6.8	3,236	3,843	4,742	18.8	1,999	2,335	2,914	16.8
MOST Excl. RMs (139)	12,695	14,452	17,190	13.8	3,267	3,906	4,817	19.5	1,991	2,361	2,956	18.6

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

VALUATIONS - MOST UNIVERSE

SECTOR (NO. OF COMPANIES)	P/E			EV/EBITDA			P/BV		ROE			DIV. EARN.	
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY08E	FY09E	FY10E	FY08E	(FY10-08)
Auto (11)	18.4	15.8	14.0	11.0	9.1	7.7	3.8	3.3	20.9	20.7	20.0	1.6	14.8
Banks (20)	20.2	16.7	13.6	N.M	N.M	N.M	3.4	2.8	17.0	16.5	17.8	1.0	21.9
Cement (7)	12.8	11.6	11.9	7.5	6.2	6.0	4.4	3.3	34.4	28.3	22.5	1.3	3.5
Engineering (10)	41.7	31.4	24.0	29.5	22.2	16.9	12.3	9.9	29.5	31.5	32.6	0.5	31.8
FMCG (12)	26.7	22.2	18.5	18.1	15.2	12.6	8.3	7.3	31.3	32.7	33.8	2.3	20.0
IT (9)	20.5	16.8	14.8	16.2	12.6	9.8	6.2	4.9	30.1	29.0	26.5	1.2	17.9
Infrastructure (8)	88.6	63.9	46.5	39.6	28.7	19.2	7.9	6.6	9.0	10.3	12.9	0.2	38.1
Media (1)	36.5	26.2	21.1	24.8	18.0	13.7	4.6	4.0	12.7	15.3	16.1	0.3	31.5
Metals (8)	13.5	11.1	9.9	7.9	6.5	5.9	3.1	2.5	22.7	22.2	20.2	1.0	16.7
Oil Gas & Petchem (10)	17.1	16.0	11.6	10.3	9.5	7.2	3.5	2.9	20.2	18.3	21.0	1.5	21.3
Pharma (17)	20.6	18.8	16.0	16.6	13.7	11.4	4.7	3.9	22.9	20.6	20.6	1.1	13.3
Real Estate (2)	26.7	22.9	15.9	23.4	17.0	11.2	12.5	9.1	46.8	39.6	40.1	0.7	29.7
Retail (3)	70.7	45.5	29.8	30.4	21.0	15.0	10.2	8.6	14.4	19.0	17.3	0.2	54.1
Telecom (3)	28.1	21.1	15.9	17.3	12.2	9.2	7.6	5.8	26.9	27.7	28.4	0.0	33.0
Textiles (7)	16.0	11.0	8.7	10.3	8.3	7.2	1.4	1.3	8.7	11.4	12.8	1.3	35.5
Utilities (6)	32.3	29.9	27.3	19.7	19.1	16.1	3.9	3.6	12.0	11.9	12.0	1.0	8.8
Others (8)	18.5	13.2	10.9	11.7	8.6	6.5	4.4	3.3	23.7	24.8	24.5	1.0	30.3
Most (142)	21.3	18.1	14.6	N.M	N.M	N.M	4.6	3.8	21.6	20.9	21.6	1.0	20.7
MOST Excl. Banks (122)	21.4	18.3	14.8	13.6	11.4	9.1	4.8	4.0	22.5	21.8	22.4	1.1	20.5
MOST Excl. Oil & Gas (132)	22.7	18.7	15.6	N.M	N.M	N.M	5.0	4.1	22.1	21.8	21.8	0.9	20.5
MOST Excl. Tata Steel (141)	21.9	18.7	15.0	N.M	N.M	N.M	4.7	3.9	21.7	20.9	21.7	1.0	20.7
MOST Excl. RMs (139)	21.8	18.4	14.7	N.M	N.M	N.M	4.8	3.9	21.9	21.3	22.1	1.0	21.9

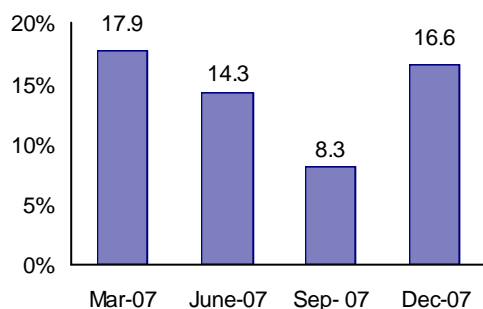
N.M. - Not Meaningful

Source: Motilal Oswal Securities

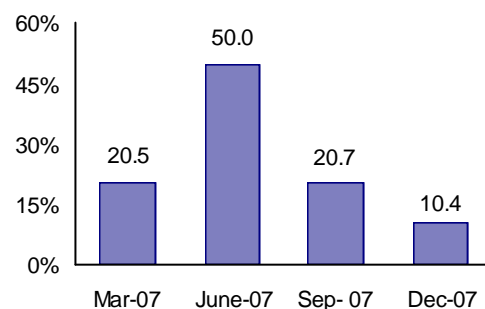
3QFY08: lowest PAT growth in last eight quarters

Aggregate estimates for our universe of 142 companies suggest a rather weak corporate performance in 3QFY08. Sales growth would be fairly healthy at 17% YoY. However, EBITDA margin is likely to be down 130bp. As a result, PAT growth would be muted at 11% YoY, the lowest in the last eight quarters. A major drag on aggregate PAT would be a 4% de-growth in Metals, and flat performance by Oil & Gas and Autos. Telecom and Engineering are expected to sustain their growth momentum. FMCG PAT growth would be much higher than the last few quarters at 22%. Sensex PAT growth is estimated at 14.4% YoY (18.8% if Tata Steel's consolidated numbers are considered).

QUARTER-WISE SALES GROWTH (% YOY)



QUARTER-WISE NET PROFIT GROWTH (% YOY)



Source: Motilal Oswal Securities

QUARTERLY PERFORMANCE - MOST UNIVERSE

(RS MILLION)

SECTOR (NO. OF COMPANIES)	SALES			EBITDA			NET PROFIT		
	DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)
Auto (11)	231,149	252,852	9.4	29,657	30,730	3.6	19,250	19,408	0.8
Banks (20)	155,276	172,685	11.2	118,193	135,954	15.0	59,472	72,252	21.5
Cement (7)	77,075	90,098	16.9	24,274	29,963	23.4	15,874	18,117	14.1
Engineering (10)	164,328	218,251	32.8	24,719	33,944	37.3	17,616	22,386	27.1
FMCG (12)	122,986	142,201	15.6	24,695	29,573	19.8	17,184	21,002	22.2
IT (9)	174,926	220,475	26.0	46,316	53,828	16.2	37,842	44,885	18.6
Infrastructure (8)	35,690	46,190	29.4	5,516	7,041	27.7	2,481	3,056	23.2
Media (1)	4,177	4,474	7.1	1,357	1,471	8.4	875	991	13.2
Metals (8)	317,177	329,707	4.0	121,132	110,733	-8.6	70,852	67,854	-4.2
Oil Gas & Petchem (10)	1,677,042	1,939,984	15.7	188,843	184,454	-2.3	108,326	108,317	0.0
Pharma (17)	93,269	103,555	11.0	18,147	20,517	13.1	13,702	14,858	8.4
Real Estate (2)	10,027	12,931	29.0	6,950	5,754	-17.2	4,524	4,659	3.0
Retail (3)	15,216	24,100	58.4	1,399	1,875	34.1	629	826	31.3
Telecom (3)	98,164	136,982	39.5	39,031	57,177	46.5	22,562	32,921	45.9
Textiles (7)	23,258	29,820	28.2	4,116	4,991	21.2	1,698	1,614	-4.9
Utilities (6)	127,917	150,136	17.4	28,756	40,996	42.6	22,852	25,379	11.1
Others (8)	23,439	33,247	41.8	5,234	6,828	30.4	3,103	3,971	28.0
MOSSt (142)*	3,351,115	3,907,689	16.6	688,336	755,829	9.8	418,841	462,497	10.4
MOSSt Excl. Banks (122)	3,195,839	3,735,003	16.9	570,143	619,875	8.7	359,369	390,245	8.6
MOSSt Excl. Oil & Gas (132)	1,674,073	1,967,705	17.5	499,493	571,375	14.4	310,515	354,180	14.1
MOSSt Excl. RMs (139)	2,302,333	2,672,069	16.1	655,716	735,623	12.2	397,655	453,034	13.9
Sensex (Excl DLF)	1,318,061	1,528,626	16.0	398,021	452,662	13.7	245,771	281,060	14.4
Sensex (Tata Steel Cons)	1,537,052	1,796,686	16.9	409,009	481,993	17.8	247,914	294,531	18.8

* Tata Steel Standalone

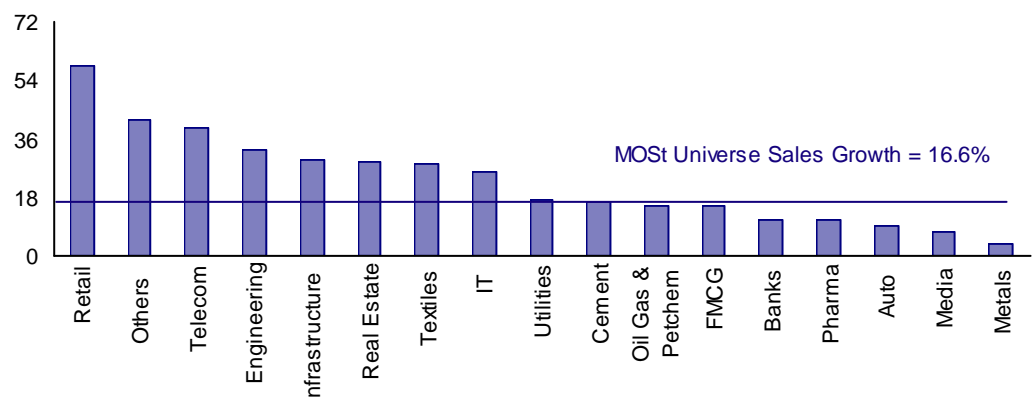
Source: Motilal Oswal Securities

Sales growth of 17% YoY

Retail would be the fastest growing sector, followed by Telecom

- ✎ We expect our Universe of 142 companies to record sales growth of 17% YoY in 3QFY08. The major sectors driving sales growth would be – Telecom (40%), Engineering (35%), Infrastructure (29%), IT (26%) and Cement (17.5%). The growth rate would be dragged down mainly by Metals (4%) and Autos (9%).
- ✎ The Telecom sector is expected to witness revenue growth of 40% on the back of sustained strong addition to the wireless subscriber base (+24m in 3QFY08). Idea Cellular would lead the pack with revenue growth of 49% YoY, followed by Bharti (42%) and Reliance Communication (33%).
- ✎ We expect the Engineering sector to record sales growth of 35% YoY, on sustained capex in the Indian economy, especially in the power sector. Companies which are expected to grow faster than the industry average are ABB (44%), Suzlon (43%) and L&T (35%).
- ✎ The Infrastructure sector is expected to record revenue growth of 29% YoY, driven by strong order book position. All companies under coverage should show YoY growth of 30% or higher except Nagarjuna Construction (22% YoY) and Jaiprakash Associates (15% YoY). BL Kashyap is expected to show hyper growth of 75% YoY.
- ✎ IT is expected to register strong YoY growth of 26%. Mphasis should grow 109% YoY given its low base. Wipro (34% YoY) and Satyam (30% YoY) are the others that would grow faster than the industry average.
- ✎ Sales growth for Metals would be low at 4% YoY due to lower international prices of non-ferrous metals, stronger rupee and lower import duty. Hindustan Zinc is expected to be hit hardest, with sales growth down 27.5% YoY, followed by Sterlite (down 25% YoY) and Nalco (down 17% YoY). The steel pack is expected to fare much better – Jindal Steel (up 49%), SAIL (up 24%), Jindal Steel & Power (up 49%) and Tata Steel (up 11% standalone, and 432% consolidated).
- ✎ Auto sales growth would be muted at 9%. The growth laggards would be two-wheelers (2% YoY) and CVs (5% YoY). This would be more than offset by growth in Cars/UVs (20% YoY) and auto ancillaries (25% YoY).

SECTORAL SALES GROWTH - QUARTER ENDED DECEMBER 2007 (%)



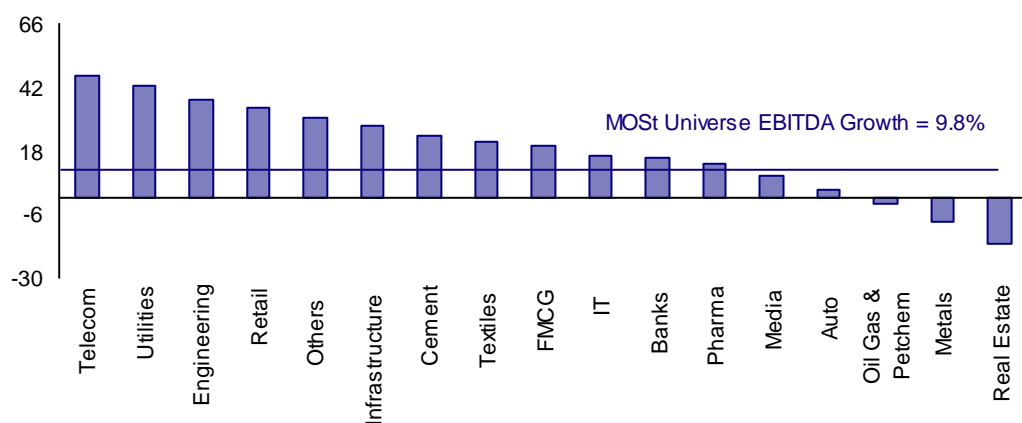
Source: Motilal Oswal Securities

EBITDA margins excluding Banks and Utilities to drop 160bp

Telecom would show the highest EBITDA jump, followed by Utilities

- ✎ We expect our Universe of 116 companies (excluding Banks and Utilities) to register EBITDA growth of just 6.6% YoY. This is sharply lower than the estimated topline growth of 17%, implying a fairly steep 160bp drop in EBITDA margin. The major drags on margin would be the currency sensitive sectors – Metals (-460bp), IT (-210bp YoY, +50bp QoQ) and Textiles (-100bp). Only two sectors are expected to see meaningful margin expansion – Telecom (+200bp) and Cement (+180bp).
- ✎ Metals EBITDA is expected to be down 10% YoY, with EBITDA margin down 460bp YoY. Margins would be dragged down by non-ferrous metals, adversely affected by lower LME prices, stronger rupee and lower import duty. The worst affected would be Nalco (-1,430 bp), Hindustan Zinc (-780bp), Sterlite (-700bp) and Hindalco (-630bp).
- ✎ IT sector EBITDA would be up 16% YoY against revenue growth of 26% YoY, implying a 210bp drop in margin. This is due to the double whammy of a stronger rupee coupled with rising manpower costs.
- ✎ Textiles sector EBITDA should be up 21% YoY. However, margins would be down 100bp due to falling product prices and the rising rupee. We expect the worst hit to include Himatsingka (-760bp) and Arvind (-210bp).
- ✎ The Telecom sector is expected to report strong EBITDA growth of 47% YoY (EBITDA margin expansion of 200bp) on the back of operating leverage following high subscriber addition.
- ✎ Cement is expected to see healthy EBITDA growth of 23% YoY. Though cement prices are higher almost 10% YoY, cost pressures, mainly coal and freight, should check margin expansion at just 180bp YoY.

SECTORAL EBITDA GROWTH - QUARTER ENDED DECEMBER 2007 (%)



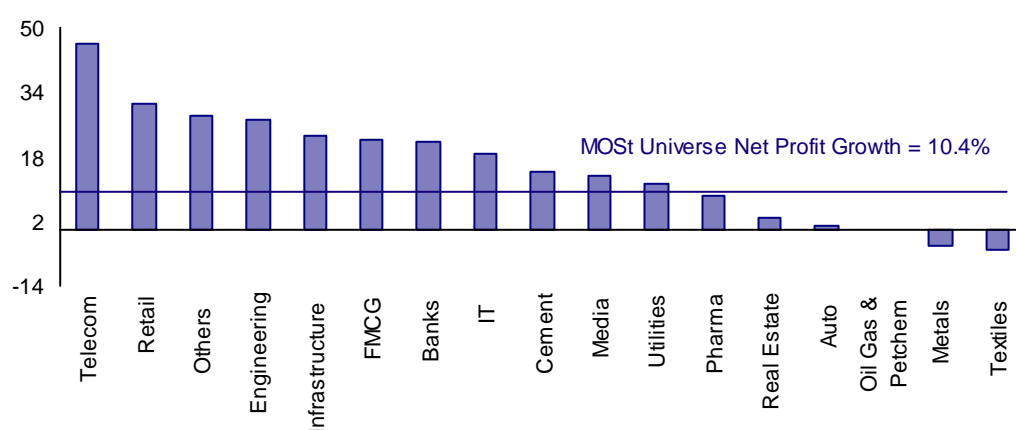
Source: Motilal Oswal Securities

PAT growth of 10% YoY – lowest in last eight quarters

Telecom would witness the fastest net profit growth in our universe, followed by Retail

- ✎ We expect overall PAT growth to be muted at 10% YoY. The major drags on profit growth would be Metals (-4% YoY), Oil, Gas & Petchem (flat YoY) and Autos (+2%). The sectors with the highest PAT growth would be Telecom (+46% YoY) and Engineering (+27% YoY). Bank, FMCG and Infrastructure are all expected to report 22-23% growth YoY.
- ✎ As in the past several quarters, Telecom would be the highest profit growth sector. Idea Cellular would lead the pack with a growth of 110% YoY, followed by RCom (50%) and Bharti (37%).
- ✎ Engineering PAT is expected to grow 27% YoY, led by Crompton Greaves (+52% YoY) ABB (+41% YoY), Siemens (+36% YoY) and L&T (+31% YoY).
- ✎ FMCG would be a sector to watch out for. As many as 8 companies out of 12 are expected to clock PAT growth in excess of 25% – Britannia (+124% YoY), Marico (+49% YoY), United Spirits (+48% YoY), Nestle (+37% YoY), Asian Paints (+29% YoY), Colgate (+28% YoY) and Dabur (+27% YoY).
- ✎ Two sectors are expected to register PAT de-growth – Textiles (-5% YoY) and Metals (-4% YoY).
- ✎ Profit growth for Sensex companies is expected to be 20% YoY (based on consolidated profit for Tata Steel and excluding DLF as its 3QFY07 numbers are not available). The top five performers are expected to be Tata Steel (+126% YoY consolidated), RCom (+50% YoY), Bharti (+37% YoY), HDFC Bank (+35% YoY) and L&T (+31% YoY). The bottom five are likely to be Hindalco (-26% YoY), Tata Motors (-23% YoY), Cipla (-7% YoY), ACC (-3% YoY) and M&M (-2%).

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



Source: Motilal Oswal Securities

QUARTERLY PERFORMANCE - MOST UNIVERSE

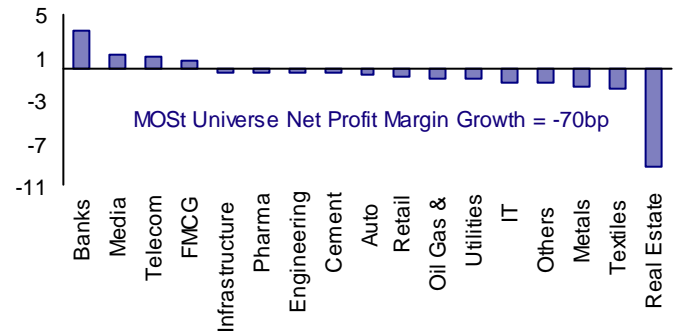
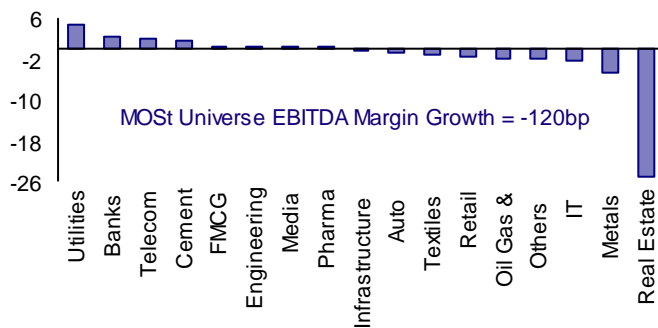
SECTOR (NO. OF COMPANIES)	EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)
Auto (11)	12.8	12.2	-0.7	8.3	7.7	-0.7
Banks (20)	76.1	78.7	2.6	38.3	41.8	3.5
Cement (7)	31.5	33.3	1.8	20.6	20.1	-0.5
Engineering (10)	15.0	15.6	0.5	10.7	10.3	-0.5
FMCG (12)	20.1	20.8	0.7	14.0	14.8	0.8
IT (9)	26.5	24.4	-2.1	21.6	20.4	-1.3
Infrastructure (8)	15.5	15.2	-0.2	7.0	6.6	-0.3
Media (1)	32.5	32.9	0.4	21.0	22.1	1.2
Metals (8)	38.2	33.6	-4.6	22.3	20.6	-1.8
Oil Gas & Petchem (10)	11.3	9.5	-1.8	6.5	5.6	-0.9
Pharma (17)	19.5	19.8	0.4	14.7	14.3	-0.3
Real Estate (2)	69.3	44.5	-24.8	45.1	36.0	-9.1
Retail (3)	9.2	7.8	-1.4	4.1	3.4	-0.7
Telecom (3)	39.8	41.7	2.0	23.0	24.0	1.0
Textiles (7)	17.7	16.7	-1.0	7.3	5.4	-1.9
Utilities (6)	22.5	27.3	4.8	17.9	16.9	-1.0
Others (8)	22.3	20.5	-1.8	13.2	11.9	-1.3
MOST (142)*	20.5	19.3	-1.2	12.5	11.8	-0.7
MOST Excl. Banks (122)	17.8	16.6	-1.2	11.2	10.4	-0.8
MOST Excl. Oil & Gas (132)	29.8	29.0	-0.8	18.5	18.0	-0.5
MOST Excl. RMs (139)	28.5	27.5	-1.0	17.3	17.0	-0.3
Sensex (Excl DLF)	30.2	29.6	-0.6	18.6	18.4	-0.3
Sensex (Tata Steel Cons)	26.6	26.8	0.2	16.1	16.4	0.3

*Tata Steel Standalone

Source: Motilal Oswal Securities

EBITDA MARGIN GROWTH - QUARTER ENDED DECEMBER 2007 (%)

NET PROFIT MARGIN GROWTH - QUARTER ENDED DECEMBER 2007 (%)



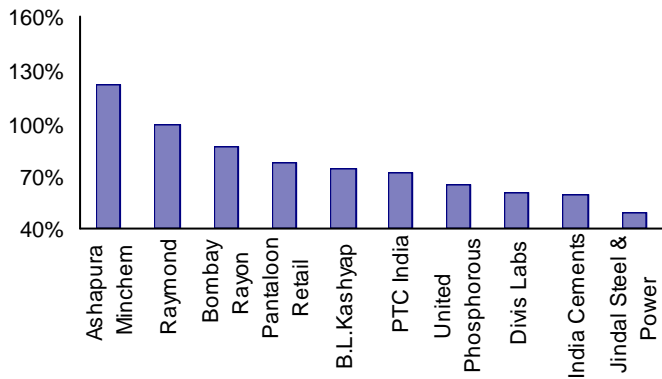
SECTORAL CONTRIBUTION TO GROWTH IN SALES, EBITDA AND NET PROFIT (%)

SECTOR	CONTRIBUTION TO SALES GR.	SECTOR	CONTRIBUTION TO EBITDA GR.	SECTOR	CONTRIBUTION TO NP GR.
Oil Gas & Petchem (10)	47.2	Telecom (3)	26.9	Banks (20)	29.3
Engineering (10)	9.7	Banks (20)	26.3	Telecom (3)	23.7
IT (9)	8.2	Utilities (6)	18.1	IT (9)	16.1
Telecom (3)	7.0	Engineering (10)	13.7	Engineering (10)	10.9
Utilities (6)	4.0	IT (9)	11.1	FMCG (12)	8.7
Auto (11)	3.9	Cement (7)	8.4	Utilities (6)	5.8
FMCG (12)	3.5	FMCG (12)	7.2	Cement (7)	5.1
Banks (20)	3.1	Pharma (17)	3.5	Pharma (17)	2.6
Cement (7)	2.3	Others (8)	2.4	Others (8)	2.0
Metals (8)	2.3	Infrastructure (8)	2.3	Infrastructure (8)	1.3
Infrastructure (8)	1.9	Auto (11)	1.6	Retail (3)	0.5
Pharma (17)	1.8	Textiles (7)	1.3	Auto (11)	0.4
Others (8)	1.8	Retail (3)	0.7	Real Estate (2)	0.3
Retail (3)	1.6	Media (1)	0.2	Media (1)	0.3
Textiles (7)	1.2	Real Estate (2)	-1.8	Oil Gas & Petchem (10)	0.0
Real Estate (2)	0.5	Oil Gas & Petchem (10)	-6.5	Textiles (7)	-0.2
Media (1)	0.1	Metals (8)	-15.4	Metals (8)	-6.9

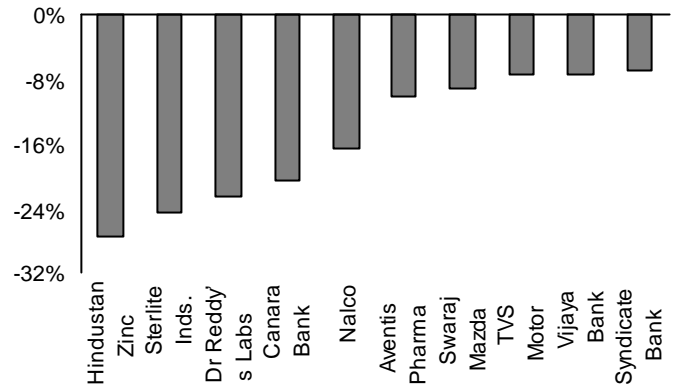
Source: Motilal Oswal Securities

Scoreboard (quarter ended December 2007)

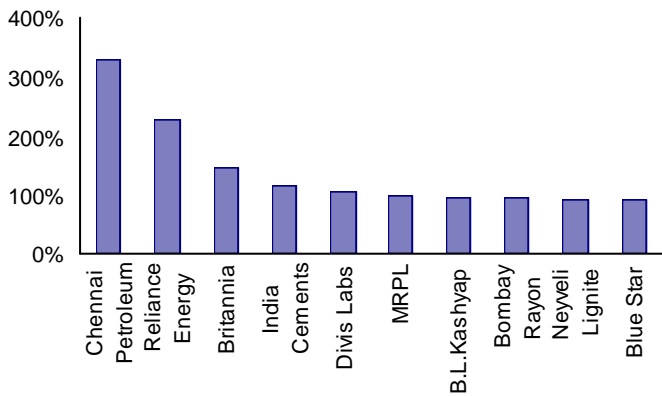
TOP 10 BY SALES GROWTH (%)



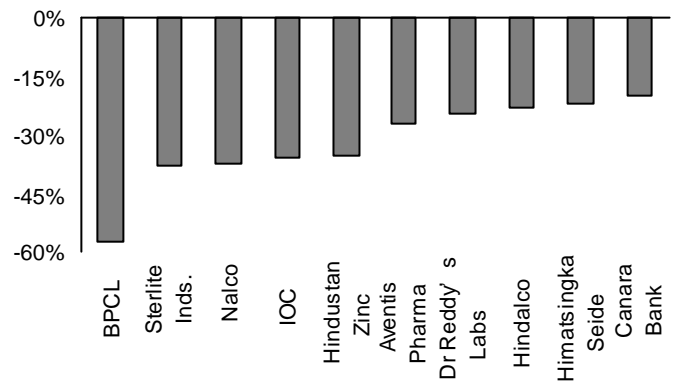
WORST 10 BY SALES GROWTH (%)



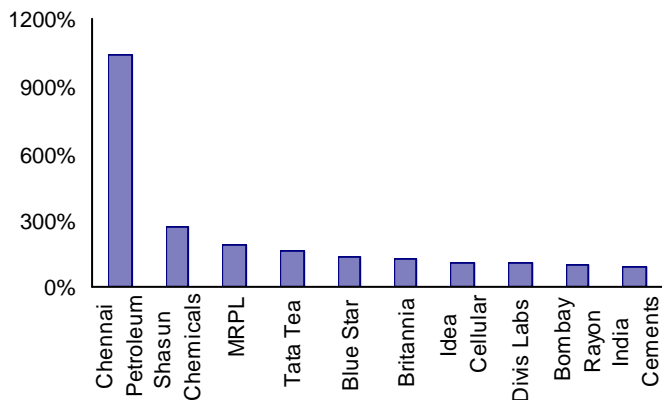
TOP 10 BY EBITDA GROWTH (%)



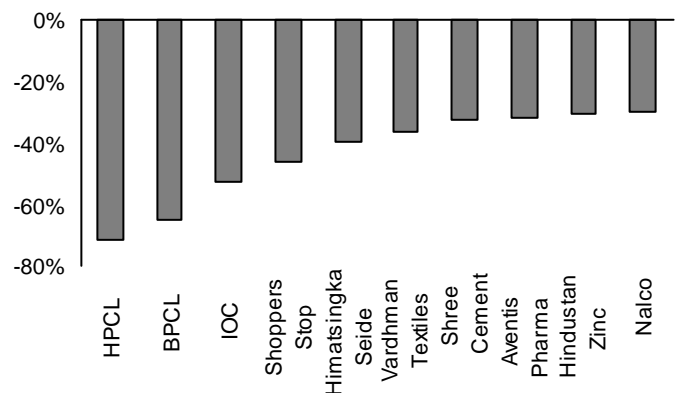
WORST 10 BY EBITDA GROWTH (%)



TOP 10 BY NET PROFIT GROWTH (%)



WORST 10 BY NET PROFIT GROWTH (%)



Matrix: Excluding DocPharma

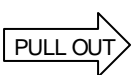
Source: Motilal Oswal Securities

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

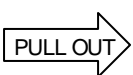
Ready reckoner: valuations

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Automobiles														
Amtek Auto	425	Buy	30.1	35.4	39.8	14.1	12.0	10.7	9.4	8.0	6.8	18.4	17.8	16.7
Ashok Leyland	50	Buy	3.1	3.5	4.0	16.3	14.3	12.6	9.1	8.0	7.1	20.5	20.4	21.0
Bajaj Auto	2,611	Buy	134.4	155.1	171.7	19.4	16.8	15.2	14.2	11.4	9.5	21.0	20.7	19.7
Bharat Forge	354	Buy	12.5	16.5	19.0	28.3	21.5	18.7	15.9	12.7	10.6	17.9	17.0	17.0
Eicher Motors	407	Neutral	24.6	30.2	34.2	16.5	13.5	11.9	7.7	6.2	5.1	14.8	15.9	15.7
Hero Honda	699	Buy	43.9	51.4	56.6	15.9	13.6	12.4	9.8	8.0	6.8	32.4	31.7	27.3
Mahindra & Mahindra	834	Buy	62.1	74.7	81.8	13.4	11.2	10.2	14.9	12.7	10.8	21.3	20.4	19.7
Maruti Suzuki	984	Buy	68.1	79.6	93.6	14.4	12.4	10.5	7.9	6.6	5.4	22.7	21.3	20.3
Swaraj Mazda	325	Neutral	21.3	25.6	28.7	15.2	12.7	11.3	9.1	7.9	7.0	24.7	24.6	23.0
Tata Motors	731	Buy	47.8	56.7	64.0	15.3	12.9	11.4	11.5	9.4	8.4	19.4	20.3	20.1
TVS Motor	72	Neutral	1.7	2.7	3.4	42.7	26.6	21.2	17.8	12.5	10.3	4.7	7.3	8.7
Sector Aggregate						18.4	15.8	14.0	11.0	9.1	7.7	20.9	20.7	20.0
Cement														
ACC	1,009	Neutral	70.0	76.2	69.0	14.4	13.2	14.6	9.1	8.1	8.7	31.2	27.3	21.0
Ambuja Cements	149	Buy	9.6	10.1	10.0	15.5	14.8	14.9	10.2	9.5	9.3	34.5	27.6	23.1
Birla Corporation	329	Buy	54.0	54.5	57.0	6.1	6.0	5.8	3.5	3.0	2.3	40.9	30.6	25.2
Grasim Industries	3,630	Buy	293.5	321.0	309.1	12.4	11.3	11.7	6.2	5.0	4.8	29.9	25.3	20.0
India Cements	304	Buy	25.4	26.6	27.3	12.0	11.4	11.1	8.1	6.8	6.2	36.4	25.5	21.1
Shree Cement	1,318	Buy	120.5	144.5	154.0	10.9	9.1	8.6	5.6	4.0	2.9	64.5	46.5	34.2
Ultratech Cement	978	Buy	80.6	97.8	95.6	12.1	10.0	10.2	8.2	6.2	5.9	45.0	37.3	27.2
Sector Aggregate						12.8	11.6	11.9	7.5	6.2	6.0	34.4	28.3	22.5
Engineering														
ABB	1,486	Neutral	23.6	30.4	40.0	62.9	48.9	37.1	40.9	31.9	23.8	39.7	43.9	45.9
Alstom Projects	995	Neutral	21.3	26.1	31.9	46.8	38.2	31.2	38.1	30.0	23.1	37.8	36.2	34.4
Bharat Electronics	2,097	Buy	103.2	127.6	147.8	20.3	16.4	14.2	12.0	9.3	7.6	29.9	29.2	26.8
BHEL	2,582	Neutral	63.1	85.8	119.7	40.9	30.1	21.6	26.4	18.8	13.2	30.7	32.3	34.6
Crompton Greaves	393	Neutral	10.6	15.1	20.9	37.1	26.1	18.8	29.4	22.5	17.2	37.6	38.4	38.7
Cummins India	410	Neutral	15.8	19.9	26.1	25.9	20.6	15.7	18.5	14.0	9.9	28.1	29.3	31.0
Larsen & Toubro	4,150	Neutral	89.0	113.0	139.0	46.6	36.7	29.9	40.0	31.8	26.3	30.7	30.5	29.5
Siemens	1,889	Neutral	44.2	58.9	76.2	42.7	32.1	24.8	27.0	21.2	16.7	44.7	44.7	44.2
Suzlon Energy	1,902	Neutral	43.1	64.4	86.5	44.1	29.6	22.0	30.4	22.4	17.4	21.9	21.0	23.6
Thermax	828	Buy	21.0	30.6	41.4	39.4	27.0	20.0	28.2	18.9	13.4	37.8	42.7	42.1
Sector Aggregate						41.7	31.4	24.0	29.5	22.2	16.9	29.5	31.5	32.6
FMCG														
Asian Paints	1,106	Buy	38.9	46.2	55.2	28.4	24.0	20.1	17.3	14.2	11.8	37.6	35.5	34.0
Britannia	1,472	Buy	72.9	91.3	116.2	20.2	16.1	12.7	12.0	9.4	7.2	25.3	25.3	26.1
Colgate	401	Buy	18.1	21.8	24.7	22.1	18.4	16.2	20.3	16.6	14.6	136.3	275.5	204.1
Dabur	113	Neutral	4.0	5.0	6.0	28.5	22.7	18.8	22.5	18.5	15.5	53.1	50.6	47.4
Godrej Consumer	131	Buy	7.0	8.3	9.5	18.7	15.8	13.7	14.5	12.5	11.0	130.1	151.2	169.0
GSK Consumer	702	Buy	39.6	46.2	56.7	17.7	15.2	12.4	11.1	9.4	7.2	25.9	25.6	26.4
Hind. Unilever	216	Neutral	8.0	8.9	10.1	27.1	24.4	21.4	23.8	20.6	17.9	83.4	86.7	83.2
ITC	206	Buy	8.2	9.5	11.4	25.1	21.7	18.0	16.3	13.7	11.2	25.8	26.1	27.6
Marico	68	Buy	2.7	3.4	3.9	25.2	20.4	17.7	16.1	13.6	11.9	67.5	57.8	49.4
Nestle	1,459	Buy	45.8	57.6	70.7	31.9	25.3	20.6	19.4	15.5	12.7	64.5	72.5	80.4
Tata Tea	900	Neutral	49.7	76.3	87.3	18.1	11.8	10.3	5.8	4.7	3.8	7.6	10.8	11.4
United Spirits	1,924	Buy	44.8	69.6	96.2	42.9	27.7	20.0	30.0	23.9	18.6	17.6	19.4	21.1
Sector Aggregate						26.7	22.2	18.5	18.1	15.2	12.6	31.3	32.7	33.8



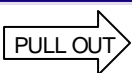
Ready reckoner: valuations

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Information Technology														
HCL Technologies	328	Buy	20.5	22.9	26.0	16.0	14.3	12.6	11.8	9.8	7.8	27.5	27.3	28.9
Infosys	1,796	Buy	81.6	98.5	109.6	22.0	18.2	16.4	18.0	13.8	10.6	35.3	32.6	28.4
Mphasis	301	Buy	12.9	16.0	19.2	23.3	18.7	15.6	10.5	7.8	7.1	33.2	26.6	26.4
Patni Computer	331	Neutral	32.6	36.7	40.2	10.1	9.0	8.2	6.3	4.6	3.7	18.5	17.9	16.9
Sasken Comm	331	Buy	16.4	22.2	28.1	20.2	14.9	11.8	13.8	9.1	7.0	10.5	12.4	14.0
Satyam Computer	450	Buy	25.7	31.4	34.6	17.5	14.3	13.0	13.7	10.4	7.7	26.6	26.1	23.5
TCS	1,080	Buy	51.2	61.9	71.4	21.1	17.4	15.1	16.9	13.7	10.7	45.7	40.6	35.7
Tech Mahindra	1,141	Neutral	55.2	69.4	79.8	20.7	16.4	14.3	16.0	11.6	8.6	44.8	37.3	37.0
Wipro	530	Buy	23.6	29.5	33.7	22.5	18.0	15.7	17.5	13.5	10.3	30.6	31.5	29.4
Sector Aggregate						20.5	16.8	14.8	16.2	12.6	9.8	30.1	29.0	26.5
Infrastructure														
B.L.Kashyap	1,861	Neutral	50.6	75.2	107.3	36.8	24.8	17.3	24.3	16.2	11.9	30.9	34.4	35.9
Gammon India	584	Neutral	12.5	17.8	25.8	46.8	32.8	22.6	23.6	17.5	11.9	8.8	11.3	14.2
GMR Infrastructure	249	Neutral	0.9	1.1	2.5	283.7	231.8	98.4	67.1	41.4	20.3	2.6	3.1	6.9
Hindustan Construction	221	Buy	3.1	5.8	8.2	71.1	38.1	27.1	20.3	15.3	9.4	7.3	10.6	13.6
IVRCL Infra.	524	Buy	14.9	21.5	28.3	35.1	24.3	18.5	20.2	15.0	11.0	13.8	17.4	19.5
Jaiprakash Associates	423	Buy	4.4	5.5	6.1	96.9	76.5	69.0	47.4	37.9	32.7	12.6	11.4	11.6
Nagarjuna Construction	352	Buy	8.2	13.0	18.0	42.8	27.0	19.5	22.6	16.1	9.9	13.7	15.8	18.9
Patel Engg.	926	Buy	20.3	26.8	33.9	45.6	34.5	27.3	29.7	22.6	16.2	15.8	17.8	19.0
Sector Aggregate						88.6	63.9	46.5	39.6	28.7	19.2	9.0	10.3	12.9
Media														
Zee Entertainment	315	Neutral	8.6	12.0	14.9	36.6	26.3	21.2	24.8	18.0	13.7	17.7	18.9	17.0
Metals														
Hindalco	213	Neutral	12.4	16.0	22.8	17.2	13.3	9.4	8.8	7.3	7.0	10.6	11.8	14.9
Hindustan Zinc	816	Buy	100.7	96.3	108.2	8.1	8.5	7.5	4.9	4.3	3.3	36.7	26.6	23.5
Jindal Steel & Power	15,179	Buy	363.6	405.6	588.2	41.7	37.4	25.8	22.9	21.0	15.7	31.6	26.4	28.0
JSW Steel	1,318	Sell	98.0	136.1	156.9	13.4	9.7	8.4	10.5	7.5	6.4	24.7	26.7	23.7
Nalco	498	Neutral	26.4	30.7	38.2	18.8	16.2	13.0	13.0	10.5	7.6	19.2	19.3	20.2
SAIL	280	Buy	19.1	25.5	26.9	14.6	11.0	10.4	8.5	6.4	6.1	33.4	32.2	26.2
Sterlite Inds.	1,052	Buy	59.7	61.3	57.3	17.6	17.2	18.4	7.8	7.0	6.5	19.2	16.8	13.6
Tata Steel	931	Buy	114.7	151.4	165.5	8.1	6.2	5.6	5.6	4.5	4.0	19.5	21.1	19.1
Sector Aggregate						13.5	11.1	9.9	7.9	6.5	5.9	22.7	22.2	20.2
Oil & Gas														
BPCL	473	Buy	54.4	61.1	64.8	8.7	7.7	7.3	7.7	6.9	6.5	15.7	15.8	16.8
Caim India	247	Buy	0.3	0.8	2.8	967.9	303.1	87.9	58.1	58.0	31.2	0.2	0.5	1.7
Chennai Petroleum	422	Neutral	69.0	54.7	54.3	6.1	7.7	7.8	4.4	5.2	5.2	29.7	20.0	17.3
GAIL	531	Buy	28.3	35.3	37.9	18.8	15.0	14.0	12.2	9.5	8.7	18.6	20.4	19.4
HPCL	343	Buy	28.5	25.1	25.9	12.0	13.7	13.2	9.9	9.7	9.3	9.8	8.5	8.8
Indraprastha Gas	160	Not Rated	12.3	13.3	14.9	13.0	12.1	10.7	6.2	5.7	4.6	32.1	28.3	26.2
IOC	739	Buy	64.1	60.6	56.0	11.5	12.2	13.2	9.2	9.5	10.3	18.1	15.2	12.8
MRPL	135	Sell	7.1	5.9	5.8	18.9	22.7	23.3	12.5	13.4	14.4	36.1	26.2	21.6
ONGC	1,227	Buy	109.5	114.7	116.9	11.2	10.7	10.5	5.3	4.7	4.3	31.8	27.8	24.1
Reliance Inds.	2,898	Buy	104.4	111.5	245.1	27.8	26.0	11.8	19.2	18.8	9.1	22.1	19.2	29.4
Sector Aggregate						17.1	16.0	11.6	10.3	9.5	7.2	20.2	18.3	21.0



Ready reckoner: valuations

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Pharmaceuticals														
Aurobindo Pharma	535	Sell	49.6	50.8	59.3	10.8	10.5	9.0	8.6	7.4	6.2	28.0	22.5	21.0
Aventis Pharma	1,122	Buy	61.4	63.6	67.8	18.3	17.6	16.5	12.5	11.0	9.1	21.2	19.7	19.1
Biocon	578	Buy	24.3	28.5	34.4	23.8	20.2	16.8	16.9	13.8	10.8	15.5	16.0	16.8
Cadila Health	310	Buy	20.7	25.8	31.8	15.0	12.0	9.7	9.3	7.7	6.3	27.0	27.0	26.9
Cipla	215	Neutral	7.9	9.5	11.4	27.2	22.7	18.8	20.9	17.9	14.7	16.5	17.1	17.8
Dishman Pharma	346	Buy	13.9	18.5	20.4	24.9	18.7	16.9	20.5	16.0	13.6	30.8	31.1	26.7
Divis Labs	1,880	Neutral	49.6	60.1	75.4	37.9	31.3	24.9	30.2	25.1	19.6	47.8	40.7	37.3
Dr Reddy's Labs	714	Buy	46.2	41.8	48.6	15.4	17.1	14.7	15.7	12.3	10.4	16.4	13.3	13.9
GSK Pharma	1,025	Buy	43.9	47.9	54.1	23.3	21.4	18.9	15.5	13.6	11.6	24.0	22.7	22.3
Jubilant Organosys	343	Buy	22.5	21.6	24.5	15.3	15.9	14.0	12.7	9.9	8.2	35.3	24.6	22.7
Lupin	627	Neutral	35.2	37.1	43.5	17.8	16.9	14.4	13.3	12.9	10.9	31.0	26.2	25.4
Nicholas Piramal	350	Buy	14.2	16.5	20.4	24.6	21.2	17.2	17.0	14.7	12.3	24.9	23.8	25.1
Pfizer	797	Neutral	45.3	46.8	51.2	17.6	17.0	15.6	10.3	9.2	7.9	18.7	14.4	14.4
Ranbaxy Labs	416	Buy	19.1	19.6	22.7	21.8	21.2	18.3	18.8	13.7	11.8	25.7	23.3	23.7
Shasun Chemicals	88	Buy	5.2	7.8	9.0	16.9	11.3	9.8	8.5	6.3	5.7	10.7	14.6	15.0
Sun Pharma	1,207	Buy	43.2	51.3	58.6	27.9	23.5	20.6	22.8	19.0	15.9	23.6	20.3	19.7
Wockhardt	403	Neutral	28.0	31.7	38.1	14.4	12.7	10.6	10.0	8.3	7.1	27.7	25.0	24.5
Sector Aggregate						20.6	18.8	16.0	16.6	13.7	11.4	22.9	20.6	20.6
Real Estate														
DLF	1,064	Buy	47.0	48.9	53.9	22.7	21.8	19.7	20.2	16.1	14.0	45.0	35.4	30.7
Unitech	484	Buy	10.9	18.8	44.6	44.6	25.7	10.8	36.1	19.4	7.9	57.4	59.5	66.4
Sector Aggregate						26.7	22.9	15.9	23.4	17.0	11.2	46.8	39.6	40.1
Retailing														
Pantaloon Retail	825	Buy	7.8	13.0	21.3	106.3	63.3	38.7	35.2	23.2	15.5	8.8	13.3	12.7
Shoppers Stop	553	Neutral	4.2	5.7	9.6	131.3	97.6	57.4	29.9	22.0	16.1	4.9	6.5	10.4
Titan Industries	1,533	Neutral	37.5	54.7	68.3	40.8	28.1	22.4	23.7	17.1	13.9	36.4	38.1	35.2
Sector Aggregate						70.7	45.5	29.8	30.4	21.0	15.0	14.4	19.0	17.3
Telecom														
Bharti Airtel	941	Buy	34.7	47.7	62.3	27.1	19.7	15.1	16.2	11.5	8.7	38.6	37.6	36.3
Idea Cellular	132	Not Rated	3.9	5.0	7.4	33.4	26.4	17.9	17.5	12.2	9.0	30.1	31.3	34.7
Reliance Comm	733	Buy	25.9	33.6	44.5	28.3	21.8	16.5	18.6	13.0	9.9	22.5	23.3	25.3
Sector Aggregate						28.1	21.1	15.9	17.3	12.2	9.2	26.9	27.7	28.4
Textiles														
Alok Ind	103	Buy	9.3	10.3	13.4	11.1	10.0	7.7	10.2	9.9	8.4	13.7	13.5	15.3
Arvind Mills	90	Neutral	1.6	4.1	6.8	57.7	21.9	13.1	11.9	10.1	7.9	2.0	5.1	8.1
Gokaldas Exports	259	Neutral	15.9	25.6	28.3	16.3	10.1	9.1	10.5	7.5	6.6	13.0	18.3	17.3
Himatsingka Seide	102	Neutral	6.2	11.4	12.2	16.3	8.9	8.3	10.9	6.5	5.8	9.8	16.4	15.7
Raymond	431	Neutral	20.0	27.9	31.0	21.5	15.4	13.9	10.2	7.1	6.4	8.5	11.0	11.2
Vardhman Textiles	168	Buy	18.9	28.0	38.8	8.9	6.0	4.3	9.4	7.2	6.3	10.4	14.0	16.9
Welspun Ind	102	Neutral	8.8	12.8	15.3	11.6	8.0	6.7	9.9	7.4	6.9	10.6	14.0	14.8
Sector Aggregate						16.0	11.0	8.7	10.3	8.3	7.2	8.7	11.4	12.8
Utilities														
CESC	607	Neutral	23.0	25.6	31.3	26.5	23.7	19.4	15.5	14.7	12.7	10.8	10.9	11.9
Neyveli Lignite	248	Neutral	5.5	5.6	7.8	45.1	44.1	32.0	27.1	25.4	14.2	10.8	10.4	13.2
NTPC	241	Neutral	10.1	9.8	10.1	24.0	24.7	23.8	16.1	15.8	14.4	14.4	14.3	13.6
PTC India	160	Buy	2.9	3.7	6.0	54.6	43.3	26.7	53.6	40.7	24.5	15.9	18.1	25.6
Reliance Energy	2,155	Buy	33.8	36.7	57.2	63.8	58.8	37.7	52.4	53.9	40.6	10.7	10.7	10.7
Tata Power	1391	Buy	33.0	33.9	37.6	42.2	41.0	37.0	26.4	25.3	21.1	8.9	7.6	8.4
Sector Aggregate						32.3	29.9	27.3	19.7	19.1	16.1	12.0	11.9	12.0

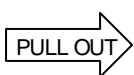


Ready reckoner: valuations

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Others														
Ashapura Minchem	382	Neutral	28.6	47.2	54.9	13.3	8.1	6.9	9.6	5.6	4.1	44.3	47.8	37.8
Blue Star	485	Buy	16.5	23.3	31.5	29.5	20.8	15.4	19.2	13.3	10.0	58.0	58.1	55.3
Bombay Rayon	347	Buy	16.0	25.8	40.5	21.7	13.4	8.6	15.0	10.4	6.3	19.5	23.0	29.0
Concor	1,855	Buy	114.7	139.1	156.1	16.2	13.3	11.9	10.6	8.5	6.9	25.7	25.8	24.2
Everest Kanto	345	UR*	11.4	15.7	22.8	30.4	22.0	15.2	20.2	13.5	9.0	29.1	26.6	27.8
Great Offshore	933	Buy	49.2	75.7	78.0	19.0	12.3	12.0	11.6	8.6	6.3	25.4	23.6	20.7
Greaves Cotton	391	Buy	25.6	34.3	41.8	15.3	11.4	9.3	9.4	6.6	5.3	37.0	38.0	35.5
United Phosphorous	348	Buy	14.7	21.2	27.2	23.6	16.4	12.8	9.7	7.1	5.5	18.4	19.0	20.4
Sector Aggregate						18.5	13.2	10.9	11.7	8.6	6.5	23.7	24.8	24.5

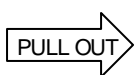
*Under Review

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Banks														
Andhra Bank	106	Buy	12.6	14.5	17.1	8.4	7.3	6.2	1.4	1.3	1.1	18.3	18.8	19.6
Axis Bank	977	Buy	29.1	41.0	57.7	33.6	23.8	16.9	4.0	3.5	3.0	17.2	15.9	19.2
Bank of Baroda	457	Buy	37.8	45.0	56.0	12.1	10.1	8.2	1.8	1.5	1.3	15.0	15.8	17.2
Bank of India	365	Buy	31.0	36.4	43.7	11.8	10.0	8.4	2.6	2.1	1.8	23.8	23.1	22.9
Canara Bank	311	Neutral	36.2	36.4	42.4	8.6	8.6	7.3	1.4	1.2	1.1	17.1	15.3	16.0
Corporation Bank	428	Sell	47.2	54.4	64.6	9.1	7.9	6.6	1.4	1.3	1.1	16.8	17.1	17.7
Federal Bank	335	Buy	43.8	54.8	67.4	7.6	6.1	5.0	1.6	1.3	1.0	22.5	23.1	23.2
HDFC	2,924	Buy	84.5	82.8	104.1	34.6	35.3	28.1	7.7	6.3	5.5	21.7	20.0	20.9
HDFC Bank	1,731	Buy	43.7	58.7	79.9	39.6	29.5	21.7	5.2	4.6	3.9	17.0	16.5	19.3
ICICI Bank	1,227	Neutral	36.5	45.9	58.3	33.6	26.7	21.1	2.9	2.7	2.4	11.3	10.4	12.1
Indian Bank	195	Buy	22.3	27.8	29.2	8.7	7.0	6.7	2.1	1.7	1.4	25.5	26.0	22.4
Indian Overseas Bank	177	Buy	22.0	26.1	30.7	8.0	6.8	5.8	2.0	1.6	1.4	27.5	26.1	25.5
J&K Bank	827	Buy	71.8	83.7	99.1	11.5	9.9	8.3	1.8	1.5	1.3	16.2	16.7	17.2
Karnataka Bank	219	Buy	17.9	21.2	25.0	12.2	10.3	8.8	1.8	1.6	1.4	16.4	16.2	16.8
Oriental Bank	273	Neutral	37.3	40.9	45.1	7.3	6.7	6.1	1.2	1.0	0.9	15.9	15.9	15.9
Punjab National Bank	671	Buy	57.3	69.4	87.8	11.7	9.7	7.6	1.8	1.6	1.4	16.7	17.8	19.5
State Bank	2,384	Buy	109.4	133.1	160.1	21.8	17.9	14.9	3.5	3.0	2.6	17.1	18.0	18.6
Syndicate Bank	115	Buy	15.5	14.3	18.0	7.4	8.0	6.4	1.5	1.4	1.2	20.1	16.3	18.0
Union Bank	207	Buy	21.9	27.6	34.1	9.5	7.5	6.1	1.9	1.6	1.3	21.4	22.8	23.5
Vijaya Bank	84	Neutral	9.1	9.5	12.0	9.2	8.9	7.0	1.7	1.5	1.3	19.5	17.9	20.0
Sector Aggregate						20.2	16.7	13.6	3.4	2.8	2.4	17.0	16.5	17.8



Ready reckoner: quarterly performance

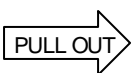
	CMP (RS) 28.12.07	RECO	SALES			EBITDA			NET PROFIT		
			DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)
Automobiles											
Amtek Auto	425	Buy	9,667	12,084	25.0	1,777	2,151	21.0	971	1,168	20.3
Ashok Leyland	50	Buy	17,776	18,537	4.3	1,869	1,854	-0.8	1,112	943	-15.1
Bajaj Auto	2,611	Buy	25,682	26,185	2.0	3,636	3,863	6.2	3,571	3,741	4.8
Bharat Forge	354	Buy	4,771	5,919	24.1	1,239	1,480	19.4	652	696	6.7
Eicher Motors	407	Neutral	4,938	5,801	17.5	326	348	6.6	178	182	2.4
Hero Honda	699	Buy	26,661	28,251	6.0	3,019	3,305	9.5	2,092	2,322	11.0
Mahindra & Mahindra	834	Buy	25,761	28,662	11.3	3,096	3,181	2.7	2,423	2,296	-5.3
Maruti Suzuki	984	Buy	36,795	46,104	25.3	5,855	7,236	23.6	3,680	4,498	22.2
Swaraj Mazda	325	Neutral	1,492	1,357	-9.1	107	102	-4.9	50	44	-12.3
Tata Motors	731	Buy	68,252	71,295	4.5	8,436	6,916	-18.0	4,407	3,394	-23.0
TVS Motor	72	Neutral	9,354	8,657	-7.5	296	294	-0.7	115	123	7.7
Sector Aggregate			231,149	252,852	9.4	29,657	30,730	3.6	19,250	19,408	0.8
Cement											
ACC	1,009	Neutral	15,923	17,729	11.3	4,685	5,059	8.0	3,466	3,248	-6.3
Ambuja Cements	149	Buy	13,291	14,956	12.5	4,791	5,282	10.3	3,378	3,846	13.9
Birla Corporation	329	Buy	4,093	4,512	10.2	1,404	1,558	11.0	951	992	4.2
Grasim Industries	3,630	Buy	22,794	26,064	14.3	6,661	8,566	28.6	4,116	5,217	26.8
India Cements	304	Buy	4,724	7,550	59.8	1,331	2,875	116.1	798	1,506	88.8
Shree Cement	1,318	Buy	3,645	4,963	36.1	1,601	2,152	34.4	1,041	708	-32.0
Ultratech Cement	978	Buy	12,605	14,324	13.6	3,802	4,471	17.6	2,125	2,600	22.4
Sector Aggregate			77,075	90,098	16.9	24,274	29,963	23.4	15,874	18,117	14.1
Engineering											
ABB	1,486	Neutral	14,263	20,545	44.0	1,947	2,862	47.0	1,350	1,902	40.9
Alstom Projects	995	Neutral	2,977	3,870	30.0	242	349	44.4	303	379	25.2
Bharat Electronics	2,097	Buy	8,638	10,365	20.0	1,976	2,506	26.8	1,482	1,847	24.6
BHEL	2,582	Neutral	43,397	56,330	29.8	9,292	12,625	35.9	6,677	8,418	26.1
Crompton Greaves	393	Neutral	8,130	10,568	30.0	818	1,215	48.6	454	689	51.6
Cummins India	410	Neutral	4,770	5,819	22.0	719	887	23.5	629	740	17.7
Larsen & Toubro	4,150	Neutral	41,184	55,469	34.7	5,185	7,022	35.4	3,440	4,517	31.3
Siemens	1,889	Neutral	16,331	21,537	31.9	1,234	1,595	29.3	984	1,342	36.4
Suzlon Energy	1,902	Neutral	19,139	27,368	43.0	2,546	4,105	61.2	1,744	1,976	13.3
Thermax	828	Buy	5,499	6,379	16.0	760	776	2.1	555	577	4.1
Sector Aggregate			164,328	218,251	32.8	24,719	33,944	37.3	17,616	22,386	27.1
FMCG											
Asian Paints	1,106	Buy	9,356	11,500	22.9	1,234	1,530	23.9	712	918	28.9
Britannia	1,472	Buy	5,673	7,000	23.4	261	650	149.0	201	450	123.9
Colgate	401	Buy	3,223	3,700	14.8	544	700	28.6	503	646	28.3
Dabur	113	Neutral	6,176	7,225	17.0	1,004	1,250	24.5	776	987	27.2
Godrej Consumer	131	Buy	2,380	2,900	21.8	516	590	14.4	396	464	17.1
GSK Consumer	702	Buy	2,647	3,102	17.2	275	437	58.7	252	312	24.0
Hind. Unilever	216	Neutral	31,561	36,236	14.8	5,000	5,783	15.7	4,834	5,420	12.1
ITC	206	Buy	31,656	35,850	13.2	10,828	12,050	11.3	7,174	7,973	11.1
Marico	68	Buy	4,092	5,000	22.2	551	700	27.0	277	412	48.7
Nestle	1,459	Buy	7,362	8,889	20.7	1,202	1,783	48.4	872	1,190	36.5
Tata Tea	900	Neutral	11,126	11,500	3.4	2,005	2,200	9.7	418	1,090	161.0
United Spirits	1,924	Buy	7,734	9,300	20.2	1,274	1,900	49.1	769	1,140	48.3
Sector Aggregate			122,986	142,201	15.6	24,695	29,573	19.8	17,184	21,002	22.2



Ready reckoner: quarterly performance

	CMP (RS) 28.12.07	RECO	SALES			EBITDA			NET PROFIT		
			DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)
Infrastructure											
B.L.Kashyap	1,861	Neutral	2,362	4,133	75.0	250	491	96.8	154	280	81.8
Gammon India	584	Neutral	4,607	5,989	30.0	515	528	2.5	242	253	4.6
Hindustan Construction	221	Buy	5,407	7,028	30.0	664	791	19.2	144	159	10.4
IVRCL Infra.	524	Buy	5,223	7,417	42.0	556	805	44.7	271	433	59.5
Jaiprakash Associates	423	Buy	8,910	10,247	15.0	2,310	2,979	29.0	1,020	1,233	20.9
Nagarjuna Construction	352	Buy	6,998	8,537	22.0	802	894	11.4	359	409	14.0
Patel Engg.	926	Buy	2,184	2,839	30.0	419	554	32.1	292	290	-0.6
Sector Aggregate			35,690	46,190	29.4	5,516	7,041	27.7	2,481	3,056	23.2
Media											
Zee Entertainment	315	Neutral	4,177	4,474	7.1	1,357	1471	8.4	875	991	13.2
Metals											
Hindalco	213	Neutral	46,562	49,913	7.2	10,453	8,042	-23.1	6,439	4,773	-25.9
Hindustan Zinc	816	Buy	24,800	17,976	-27.5	19,070	12,418	-34.9	13,350	9,279	-30.5
Jindal Steel & Power	15,179	Buy	10,101	15,049	49.0	3,773	5,689	50.8	1,899	2,976	56.7
JSW Steel	1,318	Sell	23,015	27,575	19.8	7,697	8,260	7.3	3,552	4,139	16.5
Nalco	498	Neutral	14,486	12,093	-16.5	8,449	5,327	-36.9	5,726	4,034	-29.5
SAIL	280	Buy	85,371	105,968	24.1	26,226	34,225	30.5	15,969	22,078	38.3
Sterlite Inds.	1,052	Buy	68,143	51,321	-24.7	27,628	17,210	-37.7	12,948	9,526	-26.4
Tata Steel*	931	Buy	44,700	49,812	11.4	17,836	19,561	9.7	10,969	11,049	0.7
Sector Aggregate			317,177	329,707	4.0	121,132	110,733	-8.6	70,852	67,854	-4.2
Oil & Gas											
BPCL	473	Buy	265,535	304,030	14.5	6,892	2,918	-57.7	3,035	1,051	-65.4
Caim India	247	Buy		2,934	-		2,182	-		560	-
Chennai Petroleum	422	Neutral	58,819	75,787	28.8	1,218	5,230	329.4	243	2,783	1043.1
GAIL	531	Buy	43,784	42,614	-2.7	8,641	8,229	-4.8	6,655	5,273	-20.8
HPCL	343	Buy	242,494	290,552	19.8	1,940	1,914	-1.3	1,044	293	-71.9
Indraprastha Gas	160	Not Rated	1,599	1,844	15.4	654	792	21.1	355	441	24.2
IOC	739	Buy	540,753	641,038	18.5	23,788	15,373	-35.4	17,107	8,118	-52.5
MRPL	135	Sell	73,133	86,362	18.1	2,737	5,536	102.3	1,185	3,384	185.6
ONGC	1227	Buy	155,645	154,590	-0.7	89,073	85,526	-4.0	46,663	48,278	3.5
Reliance Inds.	2898	Buy	295,280	343,166	16.2	53,900	58,935	9.3	32,040	38,696	20.8
Sector Aggregate			1,677,042	1,939,984	15.7	188,843	184,454	-2.3	108,326	108,317	0.0
Pharmaceuticals											
Aurobindo Pharma	535	Sell	5,284	6,243	18.2	785	1,093	39.2	592	706	19.3
Aventis Pharma	1,122	Buy	2,176	1,958	-10.0	427	311	-27.1	347	238	-31.5
Biocon	578	Buy	2,470	2,867	16.1	777	801	3.1	560	616	10.0
Cadila Health	310	Buy	4,724	5,853	23.9	823	1,037	26.0	488	580	18.8
Cipla	215	Neutral	8,805	10,251	16.4	2,193	2,308	5.2	1,844	1,709	-7.3
Dishman Pharma	346	Buy	1,736	2,115	21.8	488	450	-7.7	244	271	10.9
Divis Labs	1,880	Neutral	1,496	2,406	60.8	425	887	108.6	327	684	109.0
Dr Reddy's Labs	714	Buy	15,434	11,995	-22.3	2,464	1,859	-24.5	1,880	1,398	-25.6
GSK Pharma	1,025	Buy	3,119	3,048	-2.3	814	659	-19.0	682	616	-9.7
Jubilant Organosys	343	Buy	4,693	6,633	41.3	898	1,233	37.3	637	875	37.4
Lupin	627	Neutral	5,054	6,608	30.7	901	1,148	27.4	620	945	52.3
Nicholas Piramal	350	Buy	6,495	7,591	16.9	971	1,217	25.3	554	786	42.0
Pfizer	797	Neutral	1,603	1,684	5.1	427	478	11.9	305	378	23.8
Ranbaxy Labs	416	Buy	17,769	18,283	2.9	2,665	2,866	7.5	1,833	1,813	-1.1
Shasun Chemicals	88	Buy	1,882	2,312	22.9	135	228	68.5	29	104	264.2
Sun Pharma	1,207	Buy	5,263	6,294	19.6	1,733	2,211	27.5	1,989	2,237	12.5
Wockhardt	403	Neutral	5,265	7,413	40.8	1,222	1,732	41.7	771	902	16.9
Sector Aggregate			93,269	103,555	11.0	18,147	20,517	13.1	13,702	14,858	8.4

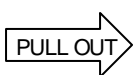
*Tata Steel quarter numbers does not include Corus



Ready reckoner: quarterly performance

	CMP (RS) 28.12.07	RECO	SALES			EBITDA			NET PROFIT		
			DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)
Real Estate											
DLF	1,064	Buy		35,749	-		23,756	-		19,925	-
Unitech	484	Buy	10027	12,931	29.0	6950	5,754	-17.2	4524	4,659	3.0
Sector Aggregate			10,027	12,931	29.0	6,950	5,754	-17.2	4,524	4,659	3.0
Retailing											
Pantaloon Retail	825	Buy	7,527	13,400	78.0	570	890	56.1	191	283	47.8
Shopper's Stop	553	Neutral	2,398	3,500	46.0	248	220	-11.2	142	77	-45.6
Titan Industries	1,533	Neutral	5,291	7,200	36.1	581	765	31.8	296	466	57.4
Sector Aggregate			15,216	24,100	58.4	1,399	1,875	34.1	629	826	31.3
Telecom											
Bharti Airtel	941	Buy	49,129	69,966	42.4	20,055	30,131	50.2	12,151	16,604	36.6
Idea Cellular	132	Not Rated	11,482	17,065	48.6	3,706	5,627	51.9	1,137	2,392	110.4
Reliance Comm	733	Buy	37,554	49,951	33.0	15,271	21,419	40.3	9,274	13,925	50.2
Sector Aggregate			98,164	136,982	39.5	39,031	57,177	46.5	22,562	32,921	45.9
Textiles											
Alok Ind	103	Buy	4,799	5,487	14.3	1,073	1,317	22.7	371	418	12.8
Arvind Mills	90	Neutral	4,479	5,813	29.8	710	796	12.2	-20	85	LP
Gokaldas Exports	259	Neutral	2,553	2,859	12.0	290	295	1.5	178	164	-8.0
Himatsingka Seide	102	Neutral	463	482	4.0	142	111	-21.8	150	91	-39.4
Raymond	431	Neutral	2,973	5,942	99.9	489	933	90.6	344	354	2.9
Vardhman Textiles	168	Buy	5,438	6,177	13.6	968	1,019	5.3	516	329	-36.2
Welspun Ind	102	Neutral	2,554	3,059	19.8	444	520	17.2	159	173	8.5
Sector Aggregate			23,258	29,820	28.2	4,116	4,991	21.2	1,698	1,614	-4.9
Utilities											
CESC	607	Neutral	5,930	6,360	7.3	1,250	1,365	9.2	610	730	19.7
Neyveli Lignite Corporation	248	Neutral	5,102	5,485	7.5	1,894	3,702	95.5	1,527	2,013	31.9
NTPC	241	Neutral	81,468	93,812	15.2	22,595	30,955	37.0	17,415	19,349	11.1
PTC India	160	Buy	8,074	13,929	72.5	82	120	45.9	86	104	21.2
Reliance Energy	2,155	Buy	15,337	17,024	11.0	827	2,724	229.4	2,009	2,212	10.1
Tata Power	1,391	Buy	12,005	13,526	12.7	2,108	2,130	1.1	1,205	971	-19.4
Sector Aggregate			127,917	150,136	17.4	28,756	40,996	42.6	22,852	25,379	11.1
Others											
Ashapura Minchem	382	Neutral	2,157	4,790	122.0	537	797	48.5	334	609	82.4
Blue Star	485	Buy	3,701	5,044	36.3	238	463	94.5	115	271	135.3
Bombay Rayon	347	Buy	1,316	2,468	87.5	275	538	96.1	138	269	95.5
Concor	1,855	Buy	7,472	8,070	8.0	2,224	2,566	15.4	1,657	1,874	13.1
Everest Kanto	345	Under Review	1,118	1,509	35.0	318	430	35.1	204	287	40.9
Great Offshore	933	Buy	1,483	2,081	-	722	1,301	-	375	863	-
Greaves Cotton	391	Buy	2,835	3,318	17.0	474	465	-2.0	298	282	-5.6
United Phosphorous	348	Buy	4,840	8,048	66.3	1,169	1,569	34.3	357	379	6.1
Sector Aggregate			23,439	33,247	41.8	5,234	6,828	30.4	3,103	3,971	28.0

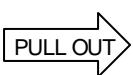
*LP: Loss to profit



Ready reckoner: quarterly performance

	CMP (RS) 28.12.07	RECO	SALES			EBITDA			NET PROFIT		
			SEP.07	DEC.07	CHG. (%)	SEP.07	DEC.07	CHG. (%)	SEP.07	DEC.07	CHG. (%)
Information Technology											
HCL Technologies	328	Buy	17,092	18,385	7.6	3,640	3,963	8.9	3,084	3,563	15.5
Infosys	1,796	Buy	41,060	43,828	6.7	12,840	13,859	7.9	11,000	11,763	6.9
Mphasis	301	Buy	6,017	6,378	6.0	1,079	1,165	8.0	663	730	10.1
Patni Computer	331	Neutral	6,736	6,847	1.6	1,117	1,070	-4.2	1,098	858	-21.8
Sasken Comm	331	Buy	1,432	1,539	7.5	199	223	11.9	143	132	-8.0
Satyam Computer	450	Buy	20,317	21,581	6.2	4,027	4,693	16.5	4,090	4,345	6.2
TCS	1,080	Buy	56,398	59,292	5.1	14,820	15,812	6.7	12,469	12,775	2.5
Tech Mahindra	1,141	Neutral	8,976	9,536	6.2	1,972	2,174	10.3	1,815	1,808	-0.4
Wipro	530	Buy	47,281	53,090	12.3	9,480	10,868	14.6	8,121	8,910	9.7
Sector Aggregate			205,309	220,475	7.4	49,174	53,828	9.5	42,483	44,885	5.7

	CMP (RS) 28.12.07	RECO	NET INT INCOME			OPERATING PROFIT			NET PROFIT		
			DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)	DEC.06	DEC.07	CHG. (%)
Banks											
Andhra Bank	106	Buy	3,635	3,460	-4.8	2,606	2,520	-3.3	1,361	1,577	15.9
Axis Bank	977	Buy	4,158	6,166	48.3	3,586	5,175	44.3	1,846	2,755	49.3
Bank of Baroda	457	Buy	9,082	10,666	17.4	6,043	7,584	25.5	3,291	4,081	24.0
Bank of India	365	Buy	8,588	10,266	19.5	5,532	7,183	29.9	2,549	3,233	26.8
Canara Bank	311	Neutral	10,394	8,260	-20.5	7,018	5,616	-20.0	3,638	3,816	4.9
Corporation Bank	428	Sell	3,148	3,851	22.3	2,745	3,320	20.9	1,464	1,795	22.6
Federal Bank	335	Buy	1,766	2,160	22.3	1,337	1,731	29.5	820	981	19.5
HDFC	2,924	Buy	5,070	6,642	31.0	4,495	5,893	31.1	3,562	4,442	24.7
HDFC Bank	1,731	Buy	8,682	12,400	42.8	6,365	8,779	37.9	2,956	3,998	35.2
ICICI Bank	1,227	Neutral	14,848	19,880	33.9	17,521	21,880	24.9	9,101	11,756	29.2
Indian Bank	195	Buy	4,360	5,047	15.8	2,456	3,279	33.5	1,905	2,459	29.1
Indian Overseas Bank	177	Buy	6,051	6,930	14.5	4,916	4,680	-4.8	2,468	2,880	16.7
J&K Bank	827	Buy	1,951	2,132	9.3	1,442	1,652	14.6	839	972	15.8
Karnataka Bank	219	Buy	1,050	1,151	9.6	895	1,011	13.0	539	552	2.4
Oriental Bank of Commerce	273	Neutral	4,213	4,491	6.6	3,067	3,342	9.0	2,437	2,583	6.0
Punjab National Bank	671	Buy	13,699	13,819	0.9	9,567	10,219	6.8	4,299	5,419	26.1
State Bank	2,384	Buy	39,513	40,263	1.9	28,549	30,828	8.0	10,650	12,097	13.6
Syndicate Bank	115	Buy	5,559	5,178	-6.9	3,281	3,728	13.6	2,261	2,478	9.6
Union Bank	207	Buy	6,859	7,470	8.9	5,051	5,870	16.2	2,558	3,220	25.9
Vijaya Bank	84	Neutral	2,650	2,453	-7.4	1,722	1,664	-3.4	927	1,159	25.0
Sector Aggregate			155,276	172,685	11.2	118,193	135,954	15.0	59,472	72,252	21.5



Automobiles

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.	
Amtek Auto	62	We are maintaining our positive stance on the auto sector on the back of robust growth sustaining in passenger vehicles, expectation of turnaround in two-wheeler industry volumes and continuing infrastructure development leading to expectation of a revival in M&HCV sales. Moreover, with stable input cost prices and cost reduction efforts yielding results, EBITDA margin for the sector is expected to be stable on a sequential basis.
Ashok Leyland	63	
Bajaj Auto	64	
Bharat Forge	65	While auto volume growth in April-November 2007 has declined by 2.4%, indication of a revival in volumes is stronger, particularly with interest rates remaining stable. Moreover, in such a scenario, in FY09 we will be in a position to witness a situation wherein the sector will be coming off the base of FY08. In a scenario of credit expansion, we strongly believe that the growth witnessed will be good. If the banks relax their cautious approach, particularly for two-wheelers and tractors, the potential for demand to rise would increase even further.
Eicher Motors	66	
Hero Honda	67	
Mahindra & Mahindra	68	Volume growth had weakened in 1HFY08, particularly in M&HCVs and two-wheelers, on the back of short-term concerns like higher interest rates, tighter financing norms, and the higher base of the previous year. With interest rates remaining stable for two-wheelers and softening in segments like CVs, coupled with discounts being offered in two-wheelers and passenger vehicles in the festival season and towards the year-end, we believe the volume outlook for these segments has taken a positive turn. We expect the turnaround to commence in 4QFY08, with FY09 volume growth being sustained as well.
Maruti Suzuki India	69	
Swaraj Mazda	70	
Tata Motors	71	
TVS Motor	72	

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Automobiles							
Amtek Auto	Buy	12,084	25.0	2,151	21.0	1,168	20.3
Ashok Leyland	Buy	18,537	4.3	1,854	-0.8	943	-15.1
Bajaj Auto	Buy	26,185	2.0	3,863	6.2	3,741	4.8
Bharat Forge	Buy	5,919	24.1	1,480	19.4	696	6.7
Eicher Motors	Neutral	5,801	17.5	348	6.6	182	2.4
Hero Honda	Buy	28,251	6.0	3,305	9.5	2,322	11.0
Mahindra & Mahindra	Buy	28,662	11.3	3,181	2.7	2,296	-5.3
Maruti Suzuki	Buy	46,104	25.3	7,236	23.6	4,498	22.2
Swaraj Mazda	Neutral	1,357	-9.1	102	-4.9	44	-12.3
Tata Motors	Buy	71,295	4.5	6,916	-18.0	3,394	-23.0
TVS Motor	Neutral	8,657	-7.5	294	-0.7	123	7.7
Sector Aggregate		252,852	9.4	30,730	3.6	19,408	0.8

AUTO VOLUMES SNAPSHOT FOR APRIL - NOVEMBER FY08 YTD

	FY08	FY07	% GR.
Domestic sales			
Motorcycles	3,919,717	4,471,317	(12.3)
Two wheelers	4,923,928	5,331,418	(7.6)
Three wheelers	249,539	267,798	(6.8)
Passenger cars	840,870	736,501	14.2
UVs	152,534	135,459	12.6
M&HCV	161,135	167,465	(3.8)
LCV	134,908	117,553	14.8
Total	6,462,914	6,756,194	(4.3)
Export sales			
Motorcycles	504,366	376,050	34.1
Two wheelers	535,950	431,042	24.3
Three wheelers	92,915	89,039	4.4
Passenger cars	131,524	127,495	3.2
UVs	4,013	3,200	25.4
M&HCV	13,767	10,923	26.0
LCV	22,355	20,211	10.6
Total	800,524	681,910	17.4
Total sales			
Motorcycles	4,424,083	4,847,367	(8.7)
Two wheelers	5,459,878	5,762,460	(5.3)
Three wheelers	342,454	356,830	(4.0)
Passenger cars	972,394	863,997	12.5
UVs	156,547	138,657	12.9
M&HCV	175,151	178,801	(2.0)
LCV	155,337	137,766	12.8
Total	7,261,761	7,438,511	(2.4)

Source: SIAM

On the back of an absolute decline in volumes in 3QFY08, we expect sector revenues to grow at 9.4% YoY. However, margin pressures, particularly for four-wheeler companies will result in sector EBITDA margin declining 60bp YoY to 12.2%, (up 10bp QoQ).

SECTOR EBITDA MARGIN (%)

	3QFY08	3QFY07	2QFY08
Four wheeler companies	11.4	12.7	11.1
Two wheeler companies	11.8	11.3	12.5
Auto Component companies	20.2	20.9	19.9
Auto sector	12.2	12.8	12.1

Source: Motilal Oswal Securities

Passenger vehicles: Expect double-digit volume growth

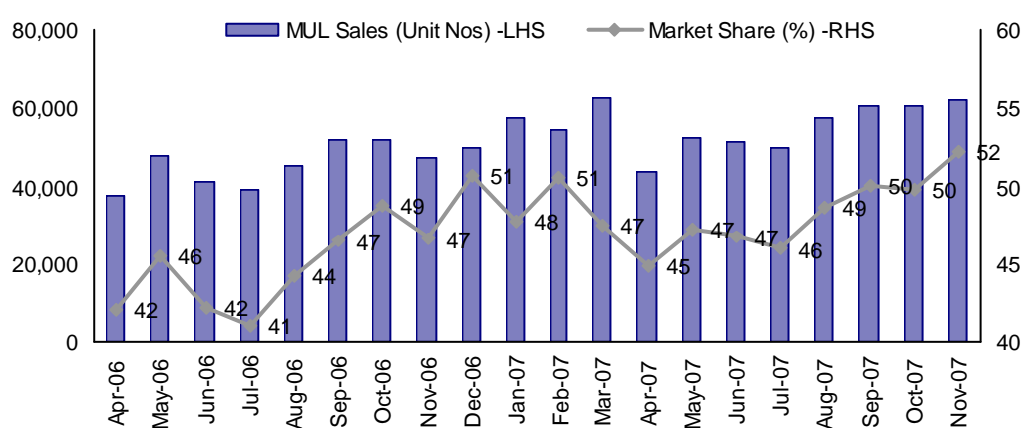
Demand for passenger vehicles is being boosted by an expected rapid growth in high and middle income households based on strong economic growth, increased urbanization, steady introduction of new products, greater penetration in upper-end segments, aggressive capex plans of most OEMs and the plan to develop India into a regional automotive hub leading to higher exports etc.

In the sector, we remain extremely positive on Maruti Suzuki's growth prospects. We expect its volume to grow at 16.4% CAGR over FY07-10; aggressive model launches could result in positive surprises both in domestic and export markets. The successful entry into the diesel segment with the launch of the Swift diesel, the replacement of the Baleno with the new-age SX4, and the impending launches of the Swift sedan (Esteem replacement), and the Splash and A-Star (in the A2 segment) will help Maruti maintain its dominance in the passenger cars segment and outpace industry growth. Moreover, new launches by other auto companies in a growing economy and upgradation cycle will see the overall passenger vehicle industry maintaining a double-digit volume growth rate.

Maruti has also complemented its strong volume growth with robust EBITDA margins; this has been achieved even in the wake of rising input prices and occasional discounts being offered to boost volumes. The steady improvement in EBITDA margin has been achieved by the success of productivity improvement and cost reduction programs over the years.

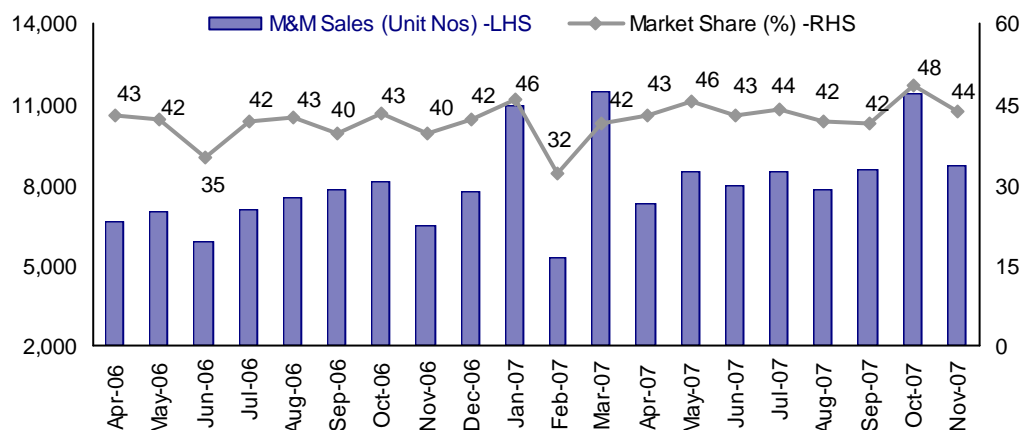
Our other preferred play in the passenger vehicles segment is Mahindra & Mahindra, which has a strong presence in Utility Vehicle and Tractor segments. Although new entrants have dented its market share in both segments, the rapidly increasing size of the market has ensured that the company's UV sales have continued growing at a fast clip. M&M's subsidiary and associate companies like M&M Financial Services, Mahindra Gesco, Tech Mahindra, Mahindra Systech etc. also add substantially to its valuations and consolidated revenues. The expected listing of Mahindra Holidays will add further to M&M's valuations.

MARKET SHARE OF MARUTI IN PASSENGER CARS



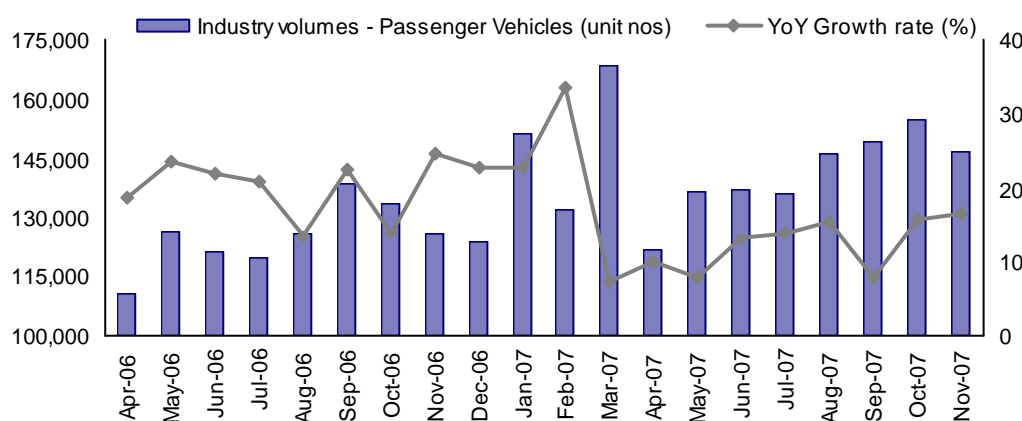
Source: Company/Motilal Oswal Securities

MARKET SHARE OF MAHINDRA IN UTILITY VEHICLES



Source: Company/Motilal Oswal Securities

INDUSTRY SALES AND GROWTH RATE FOR PASSENGER VEHICLES



Source: Company/Motilal Oswal Securities

Recent developments

- ✦ M&M has announced the IPO of its subsidiary company Mahindra Holidays and Resorts India. The company is offering 10.7m equity shares and is also considering a pre-IPO sale of 2.5m shares by January 2008. The proceeds of the issue will finance expansion of some of its existing resorts and setting up of new projects. This move will result in further value unlocking for M&M and add to its valuations.
- ✦ Maruti Suzuki is to put up a research and development facility in India at an investment of Rs 1.75-3.5b over the next 3-5 years. This investment will be in addition to the other investment plans of the company in India.

CV industry: Demand slackens

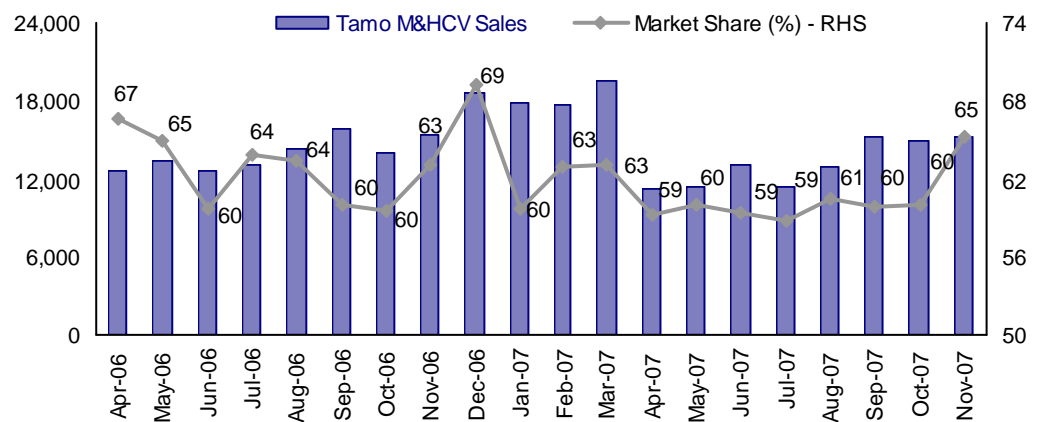
The M&HCV industry growth rate has slackened over April-November 2007 on two main counts – the high base of the previous year, and higher interest rates on financing in 1HFY08 (which has led to a significant increase in the cost of ownership of a vehicle). However, with the interest rate on CVs declining, we expect the scenario to improve significantly in 4QFY08 and in FY09, but margins are expected to remain stagnant in most segments. However, LCVs driven by the success of Ace have maintained robust growth rate even in FY08.

We have a positive long term view on the CV sector. Our view is based upon structural and fundamental positives such as - the strong growth in economy/industry, policy focus on infrastructure, infrastructure development, steady vehicle replacement demand, expectation of an increase in the demand for buses from STUs and private operators etc.

Structural and fundamental demand drivers include substitution of three-wheelers by sub-one tonners (both in passenger and goods segments), tonnage redistribution demand (due to hub-and-spoke, restriction on entry of M&HCVs in cities, rising penetration of consumer goods), under-achievement of overloading ban and continued strong growth in industrial production.

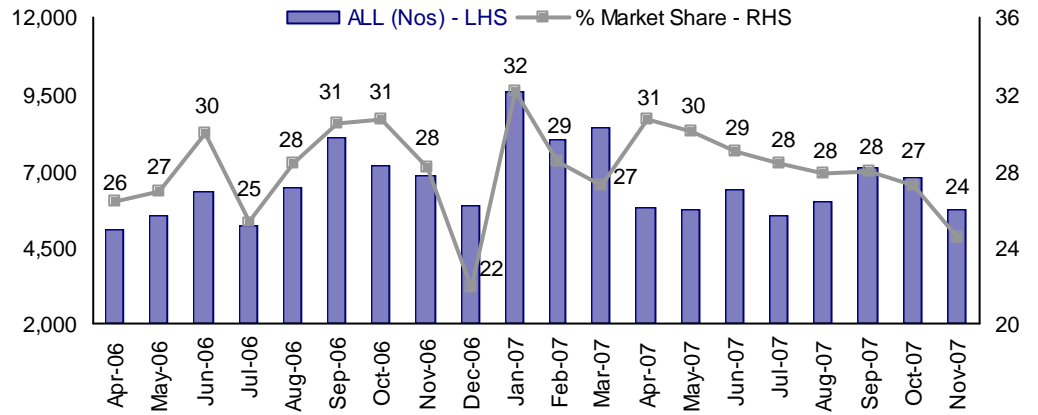
Our top pick in the sector is Tata Motors, while we also have a Buy rating on Ashok Leyland. Apart from the expected revival in M&HCV sales, Tata Motors is also expected to benefit from its various overseas JVs such as those with Marco Polo and Thonburi, in addition to its tie up with Fiat. Subsidiary companies like Telco Construction Equipment and Tata Daewoo Commercial Vehicles are expected to continue to add further value to the stock.

MARKET SHARE OF TATA MOTORS IN M&HCVS



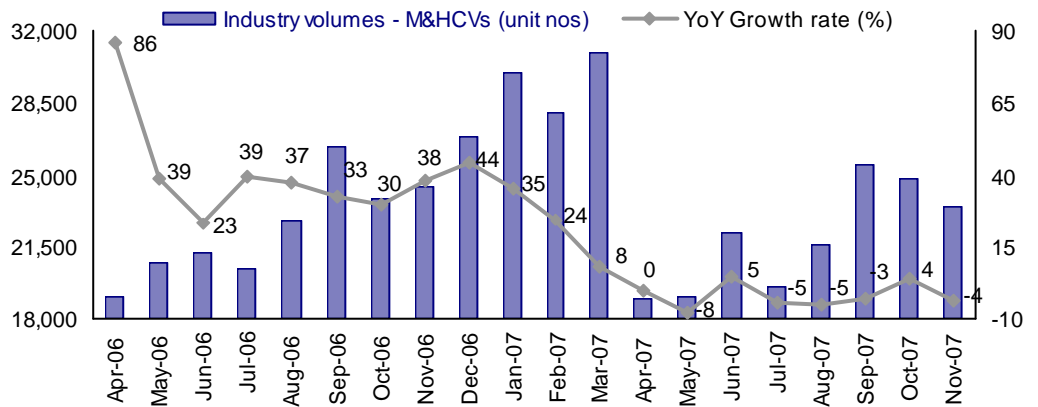
Source: Company/Motilal Oswal Securities

MARKET SHARE OF ASHOK LEYLAND IN M&HCVS



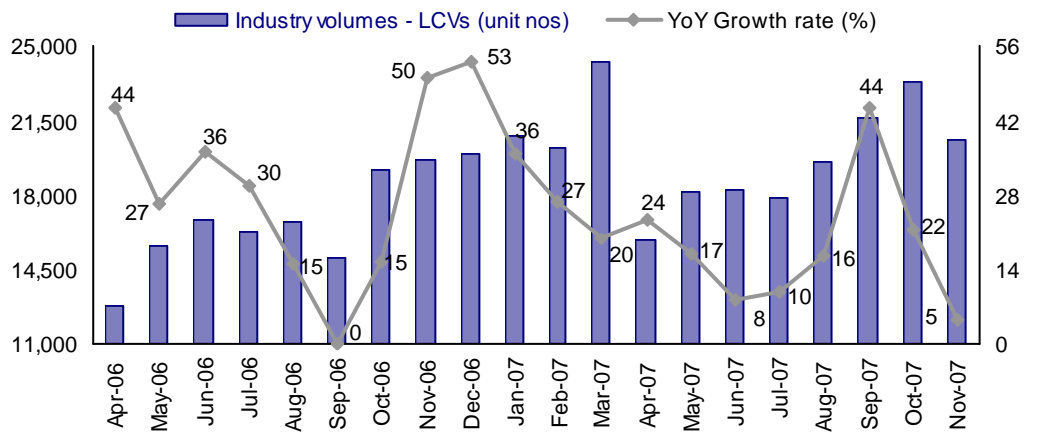
Source: Company/Motilal Oswal Securities

INDUSTRY SALES AND GROWTH RATE FOR M&HCVS



Source: Company/Motilal Oswal Securities

INDUSTRY SALES AND GROWTH RATE FOR LCVs



Source: Company/Motilal Oswal Securities

Recent developments

✍ Eicher Motors has signed a Letter of Intent (LoI) with M/s AB Volvo, Gothenburg, Sweden, for the formation of a joint venture company for the commercial vehicles and components business. Under this JV, Eicher Motors will transfer its CV business along with its related component and design services business to the new step-down unlisted subsidiary company at an EV of US\$506m (equity: US\$418m; debt: US\$88m). Volvo will invest US\$275m in cash and its Indian truck and dealer network worth US\$75m in the JV company. Additionally, Volvo is also buying 8.1% stake in Eicher Motors from the promoters. The newly formed JV will be a subsidiary company of Eicher Motors, where EML will hold 54.4% of the equity, and the rest being held by Volvo. The economic interest of Volvo in the JV will be 50% on account of its 8.1% stake in EML. The JV will be jointly managed by Volvo and EML on an equal shared control basis.

The JV will have exclusive distribution rights in India for all present and future trucks of Volvo. However, as the CV manufacturing business of Volvo is not part of the JV, it will earn only marketing margins on the sale of Volvo branded trucks. The JV will also be able to avail of the 140-dealer network of EML and its other services and spare parts supply network. The LoI is non-binding in nature and negotiations for final definitive agreements have to be initiated. The transaction is expected to be completed before mid-CY2008. We believe that this is a positive step for Eicher Motors, as it will give access to sophisticated technology from Volvo, the image of a global brand, as well as further investment from Volvo in developing the business. We do not expect this JV to threaten the dominance of Tata Motors, but it may result in lower market share for Ashok Leyland and Tata Motors, while increasing the pressure on other fringe players.

Two-wheelers: Turnaround on the cards

The motorcycle segment has lost momentum in CY07 due to the rising interest cost, tighter financing norms, and high base effect of previous year. Over April-November 2007 industry motorcycle sales have declined 8.7%, with the three majors – Hero Honda, Bajaj Auto and TVS Motors registering volume declines of 1%, 10.4% and 35.7% respectively. The launch of the new bike XCD 125 by Bajaj Auto is expected to help the company pick up volumes, while also improving EBITDA margin. Similarly Hero Honda is expected to benefit from the launch of its 150cc bike Hunk.

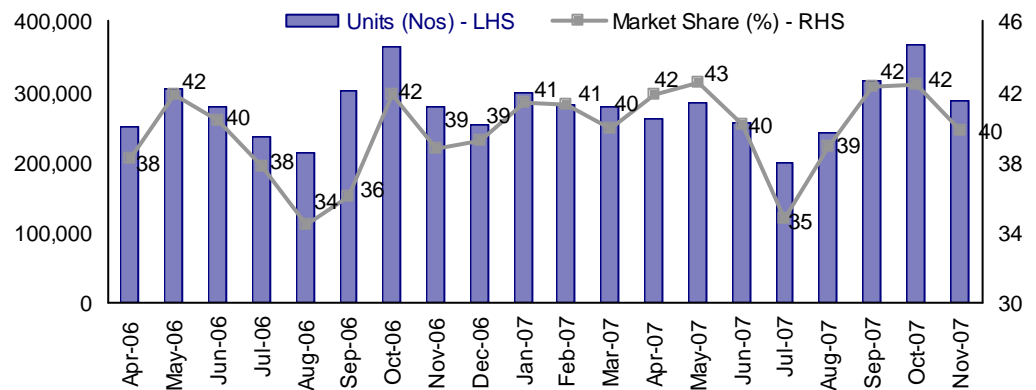
We expect the two-wheeler industry to witness a turnaround in fortunes in 4QFY08, driven by better operating performance and an improvement in the demand scenario. While the inherent structural factors driving domestic two-wheeler demand are in place, we believe that the recent short-term concerns arising out of higher interest rates are now fading. Coupled with stable raw material costs and new plants in tax-exempt regions becoming operational, we expect this phase of volume growth to lead to healthy increase in profitability for the industry leaders – Hero Honda and Bajaj Auto.

A buoyant economy and rising income levels coupled with rising aspirations have increased the size of the target audience for two-wheelers. Poor public transportation necessitates the ownership of personal vehicles, and two-wheelers are both affordable and practical. Besides, a large base of aging two-wheelers and increasing desire to replace scooters/mopeds with motorcycles (or to replace old motorcycles with new versions) is driving replacement demand.

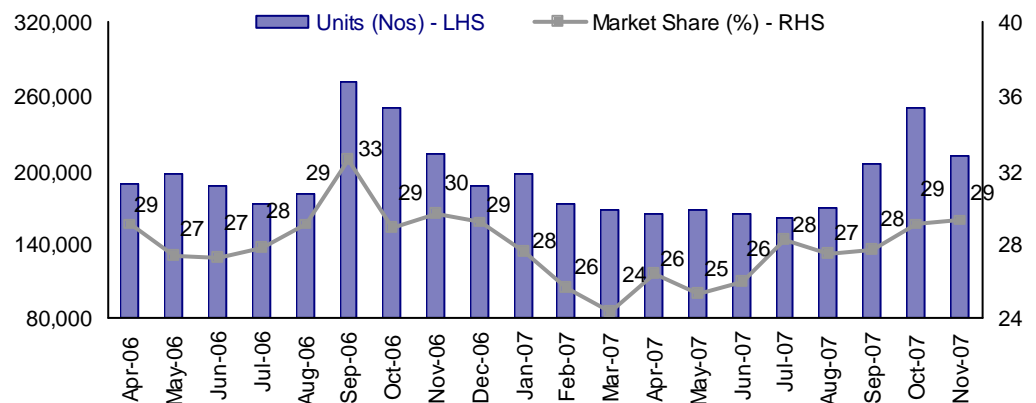
Exports also represent a big growth opportunity for the large two-wheeler manufacturers. Being truly global-sized players, with products comparable with their Japanese counterparts both in terms of price and quality, the top three players are well positioned to capitalize on the opportunity. For Bajaj Auto, exports already constitute 22% of its two-wheeler volumes and TVS Motor exports 9.5% of its volumes.

Apart from strong volume growth, we believe that two-wheeler companies would be able to sustain better EBITDA margins, which would be driven by lower raw material costs, and product mix improvements. We expect earnings growth to remain strong in 2HFY08 and FY09.

HERO HONDA: TWO-WHEELER MARKET SHARE

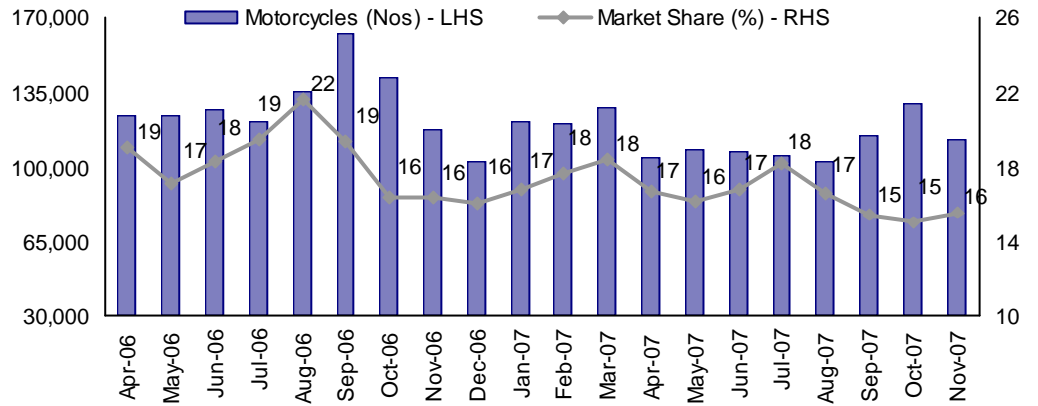


BAJAJ AUTO: TWO-WHEELER MARKET SHARE



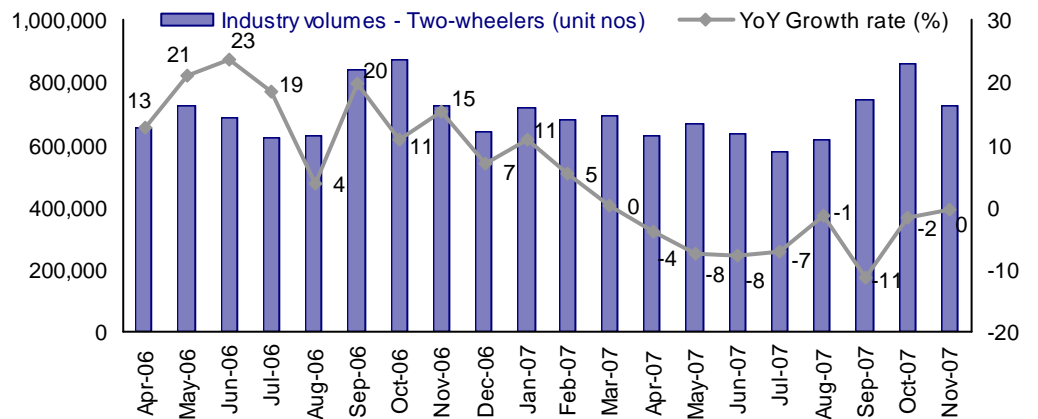
Source: Company/Motilal Oswal Securities

TVS MOTOR: TWO-WHEELER MARKET SHARE



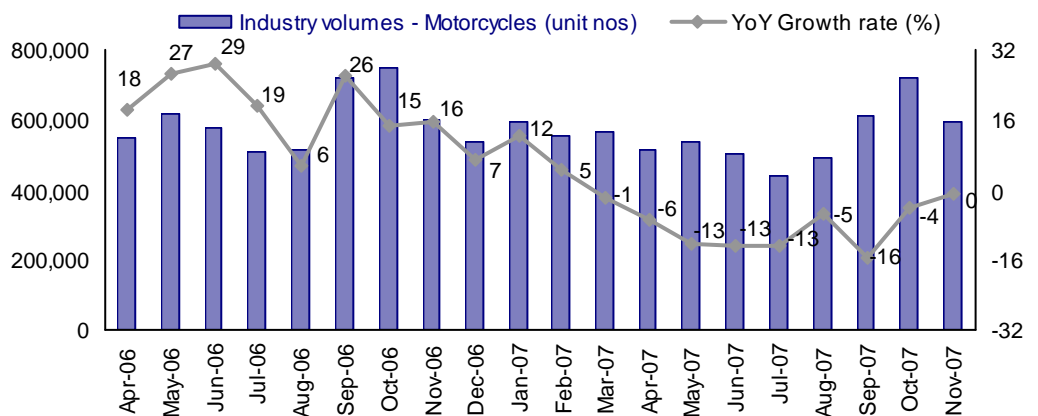
Source: Company/Motilal Oswal Securities

INDUSTRY SALES AND GROWTH RATE FOR TWO-WHEELERS



Source: Company/Motilal Oswal Securities

INDUSTRY SALES AND GROWTH RATE FOR MOTORCYCLES



Source: Company/Motilal Oswal Securities

Recent developments

✦ Bajaj Auto (BAL) picked up a 14.5% stake in the second largest European sport motorcycle manufacturer KTM Power Sports AG, for a reported sum of Rs3.0b-Rs3.5b through its 100% Dutch subsidiary company. BAL has also entered into a tie-up of wide ranging co-operation with this company. The alliance with KTM covers joint development of street bikes for both Indian and overseas markets. It will jointly develop a high-performance, water-cooled engine platform for 125cc and 250cc bikes. The engine platform will spawn several models — KTM will make KTM models and Bajaj will create Bajaj motorcycles. The two will focus on their core markets for this new range of street bikes — Bajaj on India and the South Asian and South East Asian markets and KTM on Europe. Subsequently, BAL increased its stake in KTM to 18.8% and BAL's managing director, Mr. Rajiv Bajaj has been inducted on KTM's board. BAL is likely to increase its stake in KTM to 25% eventually.

Valuation and view

After witnessing a rapid surge in auto volumes in FY07 across all segments, volume growth turned sluggish in the first half of the new fiscal, but signs of a turnaround in FY09 are now visible. The growth rate has been lower on two main counts – the high base of the previous year, and more importantly, the higher interest rates on financing, which led to a significant increase in the cost of ownership of a vehicle. Further, stringent financing norms for segments such as two-wheelers and tractors has led to lower availability of credit as well, resulting in their underperformance v/s the auto industry.

However, with interest rates softening in segments like CVs, and remaining stable for two-wheelers, the outlook for these segments is also shifting in favor of a positive bias. We expect the turnaround to commence in 4QFY08, with volume growth being sustained in FY09 as well.

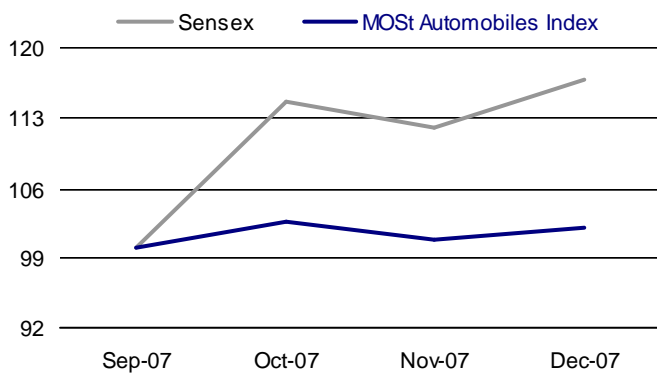
Valuations continue to be in a comfortable zone for the sector. We reiterate our Overweight stance on the auto sector. Our top picks, Maruti Udyog, M&M, Bajaj Auto and Tata Motors are dominant players in highly consolidated segments, where the top two players command more than 50% share.

Stock performance and valuations

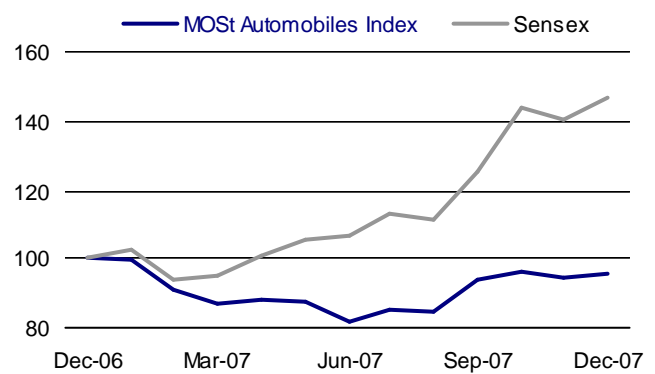
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Automobiles						
Amtek Auto	18	19	1	-26	16	24
Ashok Leyland	10	9	-7	-37	8	13
Bajaj Auto	3	-1	-14	-47	1	3
Bharat Forge	24	-2	7	-48	22	2
Eicher Motors	-3	16	-20	-30	-5	20
Hero Honda	-6	-8	-23	-54	-8	-4
Mahindra & Mahindra	11	-6	-6	-52	9	-2
Maruti Suzuki	-2	7	-18	-39	-3	11
Swaraj Mazda	7	-2	-10	-48	5	3
Tata Motors	-6	-19	-23	-65	-8	-15
TVS Motor	2	-19	-15	-65	0	-15

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Automobiles														
Amtek Auto	425	Buy	30.1	35.4	39.8	14.1	12.0	10.7	9.4	8.0	6.8	18.4	17.8	16.7
Ashok Leyland	50	Buy	3.1	3.5	4.0	16.3	14.3	12.6	9.1	8.0	7.1	20.5	20.4	21.0
Bajaj Auto	2,611	Buy	134.4	155.1	171.7	19.4	16.8	15.2	14.2	11.4	9.5	21.0	20.7	19.7
Bharat Forge	354	Buy	12.5	16.5	19.0	28.3	21.5	18.7	15.9	12.7	10.6	17.9	17.0	17.0
Eicher Motors	407	Neutral	24.6	30.2	34.2	16.5	13.5	11.9	7.7	6.2	5.1	14.8	15.9	15.7
Hero Honda	699	Buy	43.9	51.4	56.6	15.9	13.6	12.4	9.8	8.0	6.8	32.4	31.7	27.3
Mahindra & Mahindra	834	Buy	62.1	74.7	81.8	13.4	11.2	10.2	14.9	12.7	10.8	21.3	20.4	19.7
Maruti Suzuki	984	Buy	68.1	79.6	93.6	14.4	12.4	10.5	7.9	6.6	5.4	22.7	21.3	20.3
Swaraj Mazda	325	Neutral	21.3	25.6	28.7	15.2	12.7	11.3	9.1	7.9	7.0	24.7	24.6	23.0
Tata Motors	731	Buy	47.8	56.7	64.0	15.3	12.9	11.4	11.5	9.4	8.4	19.4	20.3	20.1
TVS Motor	72	Neutral	1.7	2.7	3.4	42.7	26.6	21.2	17.8	12.5	10.3	4.7	7.3	8.7
Sector Aggregate						18.4	15.8	14.0	11.0	9.1	7.7	20.9	20.7	20.0

Amtek Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	AMTK IN
	REUTERS CODE
S&P CNX: 6,080	AMTK.BO

28 December 2007

Buy

Rs425

Previous Recommendation: Buy

Diluted Equity Sh. (m)	162.6
52-Week Range	526/334
1,6,12 Rel. Perf. (%)	-9/-36/-26
M.Cap. (Rs b)	69.2
M.Cap. (US\$ b)	1.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
6/07A	39,898	3,909	24.0	55.7	17.7	2.6	18.1	16.0	2.1	11.7
6/08E	50,051	4,888	30.1	25.0	14.1	2.1	18.4	18.0	1.7	9.4
6/09E	57,493	5,752	35.4	17.7	12.0	2.1	17.8	19.1	1.5	8.0
6/10E	64,967	6,479	39.8	12.6	10.7	1.8	16.7	19.3	1.2	6.8

- ✎ We expect Amtek Auto's consolidated revenues to grow at 25% YoY to Rs12.1b in 2QFY08, while consolidated adjusted PAT should grow 20.3% YoY to Rs1.2b.
- ✎ EBITDA margin is likely to expand 20bp QoQ, but decline 60bp YoY to 17.8%, due to rupee appreciation. EBITDA should increase 21% YoY to Rs2.2b.
- ✎ We expect Amtek Auto to report net sales of Rs50.1b in FY08 (up 25.4%), and adjusted PAT of Rs4.9b (up 25%).
- ✎ Amtek has acquired a UK-based company Triplex-Ketlon, engaged in automotive precision machining, for a reported sum of US\$40m. Triplex Ketlon was previously Amtek Auto's competitor and it runs close to 185 different machining lines and has a multi-location presence in the UK with revenues of US\$152m.
- ✎ Amtek Auto plans to raise further equity by way of preferential issue of 7m equity shares and 15m warrants at Rs460/share. The company plans to raise Rs10.1b through this issue. The proceeds of this issue are expected to be utilized in making further acquisitions and transfer of assets from abroad to facilitate capex at plants in India.
- ✎ Amtek Auto is the only player in India with strong presence in both forgings and castings along with machining capacity to supply finished components to global OEMs. On a fully consolidated basis, valuations of Amtek Auto are the cheapest in the auto component space. The stock trades at 14.1x FY08E consolidated EPS of Rs30.1 and 12x FY09E EPS of Rs35.4. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	8,877	9,667	10,805	10,549	11,047	12,084	13,723	13,197	39,898	50,051
Change (%)	46.5	39.7	45.6	44.1	24.4	25.0	27.0	25.1	43.9	25.4
Total Cost	7,275	7,890	8,812	8,715	9,103	9,933	11,239	10,767	32,692	41,042
EBITDA	1,602	1,777	1,994	1,834	1,944	2,151	2,484	2,430	7,206	9,009
As % of Sales	18.0	18.4	18.4	17.4	17.6	17.8	18.1	18.4	18.1	18.0
Change (%)	53.0	42.8	48.4	43.6	21.4	21.0	24.6	32.5	46.7	25.0
Other Income	151	178	203	366	319	280	250	229	898	1,078
Interest	171	199	211	251	228	225	215	206	832	874
Depreciation	330	339	368	421	460	465	480	509	1,457	1,914
PBT	1,252	1,417	1,618	1,527	1,575	1,741	2,039	1,944	5,815	7,299
Tax	293	343	409	441	412	453	530	503	1,486	1,898
Effective Tax Rate (%)	23.4	24.2	25.3	28.9	26.2	26.0	26.0	25.9	25.6	26.0
PAT	959	1,074	1,209	1,086	1,163	1,288	1,509	1,441	4,328	5,401
Minority Interest	87	103	125	105	102	120	135	157	419	513
PAT after minority interest	872	971	1,085	981	1,061	1,168	1,374	1,285	3,909	4,888
Change (%)	59.8	55.7	55.4	52.5	21.7	20.3	26.7	30.9	55.7	25.0

E: MOST Estimates

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

Ashok Leyland

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	AL IN
	REUTERS CODE
S&P CNX: 6,080	ASOK.BO

28 December 2007

Buy

Rs 50

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,331.8										
52-Week Range	55/34										
1,6,12 Rel. Perf. (%)	7/-6/-37										
M.Cap. (Rs b)	66.9										
M.Cap. (US\$ b)	1.7										
	3/07A	71,682	4,276	3.2	41.4	15.5	3.5	23.3	22.8	0.9	9.5
	3/08E	77,349	4,104	3.1	-4.0	16.3	3.2	20.5	17.0	0.9	9.1
	3/09E	88,818	4,687	3.5	14.2	14.3	2.9	20.4	18.1	0.8	8.0
	3/10E	99,905	5,292	4.0	12.9	12.6	2.6	21.0	19.1	0.7	7.1

- Ashok Leyland is likely to report volume decline of 5.2% in 3QFY08, resulting in sales growth of 4.3% YoY to Rs 18.5b. Sales growth would be higher than volume growth, as the company's product mix is shifting towards higher tonnage vehicles and higher sales of components.
- Volume growth in the CV goods segment has slowed in 9MFY08 due to higher interest rates impacting demand and the high base of last year. However, demand from the bus segment is strong, and will help arrest the volume decline.
- In 3QFY08, we expect EBITDA margin to increase 60bp QoQ, but decline 50bp YoY, resulting in EBITDA of Rs 1.9b (marginal decline of 0.8% YoY). Sequential improvement in the EBITDA margin improvement would be driven by the ongoing productivity improvement and cost reduction programs.
- We expect Ashok Leyland to register overall volume decline of 1% in FY08 and growth of 10% in FY09. Its focus on non-cyclical businesses such as passenger buses, sale of components, supply to defense and exports would cushion domestic business cyclicity in the long-term. It has entered into an initial agreement to form three joint ventures with Nissan Motor for the development, manufacture and distribution of LCV products, where ALL has near-zero presence.
- The stock trades at 16.3x FY08E EPS of Rs 3.1 and 14.3x FY09E EPS of Rs 3.5. We maintain our **Buy** recommendation.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	17,040	19,869	20,068	26,124	18,163	18,870	19,025	26,212	83,101	82,270
Net Sales	14,239	16,757	17,776	22,910	16,211	17,459	18,537	25,141	71,682	77,349
Change (%)	33.9	34.0	47.8	32.3	13.9	4.2	4.3	9.7	36.6	7.9
Total Cost	13,026	15,437	15,907	20,314	14,665	15,820	16,684	22,329	64,685	69,498
EBITDA	1,213	1,320	1,869	2,596	1,546	1,639	1,854	2,812	6,997	7,851
As a % of Sales	8.5	7.9	10.5	11.3	9.5	9.4	10.0	11.2	9.8	10.2
Change (%)	41.4	10.3	61.0	20.6	27.5	24.1	-0.8	8.4	30.3	12.2
Non-Operating Income	139	99	64	169	76	111	80	174	470	441
Interest	5	4	26	19	128	126	130	135	53	519
Gross Profit	1,346	1,415	1,907	2,746	1,494	1,624	1,804	2,851	7,414	7,772
Less: Depreciation	328	365	332	481	413	466	475	498	1,506	1,852
PBT	1,019	1,050	1,574	2,264	1,081	1,158	1,329	2,353	5,908	5,920
Tax	262	334	463	573	361	374	385	696	1,632	1,816
Effective Tax Rate (%)	25.7	31.8	29.4	25.3	33.4	32.3	29.0	29.6	27.6	30.7
Adj. PAT (before extraordinary)	756	716	1,112	1,692	720	784	943	1,657	4,276	4,104
Change (%)	126.1	-10.7	96.5	28.0	-4.8	9.4	-15.1	-2.0	41.4	-4.0
Extraordinary Income	0	268	0	54	197	46	0	0	322	243
Extraordinary Loss	65	31	59	30	35	27	0	0	185	61
Rep. PAT	692	954	1,053	1,715	882	803	943	1,657	4,413	4,286
Change (%)	7.5	27.1	93.1	28.5	27.5	-15.8	-10.4	-3.4	34.8	-2.9

E: MOST Estimates

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Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BJA IN
	REUTERS CODE
S&P CNX: 6,080	BJAT.BO

28 December 2007

Buy

Rs2,611

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	101.2										
52-Week Range (Rs)	3,172/2,063										
1,6,12 Rel.Perf.(%)	-11/-15/-47										
M.Cap. (Rs b)	264.2										
M.Cap. (US\$ b)	6.7										
	3/07A	95,204	12,869	127.2	14.6	20.5	4.8	23.3	24.6	2.3	15.2
	3/08E	99,536	13,599	134.4	5.7	19.4	4.1	21.0	23.3	2.2	14.2
	3/09E	112,249	15,698	155.1	15.4	16.8	3.5	20.7	23.2	1.8	11.4
	3/10E	124,992	17,376	171.7	10.7	15.2	3.0	19.7	22.7	1.5	9.5

- Total volumes of Bajaj Auto have decreased by 3.4% YoY in 3QFY08, marking it three successive quarters of volume decline. In 3Q, motorcycle volumes have decreased 2.7% YoY, while three-wheeler volumes have declined 13.1% YoY.
- We expect sales to increase 2% YoY to Rs26.2b. While EBITDA margin is expected to increase 60bp YoY to 14.8%, it would dip 120bp QoQ due to: (a) lower contribution of three-wheelers in the product mix; (b) discount being offered on *Platina*, and (c) subvention being offered on *XCD*.
- On a QoQ basis, these would more than offset the positive impact from stable metal prices, improvement in the product mix following the launch of *XCD*, and higher DEP/B benefit due to the revised rate of benefit and higher exports.
- We estimate EBITDA at Rs3.9b (increase of 6.2% YoY) and adjusted PAT at Rs3.7b (increase of 4.8% YoY).
- Bajaj is increasing the production capacity of *XCD* to 75,000 units to meet the strong initial demand for this bike.
- We are positive on Bajaj Auto following the improved operating performance, launch of *XCD*, and expectation of higher two-wheeler volumes 4QFY08 onward. The stock trades at 19.4x FY08E EPS of 134.4 and 16.8x FY09E EPS of Rs 155.1. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	647,086	708,125	738,219	625,346	571,590	614,093	713,443	711,836	2,718,776	2,610,962
Net Sales	22,027	24,360	25,682	23,136	21,091	23,623	26,185	28,637	95,204	99,536
Change (%)	34.8	30.5	28.4	6.8	-4.2	-3.0	2.0	23.8	24.2	4.6
Total Cost	18,408	20,708	22,046	19,873	18,338	19,838	22,322	24,247	81,034	84,745
EBITDA	3,619	3,652	3,636	3,263	2,754	3,785	3,863	4,390	14,170	14,792
As % of Sales	16.4	15.0	14.2	14.1	13.1	16.0	14.8	15.3	14.9	14.9
Change (%)	40.5	15.7	1.5	-23.2	-23.9	3.6	6.2	34.5	4.5	4.4
Other Income	946	1,424	1,609	1,577	1,027	1,472	1,810	1,850	5,556	6,159
Interest	7	20	2	24	1	14	18	24	53	56
Depreciation	481	492	472	458	490	487	495	500	1,903	1,973
PBT	4,076	4,564	4,771	4,358	3,290	4,757	5,160	5,716	17,770	18,922
Tax	1,300	1,250	1,200	1,151	1,025	1,315	1,419	1,565	4,901	5,324
Effective Tax Rate (%)	31.9	27.4	25.2	26.4	31.2	27.6	27.5	27.4	27.6	28.1
Adj. PAT	2,776	3,314	3,571	3,208	2,265	3,442	3,741	4,151	12,869	13,599
Change (%)	32.8	14.0	22.8	-3.9	-18.4	3.8	4.8	29.4	14.5	5.7
Extraordinary Expenses	116	139	123	125	-	77	-	-	498	77
PAT	2,660	3,176	3,452	3,083	2,265	3,364	3,741	4,151	12,371	13,521
Change (%)	27.3	9.2	23.3	-4.2	-14.9	5.9	8.4	34.6	12.3	9.3

E: MOST Estimates

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

Bharat Forge

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BHFC IN
	REUTERS CODE
S&P CNX: 6,080	BFRG.BO

28 December 2007

Buy

Rs354

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	CONS.	P/E	CONS.	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Equity Shares (m)	237.3										
52-Week Range (Rs)	385/254										
1,6,12 Rel.Perf.(%)	2/-25/-48										
M.Cap. (Rs b)	78.9										
M.Cap. (US\$ b)	2.0										
	3/07A	18,644	2,533	10.0	12.0	35.4	29.5	17.5	15.8	3.9	15.6
	3/08E	22,736	2,518	9.9	12.5	35.6	28.3	17.9	15.4	3.6	14.9
	3/09E	26,874	3,146	12.4	16.5	28.5	21.5	17.0	16.7	2.9	11.9
	3/10E	30,723	3,686	14.5	19.0	24.3	18.7	17.0	17.2	2.4	9.9

- ✎ We expect Bharat Forge to post sales growth of 24.1% YoY in 3QFY08 to Rs5.9b, driven by 16.4% increase in domestic sales and 35% increase in exports. Wider range of products being manufactured, completion in ramp-up of capacities, and scaling up of European operations would help accelerate sales growth.
- ✎ We expect EBITDA to increase 19.4% YoY to Rs1.5b, with EBITDA margin declining 100bp YoY to 25%. We estimate PAT at Rs696m (increase of 6.7% YoY).
- ✎ To compensate any loss due to rupee appreciation and to improve its margins, BFL plans to link its input costs to the dollar, increase raw material imports, raise productivity, increase prices, and focus more on non-dollar based revenues.
- ✎ The company plans capex of Rs3.5b for its non-automotive business ventures – capital goods, aerospace, oil & gas exploration, energy, railways and locomotives, marine activities, infrastructure, solar, wind & thermal power equipment etc. Entry into the non-automotive space would further de-risk Bharat Forge's business model and this segment is expected to contribute up to 40% of global revenues by FY11 (17% in FY07 and 25% in FY09).
- ✎ Bharat Forge's global subsidiaries operate at a blended margin of about 8%. The company plans to enhance margins by achieving higher capacity utilization and introducing value-added products.
- ✎ We remain positive on Bharat Forge's 'dual shore' model and management's global vision. We estimate consolidated EPS at Rs12.5 for FY08 and Rs16.5 for FY09. The stock trades at 35.6x FY08E and 28.5x FY09E consolidated EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,206	4,507	4,771	5,161	4,969	5,632	5,919	6,216	18,644	22,736
Change (%)	15.7	19.7	19.5	17.7	18.1	25.0	24.1	20.5	18.2	21.9
Total Expenses	3,132	3,330	3,532	3,917	3,956	4,249	4,439	4,657	13,912	17,302
EBITDA	1,073	1,177	1,239	1,243	1,012	1,383	1,480	1,559	4,732	5,434
As % of Sales	25.5	26.1	26.0	24.1	20.4	24.6	25.0	25.1	25.4	23.9
Change (%)	23.3	21.1	25.6	18.1	-5.7	17.5	19.4	25.4	21.9	14.8
Other Income	233	192	162	222	200	144	185	239	809	768
Interest	176	197	215	234	234	273	268	259	821	1,033
Depreciation	229	250	253	267	329	351	358	366	998	1,404
Extraordinary Expenses	101	0	22	0	0	0	0	0	124	0
Extraordinary Income	0	0	0	0	333	109	0	0	0	442
PBT	800	922	911	965	983	1,012	1,039	1,174	3,598	4,207
Tax	285	301	281	322	335	334	343	381	1,189	1,393
Effective Tax Rate (%)	35.6	32.6	30.9	33.4	34.1	33.0	33.0	32.5	33.0	33.1
PAT	515	622	630	643	648	677	696	792	2,409	2,814
Adj. PAT	616	622	652	643	425	605	696	792	2,533	2,518
Change (%)	29.9	20.1	22.4	21.3	-31.0	-2.8	6.7	23.3	23.3	-0.6

E: MOST Estimates

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Eicher Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	EIM IN
	REUTERS CODE
S&P CNX: 6,080	EICH.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs407

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	28.1										
52-Week Range (Rs)	599/222										
1,6,12 Rel. Perf. (%)	-14/-24/-30										
M.Cap. (Rs b)	11.4										
M.Cap. (US\$ b)	0.3										
	3/07A	19,525	613	21.8	21.5	18.6	2.8	14.8	15.6	0.5	8.8
	3/08E	22,637	692	24.6	13.0	16.5	2.4	14.8	16.3	0.5	7.7
	3/09E	25,307	848	30.2	22.6	13.5	2.1	15.9	17.6	0.4	6.2
	3/10E	27,930	961	34.2	13.2	11.9	1.9	15.7	17.8	0.3	5.1

- ✍ We expect Eicher Motors' CV volumes to grow at 10% YoY in 3QFY08 and 9.9% in FY08, led by the passenger and LCV goods segments, and its foray into tractor trailers. Its two-wheeler volumes have also been seeing robust growth, defying the general industry trend (11.5% YoY growth in 3QFY08).
- ✍ Eicher should report sales of Rs5.8b for the quarter, resulting in an EBITDA of Rs348m and PAT of Rs182m. For FY08, we expect sales of Rs22.6b and PAT of Rs692m (13% growth).
- ✍ Management has decided not to transfer the motorcycle business to a subsidiary as was initially planned, owing to its inability to find a suitable JV partner.
- ✍ Eicher Motors has signed a Letter of Intent with AB Volvo, to transfer its CV, component, and design services businesses to a separate JV, which would be a 54.4% subsidiary of the company. Volvo would be contributing US\$275m in cash and its distribution network worth US\$75m to this JV, while also taking an 8.1% stake in Eicher Motors. Due to their strengths in different segments of the CV industry, this JV will help the two companies offer a more complete product range, and help them penetrate the domestic CV market in a better manner.
- ✍ However, currently, Eicher Motors is a small player in the CV industry, facing margin pressures and any benefits of the JV would be visible only over the long-term. Hence, we maintain our **Neutral** recommendation.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	3,831	4,565	4,938	6,191	4,644	5,369	5,801	6,823	19,525	22,637
Change (%)	-1.2	29.3	26.6	20.3	21.2	17.6	17.5	10.2	18.7	15.9
Total Expenses	3,649	4,301	4,612	5,807	4,381	5,064	5,453	6,406	18,369	21,303
EBITDA	183	263	326	384	263	306	348	417	1,156	1,334
As a % of Sales	4.8	5.8	6.6	6.2	5.7	5.7	6.0	6.1	5.9	5.9
Non-Operating Income	73	73	52	70	53	83	60	71	267	267
Interest	34	31	32	41	53	50	44	44	138	190
Gross Profit	221	305	346	413	263	338	364	444	1,285	1,410
Less: Depreciation	98	99	102	107	109	109	111	120	405	448
PBT	123	206	244	306	155	230	253	324	879	961
Tax	39	65	66	97	43	63	71	93	267	269
Effective Tax Rate (%)	31.7	31.3	27.0	31.8	28.0	27.3	28.0	28.5	30.3	28.0
PAT	84	142	178	209	111	167	182	232	613	692
Adjusted PAT	84	142	178	209	111	167	182	232	613	692
Change (%)	2,238.9	N.A.	-39.6	-25.5	32.2	17.8	2.4	11.0	22.0	13.0

E: MOST Estimates

Hero Honda

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HH IN
	REUTERS CODE
S&P CNX: 6,080	HROH.BO

28 December 2007

Buy

Rs 699

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	199.7										
52-Week Range	809/565										
1,6,12 Rel. Perf. (%)	-8/-37/-54										
M.Cap. (Rs b)	139.7										
M.Cap. (US\$ b)	3.5										
	3/07A	99,000	8,659	43.4	-10.9	16.1	5.7	38.3	48.5	1.2	10.3
	3/08E	105,008	8,767	43.9	1.2	15.9	4.7	32.4	40.9	1.2	9.8
	3/09E	117,979	10,273	51.4	17.2	13.6	4.0	31.7	39.5	1.0	8.0
	3/10E	130,659	11,309	56.6	10.1	12.4	3.4	27.3	34.7	0.8	6.8

- ✎ We expect Hero Honda's total volumes in 3QFY08 to increase by 1.9% YoY (an increase of 20.7% QoQ). Though volume growth has been subdued, we expect the scenario to improve for the two-wheeler industry 4QFY08 onwards, led by the launch of various new bikes and improvement in the availability of credit.
- ✎ We expect net sales to increase 6% YoY to Rs28.3b, while operating margins are likely to improve 40bp YoY to 11.7%, resulting in an EBITDA of Rs3.3b. The margins are expected to be 70bp lower on a QoQ basis on account of the discounts offered in the festival season. We estimate PAT at Rs2.3b, an increase of 11% YoY.
- ✎ Hero Honda has adopted an aggressive new model launch strategy; with various new launches made in FY07. This was followed by the 150cc bike *Hunk* launched in 3QFY08. Its venture into the scooters segment has scaled up rapidly – scooter sales constituted 3.3% of Hero Honda's two-wheeler sales during April-November 2007 (2.8% in FY07).
- ✎ The new 0.5m-unit plant in Uttaranchal has been completed in mid-FY08, but production is likely to commence only in FY09. This would help Hero Honda to avail tax benefits in FY09.
- ✎ We expect volume growth of 1.3% in FY08 and 8.4% in FY09; volumes are likely to pick up in 4QFY08. Stable raw material prices are expected to help sustain the margin improvement seen in 2QFY08. The stock trades at 15.9x FY08E EPS of Rs43.9 and 13.6x FY09E EPS of Rs51.4. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	832,692	751,967	896,113	855,984	802,853	756,633	913,049	905,956	3,336,756	3,378,491
Net Sales	23,644	22,300	26,661	26,396	24,480	23,521	28,251	28,756	99,000	105,008
Change (%)	19.6	2.9	15.2	17.0	3.5	5.5	6.0	8.9	13.6	6.1
Total Cost	20,454	19,465	23,641	23,629	21,845	20,606	24,946	25,167	87,189	92,564
EBITDA	3,190	2,835	3,019	2,767	2,635	2,915	3,305	3,589	11,810	12,443
As % of Sales	13.5	12.7	11.3	10.5	10.8	12.4	11.7	12.5	11.9	11.9
Change (%)	9.1	-15.0	-20.1	-23.3	-17.4	2.8	9.5	29.7	-13.4	5.4
Other Income	523	595	336	445	389	393	330	309	1,899	1,420
Interest	-33	-65	-55	-77	-90	-101	-105	-120	-230	-415
Depreciation	323	344	376	355	376	384	399	414	1,398	1,574
Extraordinary Expense	0	0	0	80	0	0	0	0	80	0
PBT	3,423	3,151	3,034	2,854	2,737	3,024	3,341	3,603	12,461	12,706
Tax	1,045	991	943	904	839	980	1,019	1,100	3,882	3,939
Effective Tax Rate (%)	30.5	31.5	31.1	31.7	30.6	32.4	30.5	30.5	31.2	31.0
PAT	2,377	2,160	2,092	1,950	1,898	2,043	2,322	2,503	8,579	8,767
Adj. PAT	2,377	2,160	2,092	2,030	1,898	2,043	2,322	2,503	8,659	8,767
Change (%)	16.6	-9.2	-20.1	-24.2	-20.1	-5.4	11.0	23.3	-10.9	1.2

E: MOST Estimates

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Mahindra & Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	MM IN
	REUTERS CODE
S&P CNX: 6,080	MAHM.BO

28 December 2007

Buy

Rs834

Previous Recommendation: Buy

	YEAR	NET SALES	S/A PAT	ADJ.EPS	CONS.	P/E	CONS.	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Eq. Shares (m)	255.9										
52-Week Range	1,002/608										
1,6,12 Rel.Perf.(%)	11/-21/-52										
M.Cap. (Rs b)	213.5										
M.Cap. (US\$ b)	5.4										
	3/07A	99,874	9,198	35.9	55.1	23.2	15.2	25.9	22.3	1.8	14.9
	3/08E	112,254	8,965	35.0	62.1	23.8	13.4	21.3	20.2	1.5	13.6
	3/09E	124,991	9,899	38.7	74.7	21.6	11.2	20.4	20.6	1.3	11.6
	3/10E	137,933	10,972	42.9	81.8	19.5	10.2	19.7	20.4	1.1	9.9

- ✎ M&M has reported overall volume growth of 7.5% YoY in 3QFY08 (excluding *Logan*), driven by strong growth in UVs (+19.6% YoY), while three-wheelers have reported lower growth at 3.4% YoY. Tractor volumes, which declined 2.8% in 1HFY08, have declined by 6.8% in 3QFY08.
- ✎ Net sales should grow at 11.3% YoY to Rs28.7b. We expect margins to improve 30bp QoQ, (lower 90bp YoY) to 11.1%, resulting in a 2.7% increase in EBITDA to Rs3.2b, and an adjusted PAT of Rs2.3b – a decline of 5.3% YoY.
- ✎ In FY08, we expect M&M to deliver 12.5% total income growth to Rs112.3b, with adjusted net profit decline of 2.5% to Rs9b.
- ✎ M&M's new JV with Renault to manufacture 0.5m cars in India by 2012 will establish its presence in the fast-growing passenger car segment. The first offering of this JV – the sedan *Logan* has been launched in April 2007, but has seen its volumes stagnate recently.
- ✎ M&M enjoys market leadership in both utility vehicles and tractors. Given the rural bias in its product mix, we expect the company to benefit significantly from the government's thrust on the development of the rural economy. M&M trades at a discount to most of its peers. The stock trades at 13.4x FY08E and 11.2x FY09E consolidated earnings of Rs62.1 and Rs74.7, respectively. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	62,417	66,649	73,973	77,727	70,915	72,203	79,520	83,266	280,766	305,904
Total Income	22,172	24,501	25,761	27,439	26,128	27,095	28,662	30,370	99,874	112,254
Change (%)	22.4	28.0	17.8	23.2	17.8	10.6	11.3	10.7	22.7	12.4
Total Cost	19,660	21,209	22,664	24,340	23,357	24,170	25,480	26,904	87,874	99,911
EBITDA	2,512	3,292	3,096	3,099	2,771	2,925	3,181	3,466	12,000	12,343
As % of Sales	11.3	13.4	12.0	11.3	10.6	10.8	11.1	11.4	12.0	11.0
Change (%)	30.2	50.9	17.5	46.3	10.3	-11.2	2.7	11.8	35.4	2.9
Non-Operating Income	454	478	412	354	316	692	450	355	1,698	1,813
Extraordinary Income	190	1,393	0	116	0	929	0	0	1,699	929
Extraordinary Expense	15	0	6	192	16	19	0	0	213	35
Interest	-147	-155	-168	-205	-51	82	60	44	-675	135
Gross Profit	3,288	5,318	3,670	3,582	3,122	4,444	3,571	3,777	15,859	14,914
Less: Depreciation	463	501	522	609	571	577	590	595	2,096	2,332
PBT	2,825	4,817	3,148	2,973	2,551	3,867	2,981	3,182	13,763	12,582
Tax	784	952	731	613	640	1,008	686	695	3,079	3,028
Effective Tax Rate (%)	27.7	19.8	23.2	20.6	25.1	26.1	23.0	21.8	22.4	24.1
PAT	2,042	3,865	2,417	2,360	1,912	2,859	2,296	2,487	10,684	9,554
Change (%)	40.6	145.9	3.5	-26.5	-6.4	-26.0	-5.0	5.4	24.7	-10.6
Adj PAT	1,867	2,472	2,423	2,436	1,923	2,259	2,296	2,487	9,198	8,965
Change (%)	27.2	55.8	35.3	49.0	3.0	-8.6	-5.3	2.1	42.0	-2.5

E: MOST Estimates

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Maruti Suzuki India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	MSIL IN
	REUTERS CODE
S&P CNX: 6,080	MRTL.BO

28 December 2007

Buy

Rs984

Previous Recommendation: Buy

	YEAR END	TOTAL INC. (RS M)	PAT (RS M)	ADJ. EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
Diluted Equity Shares (m)	289.0										
52-Week Range	1,252/713										
1,6,12 Rel.Perf.(%)	-5/-8/-39										
M.Cap. (Rs b)	284.4										
M.Cap. (US\$ b)	7.2										
	3/07A	149,663	15,574	53.9	28.5	18.3	4.1	22.8	30.2	1.6	10.6
	3/08E	187,261	19,689	68.1	26.4	14.4	3.3	22.7	30.9	1.3	7.9
	3/09E	221,920	23,006	79.6	16.8	12.4	2.6	21.3	29.2	1.0	6.6
	3/10E	261,269	27,038	93.6	17.5	10.5	2.1	20.3	28.1	0.8	5.4

- Maruti's volumes have increased by 17.1% YoY in 3QFY08, with good performance in the A2 segment, and launch of the SX4 boosting A3 segment sales as well.
- Sales should grow at 25.3% YoY to Rs46.1b. We expect the EBITDA margin to be lower by 20bp YoY, on account of discounts and promotional offers made available throughout the quarter.
- Though rising input/power costs, consolidation of the Manesar assembly plant and higher royalty payments (owing to new model launches) are challenges to margins, Maruti would be able to enhance its profitability due to successful cost reduction, productivity improvement and increased localization, leading to higher internal efficiencies. We expect EBITDA of Rs7.2b (+23.6% YoY) and PAT of Rs4.5b (+22.2% YoY).
- Maruti's debut in the diesel car segment, launch of SX4; impending launches like the Swift sedan and the Splash would help the company to increase market share. We expect volumes to grow by 16.9% in FY08 and 16% in FY09.
- We remain positive on Maruti's growth prospects. We forecast strong volume growth over the next two years and estimate EPS at Rs68.1 for FY08 and Rs79.6 for FY09. The stock trades at 14.4x FY08E and 12.4x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	144,948	157,683	172,181	200,112	169,669	191,325	201,629	226,262	674,924	788,885
Net Sales	31,255	34,192	36,795	44,298	39,308	45,474	46,104	52,625	146,539	183,511
Change (%)	19.0	12.5	18.2	34.0	25.8	33.0	25.3	18.8	21.2	25.2
Other Operating Income	602	612	783	1,127	833	1,105	881	931	3,125	3,750
Total Cost	26,689	29,376	31,723	38,931	33,560	39,496	39,749	45,056	126,718	157,862
EBITDA	5,168	5,428	5,855	6,494	6,580	7,083	7,236	8,500	22,945	29,399
As % of Sales	16.2	15.6	15.6	14.3	16.4	15.2	15.4	15.9	15.3	15.7
Change (%)	42.0	37.5	15.1	18.0	27.3	30.5	23.6	30.9	26.2	28.1
Non-Operating Income	831	605	372	1,065	1,400	780	427	763	2,873	3,370
Extraordinary Income	0	0	129	0	0	0	0	0	129	0
Extraordinary Expense	0	60	0	0	0	0	0	0	60	0
Interest	33	31	157	156	151	140	150	171	376	612
Gross Profit	5,967	5,942	6,199	7,404	7,829	7,722	7,513	9,092	25,511	32,157
Less: Depreciation	641	596	759	718	822	881	898	917	2,714	3,518
PBT	5,326	5,346	5,440	6,686	7,007	6,841	6,615	8,175	22,797	28,639
Tax	1,630	1,672	1,676	2,201	2,011	2,176	2,117	2,645	7,178	8,950
Effective Tax Rate (%)	30.6	31.3	30.8	32.9	28.7	31.8	32.0	32.4	31.5	31.3
PAT	3,696	3,674	3,764	4,485	4,996	4,665	4,498	5,530	15,619	19,689
Adjusted PAT	3,696	3,713	3,680	4,485	4,996	4,665	4,498	5,530	15,574	19,689
Change (%)	63.2	49.7	8.6	12.6	35.2	25.6	22.2	23.3	31.4	26.4

E: MOST Estimates

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Swaraj Mazda

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SM IN
	REUTERS CODE
S&P CNX: 6,080	SWRJ.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs325

Diluted Equity Shares (m)	10.5	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	389/254	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	5/-36/-48	3/07A	6,034	161	15.3	-3.6	21.2	4.5	21.3	17.6	0.7	12.1
MCap. (Rs m)	3,407.4	3/08E	6,288	224	21.3	39.2	15.2	3.8	24.7	22.2	0.7	9.1
MCap. (US\$ m)	86.4	3/09E	6,990	268	25.6	19.8	12.7	3.1	24.6	23.3	0.6	7.9
		3/10E	7,664	301	28.7	12.3	11.3	2.6	23.0	23.2	0.6	7.0

- ⚡ We expect Swaraj Mazda to report volume decline of 15% YoY in 3QFY08, as volumes have been negatively impacted by the slowdown in CV sales. As a result, we expect net sales to decrease 9.1% YoY to Rs 1.4b.
- ⚡ While EBITDA margins were under pressure in FY07 due to poor operating performance, we expect a 170bp improvement in FY08 to 7.6%. We estimate PAT at Rs224m for FY08.
- ⚡ Swaraj is increasing its production capacity from 12,000 units a year to 36,000 units per year over the next 2-3 years.
- ⚡ We estimate EPS at Rs21.3 for FY08 and at Rs25.6 for FY09.
- ⚡ Currently, Swaraj is facing pressure on its operating margins. It is also incurring huge capex over the next 2-3 years. We expect margin and capex pressures to affect profitability. Our recommendation is **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	2,201	3,101	2,730	2,827	2,685	2,923	2,321	2,713	10,859	10,642
Net Sales	1,181	1,710	1,492	1,651	1,530	1,772	1,357	1,629	6,034	6,288
Change (%)	-20.0	15.2	-6.2	5.0	29.6	3.6	-9.1	-1.3	-1.4	4.2
Total Cost	1,150	1,612	1,385	1,533	1,404	1,646	1,255	1,503	5,680	5,809
EBITDA	31	98	107	119	126	126	102	126	355	480
As % of Sales	2.6	5.7	7.2	7.2	8.2	7.1	7.5	7.7	5.9	7.6
Change (%)	-74.4	-6.7	37.2	142.3	306.5	28.6	-4.9	6.2	2.7	35.3
Interest	19	24	25	25	30	26	31	34	93	121
Gross Profit	12	74	82	93	96	100	71	91	261	358
Depreciation	6	7	8	8	8	8	9	10	29	35
PBT	6	67	74	85	88	92	62	81	232	323
Tax	4	18	24	25	28	30	18	23	71	99
Tax Rate (%)	70.0	26.6	32.4	29.7	31.8	32.6	29.0	28.6	30.7	30.7
PAT	2	49	50	60	60	62	44	58	161	224
Adj. PAT	2	49	50	60	60	62	44	58	161	224
Change (%)	-97.3	-10.5	47.1	407.6	3233.3	26.0	-12.3	-3.0	-3.5	39.1

E: MOST Estimates

Tata Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TTMT IN
	REUTERS CODE
S&P CNX: 6,080	TAMO.BO

28 December 2007

Buy

Rs731

Previous Recommendation: Buy

	YEAR	SALES	S/A PAT	ADJ EPS	CONS.	P/E	CONS.	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	EPS (RS)	RATIO	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Eq.Shares (m)	407.2										
52-Week Range	975/616										
1,6,12 Rel. Perf. (%)	-5/-29/-65										
M.Cap. (Rs b)	297.5										
M.Cap. (US\$ b)	7.5										
	3/07A	274,048	18,963	46.6	52.9	15.7	13.8	27.6	27.1	1.1	8.8
	3/08E	282,137	14,934	36.7	47.8	19.9	15.3	19.4	19.7	1.0	10.9
	3/09E	323,292	17,608	43.2	56.7	16.9	12.9	20.3	21.2	0.9	9.3
	3/10E	377,910	19,692	48.4	64.0	15.1	11.4	20.1	21.7	0.8	8.4

- ⚡ We expect Tata Motors to post 1.4% volume growth in 3Q. While M&HCV volumes would decline 2.7% YoY and car volumes would fall 5.3% YoY, UV volumes would grow 1.1% YoY and LCV volumes would grow 14.2% YoY.
- ⚡ M&HCV sales have been negatively impacted by higher interest rates impacting retail sales and the high base of the previous year.
- ⚡ We estimate sales at Rs71.3b (up 4.5% YoY) and EBITDA at Rs6.9b (decline of 18% YoY), with EBITDA margin decline of 270bp YoY to 9.7%. This would result in the adjusted PAT declining 23% YoY to Rs3.4b.
- ⚡ Of the targeted cost reduction of Rs10b over FY06-FY08, Tata Motors has already achieved a reduction of Rs9.3b over FY06-FY07.
- ⚡ The company plans capex of Rs120b over the next four years – Rs80b would be spent on new four-wheelers and the balance on maintenance capex. Around Rs75b would be from internal accruals and balance would be raised in international/domestic markets. The company has announced its intention to raise US\$450m, which would result in further equity dilution of 4.4%.
- ⚡ We estimate consolidated EPS at Rs47.8 for FY08 and Rs56.7 for FY09. The stock trades at 15.3x FY08E and 12.9x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	126,031	139,344	141,596	172,407	127,487	135,463	143,601	170,841	579,378	577,392
Total Income	57,835	65,718	68,252	82,242	60,568	64,733	71,295	85,541	274,048	282,137
Change (%)	49.1	37.4	34.5	19.7	4.7	-1.5	4.5	4.0	33.0	3.0
Total Cost	50,329	57,939	59,816	73,096	55,105	58,780	64,380	76,942	241,180	255,207
EBITDA	7,506	7,779	8,436	9,147	5,463	5,953	6,916	8,599	32,868	26,931
As % of Sales	13.0	11.8	12.4	11.1	9.0	9.2	9.7	10.1	12.0	9.5
Change (%)	58.6	30.6	27.7	4.9	-27.2	-23.5	-18.0	-6.0	26.4	-18.1
Non-Operating Income	859	848	143	601	863	707	220	676	2,452	2,466
Forex Gain / (Loss)	-783	254	1,316	518	2,059	309	0	0	1,305	2,367
Extraordinary Income	0	0	0	0	20	1,994	0	0	0	2,014
Extraordinary Expense	242	316	235	257	0	0	0	0	1,049	0
Interest	726	956	852	597	816	965	930	904	3,131	3,614
Gross Profit	6,614	7,610	8,809	9,412	7,589	7,997	6,206	8,372	32,445	30,164
Depreciation & Amort.	1,411	1,435	1,435	1,582	1,475	1,597	1,625	1,665	5,863	6,362
PBT	5,100	5,999	7,087	7,545	5,921	6,212	4,351	6,426	25,732	22,910
Tax	1,282	1,582	1,956	1,778	1,254	944	957	1,428	6,597	4,582
Effective Tax Rate (%)	25.1	26.4	27.6	23.6	21.2	15.2	22.0	22.2	25.6	20.0
PAT	3,819	4,417	5,132	5,767	4,668	5,268	3,394	4,998	19,135	18,328
Adj PAT	4,505	4,459	4,407	5,592	3,275	3,267	3,394	4,998	18,963	14,934
Change (%)	70.9	26.8	17.3	27.5	-27.3	-26.7	-23.0	-10.6	39.7	-21.2

E: MOST Estimates

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TVS Motor

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TVSL IN
	REUTERS CODE
S&P CNX: 6,080	TVSM.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs72

Equity Shares (m)	237.5	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	96/53	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	4/-29/-65	3/07A	38,550	666	2.8	-37.9	25.5	2.1	8.2	7.7	0.5	13.8
MCap. (Rs b)	17.0	3/08E	34,699	397	1.7	-40.3	42.7	2.0	4.7	5.4	0.5	17.8
MCap. (US\$ b)	0.4	3/09E	38,760	639	2.7	60.7	26.6	1.9	7.3	7.2	0.5	12.5
		3/10E	41,968	801	3.4	25.4	21.2	1.9	8.7	8.3	0.4	10.3

- TVS Motors has registered overall volume decline of 6.5% YoY in 3QFY08, with motorcycle volumes declining 19.9% YoY. However, scooter and moped volumes continue to be robust as they are not as dependent as motorcycles on financing.
- We expect sales to decline 7.5% YoY to Rs 8.6b and estimate EBITDA margin at 3.4%, resulting in an EBITDA of Rs 294m. Net profit would increase 7.7% YoY to Rs 123m. The management had guided that margins would ease in 2HFY08, after remaining under pressure in 1HFY08, due to high cost of raw materials and intense competition.
- TVS has launched the 110cc *Star City*, the 160cc *Apache RTR*, and the 125cc *Flame* and has announced several new product launches in the coming months, which include its initial three-wheeler offerings, and an electric scooter.
- TVS Motor's volumes have been negatively impacted by the aggressive strategies adopted by Hero Honda and Bajaj Auto. The company is attempting to put in place a strong product portfolio that could drive growth going forward. Entry in the three-wheeler segment would help diversify revenues over a period of time. However, we believe operating performance remains an area of concern.
- We expect TVS Motor to report an EPS of Rs 1.7 in FY08 and Rs 2.7 in FY09. The stock trades at 42.7x FY08E EPS and 26.6x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	375,496	419,195	363,670	369,853	320,161	322,996	339,956	380,034	1,528,214	1,363,147
Net Sales	9,218	10,779	9,354	9,199	7,833	8,234	8,657	9,975	38,550	34,699
Change (%)	25.4	36.6	7.3	9.6	-15.0	-23.6	-7.5	8.4	19.2	-10.0
Total Cost	8,802	10,219	9,058	9,098	7,642	8,036	8,362	9,584	37,177	33,625
EBITDA	416	560	296	101	191	199	294	390	1,373	1,074
As % of Sales	4.5	5.2	3.2	1.1	2.4	2.4	3.4	3.9	3.6	3.1
Change (%)	-16.3	21.9	-51.2	-79.1	-54.0	-64.5	-0.7	287.1	-32.9	-21.8
Other Income	178	109	176	270	182	179	200	234	732	795
Interest	60	62	86	113	98	70	85	95	321	348
Depreciation	233	244	245	154	239	240	250	260	876	989
Extraordinary Gain / (Expense)	0	0	0	0	72	102	0	0	0	174
PBT	301	363	141	103	109	169	159	269	909	706
Tax	89	114	27	13	34	50	36	56	243	176
Effective Tax Rate (%)	29.5	31.5	18.8	12.6	30.8	29.6	22.5	20.9	26.7	24.9
PAT	213	248	115	90	75	119	123	213	666	531
Change (%)	-14.6	-22.3	-63.1	-68.9	-64.5	-52.0	7.7	135.0	-43.1	-20.3
Adj.PAT	213	248	115	90	10	51	123	213	666	397
Change (%)	-14.6	11.6	-63.1	-68.9	-95.1	-79.5	7.7	135.0	-37.9	-40.3

E: MOST Estimates

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Banking

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.
Andhra Bank	80
Axis Bank	81
Bank of Baroda	82
Bank of India	83
Canara Bank	84
Corporation Bank	85
HDFC	86
HDFC Bank	87
Federal Bank	88
ICICI Bank	89
Indian Bank	90
Indian Overseas Bank	91
J&K Bank	92
Karnataka Bank	93
Oriental Bank	94
Punjab National Bank	95
State Bank	96
Syndicate Bank	97
Union Bank	98
Vijaya Bank	99

While credit growth has shown some signs of pick-up during 3QFY08 compared with 1HFY08; it has remained lower versus the expectations of many banks. On a QoQ basis non-food credit (NFC) has grown by ~3% while the growth is 9% from March 2007 levels. Non-food credit grew ~23% YoY as on 7th, December 2007, which is slightly higher than ~22% YoY recorded in September 2007. With the macro Indian growth story robust and continuing thus, drivers of credit growth intact, we expect credit growth to remain 25% for FY08.

The deposit growth increased from 17% in FY05/06 to 23% in FY07 and 24% YoY as on 7th, December 2007. Deposits have increased till 7th, December 2007, by 13% from March 2007 and ~2% from September 2007 levels. C-D ratio for the industry has remained stable QoQ at ~71%, though it is down from 74% in March 2007. Nevertheless incremental C-D ratio for the industry has improved significantly from 38% in 1HFY08 to 102% in 3QFY08 (up to 7th December 2007).

Lending yields have peaked for most of the banks and improvement in yields from 2Q levels would be marginal, if any. While banks have reduced home lending rates on account of festive season, corporate lending rates have remained firm QoQ. Banks have withdrawn the special deposit interest rate schemes of 9-9.5%. The maximum term deposit rate has come down by 100bp from 1QFY08 levels to 8.5-8.75%.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	NET INTEREST INCOME		OPERATING PROFIT		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Banks							
Andhra Bank	Buy	3,460	-4.8	2,520	-3.3	1,577	15.9
Axis Bank	Buy	6,166	48.3	5,175	44.3	2,755	49.3
Bank of Baroda	Buy	10,666	17.4	7,584	25.5	4,081	24.0
Bank of India	Buy	10,266	19.5	7,183	29.9	3,233	26.8
Canara Bank	Neutral	8,260	-20.5	5,616	-20.0	3,816	4.9
Corporation Bank	Sell	3,851	22.3	3,320	20.9	1,795	22.6
Federal Bank	Buy	2,160	22.3	1,731	29.5	981	19.5
HDFC	Buy	6,642	31.0	5,893	31.1	4,442	24.7
HDFC Bank	Buy	12,400	42.8	8,779	37.9	3,998	35.2
ICICI Bank	Neutral	19,880	33.9	21,880	24.9	11,756	29.2
Indian Bank	Buy	5,047	15.8	3,279	33.5	2,459	29.1
Indian Overseas Bank	Buy	6,930	14.5	4,680	-4.8	2,880	16.7
J&K Bank	Buy	2,132	9.3	1,652	14.6	972	15.8
Karnataka Bank	Buy	1,151	9.6	1,011	13.0	552	2.4
Oriental Bank	Neutral	4,491	6.6	3,342	9.0	2,583	6.0
Punjab National Bank	Buy	13,819	0.9	10,219	6.8	5,419	26.1
State Bank	Buy	40,263	1.9	30,828	8.0	12,097	13.6
Syndicate Bank	Buy	5,178	-6.9	3,728	13.6	2,478	9.6
Union Bank	Buy	7,470	8.9	5,870	16.2	3,220	25.9
Vijaya Bank	Neutral	2,453	-7.4	1,664	-3.4	1,159	25.0
Sector Aggregate		172,685	11.2	135,954	15.0	72,252	21.5

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We expect margins to improve from 2QFY08 levels for most banks on account of improved credit offtake, improved yield on funds and controlled cost of funds. Treasury profits (mainly equities) and recoveries are expected to be strong for most banks. Asset quality improvement trend is expected to continue and thus provisioning requirements would be lower. Overall we expect most banks to report strong earnings growth during the quarter.

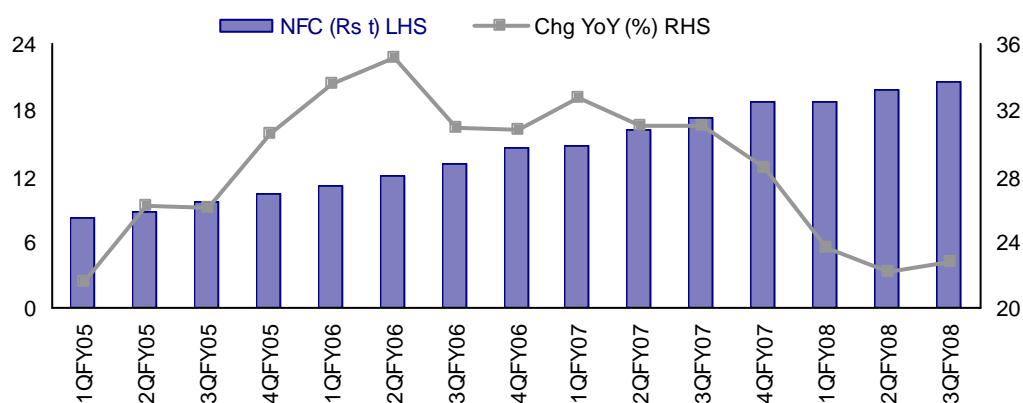
The Bankex has increased by 75% since March 2007. The valuations for PSU banks are at 1.0-2.1x FY09E BV, with RoEs in the range of 15-26%. Private banks being growth plays continue to trade at 2-4.5x FY09E BV. We prefer selective buying with a preference for banks with high earnings visibility. We like Bank of Baroda and SBI among large cap banks while we like Union Bank of India and Indian Bank among mid-cap banks. Among private players, we like HDFC, Axis Bank, and Kotak Mahindra Bank.

Credit growth some pick up in 3QFY08

While credit growth has shown some signs of pick-up during 3QFY08 compared with 1HFY08; it has remained lower than expected for many banks. On a QoQ basis non-food credit (NFC) has grown by ~3% while the growth is 9% from March 2007 levels. Non-food credit growth has increased from ~22% YoY in September 2007 to ~23% YoY as on 7th, December 2007. With macro Indian growth story robust and continuing thus, and drivers of credit growth intact, we expect credit growth to remain 25% for FY08.

RBI's monetary tightening through successive CRR hikes during FY07 (100bp) and FY08 (150bp) have played their role in moderating credit growth. A distinct slowdown in retail loans growth – led by housing finance has been a key reason for moderation in the credit growth. The increased interest rates along with higher property prices are making housing unaffordable and consumers are postponing their buying decisions.

YOY NON-FOOD CREDIT GROWTH



Source: Company/Motilal Oswal Securities

Bankers feel busy season started ...credit offtake would be strong in 2HFY08

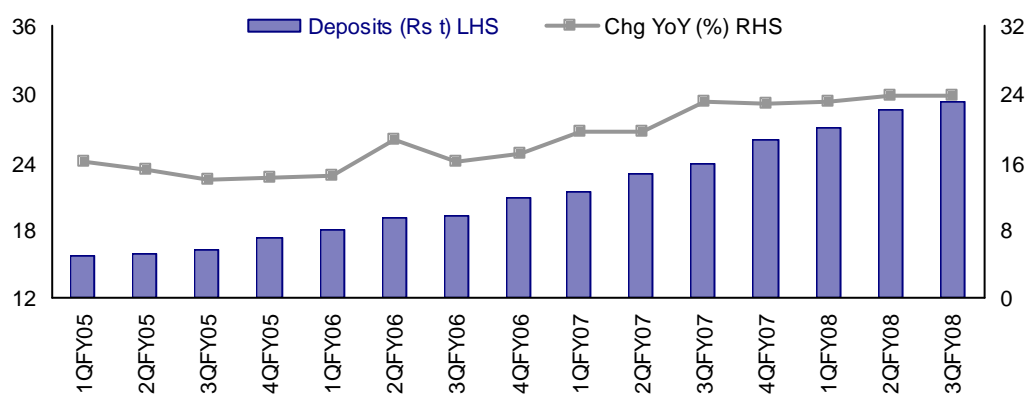
With the macro Indian growth story on the robust path and drivers of credit growth intact, we expect credit growth to bounce back to 25% level at the end of FY08. All bankers indicate that the slowdown in credit growth during FY08 so far is a temporary one and also on account of the higher base effect of FY07. They expect credit offtake to remain strong starting 4QFY08 and are optimistic of achieving credit growth of ~25% during FY08.

Nevertheless; the slower credit growth so far for few banks would continue to put pressure on the growth in interest income and thereby yields on funds and margins.

Deposits growth remains strong

The deposit growth improved from 17% in FY05/06 to 23% in FY07 and 24% in 3QFY08. Deposits have increased till 7 December 2007 by 13% from March 2007 and ~2% from September 2007 levels. C-D ratio for the industry has remained stable QoQ at ~71%, though it is down from 74% in March 2007. However on a QoQ basis deposits growth has slowed down to 2% and incremental C-D ratio for the industry has thus improved significantly from 38% in 1HFY08 to 102% in 3QFY08 (7 December 2007).

YOY DEPOSITS GROWTH



Source: Company/Motilal Oswal Securities

Interest on term deposits reduced by ~100bp from peaks

Most banks had launched limited period special deposit schemes offering interest rates of 9.5%+ for retail term deposits during 4QFY07 to meet the liquidity crunch. In line with expectations, almost all banks have withdrawn these special interest rates schemes during 2QFY08. SBI has further reduced the term deposit rates on shorter end maturities by 25bp (effective 17 December 2007). ICICI Bank has reduced the interest rate on the special deposit schemes (390 days and 590 days) by 75-100bp during 3QFY08. We expect other banks to follow this move as liquidity is ample on account of strong deposits growth and relatively lower credit offtake. This move is necessary given the pressures on interest margins that banks are facing.

SBI TERM DEPOSITS RATE MOVEMENT %

	AUG-06	DEC-06	JAN-07	AUG-07	NOV-07	DEC-07
15-45 days	4.75	5.00	5.00	5.00	5.00	4.75
46 days to 179 days	5.25	5.50	5.50			
46 days to 270 days				5.50	5.50	5.25
180 days to <1 year	6.25	6.50	6.50			
271 days to <1 year				6.75	6.75	6.50
1 to less than 3 years	6.75	7.50	8.25			
1 to less than 2 years				8.00		
1 year to 549 days					8.00	8.25
550 days (Special Deposit)					8.75	8.50
561 days to <2 years					8.00	8.25
2 years to less than 3 years				8.25	8.25	8.25
3 to < 5 years	7.00	7.75	8.25			
4 to < 5 years (Sp. Deposit)			9.50			
3 to up to 10 years				8.50	8.50	8.50
5 years and above	7.25	8.00	8.25			

Source: Company/Motilal Oswal Securities

ICICI BANK: SPECIAL DEPOSITS SCHEME INTEREST RATE

TENOR	UPTO OCT 15,2007	OCT 15 TO NOV 12,2007	FROM NOV 12,2007
390 Days	9.50	9.00	8.50
590 Days	9.50	9.00	8.75
890 Days	9.50	9.00	Discontinued

Source: Company/Motilal Oswal Securities

Though growing current account and savings account (CASA) is a prime agenda for all the banks, the widened interest rate differential in term and CASA deposits is acting as a major challenge. Incremental CASA ratio has dropped to 30% in FY07 v/s 47% in FY06. The banks with a large branch network and efficient and cutting edge technology would benefit by raising core deposits and thus containing the increase in cost of deposits. Also, the banks with higher CASA ratio (e.g. HDFC Bank, Axis Bank, SBI, PNB BoI, BoB) would be better placed to bear the increasing cost of deposits.

Margins likely to improve

We have been concerned about the pace of increase in funding costs for banks. Deposit growth continues to be higher than credit growth and thus banks have resorted to parking the surplus liquidity in short-term government papers where yields are lower by > 200bp compared with yields on advances. This led to margin squeeze for most of the banks during 2QFY08; which was compensated by higher investment income through dividends and treasury profits. The recent moves to reduce deposit interest rates, are indicators of the cost of funds having peaked for the banking industry. We believe the impact of these cuts would be visible in 4QFY08.

In the area of lending rates, while banks have not reduced the PLRs, they have reduced the interest rates on retail products and also lowered rates on sub-PLR loans. The liquidity built up during 1HFY08 and the relatively lower credit offtake (25% in FY08 v/s 29% in

FY07) should enable banks to avoid aggressive bulk deposit raising during 4QFY08. Banks that had aggressively built up bulk deposits during 4QFY07 such as ICICI Bank, Canara Bank, PNB, Vijaya Bank, Andhra Bank are working towards reducing the bulk deposits and repricing them at lower rates during 4QFY08 once they come up for renewal. As the liquidity built up (parked in investments) in 1HFY08 gets converted into credit during 2HFY08, overall yields on funds would improve while cost of funds would remain stable or may decline marginally.

Overall profitability would be strong

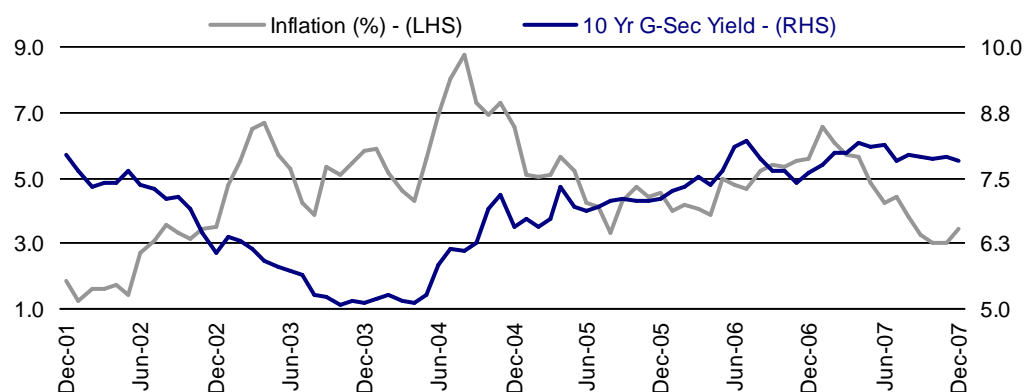
We expect net interest income (NII) growth to show some improvement for most of banks in 3QFY08 compared with the sharp slowdown observed in 2QFY08. We expect new private banks to report strong 40%+ NII growth. We expect QoQ increase in NII for almost all the banks against a QoQ decline observed in most of the public sector (PSU) banks in 2QFY08. Treasury profits (mainly equities) and recoveries are expected to be strong for most banks. The improving trend in asset quality is expected to continue, hence the provisioning requirement would be lower. Overall we expect most banks to report strong earnings growth during the quarter.

Inflation benign and G-sec yields coming down

Inflation dropped from its high of 6.5%+ in March and April 2007 and <4.5% in June 2007 to near 3.5% in December 2007. This fall is in line with our expectations and is on account of the higher base effect of inflation index in December 2007 and tougher monetary measures adopted by the RBI during FY07-08. The RBI has set a target to keep the inflation rate close to 5% during FY08.

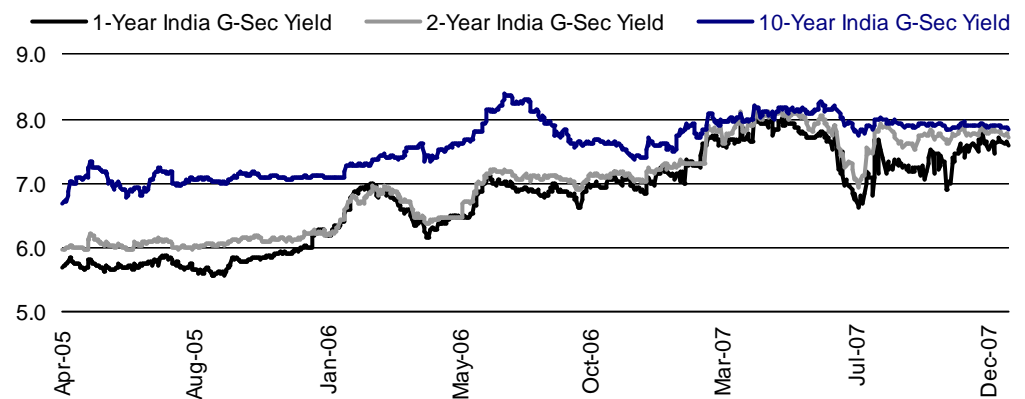
As inflation has come off from its highs and banks have increased their investments in G secs, yields across maturities have come down have remained almost stable. While 10-yr G-secs yield has come down by 10bp since September 2007, 1-year yield has gone up by 31bp. The 2-year G-secs yield has fallen by 3bp since September 2007.

INFLATION V/S 10 YR G-SEC YIELDS



Source: Company/Motilal Oswal Securities

The increase in yields in shorter end securities would mean higher MTM provisions requirement, however, most of the banks are adequately cushion for G-sec yields till 8%. We expect treasury profits to remain high for most banks during 3QFY08 on account of moderation on longer end securities and buoyant capital market. We expect OBC, Canara Bank to reverse some of the provisions for depreciation on their AFS investment book during 3QFY08.

G-SEC YIELD


Source: Company/Motilal Oswal Securities

We prefer selective buying

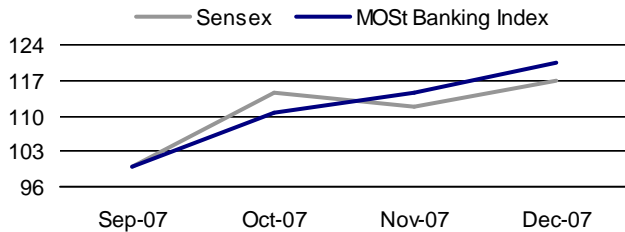
The Bankex has increased by 75% since March 2007 and 21% from September 2007. The valuations for PSU banks have increased to 1.0-2.1x FY09E BV, with RoEs in the range of 15-25%. We prefer selective buying with preference for banks with high earnings visibility. Among state-owned banks, we like banks which are strong on the liability franchise and are growing at a steady pace. We like SBI and BoB among large cap banks while we like Union Bank and Indian Bank among mid-cap banks. Among private players, we like HDFC, Axis Bank, and Kotak Mahindra Bank given their strong earnings growth prospects.

Stock performance and valuations

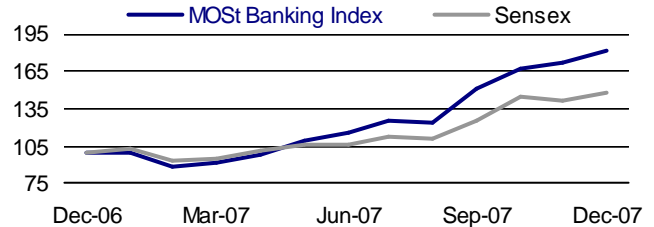
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Banking						
Andhra Bank	1	20	-16	-26	-20	-60
Axis Bank	28	114	11	68	7	33
Bank of Baroda	40	87	23	41	19	6
Bank of India	32	78	15	32	11	-3
Canara Bank	12	13	-5	-33	-9	-68
Corporation Bank	10	27	-7	-19	-10	-54
Federal Bank	18	98	1	52	-3	17
HDFC	16	79	-1	33	-5	-1
HDFC Bank	20	60	3	14	0	-20
ICICI Bank	15	37	-1	-9	-5	-44
Indian Bank	21	-	5	-	1	-
Indian Overseas Bank	23	58	6	12	2	-22
J&K Bank	6	26	-11	-20	-15	-55
Karnataka Bank	-2	44	-19	-2	-23	-37
Oriental Bank of Commerce	13	18	-4	-28	-8	-63
Punjab National Bank	24	31	7	-15	3	-50
State Bank	22	93	5	47	2	12
Syndicate Bank	24	53	8	8	4	-27
Union Bank	27	68	10	22	6	-12
Vijaya Bank	20	77	3	31	0	-4

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
	28.12.07													
Banks														
Andhra Bank	106	Buy	12.6	14.5	17.1	8.4	7.3	6.2	1.4	1.3	1.1	18.3	18.8	19.6
Axis Bank	977	Buy	29.1	41.0	57.7	33.6	23.8	16.9	4.0	3.5	3.0	17.2	15.9	19.2
Bank of Baroda	457	Buy	37.8	45.0	56.0	12.1	10.1	8.2	1.8	1.5	1.3	15.0	15.8	17.2
Bank of India	365	Buy	31.0	36.4	43.7	11.8	10.0	8.4	2.6	2.1	1.8	23.8	23.1	22.9
Canara Bank	311	Neutral	36.2	36.4	42.4	8.6	8.6	7.3	1.4	1.2	1.1	17.1	15.3	16.0
Corporation Bank	428	Sell	47.2	54.4	64.6	9.1	7.9	6.6	1.4	1.3	1.1	16.8	17.1	17.7
Federal Bank	335	Buy	43.8	54.8	67.4	7.6	6.1	5.0	1.6	1.3	1.0	22.5	23.1	23.2
HDFC	2,924	Buy	84.5	82.8	104.1	34.6	35.3	28.1	7.7	6.3	5.5	21.7	20.0	20.9
HDFC Bank	1,731	Buy	43.7	58.7	79.9	39.6	29.5	21.7	5.2	4.6	3.9	17.0	16.5	19.3
ICICI Bank	1,227	Neutral	36.5	45.9	58.3	33.6	26.7	21.1	2.9	2.7	2.4	11.3	10.4	12.1
Indian Bank	195	Buy	22.3	27.8	29.2	8.7	7.0	6.7	2.1	1.7	1.4	25.5	26.0	22.4
Indian Overseas Bank	177	Buy	22.0	26.1	30.7	8.0	6.8	5.8	2.0	1.6	1.4	27.5	26.1	25.5
J&K Bank	827	Buy	71.8	83.7	99.1	11.5	9.9	8.3	1.8	1.5	1.3	16.2	16.7	17.2
Karnataka Bank	219	Buy	17.9	21.2	25.0	12.2	10.3	8.8	1.8	1.6	1.4	16.4	16.2	16.8
Oriental Bank	273	Neutral	37.3	40.9	45.1	7.3	6.7	6.1	1.2	1.0	0.9	15.9	15.9	15.9
Punjab National Bank	671	Buy	57.3	69.4	87.8	11.7	9.7	7.6	1.8	1.6	1.4	16.7	17.8	19.5
State Bank	2,384	Buy	109.4	133.1	160.1	21.8	17.9	14.9	3.5	3.0	2.6	17.1	18.0	18.6
Syndicate Bank	115	Buy	15.5	14.3	18.0	7.4	8.0	6.4	1.5	1.4	1.2	20.1	16.3	18.0
Union Bank	207	Buy	21.9	27.6	34.1	9.5	7.5	6.1	1.9	1.6	1.3	21.4	22.8	23.5
Vijaya Bank	84	Neutral	9.1	9.5	12.0	9.2	8.9	7.0	1.7	1.5	1.3	19.5	17.9	20.0
Sector Aggregate						20.2	16.7	13.6	3.4	2.8	2.4	17.0	16.5	17.8

Andhra Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ANDB IN
	REUTERS CODE
S&P CNX: 6,080	ADBK.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 106

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	485										
52-Week Range	117/70										
1,6,12 Rel.Perf.(%)	1/-11/-26										
MCap. (Rs b)	51.2										
MCap. (US\$ b)	1.3										
	3/07A	18,644	5,379	11.1	10.6	9.5	1.6	11.3	17.8	1.2	1.6
	3/08E	20,443	6,127	12.6	13.9	8.4	1.4	10.8	18.3	1.2	1.5
	3/09E	23,775	7,051	14.5	15.1	7.3	1.3	11.0	18.8	1.2	1.3
	3/10E	27,285	8,272	17.1	17.3	6.2	1.1	11.0	19.6	1.2	1.2

☞ We expect net interest income (NII) to remain almost flat QoQ at Rs3.5bn. Margins would continue to remain under pressure as the bank had resorted to mobilizing bulk deposits during 4QFY07, and a majority portion is yet to be redeemed or repriced. Slower credit growth would put further pressure on margins.

☞ While fee income growth remains dismal, higher recoveries from written-off accounts and higher treasury profits would positively surprise earnings growth.

☞ With gross NPAs at just 1.4% and net NPAs at 0.2%, incremental provisioning for NPAs would be low.

☞ At CMP, the stock is trading at 7.3x FY09E EPS and 1.3x FY09E BV. We maintain **Buy** on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	7,601	7,725	8,128	9,699	9,895	10,455	10,873	11,816	32,417	43,039
Interest Expense	4,249	4,416	4,493	5,820	6,273	7,008	7,413	8,061	18,978	28,755
Net Interest Income	3,352	3,309	3,635	3,879	3,621	3,447	3,460	3,755	13,440	14,284
% Change (Y-o-Y)	22.2	14.7	22.8	25.1	8.0	4.2	-4.8	-3.2	21.8	6.3
Other Income	843	1,100	1,327	1,384	1,125	1,379	1,651	2,004	5,205	6,159
Net Income	4,195	4,409	4,962	5,263	4,746	4,826	5,112	5,760	18,644	20,443
% Change (Y-o-Y)	19.3	8.5	19.6	20.4	13.1	9.5	3.0	9.4	19.4	9.6
Operating Expenses	2,306	2,365	2,356	2,305	2,512	2,505	2,592	2,725	9,332	10,333
Operating Profit	1,890	2,045	2,606	2,958	2,234	2,322	2,520	3,035	9,312	10,110
Other Provisions	291	-95	645	810	93	110	200	698	1,463	1,100
Profit before Tax	1,599	2,139	1,961	2,148	2,141	2,212	2,320	2,337	7,849	9,010
Tax Provisions	435	675	600	760	730	700	742	711	2,470	2,883
Net Profit	1,164	1,464	1,361	1,388	1,411	1,512	1,577	1,626	5,379	6,127
% Change (Y-o-Y)	36.7	10.2	5.6	0.1	21.2	3.3	15.9	17.2	10.6	13.9
Cost to Income Ratio (%)	55.0	53.6	47.5	43.8	52.9	51.9	50.7	47.3	50.1	50.5
Interest Expense/Interest Inc. (%)	55.9	57.2	55.3	60.0	63.4	67.0	68.2	68.2	58.5	66.8
Other Income/Net Income (%)	20.1	25.0	26.7	26.3	23.7	28.6	32.3	34.8	27.9	30.1

E: MOST Estimates

Axis Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	AXSB IN
	REUTERS CODE
S&P CNX: 6,080	AXBK.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs977

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	349.6	3/07A	24,784	6,590	23.4	34.5	41.7	8.1	11.6	21.0	1.1	8.4
52-Week Range	1,025/399	3/08E	40,176	10,170	29.1	24.3	33.6	4.0	14.6	17.2	1.1	4.1
1,6,12 Rel.Perf.(%)	1/29/68	3/09E	55,311	14,322	41.0	40.8	23.8	3.5	12.2	15.9	1.2	3.7
MCap. (Rs b)	341.6	3/10E	75,481	20,178	57.7	40.9	16.9	3.0	10.9	19.2	1.3	3.1
MCap. (US\$ b)	8.7											

- ✍ We expect strong NII growth of 48% in 3QFY07 on the back of 50%+ loan growth, improved yield on advances, and strong growth in CASA.
- ✍ We expect NIMs to remain at 3%+ during 3QFY08 on account lower cost of funds and sustained yields.
- ✍ Another key driver has been sustained growth in its fee-based income. We expect core fee income to grow 50% in 2QFY08.
- ✍ The bank continues to be in a rapid branch expansion and manpower addition phase. Opex growth likely to remain ~60% YoY. We expect cost-to-income ratio to remain >50% for the bank.
- ✍ Earnings are expected to increase by 49% YoY to Rs2.8b in 3QFY08 supported by robust growth in NII and fee income.
- ✍ The stock currently trades at 23.8x FY09E EPS and 3.5x FY09E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	9,299	10,254	11,896	13,668	15,370	16,765	18,082	19,642	44,617	69,859
Interest Expense	6,321	6,849	7,738	9,025	10,901	10,878	11,916	12,927	29,933	46,622
Net Interest Income	2,978	3,405	4,158	4,642	4,468	5,887	6,166	6,716	14,683	23,237
Y-o-Y Growth (%)	33.9	33.3	44.7	48.4	50.0	72.9	48.3	44.7	48.2	58.3
Other Income	2,245	2,048	2,797	3,011	3,423	3,829	4,400	5,287	10,101	16,939
Net Income	5,223	5,453	6,956	7,653	7,892	9,716	10,566	12,003	24,784	40,176
Operating Expenses	2,392	2,955	3,370	3,430	4,212	5,087	5,391	5,746	12,146	20,437
Operating Profit	2,832	2,498	3,586	4,223	3,680	4,629	5,175	6,256	12,639	19,739
Y-o-Y Growth (%)	39.2	5.8	40.0	41.7	29.9	85.3	44.3	48.2	39.5	56.2
Provision & Contingencies	1,008	341	763	1,065	1,009	1,145	1,000	1,176	2,674	4,330
Profit before Tax	1,824	2,157	2,824	3,158	2,670	3,484	4,175	5,080	9,965	15,409
Tax Provisions	618	738	977	1,039	921	1,206	1,419	1,693	3,375	5,239
Net Profit	1,206	1,420	1,846	2,119	1,750	2,278	2,755	3,387	6,590	10,170
Y-o-Y Growth (%)	30.1	30.2	40.2	39.6	45.2	60.5	49.3	59.8	35.9	54.3
Int Exp/Int Earned (%)	68.0	66.8	65.0	66.0	70.9	64.9	65.9	65.8	67.1	66.7
Other Income / Net Income (%)	43.0	37.6	40.2	39.3	43.4	39.4	41.6	44.0	40.8	42.2
Cost to Income Ratio (%)	45.8	54.2	48.4	44.8	53.4	52.4	51.0	47.9	49.0	50.9

E: MOST Estimates; * Adjusted for reclassification of mortization on HTM investments as part of other income

Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BOB IN
	REUTERS CODE
S&P CNX: 6,080	BOB.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs457

Equity Shares (m)	365.5	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
52-Week Range	460/189	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
1,6,12 Rel.Perf.(%)	19/37/41	3/07A	49,593	10,265	28.1	24.1	16.3	2.0	11.8	12.4	0.8	2.1
MCap. (Rs b)	166.9	3/08E	58,205	13,822	37.8	34.7	12.1	1.8	11.0	15.0	0.9	1.9
MCap. (US\$ b)	4.2	3/09E	66,000	16,448	45.0	19.0	10.1	1.5	11.0	15.8	0.9	1.7
		3/10E	77,931	20,454	56.0	24.4	8.2	1.3	11.0	17.2	0.9	1.4

- ✍ We expect business growth to remain strong as credit offtake has picked up in 3QFY08. SME, corporates and international business would be drivers of credit. We expect margins to remain stable at ~3%.
- ✍ We expect treasury profits and recoveries to remain strong during the quarter, which would maintain strong traction in overall other income. Higher provisions for opex in 1HFY08 would lower opex growth going forward.
- ✍ BoB's asset quality has improved significantly over the last one year with coverage ratio at 77% and net NPAs at 0.55%. Recoveries during the quarter are expected to be robust, which would further improve asset quality and require lower NPA provisions.
- ✍ PAT growth is likely to be strong at 24% YoY on account of strong core operating performance as well as treasury profits and recoveries. Reversal of provisions made on IFCI bonds (~Rs0.5b) can lead to significant earnings growth. We have not factored that in our estimates.
- ✍ Earnings visibility is very high for Bank of Baroda and stake sale in UTI Mutual Fund can bring in strong treasury gains. The stock trades at 1.5x FY09E BV and 10.1x FY09E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	19,154	21,334	23,344	26,210	26,006	28,798	30,347	33,574	90,041	118,725
Interest Expense	11,378	12,952	14,262	15,674	16,961	18,983	19,682	21,695	54,266	77,321
Net Interest Income	7,776	8,383	9,082	10,535	9,046	9,814	10,666	11,878	35,775	41,404
% Change (YoY)	N.M	N.M	N.M	N.M	16.3	17.1	17.4	12.7	16.9	15.7
Other Income	2,775	3,217	3,337	4,489	4,242	4,541	4,250	3,769	13,818	16,801
Net Income	10,551	11,600	12,419	15,024	13,287	14,355	14,916	15,647	49,593	58,205
% Change (YoY)	N.M	N.M	N.M	N.M	25.9	23.7	20.1	4.1	15.3	17.4
Operating Expenses	5,516	5,968	6,375	7,584	6,843	7,983	7,332	7,706	25,443	29,863
Operating Profit	5,035	5,632	6,043	7,440	6,445	6,372	7,584	7,941	24,150	28,342
Provision & Contingencies	2,531	1,068	891	3,118	1,414	981	1,400	3,605	7,608	7,400
PBT	2,504	4,564	5,152	4,322	5,030	5,392	6,184	4,336	16,543	20,942
Tax Provisions	871	1,680	1,861	1,866	1,722	2,120	2,103	1,176	6,278	7,120
Net Profit	1,633	2,884	3,291	2,457	3,308	3,272	4,081	3,160	10,265	13,822
% Change (YoY)	4.0	11.3	62.8	17.7	102.6	13.5	24.0	28.6	24.1	34.7
Cost to Income Ratio (%)	52.3	51.4	51.3	50.5	51.5	55.6	49.2	49.2	51.3	51.3
Int Exp/Int Earned (%)	59.4	60.7	61.1	59.8	65.2	65.9	64.9	64.6	60.3	65.1
Other Income / Net Income (%)	26.3	27.7	26.9	29.9	31.9	31.6	28.5	24.1	27.9	28.9

E: MOST Estimates

Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BOI IN
	REUTERS CODE
S&P CNX: 6,080	BOI.BO

28 December 2007

Buy

Rs 365

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	488.1										
52-Week Range	415/132										
1,6,12 Rel.Perf.(%)	2/23/32										
MCap. (Rs b)	178.3										
MCap. (US\$ b)	4.5										
	3/07A	50,034	11,232	23.0	60.2	15.9	3.1	11.6	21.3	0.9	3.3
	3/08E	59,164	15,118	31.0	34.6	11.8	2.6	12.0	23.8	1.0	2.7
	3/09E	68,176	17,776	36.4	17.6	10.0	2.1	10.5	23.1	1.0	2.3
	3/10E	80,809	21,332	43.7	20.0	8.4	1.8	10.5	22.9	1.0	1.9

- Loans and deposits growth is expected to remain strong at above 25%. We expect margins to remain stable in 3Q at ~3% level.
- Sustained fee income growth at 22-25%, treasury profits and recoveries would ensure other income remains higher.
- While there are no concerns over asset quality, we expect bank to make higher provisions toward NPAs to lower NPA ratios further.
- We expect the bank to make higher provisions towards AS-15 and staff costs (wage settlement) on account of stronger core operating profitability.
- The bank continues to be the most consistent in terms of improvement in core performance. We believe BoI has many levers which it could handle to rein in positive surprises to our earnings estimate. The stock is trading at 10.0x FY09E EPS and 2.1x FY10E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	20,211	22,582	23,187	26,154	27,273	29,752	31,071	33,048	89,363	121,144
Interest Expense	12,566	14,088	14,599	16,474	17,801	19,895	20,804	22,073	54,959	80,572
Reported Net Interest Income	7,644	8,494	8,588	9,680	9,472	9,858	10,266	10,976	34,405	40,572
% Change (Y-o-Y)	36.8	46.8	30.8	15.5	23.9	16.1	19.5	13.4	30.7	17.9
Reported Other Income	3,107	3,533	3,223	5,767	3,812	5,284	4,200	5,297	15,630	18,592
Net Income	10,751	12,026	11,811	15,447	13,284	15,142	14,466	16,272	50,034	59,164
% Change (Y-o-Y)	26.0	36.4	28.5	32.9	23.6	25.9	22.5	5.3	31.1	18.2
Operating Expenses	6,075	7,236	6,279	6,495	6,506	6,744	7,283	8,184	26,084	28,717
Operating Profit	4,676	4,791	5,532	8,952	6,778	8,398	7,183	8,088	23,950	30,447
Other Provisions	1,685	1,587	2,286	3,064	1,992	2,993	2,450	2,015	8,621	9,450
Profit Before tax	2,991	3,204	3,246	5,888	4,786	5,405	4,733	6,073	15,329	20,997
Tax Provisions	904	1,083	697	1,414	1,634	1,153	1,500	1,593	4,097	5,879
Net Profit	2,087	2,121	2,549	4,474	3,152	4,253	3,233	4,480	11,232	15,118
% Change (Y-o-Y)	21.5	60.5	78.1	75.9	51.0	100.5	26.8	0.1	60.1	34.6
Cost to Income Ratio (%)	56.5	60.2	53.2	42.0	49.0	44.5	50.3	50.3	52.1	48.5
Interest Exp./Interest Income (%)	62.2	62.4	63.0	63.0	65.3	66.9	67.0	66.8	61.5	66.5
Other Income/Net Income (%)	28.9	29.4	27.3	37.3	28.7	34.9	29.0	32.6	31.2	31.4

E: MOST Estimates

Canara Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CBK IN
	REUTERS CODE
S&P CNX: 6,080	CNBK.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs311

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	410.0										
52-Week Range	324/174										
1,6, 12 Rel.Perf.(%)	9/-20/-33										
MCap. (Rs b)	127.6										
MCap. (US\$ b)	3.2										
	3/07A	54,778	14,208	34.7	5.8	9.0	1.6	13.5	18.8	1.0	1.7
	3/08E	54,856	14,846	36.2	4.5	8.6	1.4	11.9	17.1	0.9	1.5
	3/09E	59,033	14,915	36.4	0.5	8.5	1.2	11.3	15.3	0.8	1.4
	3/10E	68,372	17,389	42.4	16.6	7.3	1.1	11.0	16.0	0.8	1.3

- ✎ We expect margins to remain under pressure, as funds cost continues to be high on account of aggressive build-up of bulk deposits during 4QFY07 along with muted growth in advances in 9MFY08.
- ✎ We expect marginal business growth during 3QFY08 over September 2007 levels as the bank is in the process of shredding its high-cost deposits as well as low-yielding and short-term advances, which it had contracted aggressively during 4QFY07.
- ✎ Other income growth has been lumpy for several quarters in the past on account of abruptness in its treasury profits, forex income, recoveries from written-off accounts. However, Canara Bank can leverage its investment book to register treasury profits to balance its poor operating performance.
- ✎ Canara Bank continues to enjoy amongst the best asset quality in the industry with gross NPAs at mere 1.66% and net NPAs at 0.99%. We do not expect any negative surprises as far as asset quality is concerned. Thus NPA provisions would continue to remain low for the bank going forward.
- ✎ At CMP, the stock is trading at 8.5x FY09E EPS and 1.2x FY09E BV. We remain **Neutral** on account of concerns over core operating profitability.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Earned	25,128	26,800	29,614	32,105	33,800	34,826	36,129	37,287	113,646	142,042
Interest Expended	15,649	16,988	19,220	21,512	24,859	26,957	27,869	27,693	73,377	107,378
Net Interest Income	9,478	9,811	10,394	10,593	8,941	7,869	8,260	9,595	40,268	34,664
% Change (YoY)	13.8	21.6	8.5	7.7	-5.7	-19.8	-20.5	-9.4	12.4	-13.9
Non Interest Income	2,582	3,133	2,993	6,262	3,801	5,721	4,490	5,531	14,509	20,192
Net Income	12,060	12,944	13,387	16,855	12,742	13,590	12,749	15,126	54,778	54,856
Operating Expenses	6,158	6,792	6,369	6,334	6,621	7,086	7,133	7,583	25,653	28,424
Operating Profit	5,902	6,152	7,018	10,521	6,121	6,503	5,616	7,542	29,125	26,432
% Change (YoY)	5.3	5.9	0.4	39.8	3.7	5.7	-20.0	-28.3	14.2	-9.2
Other Provisions & Contingencies	3,743	1,534	2,630	4,970	3,015	1,787	1,000	1,047	12,417	7,500
PBT	2,159	4,618	4,388	5,551	3,106	4,716	4,616	6,495	16,708	18,932
Provision for Taxes	250	1,000	750	500	700	700	800	1,886	2,500	4,086
Net Profit	1,909	3,618	3,638	5,051	2,406	4,016	3,816	4,608	14,208	14,846
% Change (YoY)	2.2	18.0	2.1	2.3	26.0	11.0	4.9	-8.8	5.8	4.5
Cost / Income	51.1	52.5	47.6	37.6	52.0	52.1	55.9	50.1	46.8	51.8
Int Exp / Int Income	62.3	63.4	64.9	67.0	73.5	77.4	77.1	74.3	64.6	75.6
Other Income / Net Income	21.4	24.2	22.4	37.2	29.8	42.1	35.2	36.6	26.5	36.8

E: MOST Estimates

Corporation Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CRPBK IN
	REUTERS CODE
S&P CNX: 6,080	CRBK.BO

28 December 2007

Sell

Rs428

Previous Recommendation: Sell

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	143.4										
52-Week Range	490/212										
1,6,12 Rel.Perf.(%)	-1/-2/-19										
MCap. (Rs b)	61.4										
MCap. (US\$ b)	1.6										
	3/07A	19,436	5,361	37.4	20.6	11.5	1.6	12.8	15.0	1.2	1.7
	3/08E	21,926	6,767	47.2	26.2	9.1	1.4	12.0	16.8	1.2	1.5
	3/09E	25,000	7,801	54.4	15.3	7.9	1.3	11.0	17.1	1.2	1.3
	3/10E	28,787	9,268	64.6	18.8	6.6	1.1	11.0	17.7	1.2	1.1

- ✎ The bank has significantly improved its yields to 10.2% during 1HFY08. We believe further improvement in the yields would only be marginal for the bank. Credit growth for the bank also remains sluggish at ~20% - below industry level.
- ✎ While fee income continues to grow at a slower pace for the bank, treasury profits and recoveries would help strong other income growth during the quarter.
- ✎ We believe the bank has made higher provisions for opex in 1HFY08 on the back of strong profitability. We expect opex to decline QoQ for the bank.
- ✎ Asset quality remains robust with net NPAs at 0.35%. We do not expect any material weakening of the asset portfolio for the bank.
- ✎ The stock trades at 7.9x FY09E EPS and 1.3x FY09E BV. We maintain **Sell**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	7,076	8,176	8,683	9,627	11,001	10,638	11,462	12,566	34,302	45,667
Interest Expense	4,053	5,158	5,536	5,777	7,479	7,092	7,611	7,967	20,524	30,150
Net Interest Income	3,023	3,018	3,148	3,849	3,522	3,546	3,851	4,599	13,778	15,518
% Change (Y-o-Y)	7.6	-1.5	-4.2	23.8	16.5	17.5	22.3	19.5	12.3	12.6
Other Income	1,875	1,131	1,593	1,800	1,387	1,832	1,784	1,406	5,658	6,409
Net Income	4,898	4,148	4,741	5,649	4,909	5,377	5,634	6,005	19,436	21,926
% Change (Y-o-Y)	14.8	-1.2	15.6	27.2	0.2	29.6	18.9	6.3	14.3	12.8
Operating Expenses	1,883	1,941	1,995	2,217	2,154	2,432	2,314	2,374	8,036	9,273
Operating Profit	3,015	2,208	2,745	3,432	2,756	2,945	3,320	3,632	11,400	12,653
% Change (Y-o-Y)	19.1	-7.7	26.8	40.2	-8.6	33.4	20.9	5.8	19.5	11.0
Other Provisions	838	238	647	1,513	200	542	600	1,059	3,235	2,400
PBT	2,177	1,970	2,099	1,919	2,556	2,404	2,720	2,573	8,166	10,253
Tax Provisions	735	700	635	735	785	790	925	986	2,804	3,486
Net Profit	1,442	1,270	1,464	1,185	1,771	1,614	1,795	1,587	5,361	6,767
% Change (Y-o-Y)	16.8	20.3	27.2	18.1	22.8	27.1	22.6	33.9	20.6	26.2
Cost to Income Ratio (%)	38.4	46.8	42.1	39.3	43.9	45.2	41.1	39.5	41.3	42.3
Interest Exp./Interest Income (%)	57.3	63.1	63.7	60.0	68.0	66.7	66.4	63.4	59.8	66.0
Other Income/Net Income (%)	38.3	27.3	33.6	31.9	28.3	34.1	31.7	23.4	29.1	29.2

E: MOST Estimates; All quarters have been adjusted for reclassification of amortization on HTM as part of other income

Federal Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	FB IN
	REUTERS CODE
S&P CNX: 6,080	FED.BO

28 December 2007

Buy

Rs335

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	85.8										
52-Week Range	395/144										
1,6,12 Rel.Perf.(%)	0/10/52										
MCap. (Rs b)	28.7										
MCap. (US\$ b)	0.7										
	3/07A	10,191	2,927	34.2	30.0	9.8	1.9	13.4	21.3	1.3	2.0
	3/08E	11,836	3,751	43.8	28.1	7.6	1.6	18.5	22.5	1.3	1.6
	3/09E	13,974	4,691	54.8	25.1	6.1	1.3	12.4	23.1	1.4	1.3
	3/10E	16,270	5,774	67.4	23.1	5.0	1.0	12.4	23.2	1.4	1.1

- ⌘ We expect strong 22% net interest income (NII) growth on the back of sustained margins at ~3.2% and ~25-26% advances growth.
- ⌘ Higher treasury profits and strong recoveries can bring in positive surprises to our earnings estimates.
- ⌘ Asset quality has substantially improved with gross NPAs at 2.91% and net NPAs at 0.4% as at September 2007. We hence expect NPA provisions to remain low.
- ⌘ Federal Bank is a play on improving asset quality, consolidation and attractive valuations. At CMP, the stock trades (before the right issue) at 6.1x FY09E EPS and 1.3x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	4,083	4,337	4,441	5,313	5,592	5,982	6,173	6,409	18,174	24,156
Interest Expense	2,497	2,662	2,676	3,033	3,665	3,918	4,013	4,029	10,850	15,626
Net Interest Income	1,586	1,675	1,766	2,280	1,928	2,063	2,160	2,379	7,324	8,530
% Change (Y-o-Y)	10.0	25.0	18.1	32.4	21.5	23.2	22.3	4.4	22.1	16.5
Other Income	543	726	545	1,054	1,005	769	700	832	2,867	3,306
Net Income	2,129	2,401	2,310	3,333	2,932	2,832	2,860	3,212	10,191	11,836
% Change (Y-o-Y)	14.2	26.0	16.8	37.8	37.8	18.0	23.8	-3.6	24.8	16.1
Operating Expenses	991	1,011	973	1,086	1,048	1,066	1,129	1,388	4,061	4,631
Operating Profit	1,137	1,390	1,337	2,247	1,884	1,766	1,731	1,824	6,130	7,205
Prov for Tax	176	170	196	388	545	265	350	298	1,055	1,459
Provisions and Contingencies	559	526	321	867	670	548	400	377	2,148	1,995
Net Profit	402	695	820	993	669	953	981	1,148	2,927	3,751
% Change (Y-o-Y)	-17.5	28.2	14.5	95.6	66.6	37.2	19.5	15.7	30.0	28.1
Cost to Income Ratio (%)	46.6	42.1	42.1	32.6	35.7	37.6	39.5	43.2	39.8	39.1
Interest Expense/Interest Income (%)	61.2	61.4	60.2	57.1	65.5	65.5	65.0	62.9	59.7	64.7
Other Income/Net Income (%)	25.5	30.2	23.6	31.6	34.3	27.2	24.5	25.9	28.1	27.9

E: MOST Estimates

HDFC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HDFC IN
	REUTERS CODE
S&P CNX: 6,080	HDFC.BO

28 December 2007

Buy

Rs2,924

Previous Recommendation: Buy

Equity Shares (m)	277.6
52-Week Range	3,195/1,397
1,6,12 Rel.Perf.(%)	1/10/33
MCap. (Rs b)	811.7
MCap. (US\$ b)	20.6

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E# (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV* RATIO
3/07A	22,294	15,704	62.1	23.2	35.2	13.3	13.0	31.3	2.8	14.0
3/08E	28,317	23,449	84.5	36.1	25.9	7.7	16.0	21.7	2.4	8.0
3/09E	35,226	23,771	82.8	-2.0	26.4	6.3	14.0	20.0	2.6	6.5
3/10E	43,884	29,889	104.1	25.7	21.0	5.5	14.0	20.9	2.7	5.6

*Price and Book Value is adjusted for investments in key ventures; Price adjusted for subsidiary

- Despite concerns relating to growth in mortgages, we expect HDFC to maintain its traditional growth of 26-27% in disbursements and 25%+ in loans.
- Reduced lending rates for festive season would lead to a strong quarter for HDFC. October 2007 has been one of the best ever month in terms of sanctions for the company.
- We expect HDFC's spreads to improve QoQ, as cost of funds have moderated for the company during the quarter while lending rates on existing portfolio have remained unchanged.
- We expect 31% normalized PBT growth in 3QFY08. HDFC continues to be one of the most consistent performers in the sector and we expect sustained outperformance in future as well.
- We have not factored in exceptional capital gains of close to Rs3b from stake sale in HDFC general insurance (26%) to Ergo, HDFC Life insurance (~7%) to Standard Life in our estimates.
- Adjusting for the value of its investments, HDFC is available at 26.4x FY09E EPS. With strong growth prospects, we are optimistic over the future earnings prospects of HDFC, Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Income from Operations	12,457	14,468	14,545	17,285	18,270	18,886	19,054	20,797	58,755	77,006
Other Income	28	95	39	45	34	39	50	97	208	220
Total Income	12,485	14,563	14,585	17,330	18,304	18,925	19,104	20,893	58,963	77,226
YoY Change (%)	33.6	38.9	38.2	39.8	46.6	29.9	31.0	20.6	37.8	31.0
Interest and Other Charges	8,014	9,137	9,475	10,042	12,451	12,238	12,412	11,808	36,669	48,910
Other Expenses	667	686	614	474	765	823	798	497	2,442	2,884
Total Expenses	8,681	9,823	10,089	10,517	13,217	13,061	13,211	12,306	39,110	51,794
PBDT	3,805	4,740	4,495	6,813	5,087	5,864	5,893	8,588	19,852	25,432
YoY Change (%)	22.0	22.3	25.8	31.4	33.7	23.7	31.1	26.1	26.0	28.1
Depreciation	37	39	47	52	37	40	48	75	175	200
PBT	3,767	4,701	4,448	6,761	5,050	5,824	5,845	8,513	19,678	25,232
Exceptional Profits	0	0	0	0	0	3,133	0	2,900	0	6,033
Reported PBT	3,767	4,701	4,448	6,761	5,050	8,957	5,845	11,413	19,678	31,265
Provision for Tax	799	1,021	886	1,261	1,322	2,493	1,403	2,598	3,974	7,816
Reported PAT	2,968	3,680	3,562	5,501	3,728	6,464	4,442	8,814	15,704	23,449
YoY Change (%)	20.0	23.1	25.2	29.0	25.6	75.6	24.7	60.2	24.9	49.3

E: MOST Estimates

HDFC Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HDFCB IN
	REUTERS CODE
S&P CNX: 6,080	HDBK.BO

28 December 2007

Buy

Rs 1,731

Previous Recommendation: Buy

Equity Shares (m)	319.4
52-Week Range	1,799/890
1,6,12 Rel.Perf.(%)	1/19/14
MCap. (Rs b)	552.8
MCap. (US\$ b)	14.0

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	49,847	11,419	35.8	28.3	48.4	8.6	13.1	19.5	1.4	8.8
3/08E	69,484	15,540	43.7	22.2	39.6	5.2	13.4	17.0	1.4	5.3
3/09E	90,919	20,886	58.7	34.4	29.5	4.6	11.4	16.5	1.5	4.6
3/10E	118,953	28,405	79.9	36.0	21.7	3.9	10.1	19.3	1.6	3.9

- HDFC Bank is expected to maintain its trend of consistent PAT growth of ~30%+. We expect margins to improve during 3QFY08 on account of capital raising of US\$1b in 1HFY08 and sustained higher yields.
- HDFC Bank has added 218 branches in the last one year and is expected to add about 90-100 more branches in FY08. Branch expansion makes us comfortable about profitable and robust business growth, going forward.
- Rapid expansion of branch network would continue to keep upward pressure on operating expenses while we expect the overall cost-to-income ratio to be held firm at ~50% in 3QFY08.
- The equity raising of US\$1b in FY08 is significantly book accretive. While RoEs would come down on account of this capital raising in the near future, we expect returns to bounce back to 20%+ level over next 3-4years. On a post diluted basis, the current valuations are at 29.5x FY09E EPS and 4.6x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	14,444	15,780	16,989	19,266	20,692	23,628	25,484	27,227	66,479	97,030
Interest Expense	6,867	7,901	8,307	8,721	10,836	12,001	13,083	13,301	31,795	49,221
Net Interest Income	7,578	7,880	8,682	10,545	9,855	11,627	12,400	13,926	34,685	47,809
Growth (%)	44.7	28.7	29.5	42.6	30.1	47.6	42.8	32.1	50.8	37.8
Other Income	3,508	3,977	3,733	3,944	5,725	4,824	5,152	5,975	15,162	21,675
Net Income	11,086	11,857	12,415	14,490	15,581	16,451	17,552	19,901	49,847	69,484
Growth (%)	40.8	35.9	28.4	38.8	40.5	38.7	41.4	37.3	45.6	39.4
Operating Expenses	5,527	5,791	6,050	6,839	7,744	8,184	8,773	9,171	24,208	33,871
Operating Profit	5,558	6,066	6,365	7,650	7,837	8,267	8,779	10,730	25,639	35,613
Provisions and Contingencies	2,040	2,481	2,060	2,671	3,071	2,894	2,900	3,895	9,247	12,760
Profit Before Tax	3,518	3,585	4,305	4,980	4,766	5,373	5,879	6,836	16,392	22,853
Provision for Taxes	1,125	955	1,349	1,544	1,553	1,688	1,881	2,190	4,973	7,313
Net Profit	2,393	2,629	2,956	3,436	3,212	3,685	3,998	4,645	11,419	15,540
Growth (%)	30.4	31.7	31.7	30.5	34.2	40.1	35.2	35.2	30.8	36.1
Cost to Income Ratio (%)	49.9	48.8	48.7	47.2	49.7	49.7	50.0	46.1	48.6	48.7
Interest Exp./Interest Income (%)	47.5	50.1	48.9	45.3	52.4	50.8	51.3	48.9	47.8	50.7
Other Income/Total Income (%)	31.6	33.5	30.1	27.2	36.7	29.3	29.4	30.0	30.4	31.2

E: MOST Estimates; * HTM amortisation is included in the other income

ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ICICIBC IN
	REUTERS CODE
S&P CNX: 6,080	ICBK.BO

28 December 2007

Neutral

Previous Recommendation: Under Review

Rs 1,227

	YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
Equity Shares (m)	1,108.3										
52-Week Range	1,348/791										
1,6,12 Rel.Perf.(%)	2/-9/-9										
M.Cap. (Rs b)	1,360.0										
M.Cap. (US\$ b)	34.5										
	3/07A	125,650	31,102	34.6	21.2	35.5	4.5	11.7	13.4	1.0	4.8
	3/08E	167,263	40,496	36.5	5.7	33.6	2.9	13.6	11.3	1.0	3.1
	3/09E	219,927	50,847	45.9	25.6	26.7	2.7	11.5	10.4	1.0	2.9
	3/10E	286,961	64,567	58.3	27.0	21.1	2.4	9.9	12.1	1.1	2.7

- ✦ Margins are expected to improve during 3QFY08 to 2.3%+ on account of slower asset growth and contained cost of funds.
- ✦ The bank has raised lending rates aggressively and its retail lending rates are higher versus the market. Housing disbursements continue to decline YoY. Thus the domestic loan book growth would continue to slow down.
- ✦ Fee income, treasury profits as well as income venture fund investments would continue driving strong other income growth.
- ✦ With deteriorating asset quality and exposure to riskier asset classes, we expect NPA provisions to continue to remain high.
- ✦ At CMP, excluding the subsidiaries, the stock trades at 20.1x FY09E EPS and 2.0x FY09E BV. We have a **Neutral** view on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	47,721	52,267	56,007	63,956	73,308	75,165	80,050	85,024	219,956	313,547
Interest Expense	35,634	38,924	41,159	47,869	58,519	57,305	60,170	63,044	163,585	239,038
Net Interest Income	12,088	13,343	14,848	16,087	14,790	17,860	19,880	21,979	56,371	74,509
Growth (%)	N.M.	N.M.	N.M.	N.M.	22.4	33.9	33.9	36.6	44.3	32.2
Other Income	12,776	15,701	19,806	21,000	19,506	20,719	25,000	27,528	69,279	92,753
Net Income	24,863	29,044	34,654	37,087	34,295	38,579	44,880	49,507	125,650	167,263
Operating Expenses	15,215	15,352	17,133	19,206	19,053	19,708	23,000	29,836	66,906	91,598
Operating Profit	9,648	13,691	17,521	17,881	15,242	18,871	21,880	19,671	58,744	75,665
Growth (%)	-0.6	31.1	46.7	20.7	58.0	37.8	24.9	10.0	51.1	28.8
Provisions and Contingencies	2,169	4,660	6,670	8,760	5,523	6,445	7,000	6,078	22,294	25,045
Profit before Tax	7,480	9,031	10,852	9,121	9,720	12,427	14,880	13,593	36,450	50,620
Provision for Taxes	1,286	1,475	1,751	870	1,969	2,401	3,125	2,630	5,348	10,124
Net Profit	6,194	7,556	9,101	8,251	7,751	10,026	11,756	10,964	31,102	40,496
Growth (%)	16.9	30.3	42.2	4.5	25.1	32.7	29.2	32.9	22.4	30.2
Interest Exp./Interest Income (%)	74.7	74.5	73.5	74.8	79.8	76.2	75.2	74.1	74.4	76.2
Other Income/Net Income (%)	51.4	54.1	57.2	56.6	56.9	53.7	55.7	55.6	55.1	55.5
Cost/Income (%)	61.2	52.9	49.4	51.8	55.6	51.1	51.2	60.3	53.2	54.8

E: MOST Estimates; *Amortisation on HTM investments deducted from NII

Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	INBK IN
	REUTERS CODE
S&P CNX: 6,080	INBA.BO

28 December 2007

Buy

Rs 195

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	429.8										
52-Week Range	223/77										
1,6,12 Rel.Perf.(%)	-7/16/-										
MCap. (Rs b)	83.6										
MCap. (US\$ b)	2.1										
	3/07A	26,052	7,598	17.7	20.5	11.0	2.6	14.1	28.4	1.5	2.6
	3/08E	28,505	9,577	22.3	26.0	8.7	2.1	12.5	25.5	1.6	2.1
	3/09E	32,712	11,956	27.8	24.8	7.0	1.7	11.0	26.0	1.6	1.7
	3/10E	36,754	12,538	29.2	4.9	6.7	1.4	0.0	22.4	1.5	1.4

- Considering the comfortable liquidity position of the bank, we expect loan book growth to remain strong at >25% YoY – higher versus industry growth rate.
- We expect margins to improve during the quarter as credit offtake has picked up and incremental C-D ratio has improved significantly during 3QFY08.
- Strong recoveries and treasury profits would also drive earnings growth this quarter.
- The higher operating profitability may enable it to make higher provisions towards AS-15 liability, NPAs and standard assets.
- The stock trades at 7x FY09E EPS and 1.7x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q*	1Q	2Q	3QE	4QE		
Interest Income	9,562	10,322	10,766	12,196	12,029	12,519	13,145	14,696	42,847	52,389
Interest Expense	5,468	5,785	6,406	6,466	7,124	7,862	8,098	8,162	24,126	31,245
Net Interest Income	4,094	4,537	4,360	5,730	4,905	4,657	5,047	6,534	18,720	21,143
% Change (Y-o-Y)	20.2	26.1	18.1	30.0	19.8	2.6	15.8	14.0	24.0	12.9
Other Income	922	1,441	857	3,215	1,739	2,412	1,600	1,610	7,332	7,361
Net Income	5,016	5,978	5,217	8,945	6,644	7,069	6,647	8,145	26,052	28,505
% Change (Y-o-Y)	9.4	21.1	9.1	46.3	32.5	18.3	27.4	-8.9	32.0	9.4
Operating Expenses	2,721	3,005	2,761	3,529	3,346	3,635	3,368	3,520	12,466	13,869
Operating Profit	2,295	2,973	2,456	5,416	3,298	3,434	3,279	4,625	13,586	14,636
Other Provisions	417	1,043	333	2,486	907	497	500	1,596	4,744	3,500
Profit Before tax	1,878	1,930	2,123	2,930	2,391	2,937	2,779	3,029	8,842	11,136
Tax Provisions	230	238	218	577	270	461	320	508	1,244	1,559
Net Profit	1,648	1,692	1,905	2,353	2,121	2,476	2,459	2,521	7,598	9,577
% Change (Y-o-Y)	20.7	60.2	54.7	69.2	28.7	46.4	29.1	7.2	50.6	26.0
Cost to Income Ratio (%)	54.2	50.3	52.9	39.5	50.4	51.4	50.7	43.2	47.9	48.7
Interest Exp./Interest Income (%)	57.2	56.0	59.5	53.0	59.2	62.8	61.6	55.5	56.3	59.6
Other Income/Net Income (%)	18.4	24.1	16.4	35.9	26.2	34.1	24.1	19.8	28.1	25.8

E: MOST Estimates

Indian Overseas Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	IOB IN
	REUTERS CODE
S&P CNX: 6,080	IOBK.BO

28 December 2007

Buy

Rs 177

Previous Recommendation: Buy

Equity Shares (m)	544.8
52-Week Range	199/89
1,6,12 Rel.Perf.(%)	14/15/12
MCap. (Rs b)	96.6
MCap. (US\$ b)	2.4

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	29,478	10,084	18.5	28.7	9.6	2.5	13.3	29.1	1.4	2.6
3/08E	34,372	12,006	22.0	19.1	8.0	2.0	12.0	27.5	1.3	2.1
3/09E	40,205	14,215	26.1	18.4	6.8	1.6	11.7	26.1	1.3	1.7
3/10E	47,426	16,721	30.7	17.6	5.8	1.4	11.7	25.5	1.3	1.4

- Loan book is expected to grow at ~24-25% YoY on account of the bank's comfortable liquidity position as well as the consolidation of Bharat Overseas Bank's advances. However sequential growth would continue to remain subdued (3-4%) for the bank.
- We expect margins to improve from 2QFY08 levels, however they would continue to be significantly (~50-60bp) lower than the historical level of ~4%, as cost of funds has increased significantly.
- We expect fee income growth (20-22%) and treasury profits to remain strong during the quarter. The bank has started debt syndication and a derivatives desk for clients, which could add to fee income going forward.
- Asset quality is strong with gross NPAs at 2.1% and net NPAs at 0.35% in 2QFY08. We do not expect material weakness in asset quality for the bank, while we have factored in higher NPA provisions for the bank on a conservative basis.
- PAT growth is likely to be 17% YoY in 3QFY08, driven by steady growth in NII, robust other income and lower provisions.
- At CMP, the stock is trading at 6.8x FY09E EPS and 1.6x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	12,409	13,721	14,737	17,454	18,462	19,303	20,172	21,097	58,321	79,034
Interest Expense	6,654	7,602	8,686	9,771	11,372	12,982	13,241	13,420	32,713	51,015
Net Interest Income	5,755	6,119	6,051	7,682	7,090	6,321	6,930	7,678	25,608	28,020
% Change (Y-o-Y)	0.0	0.0	15.1	42.0	23.2	3.3	14.5	-0.1	23.9	9.4
Other Income	-342	964	1,980	1,905	616	1,745	1,800	2,192	3,870	6,353
Net Income	5,413	7,083	8,031	9,587	7,706	8,066	8,730	9,870	29,478	34,372
% Change (Y-o-Y)	0.0	0.0	17.1	27.3	42.4	13.9	8.7	3.0	5.5	16.6
Operating Expenses	3,302	3,491	3,116	3,970	3,614	3,486	4,050	4,447	13,878	15,598
Operating Profit	2,111	3,592	4,916	5,618	4,092	4,580	4,680	5,423	15,600	18,775
Other Provisions	-554	-15	1,251	1,820	620	83	500	897	1,866	2,100
Tax Provisions	445	1,108	1,197	900	787	1,300	1,300	1,282	3,650	4,669
Net Profit	2,220	2,499	2,468	2,898	2,685	3,197	2,880	3,244	10,084	12,006
% Change (Y-o-Y)	21.2	25.9	25.1	41.7	20.9	28.0	16.7	11.9	28.7	19.1
Cost to Income Ratio (%)	61.0	49.3	38.8	41.4	46.9	43.2	46.4	45.1	47.1	45.4
Interest Exp./Interest Income (%)	53.6	55.4	58.9	56.0	61.6	67.3	65.6	63.6	56.1	64.5
Other Income/Net Income (%)	-6.3	13.6	24.7	19.9	8.0	21.6	20.6	22.2	13.1	18.5

E: MOST Estimates

Jammu & Kashmir Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	JKBK IN
	REUTERS CODE
S&P CNX: 6,080	JKBK.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs827

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	48.5	3/07A	9,281	2,745	56.6	55.2	14.6	2.0	13.2	14.4	1.0	2.1
52-Week Range	910/585	3/08E	10,507	3,483	71.8	26.9	11.5	1.8	12.1	16.2	1.1	1.9
1,6,12 Rel.Perf.(%)	5/-15/-20	3/09E	12,445	4,057	83.7	16.5	9.9	1.5	11.6	16.7	1.1	1.7
MCap. (Rs b)	40.1	3/10E	14,566	4,806	99.1	18.5	8.3	1.3	11.6	17.2	1.0	1.4
MCap. (US\$ b)	1.0											

- Net interest income (NII) is expected to grow 9% to Rs2.1b in 3QFY08 on the back of strong loan book growth and improved margins.
- Other income growth aided by insurance distribution commission and treasury profits have been a key earnings driver. We expect the same trend to continue during 3QFY08.
- Management has guided for higher-than-industry growth in advances during FY08. Management's ability to source core deposits to fund this growth without impacting margins would be the key aspect to watch.
- Asset quality deteriorated significantly during 4QFY07 (net NPAs increased to >1%) as some legacy accounts were recognized as NPAs. Management has guided for improvement in asset quality through recoveries during FY08. Some signs of improvement in asset quality were visible during 1HFY08. Asset quality improvement would be a key area to watch out for going forward.
- We expect PAT to grow 16% in 3QFY08 on the back of sustained margins and strong other income growth.
- The stock currently trades at 9.9x FY09E EPS and 1.5x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	4,547	4,605	4,631	5,210	5,751	5,967	6,206	6,840	18,993	24,763
Interest Expenses	2,760	2,688	2,680	3,187	3,854	4,016	4,074	4,379	11,315	16,323
Net Interest Income	1,786	1,918	1,951	2,024	1,896	1,951	2,132	2,461	7,678	8,440
% Change (Y-o-Y)	0.0	0.0	0.0	0.0	6.2	1.7	9.3	21.6	15.7	9.9
Other Income	217	358	379	701	358	581	550	578	1,602	2,067
Net Income	2,003	2,276	2,329	2,725	2,254	2,532	2,682	3,040	9,281	10,507
Operating Expenses	829	914	888	1,094	943	1,034	1,030	1,209	3,724	4,215
Operating Profit	1,174	1,362	1,442	1,631	1,312	1,498	1,652	1,831	5,556	6,292
% Change (Y-o-Y)	0.0	0.0	0.0	0.0	11.7	10.0	14.6	12.3	29.4	13.2
Prov. & Contingencies	291	192	353	621	190	40	300	640	1,404	1,170
Profit before Tax	884	1,170	1,089	1,010	1,122	1,458	1,352	1,191	4,152	5,122
Provision for Taxes	260	340	250	557	289	380	380	590	1,407	1,639
Net Profit	624	830	839	453	832	1,078	972	601	2,745	3,483
% Change (Y-o-Y)	28.8	50.9	65.6	98.6	33.4	30.0	15.8	32.7	55.2	26.9
Cost to Income	41.4	40.2	38.1	40.1	41.8	40.8	38.4	39.8	40.1	40.1
Interest Exp./Interest Earned	60.7	58.4	57.9	61.2	67.0	67.3	65.6	64.0	59.6	65.9
Cost to Net Int.Income	46.4	47.7	45.5	54.0	49.7	53.0	48.3	49.1	48.5	49.9

E: MOSt Estimates; All quarters have been adjusted for reclassification of ammortisaion on HTM

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Karnataka Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	KBL IN
	REUTERS CODE
S&P CNX: 6,080	KNBK.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs219

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	121.3	3/07A	5,941	1,770	14.6	0.5	15.0	2.1	11.5	15.1	1.1	2.3
52-Week Range	251/137	3/08E	6,817	2,291	17.9	23.0	12.2	1.8	13.5	16.4	1.3	1.9
1,6,12 Rel.Perf.(%)	-3/-14/-2	3/09E	7,920	2,704	21.2	18.0	10.3	1.6	13.3	16.2	1.3	1.7
MCap. (Rs b)	26.5	3/10E	9,166	3,193	25.0	18.1	8.8	1.4	13.3	16.8	1.3	1.5
MCap. (US\$ b)	0.7											

- ✍ We expect 10% net interest income (NII) growth YoY as margins would come under pressure with the bank building up its deposits base. While yield on advances has peaked, cost of funds would put pressure on margins.
- ✍ The bank has shown robust 35% growth in traditional fee income during FY07. Even during 1HFY08, fee income grew by 20%+. We expect the bank to continue to maintain ~20-22% growth in non-treasury other income going forward.
- ✍ There have been some issues with asset quality during 1QFY08. While strong recoveries have led to improvement in 2QFY08, net NPA ratio continues to be >1% for the bank. NPA quality, provisions and recoveries would be key aspects to watch for and can bring in surprises to our estimates.
- ✍ Karnataka Bank is a play on improving key operating parameters and consolidation. At CMP, the stock trades at 10.3x FY09E EPS and 1.6x FY09E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	2,858	2,953	3,220	3,532	3,619	3,828	3,928	4,109	12,563	15,484
Interest Expense	1,904	2,047	2,170	2,243	2,375	2,721	2,777	2,713	8,364	10,586
Net Interest Income	953	906	1,050	1,289	1,244	1,106	1,151	1,397	4,199	4,898
% Change (Y-o-Y)	5.0	18.8	7.5	27.5	30.5	22.0	9.6	8.4	14.8	16.7
Other Income	449	487	397	410	418	569	500	432	1,743	1,919
Net Income	1,402	1,393	1,448	1,698	1,662	1,675	1,651	1,829	5,941	6,817
% Change (Y-o-Y)	1.2	14.7	7.7	22.8	18.5	20.2	14.1	7.7	11.5	14.7
Operating Expenses	520	653	553	650	623	768	640	617	2,376	2,648
Operating Profit	882	741	895	1,049	1,038	907	1,011	1,212	3,566	4,169
Other Provisions	331	-163	62	608	246	-86	200	440	838	800
Tax Provisions	183	308	294	173	275	392	260	152	957	1,078
Net Profit	368	596	539	268	518	601	552	620	1,770	2,291
% Change (Y-o-Y)	-11.8	42.8	29.8	-47.5	40.8	0.9	2.4	131.7	0.6	29.4
Cost to Income Ratio (%)	37.1	46.8	38.2	38.3	37.5	45.8	38.8	33.7	40.0	38.8
Interest Exp./Interest Income (%)	66.6	69.3	67.4	63.5	65.6	71.1	70.7	66.0	66.6	68.4
Other Income/Net Income (%)	32.0	35.0	27.4	24.1	25.1	34.0	30.3	23.6	29.3	28.2

E: MOST Estimates

Oriental Bank of Commerce

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	OBC IN
	REUTERS CODE
S&P CNX: 6,080	ORBC.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs273

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	250.5										
52-Week Range	291/157										
1,6,12 Rel. Perf.(%)	0/-13/-28										
MCap. (Rs b)	68.4										
MCap. (US\$ b)	1.7										
	3/07A	22,946	8,268	33.0	2.9	8.3	1.3	12.5	15.4	1.2	1.4
	3/08E	24,255	9,343	37.3	13.0	7.3	1.2	12.0	15.9	1.1	1.2
	3/09E	27,673	10,248	40.9	9.7	6.7	1.0	11.0	15.9	1.1	1.1
	3/10E	32,337	11,289	45.1	10.2	6.1	0.9	11.0	15.9	1.0	1.0

- Yields on advances expected to improve on the back of strong growth in advances (22-24%) in Q3FY08 and lag effect of rise in PLR. The bank has been shredding its high cost deposits and replacing them with retail term and savings deposits during the past three quarters due to which cost of funds is expected to remain stable with downward bias. Overall we expect margins to improve by 5-10bp during the quarter and NII to grow by 7% to Rs4.5b.
- Sustained growth in fee income, higher profit on sale of investments and controlled operating costs would help the bank to show improved operating profit performance during 3QFY08.
- OBC continues to enjoy robust asset quality with net NPAs at 0.64%. Recoveries are expected to remain strong for the bank. Moreover, the bank has a pool of Rs2.5b of specific NPA provisions made in excess of the RBI requirement.
- We expect the bank to report 6% YoY growth in net profit. Reversal of provisions on NPA and investments can provide surprise in the bottomline.
- At CMP, the stock is trading at 6.7x FY09E EPS and 1x FY09E BV. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q*	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	11,353	12,822	13,137	14,336	15,341	16,457	17,341	17,898	51,649	67,038
Interest Expense	7,244	8,695	8,924	9,874	10,910	12,462	12,851	12,944	34,736	49,166
Net Interest Income	4,110	4,128	4,213	4,462	4,431	3,995	4,491	4,955	16,913	17,872
% Change (YoY)	2.0	2.1	6.7	10.7	7.8	-3.2	6.6	11.0	5.4	5.7
Other Income	1,687	1,579	1,330	1,437	1,462	1,425	1,600	1,896	6,033	6,383
Net Income	5,797	5,707	5,543	5,899	5,893	5,420	6,091	6,850	22,946	24,255
% Change (YoY)	16.3	-1.0	6.3	5.0	1.7	-5.0	9.9	16.1	6.3	5.7
Operating Expenses	2,287	2,566	2,476	2,650	2,642	2,698	2,749	2,814	9,979	10,903
Operating Profit	3,510	3,141	3,067	3,249	3,251	2,722	3,342	4,036	12,967	13,352
Provision & Contingencies	1,477	-737	81	1,616	506	-191	-100	685	2,436	900
PBT	2,033	3,878	2,986	1,633	2,745	2,913	3,442	3,352	10,531	12,452
Tax Provisions	481	771	550	462	741	551	859	958	2,263	3,108
Net Profit	1,553	3,108	2,437	1,171	2,004	2,362	2,583	2,394	8,268	9,343
% Change (YoY)	48.2	37.2	19.1	-56.2	29.1	-24.0	6.0	104.4	2.9	13.0
Cost to Income Ratio (%)	39.4	43.4	44.7	44.9	44.8	49.8	45.1	41.1	43.5	45.0
Int Exp/ Int Earned (%)	63.8	59.9	67.9	68.9	71.1	75.7	74.1	72.3	67.3	73.3
Other Income / Net Income (%)	29.1	29.9	24.0	24.4	24.8	26.3	26.3	27.7	26.3	26.3

E: MOST Estimates; * HTM Ammortisation and losses on account of transfer of securities from AFS to HTM considered as part of other income

Punjab National Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	PNB IN
	REUTERS CODE
S&P CNX: 6,080	PNB.BO

28 December 2007

Buy

Rs671

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	315.3										
52-Week Range	700/400										
1,6,12 Rel.Perf.(%)	8/-9/-15										
M.Cap. (Rs b)	211.6										
M.Cap. (US\$ b)	5.4										
	3/07A	65,569	15,401	48.8	7.0	13.7	2.1	12.3	16.0	1.0	2.2
	3/08E	72,079	18,057	57.3	17.2	11.7	1.8	11.3	16.7	1.0	2.0
	3/09E	88,069	21,888	69.4	21.2	9.7	1.6	11.0	17.8	1.1	1.7
	3/10E	101,869	27,677	87.8	26.4	7.6	1.4	10.5	19.5	1.1	1.5

- ✍ We expect margins to remain stable QoQ but down YoY on account of aggressive intake of high cost deposits during 4QFY07. While yields improvement would be marginal going forward, managing the rising cost of funds would be a major challenge for the bank. We expect flat net interest income YoY.
- ✍ Thrust on growing fee income, robust technological support and widespread customer franchise would enable PNB to grow fee income by ~20% in 3QFY08.
- ✍ Sharp deterioration in asset quality in last couple of quarters continues to be our concern for the bank. Management is confident of recovering the slippages and bringing down the NPA ratios. We expect earnings growth to remain muted on account of higher provisions towards NPAs.
- ✍ At CMP, the stock is trading at 9.7x FY09E EPS and 1.6x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	25,591	26,882	28,723	31,184	32,860	34,631	37,055	40,789	112,362	145,335
Interest Expense	13,476	14,015	15,024	17,714	19,850	21,716	23,236	25,074	60,229	89,876
Net Interest Income	12,115	12,867	13,699	13,470	13,010	12,915	13,819	15,715	52,133	55,459
% Change (YoY)	N.M	N.M	N.M	N.M	7.4	0.4	0.9	16.7	0.0	6.4
Other Income	-227	3,710	3,991	5,944	113	4,678	5,500	6,328	13,436	16,620
Net Income	11,888	16,577	17,689	19,414	13,124	17,593	19,319	22,044	65,569	72,079
% Change (YoY)	N.M	N.M	N.M	N.M	10.4	6.1	9.2	13.5	11.2	9.9
Operating Expenses	6,969	7,580	8,123	10,591	8,770	9,043	9,100	9,671	33,262	36,583
Operating Profit	4,920	8,997	9,567	8,824	4,354	8,550	10,219	12,373	32,306	35,495
Provision & Contingencies	-216	1,127	3,577	6,127	-1,905	778	3,000	7,827	10,615	9,700
PBT	5,135	7,870	5,990	2,697	6,259	7,772	7,219	4,546	21,691	25,795
Tax Provisions	1,460	2,820	1,691	320	2,009	2,386	1,800	1,544	6,291	7,739
Net Profit	3,675	5,050	4,299	2,377	4,250	5,385	5,419	3,003	15,401	18,057
% Change (YoY)	2.6	19.7	16.0	-17.7	15.6	6.6	26.1	26.3	7.0	17.2
Cost to Income Ratio (%)	58.6	45.7	45.9	54.6	66.8	51.4	47.1	43.9	50.7	50.8
Int exp/ Int Earned (%)	52.7	52.1	52.3	56.8	60.4	62.7	62.7	61.5	53.6	61.8
Other Income / Net Income (%)	-1.9	22.4	22.6	30.6	0.9	26.6	28.5	28.7	20.5	23.1

E: MOST Estimates

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State Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SBIN IN
	REUTERS CODE
S&P CNX: 6,080	SBI.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs2,384

	YEAR	NET INCOME	PAT	EPS	CON. EPS	CON.	P/BV	CON.	CAR	ROAE	ROAA
	END	(RS B)	(RS B)	(RS)	(RS)	P/E (X)	(X)	P/BV (X)	(%)	(%)	(%)
Equity Shares (m)	526.3										
52-Week Range	2,475/845										
1,6,12 Rel.Perf.(%)	-1/23/47										
MCap. (Rs b)	1254.9										
MCap. (US\$ b)	31.8										
	3/07A	218.2	45.4	86.3	120.9	19.7	4.0	2.8	12.3	15.4	0.9
	3/08E	251.7	57.6	109.4	141.1	16.9	3.5	2.5	11.2	17.1	0.9
	3/09E	299.4	70.1	133.1	167.4	14.2	3.0	2.1	10.2	18.0	0.9
	3/10E	351.8	84.3	133.1	197.5	12.1	2.6	2.1	10.2	18.6	0.9

Consolidated

- ✎ We expect margins to remain under pressure (<3%) for SBI on account of increased cost of funds due to aggressive mop of special interest rate retail deposits by the bank during 4QFY07 and 1QFY08.
- ✎ We expect advances growth to remain strong for the bank at ~25% YoY. Deposits growth has picked up for the bank to >22% YoY on account of higher interest rates offered on retail term deposits.
- ✎ Treasury profits can be significant from the equity book of the bank which can bring positive surprises to our earnings.
- ✎ We expect the bank to start providing for transitional liability on account of revised AS-15 at a run rate of Rs2.2b per quarter. We have factored in higher provisions for NPAs considering net NPAs for SBI continue to remain high at 1.6%. Lower-than-expected provisions can bring in positive earnings surprises.
- ✎ At CMP, the stock is trading at 14.2x FY09E consolidated EPS and 2.1x FY09E consolidated BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	84,786	87,996	97,359	115,415	110,905	116,163	124,294	141,355	384,542	492,717
Interest Expenses	49,466	52,593	57,846	72,213	68,891	78,534	84,031	93,544	234,368	324,999
Net Interest Income	35,320	35,403	39,513	43,201	42,014	37,629	40,263	47,811	150,174	167,717
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	19.0	6.3	1.9	10.7	-3.7	11.7
Other Income	10,882	14,377	18,110	28,941	11,386	20,419	24,000	28,142	68,060	83,947
Net Income	46,202	49,780	57,623	72,142	53,400	58,049	64,263	75,953	218,235	251,665
Operating Expenses	28,146	28,655	29,074	32,460	29,785	30,916	33,435	34,779	118,235	128,915
Operating Profit	18,056	21,125	28,549	39,682	23,615	27,132	30,828	41,174	99,999	122,749
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	30.8	28.4	8.0	3.8	21.2	22.8
Other Provisions	2,511	3,213	11,662	14,126	1,594	857	12,500	21,863	24,096	36,814
Provision for Taxes	7,559	6,067	6,237	10,626	7,763	10,161	6,232	4,204	30,490	28,359
Net Profit	7,986	11,845	10,650	14,930	14,258	16,114	12,097	15,108	45,413	57,577
% Change (Y-o-Y)	-34.7	-2.5	-4.5	75.0	78.5	36.0	13.6	1.2	3.1	26.8
Cost to Income Ratio	60.9	57.6	50.5	45.0	55.8	53.3	52.0	45.8	54.2	51.2
Interest Exp / Interest Earned	58.3	59.8	59.4	62.6	62.1	67.6	67.6	66.2	60.9	66.0
Other Income / Net Income	23.6	28.9	31.4	40.1	21.3	35.2	37.3	37.1	31.2	33.4

E: MOST Estimates

Syndicate Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SNDB IN
	REUTERS CODE
S&P CNX: 6,080	SBNK.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 115

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	522.0										
52-Week Range	124/57										
1,6,12 Rel.Perf.(%)	9/16/8										
MCap. (Rs b)	59.9										
MCap. (US\$ b)	1.5										
	3/07A	27,685	7,161	13.7	33.5	8.4	1.8	11.7	21.9	1.0	2.0
	3/08E	29,498	8,074	15.5	12.8	7.4	1.5	11.3	20.1	0.8	1.7
	3/09E	31,877	7,477	14.3	-7.4	8.0	1.4	10.8	16.3	0.7	1.5
	3/10E	38,011	9,400	18.0	25.7	6.4	1.2	10.8	18.0	0.7	1.3

- ✍ We expect NII growth to remain subdued and margins to be under pressure on account of slower advances growth and increased cost of deposits on account of aggressive bulk deposit raising by the bank.
- ✍ Strong equity treasury profits would ensure robust growth in other income.
- ✍ The bank would come out of MAT during FY08 and thus tax provisions would tend to go up for the bank. We have assumed a 11% tax rate for 3QFY08.
- ✍ The stock is trading at 8x FY09E EPS and 1.4x FY09E BV. Valuations are attractive. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	12,308	14,373	16,353	17,366	18,463	19,386	20,278	21,851	60,401	79,978
Interest Expense	7,249	9,527	10,794	11,330	12,993	14,494	15,100	15,759	38,900	58,346
Net Interest Income	5,059	4,846	5,559	6,037	5,470	4,892	5,178	6,092	21,501	21,632
% Change (Y-o-Y)	7.1	1.0	3.9	53.3	8.1	0.9	-6.9	0.9	14.3	0.6
Other Income	1,262	1,656	1,490	1,938	1,531	2,164	2,400	1,772	6,185	7,866
Net Income	6,321	6,502	7,049	7,974	7,001	7,056	7,578	7,864	27,685	29,498
% Change (Y-o-Y)	4.6	7.0	8.0	35.3	10.7	8.5	7.5	-1.4	13.3	6.5
Operating Expenses	3,382	3,471	3,768	3,239	3,855	3,795	3,850	3,805	13,860	15,305
Operating Profit	2,940	3,031	3,281	4,736	3,145	3,261	3,728	4,059	13,826	14,193
Other Provisions	884	730	1,478	3,617	482	590	800	2,229	6,547	4,100
Tax Provisions	250	250	-458	76	453	395	450	720	118	2,019
Net Profit	1,806	2,051	2,261	1,043	2,210	2,276	2,478	1,110	7,161	8,074
% Change (Y-o-Y)	10.7	17.1	20.4	911.5	22.4	11.0	9.6	6.4	33.5	12.8
Cost to Income Ratio (%)	53.5	53.4	53.5	40.6	55.1	53.8	50.8	48.4	50.1	51.9
Interest Expense/Interest Income (%)	58.9	66.3	66.0	65.2	70.4	74.8	74.5	72.1	64.4	73.0
Other Income/Net Income (%)	20.0	25.5	21.1	24.3	21.9	30.7	31.7	22.5	22.3	26.7

E: MOST Estimates

Union Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	UNBK IN
	REUTERS CODE
S&P CNX: 6,080	UNBK.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 207

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	505.1	3/07A	34,768	8,454	16.7	25.3	12.4	2.2	12.8	19.2	0.9	2.4
52-Week Range	213/84	3/08E	39,970	11,050	21.9	30.7	9.5	1.9	11.3	21.4	1.0	2.0
1,6,12 Rel.Perf.(%)	12/22/22	3/09E	48,089	13,925	27.6	26.0	7.5	1.6	10.5	22.8	1.0	1.7
MCap. (Rs b)	104.7	3/10E	57,582	17,199	34.1	23.5	6.1	1.3	10.5	23.5	1.1	1.4
MCap. (US\$ b)	2.7											

- ✍ We expect margins to improve during 3QFY08 to near 3% as credit offtake has picked up during the quarter, incremental cost of funds has moderated while yields have improved.
- ✍ On account of the lower base effect, asset growth would improve to 20%> in 3QFY08 from 12% in 2QFY08 while core deposits (CASA and retail term deposits) growth would remain strong at 20-25%.
- ✍ Core fee income is likely to grow strongly at ~25% YoY in 3QFY08 on the back of increased thrust on marketing third party products and also due to scaling up traditional non-fund-based revenue. Treasury profits and recoveries will bring in positive surprises in other income growth.
- ✍ Net NPAs have reduced to below 0.65% in 2QFY08. Management has a target to reduce this ratio to about 0.5% by FY08. Strong operating profit growth would enable the bank to make higher provisions for NPAs and still record strong earnings growth.
- ✍ We expect earnings to grow by 26% YoY in 3QFY08 on the back of stronger operating performance during the quarter.
- ✍ At CMP, the stock is trading at 7.5x FY09E EPS and 1.6x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	16,657	17,724	18,492	20,950	21,112	22,548	24,239	25,119	72,269	93,018
Interest Expense	10,312	11,449	11,633	12,526	13,399	15,820	16,770	17,381	45,920	63,370
Net Interest Income	6,345	6,276	6,859	8,424	7,713	6,728	7,470	7,738	26,350	29,648
% Change (Y-o-Y)	18.7	4.2	7.3	40.9	21.6	7.2	8.9	-8.1	17.4	12.5
Other Income	1,258	1,918	2,052	2,418	1,783	2,708	2,700	3,130	8,418	10,322
Net Income	7,602	8,193	8,911	10,842	9,496	9,436	10,170	10,868	34,768	39,970
% Change (Y-o-Y)	16.8	15.8	14.5	40.6	24.9	15.2	14.1	0.2	21.2	15.0
Operating Expenses	3,730	3,910	3,860	3,259	4,241	4,153	4,300	4,319	14,759	17,013
Operating Profit	3,872	4,283	5,051	7,583	5,255	5,283	5,870	6,549	20,008	22,956
Other Provisions	1,186	1,220	1,426	3,153	1,554	976	1,400	2,371	6,204	6,300
Tax Provisions	1,018	1,122	1,067	2,144	1,450	1,550	1,250	1,357	5,350	5,607
Net Profit	1,668	1,942	2,558	2,286	2,251	2,758	3,220	2,821	8,454	11,050
% Change (Y-o-Y)	-30.6	217.8	11.7	58.1	34.9	42.0	25.9	23.4	25.3	30.7
Cost to Income Ratio (%)	49.1	47.7	43.3	30.1	44.7	44.0	42.3	39.7	42.5	42.6
Interest Exp./Interest Income (%)	61.9	64.6	62.9	59.8	63.5	70.2	69.2	69.2	63.5	68.1
Other Income/Net Income (%)	16.5	23.4	23.0	22.3	18.8	28.7	26.5	28.8	24.2	25.8

E: MOST Estimates

Vijaya Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	VJYBK IN
	REUTERS CODE
S&P CNX: 6,080	VJBK.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs84

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	433.5										
52-Week Range	93/38										
1,6,12 Rel.Perf.(%)	1/35/31										
MCap. (Rs b)	36.5										
MCap. (US\$ b)	0.9										
	3/07A	13,467	3,313.4	7.6	161.1	11.0	1.9	11.2	18.6	0.9	2.0
	3/08E	13,575	3,954.8	9.1	19.4	9.2	1.7	11.0	19.5	0.8	1.9
	3/09E	15,494	4,107.0	9.5	3.8	8.9	1.5	10.5	17.9	0.7	1.8
	3/10E	18,253	5,187.7	12.0	26.3	7.0	1.3	10.5	20.0	0.8	1.6

- ✍ We expect the bank to post a decline in its NII by 7% YoY basis to Rs2.5b, as margins continue to be under pressure on account of high bulk deposits intake by the bank during FY07. However, NII is expected to improve by 12% sequentially due to moderation in cost of fund.
- ✍ Healthy recoveries coupled with higher profit on sale of investments would ensure strong growth in bottomline.
- ✍ Business growth would continue to be strong for the bank. Advances are expected to show 30%+ YoY growth while deposits are also likely to post 30%+ growth YoY largely on account of high cost bulk deposits taken in Q4FY07. CASA ratio continues to remain subdued at <30%.
- ✍ The bank has one of the best asset qualities in the industry with gross NPA ratio at 2.2% and net NPAs below 0.5%. We expect incremental NPA provisions to remain lower for the bank during the quarter.
- ✍ At, CMP, the stock trades at 8.9x FY09E EPS and 1.5x FY09E BV. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	6,134	6,742	7,319	8,036	8,982	9,644	9,953	10,088	28,231	38,668
Interest Expense	3,551	4,144	4,669	5,148	6,346	7,452	7,500	7,333	17,512	28,631
Net Interest Income	2,583	2,598	2,650	2,888	2,636	2,192	2,453	2,755	10,719	10,036
% Change (Y-o-Y)	8.9	11.6	2.3	18.6	2.0	-15.6	-7.4	-4.6	10.2	-6.4
Other Income	717	551	730	846	685	869	1,000	985	2,748	3,538
Net Income	3,300	3,149	3,379	3,734	3,321	3,060	3,453	3,740	13,467	13,575
% Change (Y-o-Y)	-2.9	-3.7	1.7	15.9	0.7	-2.8	2.2	0.8	7.2	0.8
Operating Expenses	1,498	1,550	1,657	1,802	1,609	1,615	1,790	2,109	6,507	7,122
Operating Profit	1,801	1,598	1,722	1,933	1,713	1,446	1,664	1,631	6,960	6,453
Other Provisions	955	308	535	1,779	349	311	300	840	3,483	1,800
Tax Provisions	120	268	260	-483	250	83	205	161	164	698
Net Profit	726	1,023	927	637	1,114	1,053	1,159	630	3,313	3,955
% Change (Y-o-Y)	163.7	36.3	57.7	NA	53.3	2.9	25.0	-1.1	161.1	19.4
Cost to Income Ratio (%)	45.4	49.2	49.0	48.2	48.4	52.8	51.8	56.4	48.3	52.5
Interest Exp./Interest Income (%)	57.9	61.5	63.8	64.1	70.7	77.3	75.4	72.7	62.0	74.0
Other Income/Net Income (%)	21.7	17.5	21.6	22.6	20.6	28.4	29.0	26.3	20.4	26.1

E: MOST Estimates

Cement

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.
ACC	107
Ambuja Cement	108
Birla Corporation	109
Grasim Industries	110
India Cements	111
Shree Cement	112
UltraTech Cement	113

3QFY08: Highlights

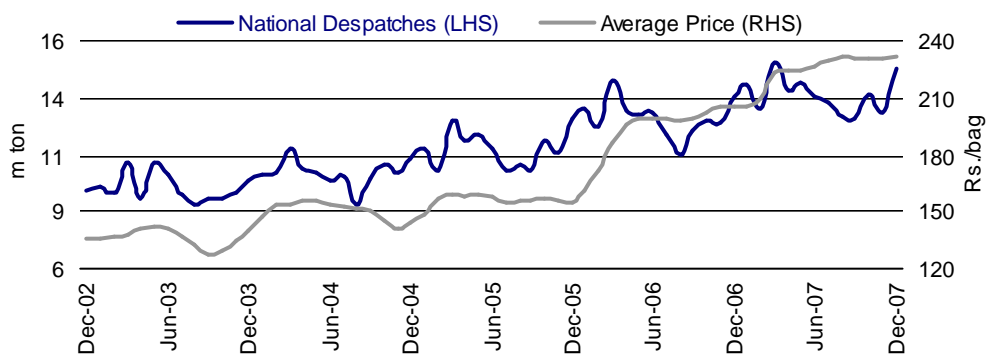
YoY Comparative (v/s 3QFY07)

- Volumes expected to be higher by 7.2%
- Prices expected to be higher by 9.8%

QoQ Comparative (v/s 2QFY08)

- Volumes expected to be lower by 7%
- Prices expected to be higher by 0.5%

CEMENT INDUSTRY DYNAMICS: DEMAND AND PRICE TRENDS



Source: CMA/MOST

MOST CEMENT UNIVERSE: 3QFY08 PERFORMANCE AT A GLANCE

	VOLUME (M TON)			REALIZATION
	3QFY08	3QFY07	GR. (%)	YOY (%)
ACC	4.9	4.8	1.3	9.1
Grasim	3.75	3.72	0.8	9.4
Ambuja Cement	4.3	4.1	4.4	7.8
Ultratech	4.4	4.5	-2.0	10.3
Birla Corp	1.33	1.32	0.8	10.3
India Cement	2.22	1.74	27.7	25.1
Shree Cement	1.6	1.3	19.7	13.7
Industry*	41.3	38.5	7.2	9.7

* Adjusted for increase in excise

Source: CMA/Motilal Oswal Securities

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Cement							
ACC	Neutral	17,729	11.3	5,059	8.0	3,248	-6.3
Ambuja Cements	Buy	14,956	12.5	5,282	10.3	3,846	13.9
Birla Corporation	Buy	4,512	10.2	1,558	11.0	992	4.2
Grasim Industries	Buy	26,064	14.3	8,566	28.6	5,217	26.8
India Cements	Buy	7,550	59.8	2,875	116.1	1,506	88.8
Shree Cement	Buy	4,963	36.1	2,152	34.4	708	-32.0
Ultratech Cement	Buy	14,324	13.6	4,471	17.6	2,600	22.4
Sector Aggregate		90,098	16.9	29,963	23.4	18,117	14.1

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

Pricing: Cement prices booming

3QFY08 highlights

- ✎ **YoY Comparative:** higher by 9.8%
- ✎ **QoQ Comparative:** higher by 0.5%

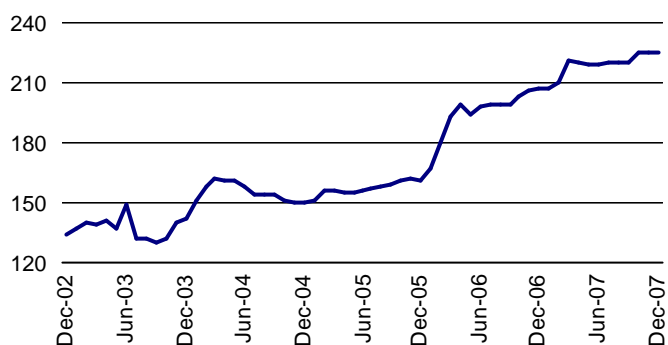
3QFY08: SUMMARY PRICING TREND

	PRICE CHANGE (%) *	
	YOY	QOQ
North	6.2	2.2
East	6.1	-0.3
West	9.1	-0.2
South	18.1	1.1
Central	5.7	-0.6
National Average	9.8	0.5

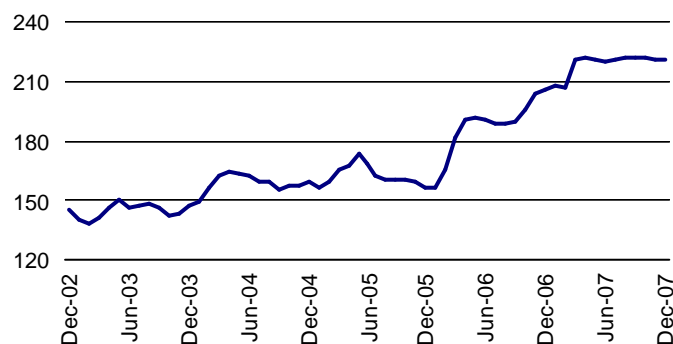
* adjusted for changes in prices for excise duty

Source: Industry/Motilal Oswal Securities

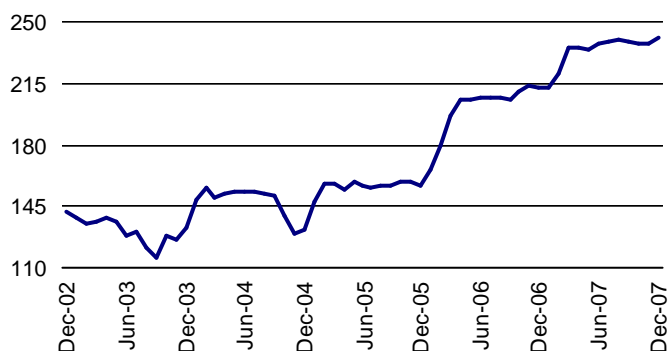
PRICE TREND – NORTH (RS/BAG)



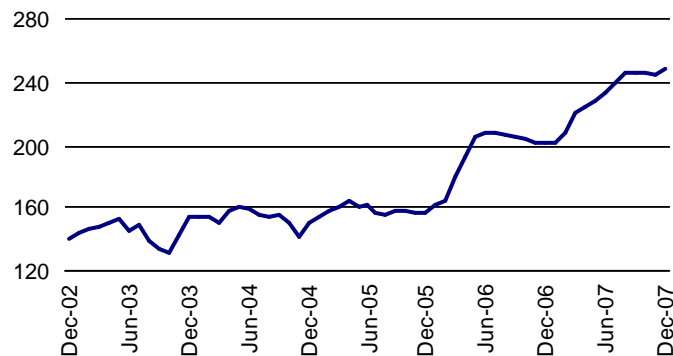
PRICE TREND – EAST (RS/BAG)



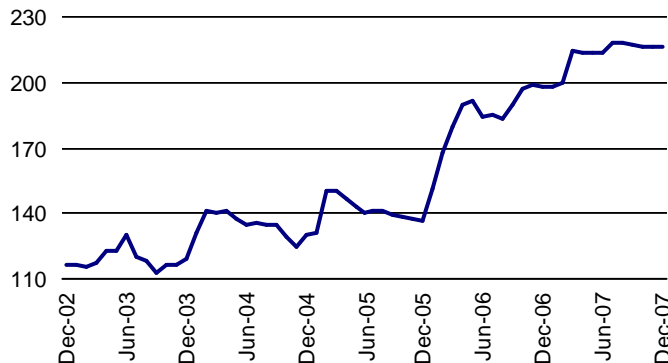
PRICE TREND – WEST (RS/BAG)



PRICE TREND – SOUTH (RS/BAG)



PRICE TREND – CENTRAL (RS/BAG)

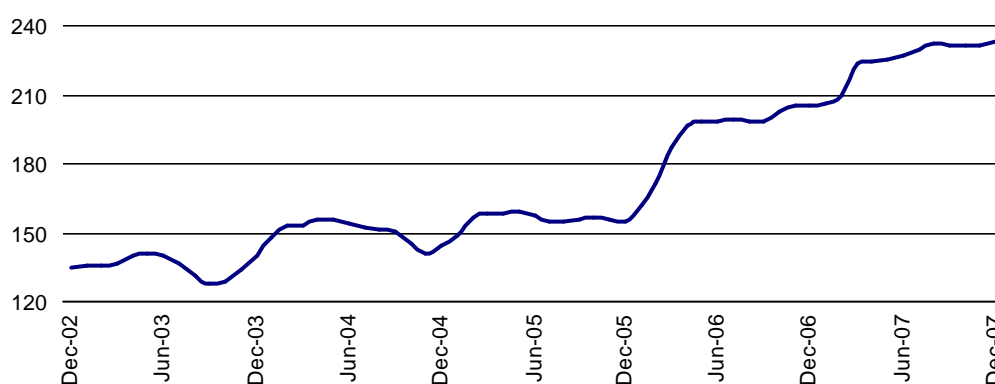


Source: CMA/Motilal Oswal Securities

3QFY08: stable cement prices, despite low demand growth

Cement prices remained stable despite lower than expected demand. Cement prices remained stable on QoQ basis (~up 9.8% YoY). However, cement demand grew by just 7.2% YoY to 41.3mton due to poor offtake in the month of November 2007 (~3.7% YoY growth). Cement prices have started moving upwards (~Rs5/bag) since the beginning of December 2007 in states like Maharashtra, Andhra Pradesh, Tamil Nadu and Kerala. Other regions should see price increases in January 2008. Stable prices in 3QFY08 despite lower demand growth reflects strong underlying demand-supply dynamics.

TREND IN CEMENT PRICES (NATIONAL AVERAGE, RS/BAG)

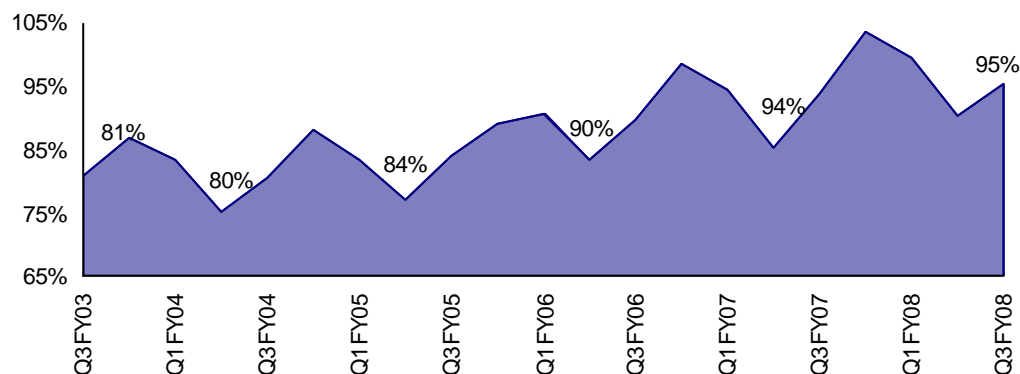


Source: CMA/Motilal Oswal Securities

Capacity utilization remains high...

High growth in demand and limited capacity utilization has resulted in continuously higher capacity utilization for industry. Cement industry's capacity utilization for 3QFY08 reached 95%, highest in the last 7 years. Capacity utilization for the industry is expected to remain high due to continued higher demand and low capacity addition.

TREND IN CAPACITY UTILIZATION



Source: CMA/Motilal Oswal Securities

...supplies are stretched and expansions delayed...

Supply continues to face challenges in its response to growing cement demand. This has been intensified by a prolonged period of underinvestment in capacity addition. As a result,

the industry is stretched in its attempt to meet stronger demand, thereby operating above optimum range and leaving no further room for expanding production. The industry has reached its peak utilization in 1QFY08 (~104%), as against optimum capacity utilization of around 90%. This coupled with delay in capacity additions has further aggravated the supply situation.

...restricting demand growth

This lack of adequate supply has restricted demand growth over past few quarters, as reflected in 8.4% growth in 9MFY08. We believe that the cement demand growth could have been higher than reported demand growth, suggesting latent demand, which remains under-serviced due to lack of adequate supply. However, with few new capacities expected to come over next six months, supply situation is expected to ease slightly, thereby boosting demand growth.

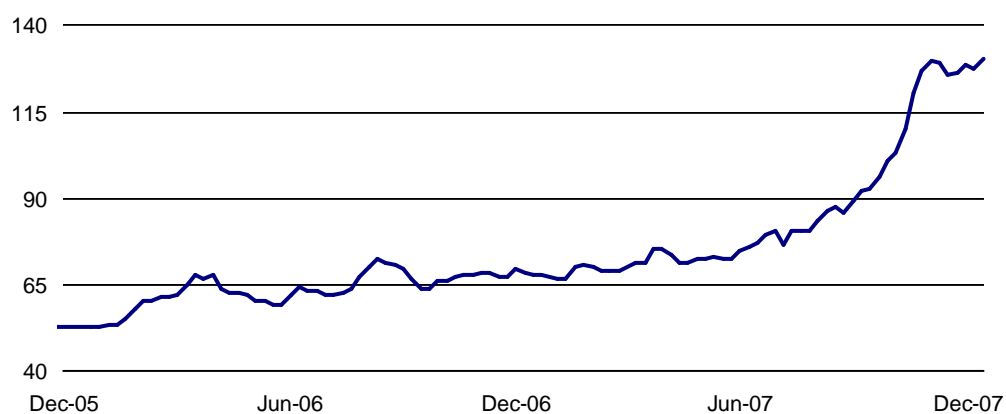
Imports yet to make any meaningful impact

Cement imports are yet to make any inroads in the domestic market, despite being an economically viable option. Reportedly, only few consignments of imported cement have come into domestic market, since the government removed all barriers to trade. We reiterate that cement imports to India are not feasible, despite the government abolishing all import barriers, as the biggest impediment to imports (logistical bottlenecks) still remain.

Spiraling energy cost to restrict margin expansion

Coal prices, both domestic and imported, are on uptrend. While imported coal prices have gone up by 15-20% QoQ, domestic coal prices have gone up by 10-15% from 13 December 2007. Escalating coal prices are expected to push overall cost up by Rs50-70/ton QoQ. However, this cost push is expected to be passed on to the consumer, although with a lag, resulting in stable margins. Our estimates now factor in higher coal prices at current level and any further increase hereon would put pressure on margins.

TREND IN IMPORTED COAL PRICES – CIF (US\$/TON)



Source: Bloomberg

Strong volume growth, higher prices to drive earnings growth

We expect the MOST Cement Universe to report around 4% volume growth, primarily driven by strong volume growth of 20% for Shree Cement and 28% for India Cement (due to Visaka merger). However, other cement companies under our coverage are expected to report muted volume growth, as they are operating at optimum capacity. Improvement in realizations (~Rs321 YoY and Rs24 QoQ) would drive EBITDA improvement of Rs152/ton YoY to Rs1,172/ton.

TREND IN KEY OPERATING PARAMETERS (OCT-DEC QUARTER)

	VOLUME (M TON)			REALIZATION (RS/TON)			EBITDA (RS/TON)		
	DEC' 07	YOY (%)	QOQ (%)	DEC' 07	YOY (RS/T)	QOQ (RS/T)	DEC' 07	YOY (RS/T)	QOQ (RS/T)
ACC	4.9	1.3	4.9	3,480	290	20	1,108	99	67
Birla Corp	1.3	0.8	11.0	3,084	289	20	1,184	87	-121
Grasim	3.8	0.8	4.2	3,193	275	20	1,208	106	10
Gujarat Ambuja	4.3	4.4	14.1	3,478	252	30	1,228	66	79
India Cement	2.2	27.7	-2.2	3,399	683	60	1,295	530	-58
Shree Cement	1.6	19.7	3.7	3,202	387	80	1,388	152	42
UltraTech	4.4	-2.0	21.8	3,097	290	10	1,016	169	104
Sector Aggregate	22.5	4.3	8.9	3,306	321	24	1,172	152	35

Source: Company/Motilal Oswal Securities

Overall, we expect our Cement Universe's revenue to grow 17% YoY, with EBITDA margin expanding by 11bp to 34.2%, translating into 11% YoY increase in PAT.

TREND IN KEY FINANCIAL PARAMETERS (OCT-DEC QUARTER)

	NET SALES (RS M)			EBITDA MARGIN (%)			NET PROFIT (RS M)		
	DEC' 07	YOY (%)	QOQ (%)	DEC' 07	YOY (BP)	QOQ (BP)	DEC' 07	YOY (%)	QOQ (%)
ACC	17,729	11.3	8.3	31.8	23	177	3,248	-6.3	12.1
Birla Corp	4,512	10.2	14.5	34.5	23	-353	992	4.2	-3.8
Grasim	13,878	8.9	1.5	33.5	48	98	5,217	26.8	4.4
Gujarat Ambuja	14,956	12.5	15.1	35.3	-73	200	3,846	13.9	22.8
India Cement	7,550	59.8	-0.8	38.1	992	-230	1,506	88.8	-32.3
Shree Cement	4,963	36.1	6.4	43.4	-57	23	708	-32.0	-33.4
UltraTech	14,324	13.6	22.1	31.2	105	313	2,600	22.4	39.9
Sector Aggregate*	77,911	16.2	9.7	34.2	110	96	12,900	9.7	5.7

*Sector PAT excl Grasim

Source: Company/Motilal Oswal Securities

Downgrade earnings to factor in lower volumes, cost push

We are downgrading our earnings estimates for the cement stocks under our coverage to factor in lower than expected volume growth during 3QFY08 and higher energy prices. Our estimates for imported coal prices are now re-based at current level. Also, we have factored in the recent coal price increase of 10-15% in domestic market by Coal India. Our estimates are based on Rs3/bag price increase in 4QFY08 and flat prices for FY09 over FY08 (average) level. Our earnings estimates are lowered by 2-4% for FY08 and by 2-7% for FY09. While our estimates factor in impact of higher energy prices, impact of any pass-through of cost push to consumers is not yet fully factored.

REVISED EPS FORECAST (RS)

	FY08E			FY09E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
ACC	70.0	73.0	-4.1	76.2	81.5	-6.5
Ambuja Cement	9.6	10.0	-4.0	10.1	10.9	-7.3
Grasim	293.5	302.3	-2.9	321.0	336.3	-4.5
UltraTech	80.6	85.9	-6.2	97.8	102.6	-4.7
Birla Corp	54.0	55.2	-2.1	54.5	56.8	-4.1
India Cement	25.4	28.2	-10.0	26.6	29.8	-10.7
Shree Cement	120.5	123.0	-2.0	144.5	147.3	-1.9

Source: Motilal Oswal Securities

Valuation and view

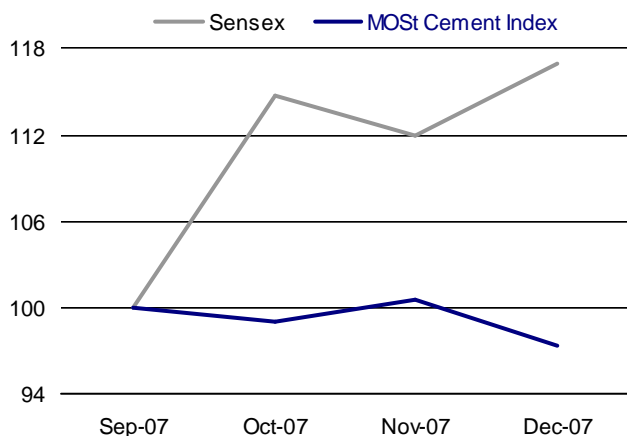
High volume growth and limited capacity addition has improved demand-supply scenario for the industry significantly. As a result, the industry is going through a cyclical upturn, which is likely to continue at least till 1HCY09. Our outlook for the sector remains positive on the back of two fundamentals: (1) expectation of demand growth of at least 10% CAGR over FY07-FY10E; and (2) firm cement prices. The industry would enjoy better pricing flexibility based on demand-supply equilibrium. We prefer companies that are ahead of the curve in adding capacity, along with strong cost saving possibilities. In large caps, Grasim remains our top pick, while we prefer Birla Corp, Kesoram and Shree Cement among mid-caps.

Stock performance and valuations

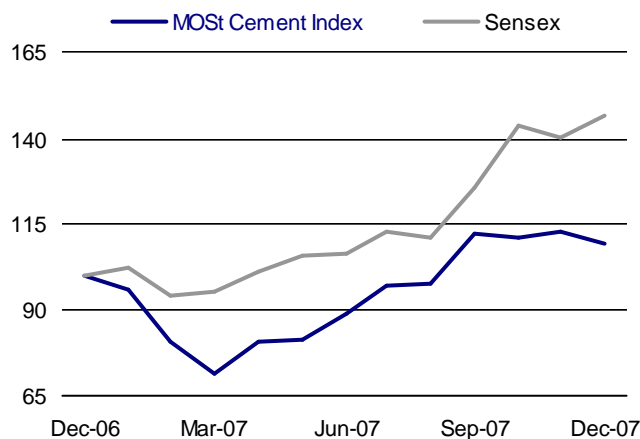
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Cement						
ACC	-16	-6	-32	-52	-13	-15
Birla Corporation	-2	-2	-19	-48	1	-11
Grasim Industries	3	30	-14	-16	6	21
Ambuja Cement	4	4	-13	-42	6	-5
India Cement	4	31	-13	-15	7	22
Shree Cement	-13	-10	-30	-56	-11	-19
Ultratech Cemco	-6	-10	-23	-55	-4	-19

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Cement														
ACC	1,009	Neutral	70.0	76.2	69.0	14.4	13.2	14.6	9.1	8.1	8.7	31.2	27.3	21.0
Ambuja Cements	149	Buy	9.6	10.1	10.0	15.5	14.8	14.9	10.2	9.5	9.3	34.5	27.6	23.1
Birla Corporation	329	Buy	54.0	54.5	57.0	6.1	6.0	5.8	3.5	3.0	2.3	40.9	30.6	25.2
Grasim Industries	3,630	Buy	293.5	321.0	309.1	12.4	11.3	11.7	6.2	5.0	4.8	29.9	25.3	20.0
India Cements	304	Buy	25.4	26.6	27.3	12.0	11.4	11.1	8.1	6.8	6.2	36.4	25.5	21.1
Shree Cement	1,318	Buy	120.5	144.5	154.0	10.9	9.1	8.6	5.6	4.0	2.9	64.5	46.5	34.2
Ultratech Cement	978	Buy	80.6	97.8	95.6	12.1	10.0	10.2	8.2	6.2	5.9	45.0	37.3	27.2
Sector Aggregate						12.8	11.6	11.9	7.5	6.2	6.0	34.4	28.3	22.5

ACC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ACC IN
	REUTERS CODE
S&P CNX: 6,080	ACC.BO

28 December 2007

Neutral

Rs 1,009

Previous Recommendation: Neutral

Equity Shares (m)	187.8
52-Week Range	1,315/680
1,6,12 Rel. Perf. (%)	-13/-27/-52
MCap. (Rs b)	189.4
MCap. (US\$ b)	4.8

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
CY06A	57,170	11,017	58.6	159.8	17.2	6.0	35.1	31.3	3.3	11.5
CY07E	68,872	13,158	70.0	19.4	14.4	4.5	31.2	34.2	2.7	9.1
CY08E	81,129	14,314	76.2	8.8	13.2	3.6	27.3	32.3	2.2	8.1
CY09E	86,683	12,971	69.0	-9.4	14.6	3.1	21.0	25.2	2.1	8.7

* Fully Diluted EPS

- Dispatches for the quarter are likely to grow 1.3% YoY to 4.91m ton, impacted by low growth in November 2007 dispatches. Average realizations are expected to be higher by 9.1% YoY (~0.6% QoQ) at Rs 3,480/ton.
- Net sales should grow 11.3% YoY to Rs 17.7b, driven by higher realizations. Cement business EBITDA margins are likely to expand 20bp to 31.8%. However, due to lower profitability in RMC business, overall EBITDA margins are likely to decline 90bp to 28.5%. Also, lower other income (down 61%) and higher taxation (28.2% of PBT v/s 22.2% in 4QCY06) would result in 6% decline in recurring PAT to Rs 3.25b.
- During the quarter, the company has disposed some surplus assets, including land at Haryana, for a consideration of Rs 2b. These proceeds would be utilized towards the ongoing capital expenditure.
- We are revising our EPS estimates downwards by 3% for CY07 to Rs 70.6 and by 6.5% for CY08 to Rs 76.2 due to increasing domestic coal prices and lower than expected volumes. Given its high operating leverage and largest capacity, ACC would be one of the biggest beneficiaries of current upturn in cement prices. However, valuations at 13.2x CY08E EPS and an EV of 8x CY08E EBITDA appear rich. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Cement Sales (m ton)	5.05	4.63	4.26	4.85	4.93	5.34	4.68	4.91	18.9	19.9
YoY Change (%)	12.5	5.0	8.1	6.1	-2.4	15.3	9.9	1.3	9.1	5.3
Cement Realization	2,553	3,079	3,133	3,191	3,283	3,365	3,460	3,480	2,914	3,396
YoY Change (%)	16.8	38.3	40.9	47.3	28.6	9.3	10.5	9.1	32.8	16.5
QoQ Change (%)	17.9	20.6	1.7	1.9	2.9	2.5	2.8	0.6		
Net Sales	13,364	14,317	13,619	15,923	16,348	18,427	16,369	17,729	57,170	68,872
YoY Change (%)	20.3	30.5	37.5	46.0	22.3	28.7	20.2	11.3	34.9	20.5
EBITDA	3,266	4,690	3,646	4,685	5,071	5,444	4,486	5,059	16,232	20,060
Margins (%)	24.4	32.8	26.8	29.4	31.0	29.5	27.4	28.5	28.4	29.1
Depreciation	597	582	593	771	621	633	707	735	2,543	2,697
Interest	194	147	138	41	40	-23	-9	27	520	35
Other Income	333	122	225	580	284	283	284	224	1,315	1,075
PBT before EO Item	2,809	4,082	3,140	4,453	4,694	5,116	4,072	4,520	14,484	18,403
EO Income/(Expense)	91	1,466	1	153	200	0	39	1,800	1,711	2,039
PBT after EO Item	2,900	5,548	3,141	4,606	4,894	5,116	4,111	6,320	16,195	20,441
Tax	545	1,416	893	1,021	1,256	1,604	1,186	1,779	3,877	5,826
Rate (%)	18.8	25.5	28.4	22.2	25.7	31.3	28.9	28.2	23.9	28.5
Reported PAT	2,354	4,132	2,248	3,584	3,638	3,512	2,925	4,541	12,318	14,616
Adjusted PAT	2,280	3,040	2,247	3,466	3,489	3,512	2,897	3,248	11,017	13,158
Margins (%)	17.1	21.2	16.5	21.8	21.3	19.1	17.7	18.3	19.3	19.1
YoY Change (%)	37.8	124.4	164.0	280.4	53.0	15.5	28.9	-6.3	161.8	19.4

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

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Ambuja Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ACEM IN
	REUTERS CODE
S&P CNX: 6,080	GACM.BO

28 December 2007

Buy

Rs 149

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,520.7										
52-Week Range	161/100										
1,6,12 Rel. Perf. (%)	-8/-20/-42										
MCap. (Rs b)	226.9										
MCap. (US\$ b)	5.8										
	12/06A	48,479	13,401	8.8	114.7	16.9	6.5	47.4	43.3	4.4	12.0
	12/07E	56,937	14,642	9.6	9.0	15.5	4.5	34.5	39.3	3.7	10.2
	12/08E	64,195	15,380	10.1	5.0	14.8	3.7	27.6	33.6	3.2	9.5
	12/09E	73,803	15,259	10.0	-0.8	14.9	3.2	23.1	29.3	2.9	9.3

- ☞ We expect sales to grow 12.5% YoY to Rs15b, driven by 4.4% YoY growth in dispatches to 4.3m ton and higher realizations (up ~8% YoY and 0.9% QoQ to Rs3,478/ton). Ambuja's volume growth has been restricted due to capacity constraint.
- ☞ EBITDA margins are expected to decline 70bp YoY to 35.3%, impacted by spiraling imported coal prices. EBITDA at Rs5.28b (~10% growth) would translate into PAT growth of 14% to Rs3.85b.
- ☞ Holcim's open offer for 20% stake in the company at Rs 154/share, received muted response. It was able to get just 5% stake through the open offer. Post open offer and open market purchase, Holcim's stake in Ambuja Cements has increased to around 46%.
- ☞ We are revising our earnings estimates downwards by 4% for CY07 to Rs9.6 and by 7.3% for CY08 to Rs 10.1 due to increase in coal prices (domestic as well as imported) and lower than expected volumes. Being a pure play on cement, with the ability to grow volumes faster and more efficiently, valuations at 14.8x CY08E earnings and an EV of 9.5x CY08E EBITDA appear reasonable.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Volume (m ton)	4.18	4.32	3.66	4.12	4.34	4.39	3.77	4.30	16.30	16.80
YoY Change (%)	NA	NA	NA	NA	3.8	1.7	3.0	4.4	NA	133.9
Realization (Rs/ton)	2,569	3,043	3,090	3,226	3,304	3,336	3,448	3,478	2,974	3,389
YoY Change (%)	NA	NA	NA	NA	28.6	9.6	11.6	7.8	NA	75.7
QoQ Change (%)	NA	NA	NA	4.4	2.4	1.0	3.4	0.9		65.6
Net Sales	10,740	13,137	11,310	13,291	14,338	14,644	12,999	14,956	48,479	56,937
YoY Change (%)	NA	NA	NA	NA	33.5	11.5	14.9	12.5	24.0	311.3
EBITDA	3,700	5,156	3,962	4,791	5,631	5,551	4,332	5,282	17,608	20,795
Margins (%)	34.4	39.2	35.0	36.0	39.3	37.9	33.3	35.3	36.3	36.5
Depreciation	566	564	567	572	598	583	584	605	2,269	2,370
Interest	110	129	96	45	18	-211	-156	0	377	-349
Other Income	213	-68	294	403	257	487	184	323	1,199	1,250
PBT before EO Item	3,236	4,395	3,593	4,576	5,271	5,665	4,088	5,000	16,160	20,024
Extraordinary Inc/(Exp)	358	0	0	0	2,408	5,649	-270	0	0	7,787
PBT after EO Exp/(Inc)	3,594	4,395	3,593	4,576	7,679	11,314	3,818	5,000	16,160	27,811
Tax	-534	1,120	975	1,199	1,772	2,537	893	1,154	2,760	6,355
Rate (%)	-14.9	25.5	27.1	26.2	23.1	22.4	23.4	23.1	17.1	22.9
Reported Profit	4,128	3,275	2,618	3,378	5,907	8,778	2,924	3,846	13,401	21,455
Adj PAT	2,683	3,275	2,618	3,378	3,801	4,036	3,131	3,846	13,401	14,642
YoY Change (%)	NA	NA	NA	NA	41.7	23.2	19.6	13.9	NA	117.1

E: MOST Estimates

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Birla Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BJUT IN
	REUTERS CODE
S&P CNX: 6,080	BRLC.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 329

Equity Shares (m)	77.0
52-Week Range	386/180
1,6,12 Rel. Perf. (%)	-6/-16/-48
MCap. (Rs b)	25.4
MCap. (US\$ b)	0.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	15,669	3,262	42.4	37.9	7.8	3.8	49.0	46.9	1.5	4.8
03/08E	17,546	4,161	54.0	27.5	6.1	2.5	40.9	38.6	1.3	3.5
03/09E	18,313	4,194	54.5	0.8	6.0	1.8	30.6	32.0	1.1	3.0
03/10E	21,322	4,391	57.0	4.7	5.8	1.5	25.2	28.1	0.7	2.3

- ⚡ We expect revenues to grow 10% YoY to Rs4.5b. Cement realizations are likely to be up 10% YoY (~0.7% QoQ) at Rs3,084/ton. However, sales volume would be muted at 1.33m ton due to capacity constraint.
- ⚡ Higher realizations would help mitigate the impact of cost push, resulting in stable EBITDA margins at 34.5%. EBITDA would grow 11% but higher tax provisioning (32.5% of PBT v/s 28.4% in 3QFY07) would restrict PAT growth at 4% to Rs992m.
- ⚡ We are revising our earnings estimates downward by 2% for FY08 to Rs54 and by 4% for FY09 to Rs54.5 to factor in higher domestic coal price.
- ⚡ The stock trades at 6x FY09E EPS and an EV of 3x FY09E EBITDA. Its EV/ton (at 7.5m ton capacity) works out to US\$66, which is at a discount to comparable peers. We believe that the discount is not justified and valuations (based on earnings as well as replacement cost) are compelling. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cement Sales (m ton)	1.25	1.25	1.32	1.42	1.28	1.20	1.33	1.44	5.23	5.25
YoY Change (%)	-2.0	6.1	4.9	-5.4	2.9	-4.2	0.8	1.6	0.5	0.3
Cement Realization	2,568	2,621	2,795	2,923	2,972	3,064	3,084	3,134	2,734	3,066
YoY Change (%)	28.8	36.0	44.2	25.7	15.8	16.9	10.3	7.2	32.7	12.1
QoQ Change (%)	10.5	2.1	6.6	4.6	1.7	3.1	0.7	1.6		
Net Sales	3,489	3,647	4,093	4,441	4,093	3,940	4,512	5,002	15,669	17,546
YoY Change (%)	25.0	39.9	45.4	12.7	17.3	8.0	10.2	12.6	28.9	12.0
Total Expenditure	2,462	2,668	2,689	2,917	2,655	2,440	2,954	3,153	10,735	11,202
EBITDA	1,027	979	1,404	1,524	1,438	1,500	1,558	1,849	4,934	6,345
Margins (%)	29.4	26.8	34.3	34.3	35.1	38.1	34.5	37.0	31.5	36.2
Depreciation	97	96	96	108	103	103	105	106	397	417
Interest	43	31	35	76	50	53	64	75	185	242
Other Income	39	53	55	119	88	98	80	80	265	345
Profit before Tax	927	905	1,328	1,458	1,372	1,441	1,469	1,748	4,617	6,030
Tax	303	229	377	446	398	409	478	585	1,355	1,869
Rate (%)	32.7	25.3	28.4	30.6	29.0	28.4	32.5	33.5	29.3	31.0
Adjusted PAT	624	675	951	1,012	975	1,031	992	1,163	3,262	4,161
Margins (%)	17.9	18.5	23.2	22.8	23.8	26.2	22.0	23.2	20.8	23.7
YoY Change (%)	168.3	271.9	452.5	50.7	56.3	52.7	4.2	14.9	37.9	27.5

E: MOST Estimates

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Grasim Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GRASIM IN
	REUTERS CODE
S&P CNX: 6,080	GRAS.BO

28 December 2007

Buy

Rs3,630

Previous Recommendation: Buy

Equity Shares (m)	91.7
52-Week Range	4,074/1,927
1,6,12 Rel. Perf. (%)	-9/-1/-16
MCap. (Rs b)	332.9
MCap. (US\$ b)	8.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	140,952	19,683	214.7	90.1	16.9	5.0	29.6	32.0	2.8	10.1
3/08E	167,939	26,910	293.5	36.7	12.4	3.7	29.9	33.9	2.4	7.7
3/09E	196,053	29,432	321.0	9.4	11.3	2.9	25.3	36.3	1.9	6.3
3/10E	207,308	28,343	309.1	5.3	11.7	2.4	20.0	30.5	1.7	6.2

* Consolidated

- We expect standalone sales to grow 23% YoY to Rs24.7b. Strong performance of cement and VSF divisions would drive overall operating performance and lead to margin expansion of 490bp to 31.4%, translating into PAT growth of 40.8% to Rs4.7b.
- Cement volumes would grow 8% YoY to 3.7mton, boosted by higher blending. With realizations expected to increase by 10.7% YoY to Rs 3,123/ton, the cement division's operating margins are expected to expand by 430bp YoY to 35.5%.
- VSF volumes should grow 9.3% YoY and realizations are likely to increase 17% YoY to Rs97,500/ton, resulting in a 490bp expansion in VSF operating margins to 36%.
- The chemicals business is expected to grow (~46% volume growth and 18% expansion in margins to 30.4%) on a low base of last year; breakdown of captive power plant had adversely impacted performance in 4QFY07. The sponge iron business should continue to benefit from higher scrap prices (realizations up ~11.3% YoY; 220bp expansion in margins to 6%).
- Grasim divested its 53.6% stake in Shree Digvijay Cement (SDCL) to Cimpor, for Rs3.2b. We have adjusted our estimates for FY09 onwards for this divestment. We are revising our EPS estimates downward by 3% for FY08 to Rs293.5 and by 4.5% for FY09 to Rs321, to factor in increase in coal prices, lower than expected volumes, divestment of SDCL and downgrade in UltraTech earnings. Valuations at 11.3x FY09E EPS and an EV of 6.3x FY09E EBITDA (consolidated) appear reasonable. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	18,917	20,114	22,794	24,938	24,448	25,192	26,064	28,548	86,757	104,253
YoY Change (%)	21.8	22.0	38.3	36.3	29.2	25.2	14.3	14.5	29.4	20.2
EBITDA	5,135	5,326	6,661	6,942	7,921	8,050	8,566	8,642	24,094	33,180
Margins (%)	27.1	26.5	29.2	27.8	32.4	32.0	32.9	30.3	27.8	31.8
Depreciation	741	756	807	876	850	875	915	1,069	3,179	3,709
Interest	238	245	240	366	285	272	280	383	1,118	1,220
Other Income	375	502	444	776	677	573	450	499	2,097	2,200
PBT before EO Items	4,532	4,827	6,058	6,476	7,464	7,476	7,821	7,689	21,893	30,450
Extraordinary Inc/(Exp)	0	0	0	371	0	0	0	0	371	0
PBT after EO Items	4,532	4,827	6,058	6,847	7,464	7,476	7,821	7,689	22,264	30,450
Tax	1,413	1,449	1,942	2,102	2,347	2,478	2,604	2,558	6,906	9,988
Rate (%)	31.2	30.0	32.1	30.7	31.4	33.1	33.3	33.3	31.0	32.8
Reported PAT	3,119	3,378	4,116	4,745	5,117	4,998	5,217	5,132	15,358	20,463
Adj. PAT	3,119	3,378	4,116	4,488	5,117	4,998	5,217	5,132	15,102	20,463
YoY Change (%)	51.7	80.0	154.3	72.7	64.0	47.9	26.8	14.3	73.1	35.5

E: MOST Estimates; Quarterly results do not add-up to full year results due to restatement

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India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ICEM IN
	REUTERS CODE
S&P CNX: 6,080	ICMN.BO

28 December 2007

Buy

Rs 304

Previous Recommendation: Buy

Equity Shares (m)	281.2	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	333/145	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-1/8/-15	3/07A	22,552	4,788	17.6	896.8	17.2	5.7	43.0	22.0	4.5	13.7
MCap. (Rs b)	85.4	3/08E	30,979	7,421	25.4	44.0	12.0	3.2	36.4	27.4	3.3	8.4
MCap. (US\$ b)	2.2	3/09E	38,124	7,769	26.6	4.7	11.4	2.5	25.5	26.1	2.6	7.1
		3/10E	41,920	7,983	27.3	2.7	11.1	2.1	21.1	23.7	2.1	6.4

- India Cement's 3QFY08 results are not comparable due to merger of Visaka. We expect India Cement (including Visaka) to report 60% YoY sales growth to Rs7.55b. While realizations are likely to be up 25% YoY (1.8% QoQ) at Rs3,399/ton, we estimate 27.2% YoY growth in volumes to 2.22m ton.
- Higher realizations would negate impact of higher imported coal prices and translate into EBITDA margin expansion of 990bp YoY to 38.1%; EBITDA would grow 116% YoY to Rs2.9b. However, higher tax provisioning (33.5% of PBT v/s no tax in 3QFY07) would restrict PAT growth at 89% to Rs1.5b.
- The company has raised around US\$150m from QIBs at Rs285/share (~7.7% dilution). The raised funds would be used for fresh capex plans (adding around 3.5m ton of capacity; acquiring two ships for importing coal).
- We are revising our EPS estimates downward by 3% for FY08 to Rs27.3 and by 5.5% for FY09 to Rs28.1 to factor in equity dilution, increase in coal prices and lower than expected volume. Given the lack of clarity on tax provisioning, we are providing tax at marginal rate of tax. Given its high leverage and relatively low cost timely capacity additions, India Cement would be one of the biggest beneficiaries of any further price increase in South India. At 11.4x FY09E EPS and an EV of 7.1x FY09E EBITDA, valuations appear attractive. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07 *				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Dispatches (m ton)	1.85	1.88	1.74	2.08	2.31	2.27	2.22	2.55	7.55	9.34
YoY Change (%)	-2.6	-1.6	3.2	4.8	24.5	20.9	27.7	22.7	1.0	437.2
Realization (Rs/ton)	2,606	2,733	2,716	2,771	3,033	3,339	3,399	3,449	2,704	3,311
YoY Change (%)	30.1	33.2	31.9	29.9	16.4	22.2	25.1	24.5	31.0	21.9
QoQ Change (%)	22.2	4.9	-0.6	2.0	9.5	10.1	1.8	1.5	31.0	22.5
Net Sales	4,852	5,164	4,724	5,758	7,012	7,612	7,550	8,805	20,497	30,979
YoY Change (%)	27.4	31.9	36.3	36.2	44.5	47.4	59.8	52.9	32.9	51.1
Total Expenditure	3,197	3,438	3,394	3,852	4,369	4,539	4,675	5,332	13,880	18,915
EBITDA	1,655	1,726	1,331	1,906	2,643	3,074	2,875	3,473	6,617	12,064
Margins (%)	34.1	33.4	28.2	33.1	37.7	40.4	38.1	39.4	32.3	38.9
Depreciation	192	193	198	194	275	303	350	426	777	1,354
Interest	389	364	347	331	314	283	300	297	1,430	1,194
Other Income	54	8	17	22	97	59	40	84	102	280
PBT	1,129	1,177	803	1,403	2,151	2,546	2,265	2,834	4,512	9,797
Tax	3	4	5	5	17	321	285	405	17	1,029
Deferred Tax	0	0	0	0	300	-1	473	575	0	1,347
Rate (%)	0.2	0.3	0.6	0.4	14.8	12.6	33.5	34.6	0.4	24.3
Reported PAT	1,126	1,173	798	1,398	1,834	2,227	1,506	1,854	4,495	7,421
Adj PAT	1,126	1,173	798	1,398	1,834	2,227	1,506	1,854	4,495	7,421
YoY Change (%)	1,018.1	1,905.5	4,407.3	417.2	62.9	89.8	88.8	32.6	891.8	65.1
Margins (%)	23.2	22.7	16.9	24.3	26.2	29.2	20.0	21.1	21.9	24.0

E: MOST Estimates; * Excluding Visaka merger

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Shree Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SRCM IN
	REUTERS CODE
S&P CNX: 6,080	SHCM.BO

28 December 2007

Buy

Rs 1,318

Previous Recommendation: Buy

Equity Shares (m)	34.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	1,695/851	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-11/-37/-56	3/07A	13,680	1,588	45.6	898.7	28.9	10.1	42.3	17.6	3.8	8.7
MCap. (Rs b)	45.9	3/08E	20,559	4,199	120.5	164.4	10.9	5.4	64.5	38.7	2.4	5.6
MCap. (US\$ b)	1.2	3/09E	26,252	5,032	144.5	19.8	9.1	3.5	46.5	38.5	1.7	4.0
		3/10E	30,628	5,367	154.0	6.6	8.6	2.5	34.2	35.6	1.1	2.9

- ⚡ We expect sales to grow 36% YoY to Rs5b. While volumes should grow 20% YoY to 1.55m ton, realizations would be up 13.7% YoY (~2.6% QoQ) to Rs3,202/ton.
- ⚡ Higher realizations would be mitigated by higher cost (energy and freight), translating into flat EBITDA margin at 43.4%. EBITDA would grow 34% YoY to Rs2.2b. However, higher depreciation (up 400% due to accelerated depreciation on new plant) would result in a 32% YoY decline in PAT to Rs708m.
- ⚡ The company is evaluating the setting up of a 6m ton plant in Madhya Pradesh by investing Rs25b. These plans are still at drawing board stage; it would take at least three years before the planned capacity is commissioned.
- ⚡ We are revising our earnings estimates downwards by 2% for FY08 and FY09 to Rs 120.5 and Rs 144.5, respectively to factor in lower than expected volume growth. The stock is quoting at attractive valuations of 9.1x FY09E EPS and 4x FY09E EBITDA. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Dispatches (m ton)	1.16	1.11	1.30	1.28	1.41	1.49	1.55	2.05	4.94	6.50
YoY Change (%)	58.5	44.2	81.1	32.5	21.9	34.6	19.7	60.3	50.9	31.5
Realization (Rs/ton)	2,665	2,846	2,815	2,964	3,020	3,122	3,202	3,262	2,767	3,163
YoY Change (%)	36.5	41.1	39.5	26.0	13.3	9.7	13.7	10.0	35.4	14.3
QoQ Change (%)	13.2	6.8	-1.1	5.3	1.9	3.4	2.6	1.9		-7.3
Net Sales	3,083	3,160	3,645	3,783	4,258	4,664	4,963	6,674	13,680	20,559
YoY Change (%)	116.3	103.3	152.7	66.9	38.1	47.6	36.1	76.4	104.4	50.3
EBITDA	1,375	1,426	1,601	1,513	1,823	2,011	2,152	2,927	5,922	8,913
Margins (%)	44.6	45.1	43.9	40.0	42.8	43.1	43.4	43.9	43.3	43.4
Depreciation	263	338	263	1,547	358	688	1,310	1,404	4,331	3,760
Interest	54	27	7	16	39	85	65	76	104	265
Other Income	30	43	47	91	126	291	131	162	212	710
PBT before EO Exp	1,088	1,104	1,379	41	1,552	1,530	908	1,608	1,699	5,599
Extra-Ord Expense	0	0	0	-201	0	0	0	0	-195	0
PBT	1,088	1,104	1,379	242	1,552	1,530	908	1,608	1,894	5,599
Tax	184	326	338	3	383	468	200	349	124	1,400
Rate (%)	16.9	29.6	24.5	1.3	24.7	30.6	22.0	21.7	6.6	25.0
Reported PAT	904	777	1,041	239	1,169	1,062	708	1,260	1,770	4,199
Adj PAT	904	777	1,041	40	1,169	1,062	708	1,260	1,587	4,199
YoY Change (%)	247.6	108.1	156.6	-93.9	29.3	36.6	-32.0	3028.3	898.4	164.5
Margins (%)	29.3	24.6	28.6	1.1	27.5	22.8	14.3	18.9	11.6	20.4

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

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UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	UTCEM IN
	REUTERS CODE
S&P CNX: 6,080	ULTC.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs978

Equity Shares (m)	124.5	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,205/662	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-9/-27/-55	3/07A	49,108	7,823	62.8	240.5	15.6	6.9	55.8	43.0	2.7	9.3
MCap. (Rs b)	121.7	3/08E	56,600	10,028	80.6	28.2	12.1	4.5	45.0	38.4	2.5	8.1
MCap. (US\$ b)	3.1	3/09E	67,476	12,169	97.8	21.3	10.0	3.2	37.3	38.1	2.0	6.1
		3/10E	70,511	11,901	95.6	-2.2	10.2	2.5	27.2	34.6	1.8	5.8

- ☞ We expect net sales to grow 14% YoY to Rs14.3b. While we estimate 10% YoY (flat QoQ) growth in realizations to Rs3,097/ton, volumes are likely to be down 2% YoY at 4.4m ton. Volume growth was adversely impacted by capacity constraint and labor unrest at one of the units. A shift in market mix in favor of the domestic market has favorably impacted realizations.
- ☞ Exports (cement + clinker) are expected to decline 20% YoY, whereas domestic dispatches are expected to grow 15% YoY, indicating diversion of exports to domestic market. Also, clinker exports are expected to stay flat, suggesting shift of focus from export of clinker to cement.
- ☞ Higher realizations would dilute the impact of cost push (higher coal prices), and drive EBITDA margin expansion of 100bp YoY to 31.2%. EBITDA would grow 18% YoY to Rs4.5b. Higher treasury income (other income up 26% YoY) would result in PAT growth of 22.4% YoY to Rs2.6b.
- ☞ We are revising our EPS estimates downward by 6% for FY08 to Rs80.6 and by 4.7% for FY09 to Rs97.8 to factor in lower than expected volumes and increase in coal prices. At 10x FY09E EPS and an EV of 6.1x FY09E EBITDA, valuations do not fully reflect the improving operating performance and organic growth visibility at a low cost of expansion. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q*	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (m ton)	4.45	3.60	4.49	5.04	4.47	3.61	4.40	5.09	17.67	17.58
YoY Change (%)	11.5	22.0	14.0	8.9	0.4	0.4	-2.0	1.1	13.4	-0.5
Realization (Rs/ton)	2,645	2,768	2,807	2,872	2,958	3,087	3,097	3,157	2,755	3,077
YoY Change (%)	33.0	27.6	40.3	25.4	11.9	11.5	10.3	9.9	30.1	11.7
QoQ Change (%)	15.5	4.7	1.4	2.3	3.0	4.4	0.3	1.9		
Net Sales	11,803	10,045	12,605	14,655	13,653	11,734	14,324	16,890	49,108	56,600
YoY Change (%)	48.8	57.0	59.8	38.2	15.7	16.8	13.6	15.2	48.8	15.3
Total Expenditure	8,057	7,501	8,802	10,570	9,317	8,439	9,853	11,534	34,930	39,143
EBITDA	3,746	2,545	3,802	4,085	4,335	3,296	4,471	5,356	14,178	17,457
Margins (%)	31.7	25.3	30.2	27.9	31.8	28.1	31.2	31.7	28.9	30.8
Depreciation	544	547	571	601	559	581	590	860	2,263	2,589
Interest	226	237	202	203	202	188	210	251	868	850
Other Income	134	119	167	195	269	258	210	213	615	950
PBT after EO Expense	3,110	1,879	3,196	3,476	3,844	2,786	3,881	4,458	11,662	14,968
Tax	1,002	605	1,072	1,161	1,250	927	1,281	1,482	3,839	4,939
Rate (%)	32.2	32.2	33.5	33.4	32.5	33.3	33.0	33.2	32.9	33.0
Reported PAT	2,108	1,274	2,125	2,315	2,594	1,859	2,600	2,976	7,823	10,028
Adj PAT	2,108	1,274	2,125	2,315	2,594	1,859	2,600	2,976	7,823	10,028
YoY Change (%)	251.3	-	790.8	75.3	23.0	45.8	22.4	28.5	240.5	28.2

E: MOST Estimates; Qly results do not add up to full year results due to recasting

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Engineering

BSE Sensex: 20,207

S&P CNX: 6,080

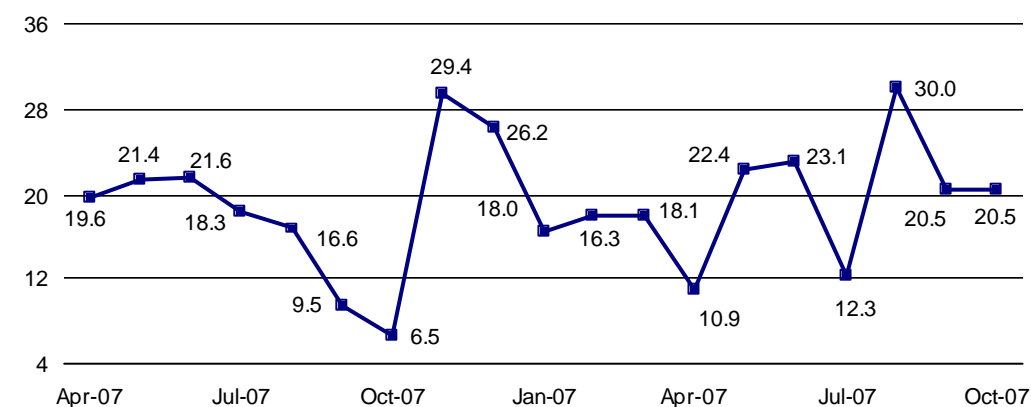
28 December 2007

COMPANY NAME	PG.
ABB	118
Alstom Projects	119
Bharat Electronics	120
BHEL	121
Crompton Greaves	122
Cummins India	123
Larsen & Toubro	124
Siemens	125
Suzlon Energy	126
Thermax	127

IIP regains momentum post blip in July 2007

The IIP Index for the month of October 2007 grew by 11.8% while the growth in the capital goods index continued to witness an increase of 20.5% YoY. The cumulative growth for the period April-October 2007 stands at 9.7% over the corresponding period of the previous year. The capital goods index witnessed an increase of 20.1% (v/s 15.7% YoY). It is also noticeable that the growth in October 2007 was higher due to the lower base effect, the growth in October 2006 being merely 6.54% YoY. This trend of buoyant growth is due to continued thrust on investments in the industrial and infrastructure sectors.

CAPITAL GOODS INDEX (% CHG YOY)



Source: CMIÉ

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Engineering							
ABB	Neutral	20,545	44.0	2,862	47.0	1,902	40.9
Alstom Projects	Neutral	3,870	30.0	349	44.4	379	25.2
Bharat Electronics	Buy	10,365	20.0	2,506	26.8	1,847	24.6
BHEL	Neutral	56,330	29.8	12,625	35.9	8,418	26.1
Crompton Greaves	Neutral	10,568	30.0	1,215	48.6	689	51.6
Cummins India	Neutral	5,819	22.0	887	23.5	740	17.7
Larsen & Toubro	Neutral	55,469	34.7	7,022	35.4	4,517	31.3
Siemens	Neutral	21,537	31.9	1,595	29.3	1,342	36.4
Suzlon Energy	Neutral	27,368	43.0	4,105	61.2	1,976	13.3
Thermax	Buy	6,379	16.0	776	2.1	577	4.1
Sector Aggregate		218,251	32.8	33,944	37.3	22,386	27.1

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 39825410/Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 39825429

Strong order intake in 3QFY08; order book remains strong

The order book for most capital goods companies is showing impressive growth with increasing investments in the manufacturing sector, thrust on accelerated infrastructure development and continuation of power reforms. The order book for most of the companies like Siemens, ABB, Thermax, BHEL and L&T witnessed robust YoY growth rate as of September 2007.

In 3QFY08, the order intake continued to remain robust on account of significant project awards from Indian Railways, industries (primarily oil & gas) and the power sector.

ORDER BACKLOG (RS B AND % YOY)

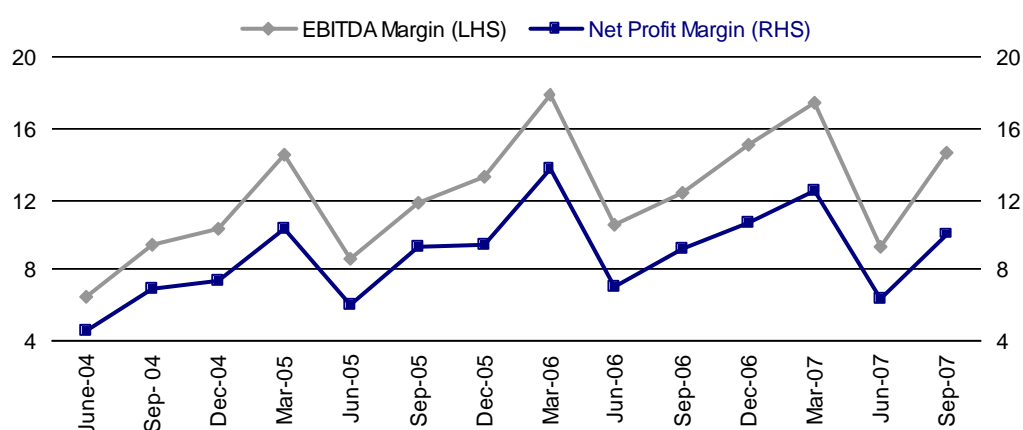
	SEP-07	SEP-06	% GR. YOY	JUN-07	JUN-06	% GR. YOY
Siemens	94.1	75.3	25	108.2	77.2	40
ABB	49.0	35.6	37	46.4	31.4	48
Thermax	29.3	20.8	41	35.0	24.5	43
L&T (E&C Div)	420.3	292.7	44	396.9	274.6	45
BHEL	726.0	457.0	59	624.0	393.0	59

Source: Company

Expect EBITDA margin improvement in 3QFY08

The EBITDA margin for the companies in the capital goods sector has witnessed strong improvement on back of favorable demand-supply scenario, long-term supply contracts for raw materials, flexibly priced work contracts and implementation of cost-cutting programs.

TREND IN EBITDA AND PAT MARGINS



Source: Motilal Oswal Securities

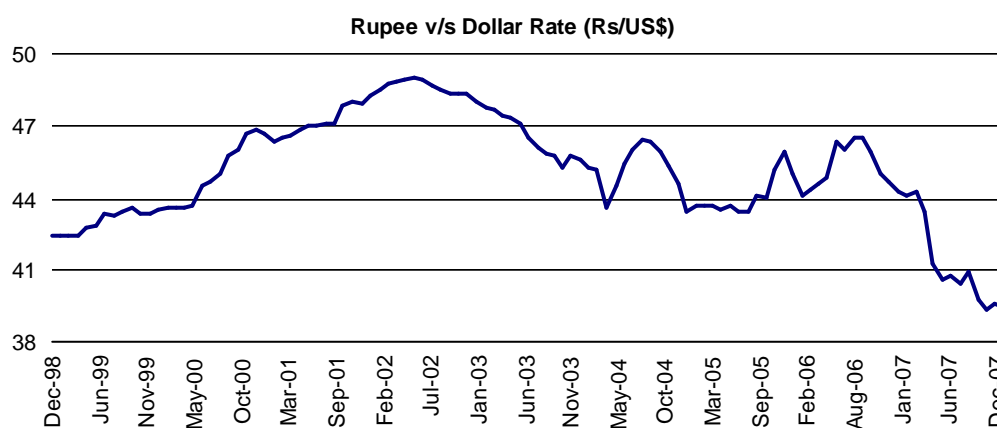
The engineering companies are now less impacted by adverse commodity price movements for the domestic orders, as most of the contracts incorporate a price variation clause. This is visible in improvement in reported EBITDA margins for September 2007 by most of the engineering companies despite the recent spurt in non-ferrous metal and steel prices.

Also, the operational efficiency, economies of scale, better sourcing and enrichment in product mix has added to improvement in EBITDA margins for the companies. For overseas orders too, the companies are able to cherry pick orders and are able to take some price hikes owing to robust demand scenario. The robust order book assures strong revenue visibility over the next few quarters, and the improving margin trend would enable companies to sustain earnings growth.

Rupee appreciation may however dent earnings slightly

Exports continue to remain one of the key thrust areas for the Indian companies given the huge emerging opportunities in the Middle East and Africa for home grown players (viz. BHEL, L&T and Thermax), and with some MNCs (viz. ABB, Cummins, Siemens) being developed as exclusive sourcing bases for their parents' global / regional requirements. Most of the MNC companies have already set up R&D centers in India, and hence the outsourcing opportunity seems to be a sustainable trend. This exposes Indian companies to recent rupee appreciation (which also impacts their profitability globally) and leads to a drop in EBITDA margins.

RUPEE APPRECIATION OVER 3QFY08



Source: Motilal Oswal Securities

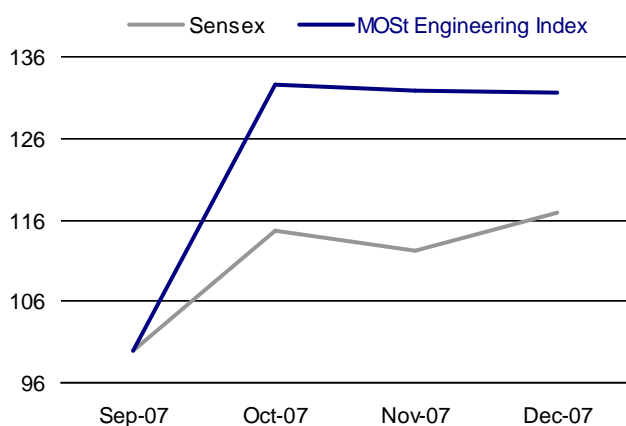
Also, the global acquisitions by some of the engineering companies have exposed them to the risk of rupee appreciation, which is reflected through translation of financials of subsidiary companies on a consolidated basis. Companies like Suzlon, which are pre-dominantly into exports and its three global subsidiaries, are more vulnerable to the rising rupee. Besides this, Crompton Greaves (18% of revenues for standalone entity besides the revenues from Pauwels and Ganz), ABB, Siemens and L&T could see possible impact on EBITDA margin in 3QFY08 due to rupee appreciation. The key instance of loss in EBITDA margin in 1HFY08 by engineering companies include: (1) Suzlon - 200bp loss; and (2) Siemens - 370bp (3QFY07).

Stock performance and valuations

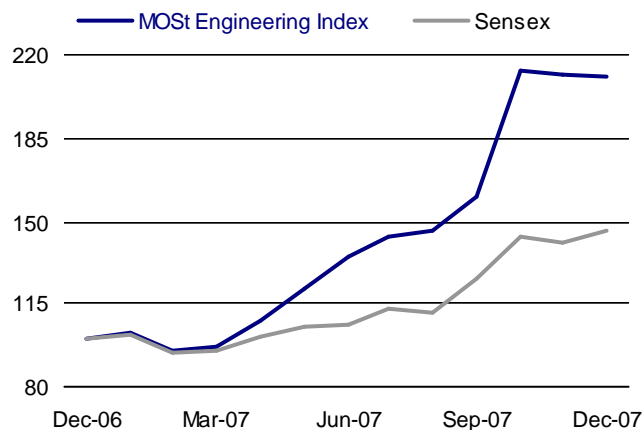
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Engineering						
ABB	15	108	-2	62	-17	-5
Alstom Projects	20	119	3	73	-12	6
Bharat Electron	14	58	-3	12	-18	-54
BHEL	27	124	10	78	-5	11
Crompton Greaves	18	92	1	46	-13	-20
Cummins India	-6	52	-23	6	-37	-60
Larsen & Toubro	48	189	31	143	16	76
Siemens	40	69	23	23	8	-44
Suzlon Energy	31	46	15	0	0	-66
Thermax	10	124	-6	78	-21	11

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Engineering														
ABB	1,486	Neutral	23.6	30.4	40.0	62.9	48.9	37.1	40.9	31.9	23.8	39.7	43.9	45.9
Alstom Projects	995	Neutral	21.3	26.1	31.9	46.8	38.2	31.2	38.1	30.0	23.1	37.8	36.2	34.4
Bharat Electronics	2,097	Buy	103.2	127.6	147.8	20.3	16.4	14.2	12.0	9.3	7.6	29.9	29.2	26.8
BHEL	2,582	Neutral	63.1	85.8	119.7	40.9	30.1	21.6	26.4	18.8	13.2	30.7	32.3	34.6
Crompton Greaves	393	Neutral	10.6	15.1	20.9	37.1	26.1	18.8	29.4	22.5	17.2	37.6	38.4	38.7
Cummins India	410	Neutral	15.8	19.9	26.1	25.9	20.6	15.7	18.5	14.0	9.9	28.1	29.3	31.0
Larsen & Toubro	4,150	Neutral	89.0	113.0	139.0	46.6	36.7	29.9	40.0	31.8	26.3	30.7	30.5	29.5
Siemens	1,889	Neutral	44.2	58.9	76.2	42.7	32.1	24.8	27.0	21.2	16.7	44.7	44.7	44.2
Suzlon Energy	1,902	Neutral	43.1	64.4	86.5	44.1	29.6	22.0	30.4	22.4	17.4	21.9	21.0	23.6
Thermax	828	Buy	21.0	30.6	41.4	39.4	27.0	20.0	28.2	18.9	13.4	37.8	42.7	42.1
Sector Aggregate						41.7	31.4	24.0	29.5	22.2	16.9	29.5	31.5	32.6

ABB

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ABB IN
	REUTERS CODE
S&P CNX: 6,080	ABB.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs 1,486

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA	
Equity Shares (m)	211.9											
52-Week Range	1,670/638	12/06A	42,740	3,403	16.1	55.6	92.6	26.3	32.4	49.2	7.2	64.8
1,6,12 Rel. Perf. (%)	-12/4/62	12/07E	61,454	5,011	23.6	47.2	62.9	23.7	39.7	61.7	5.0	40.9
M.Cap. (Rs b)	315.0	12/08E	79,453	6,446	30.4	28.6	48.9	19.6	43.9	68.4	3.9	31.9
M.Cap. (US\$ b)	8.0	12/09E	102,880	8,483	40.0	31.6	37.1	15.1	45.9	71.6	3.0	23.8

- For 4QCY07, we expect revenues to grow 44% YoY to Rs20.5b, EBITDA by 47% YoY to Rs2.9b and net profit by 48.6% YoY to Rs2b.
- ABB plans to invest US\$100m in three years to add capacity as well as expand the range of its Indian operations. It expects the business volume of the Indian operations to double by 2010. ABB will make fresh investments at a new greenfield plant in Nelmangala near Bangalore for manufacturing low voltage products and power electronics and is also setting up a new manufacturing unit in Vadodara for small power transformers and distribution automation products.
- During 3QCY07, ABB received orders worth Rs5b from JSW and their associated companies, to provide turnkey power and automation solutions for their steel and power plant projects. Earlier, it had received orders worth Rs933m from KHD Humboldt Wedag GmbH, Germany, to provide a turnkey electrical and automation solution for a 5,000 tpd (tonnes per day) cement plant at Katrana in Jordan.
- EBITDA margin improved 145bp YoY during 9MICY07 to 11.4% (v/s 9.9% in 9MICY06). The sustained momentum in order intake, rapid conversion of the existing strong order backlog and increased share of high margin standard products and services should lead to further margin expansion for the company.
- We believe ABB's rich valuations already discount its buoyant growth prospects. It trades at 48.9x CY08E and 37.1x CY09E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	8,029	9,742	10,706	14,263	13,124	14,009	13,775	20,545	42,740	61,454
Change (%)	32.1	47.9	50.6	44.7	63.5	43.8	28.7	44.0	44.2	43.8
EBITDA	695	1,020	1,106	1,947	1,282	1,638	1,724	2,862	4,767	7,506
Change (%)	87.1	68.8	35.7	39.9	84.6	60.6	55.9	47.0	49.8	57.5
As % of Sales	8.7	10.5	10.3	13.6	9.8	11.7	12.5	13.9	11.2	12.2
Depreciation	62	65	66	71	86	77	79	82	265	325
Interest	2	2	2	1	10	23	16	12	7	60
Other Income	180	153	230	174	152	147	158	251	737	708
PBT	810	1,106	1,267	2,049	1,337	1,686	1,787	3,019	5,232	7,829
Tax	297	387	446	699	471	600	630	1,117	1,829	2,818
Effective Tax Rate (%)	36.7	35.0	35.2	34.1	35.2	35.6	35.3	37.0	35.0	36.0
Reputed PAT	513	719	821	1,350	866	1,086	1,157	1,902	3,403	5,011
Adj. PAT	513	719	821	1,350	866	1,079	1,170	1,902	3,403	5,011
Change (%)	86.5	64.9	55.1	42.6	68.9	50.0	42.5	40.9	55.6	47.2

E: MOST Estimates

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Alstom Projects

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ABBAP IN
	REUTERS CODE
S&P CNX: 6,080	ABBP.BO
Equity Shares (m)	67.0
52-Week Range	1,109/369
1,6,12 Rel.Perf. (%)	-1/-17/73
MCap. (Rs b)	66.7
MCap. (US\$ b)	1.7

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs995

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	12,215	1,093	16.3	132.2	61.0	20.0	34.4	44.5	5.2	52.8
3/08E	15,992	1,426	21.3	30.6	46.8	15.8	37.8	47.1	3.9	38.1
3/09E	19,652	1,747	26.1	22.5	38.2	12.3	36.2	45.3	3.1	30.0
3/10E	23,980	2,140	31.9	22.5	31.2	9.5	34.4	43.0	2.5	23.1

Consolidated Numbers

- For 3QFY08, we expect revenue to grow 30% YoY to Rs3.9b, EBITDA to grow 44.4% YoY to Rs349m and the net profit to grow 25.2% YoY to Rs379m.
- It received order valued at Rs 10b (370MW) from the Gujarat State Electricity Corporation for construction of the first gas-based combined cycle power plant in India during 1QFY08. Also, a consortium comprising Alstom Projects, Alstom Transport S.A. (ATSA) and Sumitomo Corporation have bagged an order of up to Rs2.8b to develop the train control and signaling equipment for Delhi Metro Rail Corporation (DMRC) s line 1 and line 2 extensions. Alstom' s share in the project is Rs770m, while Alstom S.A. would execute the order worth Rs 1.8b. The current order backlog of the company is at Rs30b+.
- The transport division is also poised for buoyant order intake with the Indian Railways increasing focus on safety measures and also due to plans by various urban infrastructure bodies to set up metros in key cities.
- At CMP of Rs995, the stock trades at a P/E of 46.8x FY08E and 38.2x FY09E. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	2,237	2,677	2,977	4,306	2,413	3,981	3,870	5,728	12,215	15,992
Change (%)	24.6	18.3	2.7	72.3	7.9	48.7	30.0	33.0	29.2	30.9
EBITDA	90	322	242	534	246	323	349	733	1,209	1,652
Change (%)	119.5	177.6	139.6	198.3	173.3	0.3	44.4	37.3	167.3	36.6
As of % Sales	4.0	12.0	8.1	12.4	10.2	8.1	9.0	12.8	9.9	10.3
Depreciation	34	36	40	54	55	54	53	55	164	217
Interest	0	1	1	0	0	1	0	1	2	2
Other Income	68	102	169	9	87	107	150	6	350	350
Extra-ordinary income	0	0	0	22	0	0	0	0	22	0
PBT	124	387	370	511	278	375	446	684	1,415	1,783
Tax	8	74	67	127	103	133	67	54	279	357
Effective Tax Rate (%)	6.5	19.1	18.1	24.8	37.1	35.5	15.0	7.8	19.7	20.0
Reported PAT	116	313	303	384	175	242	379	630	1,136	1,426
Adj PAT	116	313	303	368	175	242	379	630	1,118	1,426
Change (%)	73.1	172.2	304.0	77.6	50.9	-22.7	25.2	71.4	137.1	27.6

E: MOST Estimates

Bharat Electronics

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BHE IN
	REUTERS CODE
S&P CNX: 6,080	BAJE.BO

28 December 2007

Buy

Rs2,097

Previous Recommendation: Buy

Equity Shares (m)	80.0
52-Week Range	2,180/1,213
1,6,12 Rel. Perf. (%)	10/-24/12
MCap. (Rs b)	167.8
MCap. (US\$ b)	4.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	39,002	7,182	89.8	23.2	23.4	6.5	32.9	32.9	3.7	13.7
3/08E	45,421	8,256	103.2	15.0	20.3	5.2	29.9	29.9	3.1	12.0
3/09E	54,317	10,205	127.6	23.6	16.4	4.1	29.2	29.2	2.5	9.3
3/10E	62,465	11,826	147.8	15.9	14.2	3.3	26.8	26.8	2.5	9.3

- For 3QFY08, we expect Bharat Electronics to report revenue of Rs10.4b, up 20% YoY, EBITDA of Rs2.5b, up 26.8% YoY, and net profit of Rs1.9b, up 24.6% YoY.
- BEL has guided for revenues of US\$1b in FY08 and US\$2b by FY12.
- Order backlog as of March 2007 stood at Rs90b (up 36% YoY). The book-to-bill ratio has increased to 2.3x during FY07 from 2x during FY06. Order intake during FY07 increased to Rs63b (up 64% YoY).
- BEL has signed MoUs with: (1) Lockheed Martin to explore business opportunities for co-production of domestic aerospace and defense electronics needs; (2) Elbit Systems Electro Optics ELOP Ltd., Israel, for setting up a JV for development, production and marketing of Thermal Imaging Cameras and Forward Looking Infra Red (FLIRs) for the Indian and global markets; and (3) Northrop Grumman Corp. to explore business opportunities for co-production in current and future aerospace and defense needs of India and international markets of Northrop Grumman.
- Though these are currently enabling MoUs, we believe the company would be able to leverage its competitive positioning with the JV partners over a longer period due to the offset clause.
- We expect the company to post earnings CAGR of 18% from FY07-09E. At CMP of Rs2,097, the stock trades at a P/E of 20.3x FY08E and 16.4x FY09E. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	4,831	8,343	8,638	17,342	4,044	7,089	10,365	23,842	38,943	45,341
Change (%)	0.8	0.7	27.5	10.1	-16.3	-15.0	20.0	37.5	9.4	16.4
EBITDA	721	1,865	1,976	4,849	-46	1,534	2,506	7,010	9,411	11,004
Change (%)	-4.0	-9.1	36.6	16.2	-106.4	-17.8	26.8	44.6	11.7	16.9
As of % Sales	14.9	22.4	22.9	28.0	-1.1	21.6	24.2	29.4	24.2	24.3
Depreciation	208	198	205	252	211	221	240	242	863	914
Interest	3	1	2	0	1	0	1	0	5	3
Other Income	384	508	407	574	656	497	450	451	1,874	2,054
PBT	894	2,175	2,177	5,171	398	1,809	2,715	7,218	10,416	12,141
Tax	291	692	696	1,599	135	581	869	2,300	3,278	3,885
Effective Tax Rate (%)	32.6	31.8	31.9	30.9	33.9	32.1	32.0	31.9	31.5	32.0
Reported PAT	603	1,483	1,482	3,572	263	1,228	1,847	4,918	7,139	8,256
Change (%)	6.5	1.1	52.7	27.2	-56.4	-17.2	24.6	37.7	22.8	15.7
Adj PAT	603	1,483	1,482	3,572	263	1,228	1,847	4,918	7,139	8,256

E: MOST Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 39825410/Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 39825429

BHEL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BHEL IN
	REUTERS CODE
S&P CNX: 6,080	BHEL.BO

28 December 2007

Neutral

Rs2,582

Previous Recommendation: Buy

Equity Shares (m)	489.5
52-Week Range	2,925/970
1,6,12 Rel. Perf. (%)	-12/34/78
MCap. (Rs b)	1,263.8
MCap. (US\$ b)	32.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	176,427	24,144	49.3	44.0	52.3	14.4	30.0	50.0	7.0	33.5
3/08E	223,740	30,899	63.1	28.0	40.9	11.1	30.7	53.7	5.5	26.4
3/09E	297,639	41,988	85.8	35.9	30.1	8.6	32.3	52.0	4.1	18.8
3/10E	388,167	58,603	119.7	39.6	21.6	6.6	34.6	55.1	3.1	13.2

- For 3QFY08, we expect revenue to grow 29.8% YoY to Rs56.3b, EBITDA to grow 32% YoY to Rs12.3b and net profit to grow by 19.7% YoY to Rs8b.
- The order book stood at Rs726b as of September 2007, up 59% YoY while order intake for 2QFY08 was Rs141.7b. The current order backlog represents a book-to-bill ratio of 3.2x its FY08E revenues of Rs226b.
- BHEL and the Tamil Nadu Electricity Board (TNEB) have firmed up a JV company to set up a 1,600MW thermal power plant at Udangudi near Tuticorin. The plant will comprise 2 units of 800MW each, with BHEL as equipment manufacturer.
- Based on media reports, the government has accorded an in-principle approval to BHEL to take over Bharat Heavy Plate & Vessels Ltd. (BHPV) as a subsidiary and infuse Rs2.8b as capital expenditure into the company besides subscribing Rs340m to its equity. The Department of Heavy Industry had proposed that the government may waive or write-off loans and interests to BHPV amounting to Rs4b and settle all outstanding liabilities of BHPV amounting to Rs2.6b.
- The company has guided for revenue of US\$10b by FY12 both through organic and inorganic route i.e. a revenue CAGR of 19%.
- At the CMP of Rs2,582, the stock is trading at a P/E of 40.9x FY08E and 30.1x FY09E. We are **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	26,564	33,412	43,397	69,197	32,339	39,654	56,330	90,276	172,375	218,599
Change (%)	37.2	33.1	30.5	25.5	21.7	18.7	29.8	30.5	29.7	26.8
EBITDA	3,182	4,563	9,292	15,872	3,107	6,952	12,625	21,450	32,909	44,134
Change (%)	85.5	23.7	54.1	32.8	-2.4	52.3	35.9	35.1	40.7	34.1
As a % Sales	12.0	13.7	21.4	22.9	9.6	17.5	21.8	23.2	19.1	20.2
Depreciation	639	667	662	762	689	694	825	873	2,730	3,082
Interest	131	136	120	47	22	193	100	185	433	499
Other Income	1,201	1,699	1,855	2,860	2,063	5,009	1,250	1,337	7,615	9,660
PBT	3,613	5,460	10,365	17,928	4,460	11,074	12,950	21,730	37,366	50,213
Tax	1,246	1,860	3,688	6,419	1,570	4,197	4,533	7,275	13,214	17,574
Effective Tax Rate (%)	34.5	34.1	35.6	35.8	35.2	37.9	35.0	33.5	35.4	35.0
Reported PAT	2,367	3,600	6,677	11,509	2,890	6,877	8,418	14,455	24,152	32,638
Change (%)	85.1	38.4	57.8	32.6	22.1	91.0	26.1	25.6	43.8	35.1
Adj. PAT	2,367	3,600	6,677	11,506	2,890	5,632	8,418	14,455	24,149	30,899
Change (%)	85.1	38.4	57.8	32.6	22.1	56.4	26.1	25.6	43.8	28.0

E: MOST Estimates

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Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CRG IN
	REUTERS CODE
S&P CNX: 6,080	CROM.BO

28 December 2007

Neutral

Rs393

Previous Recommendation: Neutral

	YEAR	NET SALES	PAT*	EPS*	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	366.6										
52-Week Range	454/172										
1,6,12 Rel. Perf. (%)	-11/19/46										
M.Cap. (Rs b)	144.0										
M.Cap. (US\$ b)	3.7										
	3/07A	33,676	2,417	6.6	0.6	59.6	21.8	32.6	38.6	4.3	42.4
	3/08E	41,685	3,886	10.6	60.7	37.1	16.3	37.6	45.1	3.5	29.4
	3/09E	51,427	5,519	15.1	42.0	26.1	12.4	38.4	46.9	2.8	22.5
	3/10E	63,644	7,650	20.9	38.6	18.8	9.4	38.7	50.3	2.2	17.2

* Consolidated; pre-exceptionals

- For 3QFY08, we expect Crompton to report standalone revenue of Rs 10.6b, up 30% YoY, EBITDA of Rs 1.2b, up 48.6% YoY, and net profit of Rs 689, up 51.6% YoY.
- As of September 2007 the (standalone) order book stood at Rs 21.7b, up 20.8% YoY, and the order book for Pauwels and Ganz put together stands at Rs 30b.
- The company has won the bid for distribution of power in Nagpur via the bids invited by Maharashtra State Electricity Board (MSEB). The concession is for a period of 15 years effective from January 2008. It has committed for a payment of Rs 26b (bid evaluation criterion) to the MSEB over a 15-year period to get a fixed quantum of power from MSEB and is free to source any incremental requirements from the open market. The company will be able to retain efficiency gains from better management of the Nagpur circle, including lower T&D losses (currently at 43%).
- The management has guided for revenue growth 20-25% CAGR to FY10 for the standalone business and 15-18% CAGR for Pauwels to FY10. The company expects standalone EBITDA margins to improve to ~11% in FY08 (v/s 10.2% in FY07). For Ganz, management expects EBITDA margin of 5% (v/s loss in FY07) and breakeven at the PBT level during FY08.
- We expect Crompton to report consolidated revenues of Rs 74.5b in FY08 (up 24.3% YoY) and Rs 91.3b in FY09 (up 22.5% YoY). At CMP of Rs 393, the stock trades at a P/E of 37.1x FY08E and 26.1x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	7,406	8,240	8,130	9,900	8,961	9,050	10,568	13,107	33,676	41,685
Change (%)	42.5	48.6	25.5	24.0	21.0	9.8	30.0	32.4	33.6	23.8
EBITDA	722	736	818	1,143	1,045	1,068	1,215	1,595	3,418	4,923
Change (%)	58.7	39.1	38.5	52.0	44.8	45.2	48.6	39.5	46.9	44.0
As of % Sales (Adj)	9.7	8.9	10.1	11.5	11.7	11.8	11.5	12.2	10.2	11.8
Depreciation	100	81	100	113	105	113	135	146	394	499
Interest	53	72	78	101	66	60	72	85	304	282
Other Income	49	94	72	133	126	185	85	81	349	477
PBT	618	677	713	1,063	1,000	1,080	1,093	1,445	3,070	4,619
Tax	254	270	258	363	313	339	405	515	1,146	1,570
Effective Tax Rate (%)	41.1	39.9	36.3	34.2	31.2	31.4	37.0	35.6	37.3	34.0
Reported PAT	364	407	454	699	688	742	689	931	1,924	3,048
Adj PAT	364	387	454	749	638	642	689	931	1,954	2,898
Change (%)	16.4	18.9	-17.0	0.1	75.3	65.9	51.6	24.2	1.0	48.4

E: MOST Estimates

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Cummins India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	KKC IN
	REUTERS CODE
S&P CNX: 6,080	CUMM.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs410

Equity Shares (m)	198.0
52-Week Range	463/232
1,6,12 Rel. Perf. (%)	-7/-20/6
MCap. (Rs b)	81.3
MCap. (US\$ b)	2.1

YEAR END	NET SALES* (RS M)	PAT * (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	21,228	2,680	13.5	45.9	30.3	8.0	28.6	39.2	3.7	22.5
3/08E	27,265	3,132	15.8	16.9	25.9	6.7	28.1	41.6	2.8	18.5
3/09E	33,398	3,935	19.9	25.7	20.6	5.5	29.3	43.6	2.2	14.0
3/10E	39,518	5,175	26.1	31.5	15.7	4.4	31.0	46.1	1.8	9.9

* Consolidated nos

- For 3QFY08, we expect revenue growth of 22% YoY to Rs 5.8b, EBITDA growth of 23.5% YoY to Rs 887m and net profit growth of 16% YoY to Rs 730m.
- Domestic sales are expected to grow ~13-15% on the back of a strong demand for standby gensets from the services sector. Exports are expected to grow ~20%. Progress on new product launches is as per schedule.
- The Rs 150m facility being set up near Pune to assemble HP engines and generator sets has started catering to the export market (EOU unit) from November 2007 while the unit for the domestic market will be operational by March 2008.
- At the CMP of Rs 410 the stock is trading at 25.9x FY08E and 20.6x FY09E consolidated earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	3,914	4,674	4,770	5,049	5,423	5,282	5,819	6,520	18,408	23,045
Change (%)	19.3	30.8	22.4	30.2	38.5	13.0	22.0	29.1	25.8	25.2
EBITDA	619	786	719	823	740	726	887	1,097	2,947	3,450
Change (%)	41.0	86.2	22.3	41.2	19.5	-7.6	23.5	33.2	45.0	17.1
As of % Sales	15.8	16.8	15.1	16.3	13.6	13.7	15.3	16.8	16.0	15.0
Interest	0	0	2	11	2	1	5	5	14	12
Depreciation	81	94	77	74	76	77	95	117	326	365
Other Income	163	195	260	236	232	263	270	236	853	1,000
PBT	700	886	899	975	894	911	1,057	1,211	3,460	4,073
Tax	192	259	270	318	253	246	317	405	1,040	1,222
Effective Tax Rate (%)	27.4	29.2	30.1	32.6	28.3	27.0	30.0	33.4	30.0	30.0
Reported PAT	508	627	629	657	640	665	740	806	2,421	2,851
Adj PAT	508	627	629	657	640	665	740	806	2,421	2,851
Change (%)	43.6	48.8	29.7	21.4	26.1	6.0	17.7	22.7	34.4	17.8

E: MOST Estimates

Larsen & Toubro

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	LT IN
	REUTERS CODE
S&P CNX: 6,080	LART.BO
Equity Shares (m)	283.3
52-Week Range	4,670/1,375
1,6,12 Rel. Perf. (%)	-6/53/143
MCap. (Rs b)	1,175.6
MCap. (US\$ b)	29.8

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs4,150

YEAR	NET SALES	PAT *	EPS*	EPS GR.	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	176,846	18,310	63.9	75.5	65.0	20.4	26.1	28.2	6.5	63.5
3/08E	240,871	25,515	89.0	37.7	46.6	16.6	30.7	33.8	4.9	40.0
3/09E	304,012	32,391	113.0	26.9	36.7	13.4	30.5	31.9	3.9	31.8
3/10E	369,568	39,858	139.0	23.1	29.9	10.9	29.5	29.6	3.2	26.3

* Consolidated; EPS is fully diluted

- For 3QFY08, we expect revenue of Rs53.6b, up 30.2% YoY, EBITDA of Rs6.8b, up 31.5% YoY, and net profit of Rs4.4b, up 27.3% YoY.
- L&T's order backlog as at end of September 2007 stood at Rs420.3b, up 44% YoY. The order book-to-bill ratio for the company has improved from 1.5x as of March 2006 to around 1.8x as of September 2007 (FY08 revenue).
- It plans to develop power generation capacity of 5,000 MW over the next five years with an investment of Rs50b.
- Key recent order intake includes: (1) Rs2.8b order from Mumbai Metropolitan Region Development Authority (MMRDA) for the construction of elevated access road from Western Express Highway (WEH), Mumbai, to the Chatrapathi Shivaji International Airport (CSIA); (2) Rs2.8b order (in JV with Shanghai Urban Construction Corporation) from Delhi Metro Railway for the construction of 2.4km underground tunnel; (3) Rs3.6b order from SAIL Bokaro plant for upgradation of blast furnace No 2 on turnkey basis.
- Larsen & Toubro has signed an MoU with Raytheon to cater to an opportunity in the defense space. The tie-up is for medium size multi-role combat aircraft (MMCRA program).
- At CMP of Rs4,150, the stock is trading at a P/E of 46.6x FY08E and 36.7x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	34,689	37,361	41,184	62,482	45,052	54,999	55,469	84,054	175,788	239,574
Change (%)	11.5	11.7	12.3	36.0	29.9	47.2	34.7	34.5	20.0	36.3
EBITDA	2,698	3,062	5,185	9,718	4,738	6,526	7,022	13,046	20,665	31,331
Change (%)	53.5	117.6	63.0	54.2	75.6	113.1	35.4	34.2	82.4	62.9
As of % Sales	9.2	8.9	11.8	14.9	10.2	11.6	12.2	15.0	11.3	12.7
Depreciation	309	336	357	698	424	483	520	564	1,700	1,991
Interest	158	106	12	63	157	132	180	236	339	705
Other Income	216	437	350	420	1,608	-430	420	1,064	1,420	2,662
Reported PBT	2,448	3,057	5,166	9,377	5,764	5,481	6,742	13,311	20,046	31,297
Tax	877	1,046	1,727	2,371	1,995	2,001	2,225	4,408	6,019	10,629
Effective Tax Rate (%)	35.8	34.2	33.4	25.3	34.6	36.5	33.0	33.1	30.0	34.0
Reported Profit	1,571	2,011	3,440	7,006	3,769	3,480	4,517	8,903	14,027	20,668
Adjusted PAT	1,839	1,831	3,440	7,006	2,924	4,065	4,517	8,903	13,845	19,823
Change (%)	89.5	53.0	83.1	52.8	59.0	122.1	31.3	27.1	59.1	43.2

E: MOSI; All quarterly numbers are for standalone entity

Siemens

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SIEM IN
	REUTERS CODE
S&P CNX: 6,080	SIEM.BO

28 December 2007

Neutral

Rs 1,889

Previous Recommendation: Neutral

	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	168.6										
52-Week Range	2,250/968										
1,6,12 Rel. Perf. (%)	-4/-4/23										
M.Cap. (Rs b)	318.5										
M.Cap. (US\$ b)	8.1										
	9/07A	94,175	5,240	31.1	31.8	60.8	22.8	42.2	74.6	3.3	32.0
	9/08E	121,458	7,453	44.2	42.2	42.7	16.4	44.7	66.9	2.5	27.0
	9/09E	159,799	9,922	58.9	33.1	32.1	12.7	44.7	67.1	2.0	21.2

- For 1QFY08, we expect Siemens to report revenue of Rs21.5b, up 31.9% YoY, EBITDA of Rs 1.6b (up 29.3% YoY), and net profit of Rs 1.3b, up 36.4% YoY.
- For FY07, Siemens reported revenues of Rs77.7b (up 71.1% YoY), adjusted EBITDA of Rs5.5b (EBITDA margin of 7.1%) and net profit of Rs4.2b (up 14.9% YoY). EBITDA margin for the company at 7.1% is marginally lower than 7.6% in FY06.
- Siemens has an objective to double its revenues over the next three years, driven by growth in the product and project businesses. The order book for the company as of September 2007 stood at Rs94.1b (v/s Rs75.3b in September 2006), and order book-to-bill ratio now stands at 1.2x.
- Siemens commissioned its new transformer facility at Kalwa near Mumbai to cater to growing domestic and international demand. The investment for the facility was Rs2b and will manufacture large transformers up to 600 mVa and 800 kV voltage class. It would have a capacity to manufacture transformers totaling 15,000 mVa per year.
- We expect Siemens to report a consolidated net profit CAGR of 37.6% over FY07-09E. At the CMP of Rs 1,889/sh, the stock is trading at a PER of 42.7x FY08E and 32.1x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E SEPTEMBER	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Revenues	16,331	21,352	17,902	22,055	21,537	28,804	25,031	32,445	77,660	107,817
Change (%)	89.9	88.4	71.1	47.1	31.9	34.9	39.8	47.1	71.1	38.8
EBITDA	1,234	1,677	910	3,575	1,595	1,798	968	3,832	7,415	8,193
Change (%)	56.1	38.2	14.8	187.3	29.3	7.2	6.4	7.2	85.2	10.5
As % of Revenues	7.6	7.9	5.1	16.2	7.4	6.2	3.9	11.8	9.5	7.6
Adjusted EBITDA	1,234	1,677	910	2,167	1,595	1,798	968	3,832	5,492	8,193
As % of Revenues	7.6	7.9	5.1	9.8	7.4	6.2	3.9	11.8	7.1	7.6
Depreciation	103	109	121	160	115	125	150	201	492	591
Interest Income	126	105	123	90	90	100	125	135	443	450
Other Income	152	57	295	370	150	200	250	387	593	987
Extra-ordinary Items	0	0	259	524	0	0	0	0	783	0
PBT	1,409	1,730	1,207	4,399	1,720	1,973	1,193	4,154	8,742	9,040
Tax	426	650	389	1,313	378	493	322	1,583	2,777	2,777
Effective Tax Rate (%)	30.2	37.5	32.2	29.8	22.0	25.0	27.0	38.1	31.8	30.7
Reported PAT	984	1,081	818	3,086	1,342	1,480	871	2,570	5,965	6,263
Adjusted PAT	984	1,081	642	1,830	1,342	1,480	871	2,570	4,207	6,263
Change (%)	78.4	-8.3	13.6	33.8	36.4	36.9	35.7	40.4	14.9	48.9

E: MOST Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 39825410/Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 39825429

Suzlon Energy

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SUEL IN
	REUTERS CODE
S&P CNX: 6,080	SUZL.BO

28 December 2007

Neutral

Rs 1,902

Previous Recommendation: Neutral

Equity Shares (m)	310.3
52-Week Range	2,161/932
1,6,12 Rel. Perf. (%)	-4/11/0
MCap. (Rs b)	590.4
MCap. (US\$ b)	15.0

YEAR	NET SALES	PAT*	EPS*	EPS GR.*	P/E*	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	79,857	8,641	30.0	19.6	63.4	16.0	27.6	21.0	7.3	44.2
3/08E	133,622	13,051	43.1	43.8	44.1	6.8	21.9	15.9	4.8	30.4
3/09E	189,539	18,808	64.4	49.3	29.6	5.7	21.0	14.3	3.6	22.4
3/10E	233,657	24,192	86.5	34.4	22.0	4.8	23.6	15.1	2.8	17.4

* Consolidated

- For 3QFY08, we expect revenue of Rs27.4b, up 43% YoY, EBITDA of Rs3.8b, up 50.5% YoY, and net profit of Rs1.6b, down 5.1% YoY.
- Hansen Transmissions International (offer price of GBP 1.75/sh) successfully completed its initial public offering (IPO) to get listed on London Stock Exchange (LSE). It raised Euro400m through an offering of 164m new shares (post-issue market capitalization of Euro1.6b).
- Hansen has raised approx. Euro400m from the issuance of approx. 164 million new shares through this IPO, and intends to use the net proceeds to fund expansion of its manufacturing capacity through the construction of integrated manufacturing facilities in India and China.
- The order backlog of the company as of September 2007 stood at Rs163b comprising domestic market – Rs20b and international market – Rs143b. In terms of MW, the order backlog stood at 3,250MW as of September 2007 comprising domestic market – 369MW and international market – 2,882MW.
- Suzlon Energy has recently raised Rs21.8b through a qualified institutional placement offering 11.4m shares at Rs1,917 per share, entailing a dilution of 3.8% of the post-issue equity capital of the company. The funds from the issue will be used for working capital, repayment of outstanding loans and for acquiring remaining shares of the German company Repower from the Martifer Group.
- We expect Suzlon to report net profit CAGR of 43% over FY07-09E. The EPS for the company is estimated at Rs40.6/sh for FY08E and Rs59.8/sh for FY09E. At the CMP of Rs1,902, the stock is trading at a P/E of 44.1x FY08E and 29.6x FY09E consolidated earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	10,689	20,870	19,139	29,159	19,446	36,413	27,368	50,395	79,857	133,622
Change (%)	243.6	85.8	117.3	91.0	81.9	74.5	43.0	72.8	107.9	67.3
EBITDA	1,858	3,600	2,546	4,954	1,398	5,870	4,105	9,911	12,958	21,284
Change (%)	181.0	42.6	69.8	24.9	-24.8	63.0	61.2	100.1	47.4	64.3
As of % Sales	17.4	17.3	13.3	17.0	7.2	16.1	15.0	19.7	16.2	15.9
Depreciation	347	428	343	600	585	583	640	759	1,718	2,567
Interest	366	547	638	972	1,079	1,387	1,470	1,808	2,523	5,743
Other Income	161	87	254	463	426	535	250	483	965	1,694
PBT	1,306	2,711	1,820	3,846	161	4,434	2,245	7,828	9,683	14,668
Tax	346	340	93	256	-40	457	269	931	1,035	1,617
Effective Tax Rate (%)	26.5	12.5	5.1	6.6	(24.6)	10.3	12.0	11.9	10.7	11.0
Reported PAT	960	2,371	1,727	3,590	200	3,978	1,976	6,897	8,648	13,051
Change (%)	115.2	14.7	28.9	-4.3	-79.2	67.8	14.4	92.1	13.7	50.9
PAT (post Minority Interest)	953	2,354	1,744	3,590	189	3,978	1,976	6,897	8,640	13,051

E: MOST Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 39825410/Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 39825429

Thermax

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TMX IN
	REUTERS CODE
S&P CNX: 6,080	THMX.BO

28 December 2007

Buy

Rs828

Previous Recommendation: Buy

Equity Shares (m)	119.2
52-Week Range (Rs)	968/341
1,6,12 Rel. Perf. (%)	-7/22/78
MCap. (Rs b)	98.7
MCap. (US\$ b)	2.5

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	21,730	1,976	16.6	92.7	49.9	17.0	35.5	56.2	4.5	34.5
3/08E	29,719	2,505	21.0	26.8	39.4	13.8	37.8	56.4	3.2	28.2
3/09E	39,480	3,648	30.6	45.6	27.0	10.3	42.7	63.9	2.3	18.9
3/10E	50,853	4,938	41.4	35.4	20.0	7.4	42.1	63.3	1.7	13.4

* Consolidated

- For 3QFY08, we expect revenue of Rs6.4b, up 16% YoY, EBITDA of Rs1b and net profit of Rs695m, growth of 25.4% YoY. The management has guided for revenue growth of 40% YoY during FY08 and stable EBITDA margin.
- The order backlog stood at Rs29.3b as of September 2007 on a standalone basis and Rs32.3b on a consolidated basis.
- Thermax has signed a technical knowhow transfer and license agreement with Balcke-Durr GmbH, Germany. The license mainly encompasses manufacture of electrostatic precipitators (ESPs) - air pollution control equipment for power, industrial and utility segments up to 300 MW.
- We expect Thermax to report net profit CAGR of 43.3% over FY07-09E. At the CMP of Rs828, the stock trades at a P/E of 39.4x FY08E and 27x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07**	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	3,226	4,823	5,499	8,044	6,581	7,701	6,379	9,059	21,368	29,719
Change (%)			53.0	68.9	104.0	59.7	16.0	12.6	44.0	39.1
EBITDA	383	758	760	887	680	1,011	776	896	2,429	3,363
Change (%)			63.2	25.1	77.9	33.3	2.1	1.0	21.5	38.5
As of % Sales	11.9	15.7	13.8	11.0	10.3	13.1	12.2	9.9	11.4	11.3
Depreciation	38	50	47	53	50	54	50	72	188	226
Interest	0	2	5	5	4	2	3	1	13	10
Other Income	65	88	83	272	85	109	150	220	732	564
Extra-ordinary Items	0	-231	0	41	98	0	0	0	-190	0
PBT	410	562	790	1,143	809	1,063	873	1,043	2,770	3,691
Tax	135	211	236	446	249	371	296	335	1,027	1,251
Effective Tax Rate (%)	32.8	37.6	29.8	39.0	30.8	34.9	33.9	32.1	37.1	33.9
Reported PAT	275	351	555	697	560	692	577	708	1,743	2,439
Adj PAT	275	582	555	656	462	692	577	708	1,933	2,439
Change (%)			83.5	53.6	67.9	18.9	4.1	7.9	49.7	26.2

E: MOST Estimates

FMCG

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.
Asian Paints	134
Britannia Industries	135
Colgate Palmolive	136
Dabur India	137
GSK Consumer	138
Godrej Consumer Products	139
Hindustan Unilever	140
ITC	141
Marico	142
Nestle India	143
Tata Tea	144
United Spirits	145

We expect the FMCG sector to report improved QoQ growth in 3QFY08 due to strong consumer confidence and onset of festival demand. Volume growth is expected to vary strongly across product categories with packed juices, chocolates, biscuits and paints likely to be high growth segments. Raw material prices have been strong and companies have been playing the volume game during the festive season. Advertising expense during the quarter is expected to be high as this has been a festive quarter. Sharp increase in support prices of various food grains has boosted rural incomes, which would act as a catalyst for demand growth in the current environment of rising asset prices.

HUL is expected to post improved performance due to poor base effect in 4QCY07 and early onset of winter. Asian Paints will report strong growth due to Diwali sales. United Spirits, Nestle, Dabur, Marico and GSK Consumer are expected to maintain strong double-digit volume growth. We expect ITC cigarette sales volumes to shrink by 2% while food products are likely to grow by 35-40%. We prefer companies with strong presence in processed foods, alcoholic beverages and paints. We continue to recommend a selective approach for investment. We rate **United Spirits** and **ITC** as preferred picks among the large caps and **Asian Paints** and **Nestle** among the mid caps.

Timely onset of winter to increase demand for select products

Winter has been on time this year which is expected to provide a fillip to sales growth for skin creams, liquid detergents, coffee, health supplements etc. in the December quarter. Global warming and climate fluctuations are expected, which augurs well for companies in these product segments.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO	SALES		EBITDA		NET PROFIT		
	DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)	
FMCG							
Asian Paints	Buy	11,500	22.9	1,530	23.9	918	28.9
Britannia	Buy	7,000	23.4	650	149.0	450	123.9
Colgate	Buy	3,700	14.8	700	28.6	646	28.3
Dabur	Neutral	7,225	17.0	1,250	24.5	987	27.2
Godrej Consumer	Buy	2,900	21.8	590	14.4	464	17.1
GSK Consumer	Buy	3,102	17.2	437	58.7	312	24.0
Hind. Unilever	Neutral	36,236	14.8	5,783	15.7	5,420	12.1
ITC	Buy	35,850	13.2	12,050	11.3	7,973	11.1
Marico	Buy	5,000	22.2	700	27.0	412	48.7
Nestle	Buy	8,889	20.7	1,783	48.4	1,190	36.5
Tata Tea	Neutral	11,500	3.4	2,200	9.7	1,090	161.0
United Spirits	Buy	9,300	20.2	1,900	49.1	1,140	48.3
Sector Aggregate		142,201	15.6	29,573	19.8	21,002	22.2

HUL's skin cream segment is expected to be a major beneficiary of climatic changes as the company had reported just 2.5% sales growth for Personal Care during 4QCY07. Similarly Ezee liquid detergent from GCPL, Chawyanprash from Dabur and Nescafe and Bru coffee from Nestle and HUL would indicate strong volume growth during the quarter.

Reduction in personal tax rates and increase in pay scales will boost demand

Early indications suggest that the government is likely to change the personal tax structure on the back of buoyant tax collections. It is expected that the tax structure would provide significant relief to the middle class by increasing the slabs for levy of taxation. In addition the GoI is notifying inclusion of certain income generating schemes like senior citizen schemes in section 80c, which would increase their attractiveness to the population above 60 years. As 2009 is all set to be the general election year we expect the Pay Commission report to increase the salary levels by at least 25-30% from the existing slabs. All these measures will increase the consumer income and boost demand for consumer goods. Past history suggests that consumer demand in years immediately after the Pay Commission reports have been buoyant. We estimate that the net tax savings for the consumer with an income level of Rs400,000 and Rs500,000 per annum could be Rs 1,583 and Rs2,417 per month.

SALARY INCOME

INCOME SLABS	4 LAKH/ANNUM		5 LAKH/ANNUM	
	OLD	NEW	OLD	NEW
Total Tax outflow	39,000	20,000	69,000	40,000
Net disposable income	361,000	380,000	431,000	460,000
Incremental disposable Income/month		1,583		2,417

Note: New Slab Rs1,50,001 – 2,50,000 – 10%; Rs2,50,001 – 5,00,000 – 20%; Rs500,000 and above - 30%

Source: Company/Motilal Oswal Securities

We believe that the increase in consumer surplus will have far reaching ramifications for the section of the population with annual income between Rs300,000-Rs500,000. We expect the move to result in consumer upgradation in high penetration categories like soaps, detergents, oral care and personal care. Categories to watch out for could be household care, liquor and processed food. We expect acceleration in growth rates for product categories like high-end skin creams, household products, biscuits, beer, packed juices, noodles, packed water, mid-priced IMFL, wines and decorative paints. We expect United Spirits, Nestle, Britannia, ITC and Asian Paints to be key beneficiaries of the consumer upgradation.

FMCG majors entering new product categories/segments

Rising disposable income and buoyant consumer confidence is resulting in rising growth rates for premium products, although at a low base. The trend is clearly visible in processed foods, skin care, hair care and liquor. Entry level for the young consumer has moved up in lifestyle goods and IMFL (Indian made foreign liquor). Rising proportion of young working

population, influence of media and modern trade are expected to fuel the demand for premium goods in the coming periods. Most of the global majors in premium products have plans to significantly increase presence in Indian market. We believe that despite limited demand for premium products, the low base and higher margins make it attractive for companies to venture into these segments. FMCG majors are busy entering new categories and segments where they are not present currently. Similarly rising competition across categories is forcing the companies to enter new segments and categories to effectively compete and continue their growth momentum.

NEW PRODUCTS AND VARIANT LAUNCHES

COMPANY	CATEGORY	BRAND	VARIANT
Nestle	Coffee	Nescafe	Mild
	Confectionery	Polo, Tang Eez	Zero, Cinnamon flavor
Dabur	Health Supplements	Chyawan Junior	Malted Drink
	Household Products	Dazzel	Household and Kitchen Cleaner
	Skin Care	Gulabari	Rose Skin cream and Lotion
United Spirits	Premium IMFL	W&M, Isle of Jura	Scotch Whisky
ITC	Personal care	Fiana Di Wills	Shampoo in 4 variants
	Personal Care	Superia	Shampoo and Soap
HLL	Personal Care	Dove	Shampoos and skin care products
	Soaps	Hamam, Lifebuoy	Skin Scrub, Lifeguard

Source: Motilal Oswal Securities

Input prices indicate mixed trend

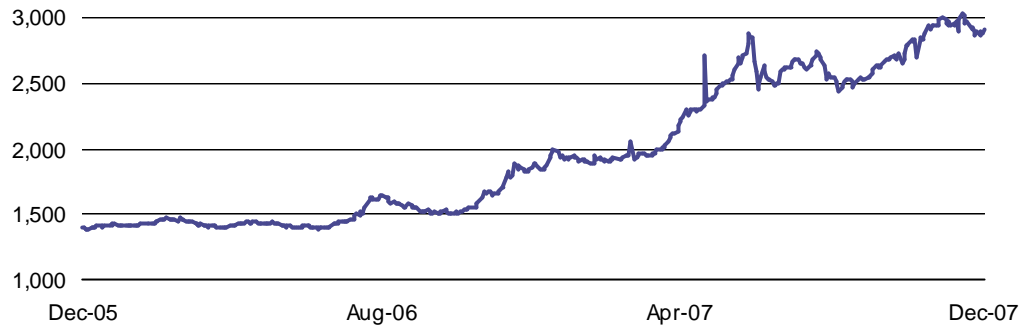
Prices for most of the inputs have been on an uptrend. Sugar which witnessed a downtrend in the recent past has bounced back. Palm oil prices are moving in a narrow range. Soda ash price and LAB prices have firmed up in the past few months and strong crude prices indicate that the firm trend should continue. If prices of sugar continue to be on the uptrend then food products companies would witness a cost push in forthcoming months. We expect the input price to hold strong. However, rising consumer demand is improving pricing power across segments, as companies have been able to pass on the cost increases without any impact on the demand. Although agri-based commodities are showing a decline in prices; rising crude prices continue to be a cause of concern.

IMPACT OF INPUT PRICE CHANGES

INPUT	PRICE TREND	IMPACT	COMPANIES
LAB	Up	Negative	HUL
Soda Ash	Up	Negative	HUL
Palm Oil	Up	Negative	HUL, Godrej Consumer
Sugar	Down	Positive	Nestle, GSK Consumer, ITC and Britannia
Wheat	Up	Negative	Nestle, ITC and Britannia
Milk	Up	Negative	Nestle, GSK Consumer
Molasses	Down	Positive	United Spirits, Radico

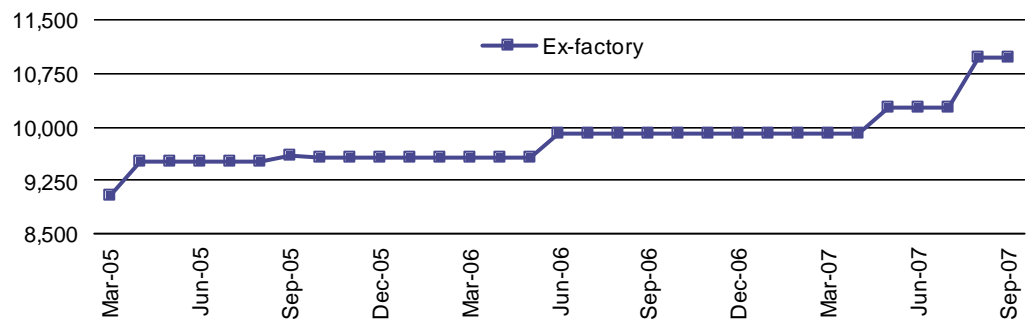
Source: Motilal Oswal Securities

TREND IN PALM OIL PRICES IN RINGGITS PER TON

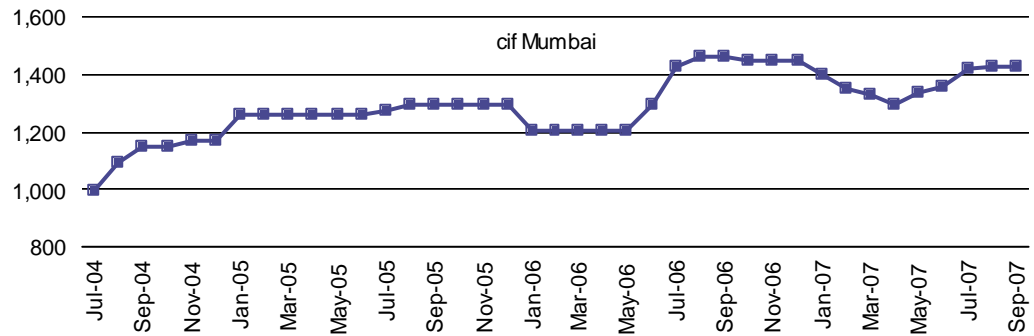


Source: Bloomberg

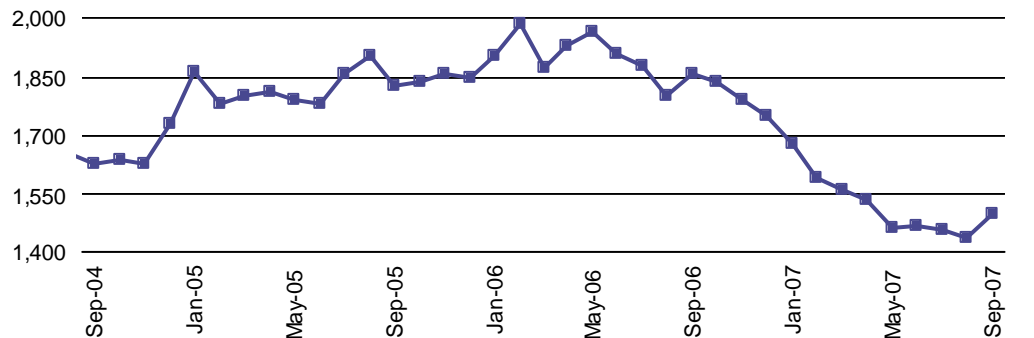
SODA ASH PRICES TREND (RS/TON)



TREND IN LAB PRICES (US\$/TON)



SUGAR PRICE TREND (RS/QUINTAL)



Source: Cris Infac/Motilal Oswal Securities

Strong demographics and low product penetration indicate long term potential

Consumer demand is expected to remain strong due to growth in both farm incomes and job opportunities. Employment generation and salary levels have been rising due to strong economic growth and manpower shortages in the Retail, IT/ITES, and Construction sectors. Rising employment opportunities will likely result in a strong surge in consumer demand as 50% of the population currently is below the median age of 24 years.

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

FMCG PRODUCTS PENETRATION (%)

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

Source: HLL Presentation/Motilal Oswal Securities

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

Strategy; focus on specific categories and stocks

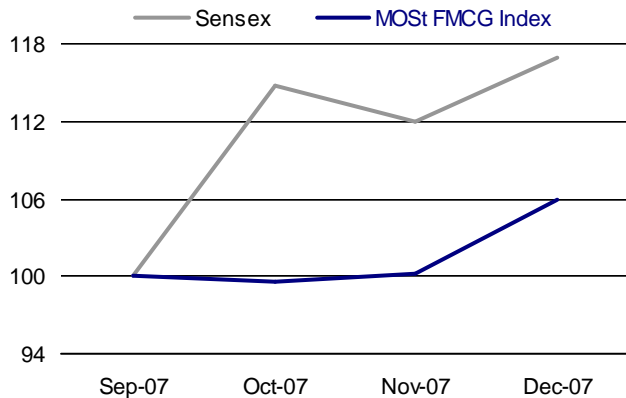
We expect FMCG growth rates to accelerate in FY09, although the rate of acceleration would be category specific. Raw material prices will continue to rule strong; companies with strong pricing power and limited competition will enjoy better profitability and premium valuations. We believe that premium end personal care and household products will grow in volumes at above mid teens in FY09. Similarly product categories like processed foods, alcoholic beverages and tobacco would report acceleration in growth rates. We prefer companies with strong presence in processed foods, alcoholic beverages and paints. We continue to recommend a selective approach for investment. We rate **United Spirits** and **ITC** as preferred picks among the large caps and **Asian Paints** and **Nestle** among the mid caps.

Stock performance and valuations

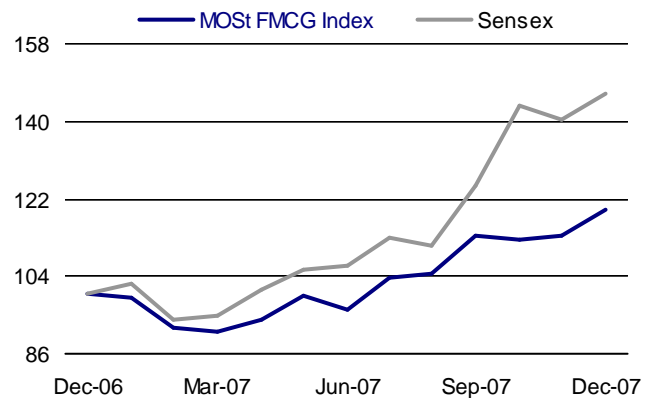
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
FMCG						
Asian Paints	13	52	-4	7	7	34
Britannia	1	34	-16	-12	-5	15
Colgate	0	3	-17	-43	-6	-16
Dabur	7	16	-10	-30	1	-2
Godrej Consumer	-7	-11	-24	-57	-13	-30
GSK	10	26	-7	-19	4	8
Hind. Unilever	-2	-2	-18	-48	-7	-21
ITC	8	16	-9	-30	2	-3
Marico Industries	12	25	-5	-21	6	6
Nestle	10	29	-7	-17	4	10
Tata Tea	12	23	-5	-22	6	5
United Spirits	10	121	-7	75	4	102

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
	28.12.07													
FMCG														
Asian Paints	1,106	Buy	38.9	46.2	55.2	28.4	24.0	20.1	17.3	14.2	11.8	37.6	35.5	34.0
Britannia	1,472	Buy	72.9	91.3	116.2	20.2	16.1	12.7	12.0	9.4	7.2	25.3	25.3	26.1
Colgate	401	Buy	18.1	21.8	24.7	22.1	18.4	16.2	20.3	16.6	14.6	136.3	275.5	204.1
Dabur	113	Neutral	4.0	5.0	6.0	28.5	22.7	18.8	22.5	18.5	15.5	53.1	50.6	47.4
Godrej Consumer	131	Buy	7.0	8.3	9.5	18.7	15.8	13.7	14.5	12.5	11.0	130.1	151.2	169.0
GSK Consumer	702	Buy	39.6	46.2	56.7	17.7	15.2	12.4	11.1	9.4	7.2	25.9	25.6	26.4
Hind. Unilever	216	Neutral	8.0	8.9	10.1	27.1	24.4	21.4	23.8	20.6	17.9	83.4	86.7	83.2
ITC	206	Buy	8.2	9.5	11.4	25.1	21.7	18.0	16.3	13.7	11.2	25.8	26.1	27.6
Marico	68	Buy	2.7	3.4	3.9	25.2	20.4	17.7	16.1	13.6	11.9	67.5	57.8	49.4
Nestle	1,459	Buy	45.8	57.6	70.7	31.9	25.3	20.6	19.4	15.5	12.7	64.5	72.5	80.4
Tata Tea	900	Neutral	49.7	76.3	87.3	18.1	11.8	10.3	5.8	4.7	3.8	7.6	10.8	11.4
United Spirits	1,924	Buy	44.8	69.6	96.2	42.9	27.7	20.0	30.0	23.9	18.6	17.6	19.4	21.1
Sector Aggregate						26.7	22.2	18.5	18.1	15.2	12.6	31.3	32.7	33.8

Asian Paints

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	APNT IN
	REUTERS CODE
S&P CNX: 6,080	ASPN.BO

28 December 2007

Buy

Rs 1,106

Previous Recommendation: Buy

	YEAR	NET SALES	ADJ. PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	95.9										
52-Week Range	1,120/642										
1,6,12 Rel. Perf. (%)	4/-6/7										
M.Cap. (Rs b)	106.1										
M.Cap. (US\$ b)	2.7										
	3/07A	36,700	2,813	29.3	32.7	37.7	13.6	36.4	49.2	2.9	22.2
	3/08E	43,425	3,736	38.9	32.8	28.4	10.6	37.6	51.0	2.4	17.3
	3/09E	51,206	4,429	46.2	18.5	24.0	8.5	35.5	51.3	2.0	14.2
	3/10E	60,256	5,290	55.2	19.5	20.1	6.8	34.0	51.9	1.7	11.8

- ✎ We expect Asian Paints to register 22.9% growth in revenues to Rs 11.5b in 3QFY08 due to low base effect as festive season sales were reflected in 2QFY07.
- ✎ The growth is expected to be broad based with decorative, industrial paints and powder coatings growing in tandem. EBITDA margins are expected to remain flat at 13.3% in 3QFY08 as strong material prices will neutralize benefits of efficiencies in production and economies of scale to a significant extent. PAT at Rs918m would grow by 28.9%.
- ✎ Asian Paints is expected to gain from rising consumerism on the one hand and huge infrastructure growth on the other. Although competitive intensity is expected to increase, strong brand, wide product range and marketing strength will enable the company to maintain stronghold on the decorative paints market.
- ✎ We are introducing consolidated financials for the company which includes Berger International, Asian PPG and Asian Paints Industrial Coatings. We arrive at consolidated EPS of Rs38.9 and Rs46.2 for FY08 and FY09. The stock is currently trading at 28.4x FY08E earnings and 24x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	7,773	9,981	9,356	9,589	9,605	11,332	11,500	10,989	36,700	43,425
Change (%)	17.3	26.2	16.6	20.2	23.6	13.5	22.9	14.6	21.5	18.3
Total Expenditure	6,738	8,639	8,122	8,420	8,251	9,516	9,970	9,650	31,920	37,388
EBITDA	1,035	1,342	1,234	1,170	1,354	1,816	1,530	1,338	4,780	6,037
Margin (%)	13.3	13.4	13.2	12.2	14.1	16.0	13.3	12.2	13.0	13.9
Change (%)	27.2	23.3	12.9	20.5	30.8	35.3	23.9	14.4	22.1	26.3
Interest	40	50	57	43	49	69	60	58	189	236
Depreciation	143	149	147	173	141	146	160	163	611	610
Other Income	62	98	76	136	89	265	89	57	373	500
Operational PBT	914	1,241	1,108	1,090	1,252	1,866	1,399	1,174	4,352	5,691
Non Recurring Items	2.5	0.1	1.9	-51.5	4	-67	0	0	-51	0
PBT	911	1,241	1,106	1,038	1,256	1,933	1,399	1,174	4,301	5,691
Tax	322	388	357	399	422	597	460	456	1,467	1,935
Deferred Tax								-36		
Effective Tax Rate (%)	35	31	32	38	33.6	30.9	32.9	35.8	34.1	34.0
PAT	589	853	748	639	834	1,336	939	755	2,834	3,756
Minority Interest	-13	23	38	-27	15	63	21	-78	21	21
Adjusted PAT	605	831	712	615	815	1,341	918	832	2,813	3,736
Change (%)	35.4	47.5	19.4	33.5	34.8	61.4	28.9	35.4	30.1	32.6

E: MOST Estimates

Britannia Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BRIT IN
	REUTERS CODE
S&P CNX: 6,080	BRIT.BO

28 December 2007

Buy

Rs 1,472

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	23.9										
52-Week Range	1,780/1,090										
1,6,12 Rel. Perf. (%)	-7/-44/-12										
M.Cap. (Rs b)	35.2										
M.Cap. (US\$ b)	0.9										
	3/07A	21,993	1,076	47.3	-23.9	31.1	5.7	18.4	17.8	1.4	25.5
	3/08E	26,798	1,741	72.9	54.0	20.2	4.8	25.3	30.7	1.2	12.3
	3/09E	31,381	2,247	91.3	25.3	16.1	4.0	25.3	30.9	0.9	9.7
	3/10E	36,365	2,820	116.2	27.2	13.4	3.2	26.1	33.2	0.7	7.2

✎ We expect Britannia to report revenues of Rs 7b in 3QFY08, a growth of 23.4% YoY. Higher topline would be driven by strong double-digit volume growth and increased realizations due to reduction in pack sizes and extension of excise exemption for biscuits up to Rs 100 per kg.

✎ EBITDA margins are expected to increase by 470bp YoY to 9.3% in 3QFY08 as input pressures would be offset by higher topline growth, reduction in pack size and lower excise duty and sugar prices, despite rising cost of milk and wheat flour. Adjusted PAT for 1QFY08 would grow by 124% to Rs 450m.

✎ Britannia's strategy of launch of new value-added variants is bearing fruit. New variants like Nutri Choice Sugarout, Nutri Choice Digestive Biscuit and Treat Fruit Rolls have been well received; which augurs well for long term.

✎ Uncertainty regarding management issues between Danone and the Wadias continue to impact stock price. Amicable settlement of the dispute with possible entry of Kraft Foods can re-rate the stock significantly. The stock is currently trading at 20.2x FY08E earnings, 16.1x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,828	5,497	5,673	5,992	5,769	6,588	7,000	7,441	21,993	26,798
YoY Change (%)	25.2	23.8	26.1	32.0	19.5	19.8	23.4	24.2	28.4	21.8
Total Exp	4,502	5,209	5,412	5,605	5,323	5,902	6,350	6,719	20,758	24,294
EBITDA	326	288	261	387	446	686	650	722	1,235	2,504
Margins (%)	6.8	5.2	4.6	6.5	7.7	10.4	9.3	9.7	5.6	9.3
Depreciation	57	64	65	66	69	72	85	106	253	332
Interest	7	16	23	8	5	29	25	31	89	90
Other Income	119	27	50	87	108	58	60	71	293	297
PBT	381	235	223	400	480	643	600	656	1,187	2,379
Tax	55	-3	22	34	88	127	150	158	57	523
Rate (%)	14.4	1.3	9.9	8.5	18.3	19.8	25.0	24.1	4.8	22.0
PAT	326	238	201	366	392	516	450	497	1,130	1,855
YoY Change (%)	-8.7	-45.8	-48.5	59.8	20.2	116.8	123.9	35.9	-33.7	64.1
Extraordinary Expenses	-23	-26	-37	32	-31	-31	-22	-30	-54	-114
Reported PAT	303	212	164	398	361	485	428	467	1,077	1,741

E: MOST Estimates

Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CLGT IN
	REUTERS CODE
S&P CNX: 6,080	COLG.BO

28 December 2007

Buy

Rs401

Previous Recommendation: Neutral

Equity Shares (m)	136.0
52-Week Range (Rs)	455/291
1,6,12 Rel. Perf. (%)	-2/-31/-43
MCap. (Rs b)	54.5
MCap. (US\$ B)	1.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	12,951	1,933	14.2	47.9	28.2	194.4	70.1	69.3	4.0	25.0
3/08E	14,777	2,462	18.1	27.4	22.1	67.6	136.3	133.5	3.7	20.3
3/09E	16,733	2,960	21.8	20.2	18.4	40.6	275.5	265.3	3.2	16.8
3/10E	18,733	3,361	24.7	13.5	16.2	28.0	204.1	199.2	2.8	15.0

- ✎ We expect Colgate to report 14.8% YoY growth in sales in 3QFY08 to Rs3.7b. EBITDA margins are expected to expand by 200bp to 18.9% in 3QFY08. Adjusted PAT is expected to increase by 28.3% to Rs646m in 3QFY08.
- ✎ We expect 9-10% volume growth in the toothpaste segment and mid-teens volume growth in toothbrushes. Body and hand washes are expected to maintain 20% QoQ growth rates. Toothpowder volumes are likely to report a decline.
- ✎ Flat staff cost due to closure of Sewri facility and lack of big advertising campaign will enable the company expand margins as raw material prices have been flat.
- ✎ Colgate has acquired three of its contract manufacturers which account for 50% of sales. We expect this move to enable better control over quality and cost savings in the coming years. Management expects to ramp up the production at Baddi to 35,000 tonnes during FY08 and 40,000 tonnes during FY09.
- ✎ We expect the company to report steady growth (9-10%) in volumes and 20% CAGR in adjusted profits over FY07-10. the coming years. The stock trades at 22.1x FY08E and 18.4x FY09E earnings and at a dividend yield of 4%. We believe that the downside from current levels is limited. We upgrade the stock to **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	3,096	3,200	3,223	3,433	3,507	3,639	3,700	3,932	12,951	14,777
YoY Change (%)	19.9	15.1	12.8	13.6	13.3	13.7	14.8	14.5	15.2	14.1
Total Exp	2,695	2,642	2,679	2,897	2,817	3,074	3,000	3,214	10,863	12,106
EBITDA	401	558	544	536	689	564	700	718	2,089	2,671
Margins (%)	12.9	17.4	16.9	15.6	19.7	15.5	18.9	18.3	16.1	18.1
Depreciation	37	36	44	37	44	49	45	40	-153	179
Interest	2	2	3	3	3	6	1	-4	-10	6
Other Income	148	122	166	174	135	196	150	116	585	596
PBT	509	643	664	670	777	705	804	797	2,512	3,083
Tax	149	137	161	172	158	158	158	147	579	621
Rate (%)	29.2	21.4	24.2	25.6	20.3	22.4	19.7	18.4	23.0	20.1
Adjusted PAT	361	505	503	498	619	547	646	650	1,933	2,462
YoY Change (%)	1.6	63.7	-13.6	34.6	71.6	8.3	28.3	30.5	47.9	27.4
Extraordinary Expenses	0	274	0	-8	10	0	-10	-20	331	-20
Reported PAT	361	232	503	506	609	547	656	670	1,602	2,482
YoY Change (%)	28.9	-24.9	20.6	36.7	68.8	136.2	30.3	32.4	16.4	55.0

E: MOST Estimates

Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	DABUR IN
	REUTERS CODE
S&P CNX: 6,080	DABU.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs 113

Equity Shares (m)	862.9	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	134/83	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-4/-30/-30	3/07A	21,966	2,782	3.2	23.9	35.1	20.4	58.0	51.4	4.5	28.0
MCap. (Rs b)	97.9	3/08E	25,744	3,411	4.0	23.0	28.5	15.2	53.1	58.4	19.6	13.5
MCap. (US\$ b)	2.4	3/09E	29,558	4,303	5.0	25.4	22.7	11.6	50.6	55.4	16.0	10.2
		3/10E	33,575	5,195	6.0	20.7	18.8	9.0	47.4	52.5	2.7	15.5

- Dabur is expected to report sales of Rs 7.2b in 3QFY08, a growth of 17% YoY. EBITDA margins are expected to increase by 100bp to 17.3% YoY in 3QFY08 due to full impact of price increases and economies of scale. Adjusted PAT before minority interest is expected to be Rs 987m, a 27% YoY growth in 3QFY08.
- Higher volume growth across segments like health supplements, oral care, household products, juices and international operations will be the key driver.
- Dabur has launched Chyawan Junior, Gulabari Hydrating Rose cream & lotion and Dazzl range of household cleaners. It has also launched Vatika Shampoo with new packaging and contemporary formulations. Entry into these product segments assumes importance as the company has marginal presence in malted foods and skin care.
- H&B stores (Dabur's 100% retail subsidiary), is launching its first Health & Beauty store under the brand New-U in Delhi in January 2008. These 1,200-6,000 sq ft stores will provide top-of-the-line personal care and wellness products. We expect the venture to accelerate topline growth although it is expected to break even only in the fourth year. Our estimates do not factor in the impact of retail operations.
- We believe that wide product range and strong market share in niche segments makes Dabur one of the best plays in the FMCG space. The stock is currently trading at 28.5x FY08E earnings, 22.7x FY09E earnings which factor in the high growth prospects. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,755	5,544	6,176	5,765	5,613	6,258	7,225	6,649	21,966	25,744
YoY Change (%)	14.7	18.6	14.9	20.1	18.0	12.9	17.0	15.3	17.7	17.2
Total Exp	4,116	4,571	5,172	4,884	4,917	5,098	5,975	5,517	18,469	21,506
EBITDA	639	973	1,004	881	697	1,160	1,250	1,132	3,497	4,238
Margins (%)	13.4	17.6	16.3	15.3	12.4	18.5	17.3	17.0	15.9	16.5
Depreciation	97	106	115	90	102	98	107	150	408	456
Interest	41	55	31	28	47	42	30	28	154	147
Other Income	53	62	33	71	77	76	44	89	219	286
PBT	554	874	891	834	625	1,096	1,157	1,042	3,155	3,921
Tax	80	123	115	54	100	139	170	101	373	510
Rate (%)	14.5	14.1	12.9	6.5	16.0	12.7	14.7	9.7	11.8	13.0
PAT	474	751	776	780	525	958	987	942	2,782	3,411
YoY Change (%)	37	20	17	23	11	28	27	21	23.9	23
Minority Interest	-9	6	-17	11	-1	-8	-6	-5	-9	-20
Extraordinary Inc/(Exp)	0	41	0	0	0	0	0	0	40	0
Reported PAT	482	787	793	769	527	966	993	947	2,830	3,431

E: MOST Estimates

GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SKB IN
	REUTERS CODE
S&P CNX: 6,080	GLSM.BO

28 December 2007

Buy

Rs 702

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	42.1										
52-Week Range (Rs)	742/500										
1,6,12 Rel. Perf. (%)	-2/-17/-19										
M.Cap. (Rs b)	29.6										
M.Cap. (US\$ b)	0.7										
	12/06A	11,119	1,269	30.2	18.4	23.3	5.4	23.4	35.8	2.4	14.5
	12/07E	13,039	1,663	39.6	31.1	17.7	4.6	25.9	39.7	2.0	11.0
	12/08E	14,770	1,943	46.2	16.8	15.2	3.9	25.6	39.0	1.6	9.3
	12/09E	16,211	2,384	56.7	22.7	12.4	3.3	26.4	40.1	1.4	7.2

- ⌘ We expect GSK Consumer to register sales of Rs3.1b in 4QCY07 against Rs2.6b in 4QCY06, a growth of 17.2% YoY. Volume growth is expected to be 9-10% while price increase and VAT impact in TN will account for the rest.
- ⌘ EBITDA margins are expected to increase 370bp to 14.1% in 4QCY07 primarily due to higher volume growth, economies of scale and low sugar prices despite higher prices of milk and wheat.
- ⌘ GSK is expected to report PAT of Rs312m in 4QCY07 v/s Rs252m in 4QCY06, a growth of 23.8% YoY.
- ⌘ We expect competitive intensity to increase due to launch of Chyawan Junior by Dabur and increased focus of Nestle on this product category. We expect the company to maintain growth momentum due to strong brand and established consumer base.
- ⌘ The stock is currently trading at 15.2x CY08E earnings and 12.4x CY09E earnings. We maintain our **Buy** rating on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	2,769	2,680	3,015	2,647	3,265	3,156	3,516	3,102	11,119	13,039
YoY Change (%)	24.2	10.4	16.5	9.2	17.9	17.8	16.6	17.2	-	17.3
Total Exp	2,189	2,218	2,486	2,372	2,641	2,571	2,839	2,665	9,274	10,716
EBITDA	580	462	528	275	624	585	677	437	1,845	2,323
Margins (%)	20.9	17.2	17.5	10.4	19.1	18.5	19.3	14.1	16.6	17.8
Depreciation	104	105	109	108	108	109	111	112	427	440
Interest	8	9	10	8	11	11	12	11	35	45
Other Income	72	142	139	169	139	166	209	157	522	671
PBT	540	490	548	328	644	631	763	471	1,904	2,509
Tax	196	181	185	76	221	208	258	158	637	845
Rate (%)	36.2	37	33.8	23.2	34.3	33.0	33.8	33.6	33.5	33.7
PAT	345	309	362	252	423	423	505	312	1,267	1,663
YoY Change (%)	67.9	6.4	19.7	17.9	22.8	36.8	39.4	23.8	-	31.3

E: MOST Estimates

Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GCPL IN
	REUTERS CODE
S&P CNX: 6,080	GOCP.BO

28 December 2007

Buy

Rs 140

Previous Recommendation: Buy

Equity Shares (m)	226.4
52-Week Range	178/117
1,6,12 Rel. Perf. (%)	1/-43/-57
MCap. (Rs b)	29.4
MCap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	9,532	1,350	6.0	13.1	21.8	24.1	110.6	65.0	3.2	17.0
3/08E	11,434	1,584	7.0	17.4	19.8	28.9	130.1	97.0	2.8	15.6
3/09E	12,968	1,866	8.3	17.8	16.8	28.1	151.2	122.8	2.4	13.3
3/10E	14,524	2,155	9.5	15.4	13.6	23.1	169.0	141.6	2.0	10.9

- GCPL is expected to report revenue growth of 21.8% YoY to Rs 2.9b in 3QFY08. EBITDA margins are expected to decline by 140bp to 20.3% in 3QFY08, on account of higher input prices. We expect the company to report PAT of Rs.464m, a growth of 17.1% YoY in 3QFY08.
- We expect soaps volumes to grow in high double-digits, led by strong performance in Godrej No1. Margins are likely to come under pressure due to the sharp increase in palm oil prices. The last price increase was in April 2007.
- Hair color portfolio continues to suffer due to higher growth in cream-based colors, which is not an area of strength for the company. Toiletries segment is expected to maintain its growth momentum; Liquid fabric cleaner is expected to report encouraging growth due to timely onset of winter.
- GCPL is expected to face intense competition from ITC in the mass market for Soaps and Shampoo. Initial success of ITC in mass market can impact the pricing power of its high growth No1 brand. We expect GCPL to launch new variants in existing products and launch new products to ward off competition.
- Margin pressure in soaps, low growth in hair color and increasing competition has de-rated the stock. The stock is currently trading at 19.8x FY08E and 16.8x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,376	2,318	2,380	2,424	2,863	2,740	2,900	2,931	9,532	11,434
YoY Change (%)	41.7	47.6	29.3	26.6	20.5	18.2	21.8	20.9	36.2	20.0
Total Exp	1,955	1,922	1,865	1,993	2,352	2,239	2,310	2,456	7,735	9,356
EBITDA	421	397	516	431	511	501	590	475	1,798	2,078
Margins (%)	17.7	17.1	21.7	17.8	17.9	18.3	20.3	16.2	18.9	18.2
Depreciation	31	31	36	45	44	46	46	46	142	182
Interest	18	26	33	20	35	32	22	22	96	110
Other Income	8	28	17	6	13	14	14	15	27	56
PBT	381	369	464	372	445	437	537	423	1,586	1,842
Tax	53	59	68	64	59	67	73	60	243	258
Rate (%)	13.9	15.9	14.6	17.3	13.1	15.2	13.6	14.1	15.3	14.0
PAT	328	310	396	308	386	371	464	364	1,343	1,584
YoY Change (%)	21.0	11.5	10.5	2.3	17.7	19.5	17.1	18.1	13.1	18.0
Extraordinaries	13	0	0	86	0	0	0	0	99	0
Reported PAT	315	310	396	394	386	371	464	364	1,441	1,584

E: MOST Estimates

Hindustan Unilever

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HUVR IN
	REUTERS CODE
S&P CNX: 6,080	HLL.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs216

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	2,206.8										
52-Week Range	230/166										
1,6,12 Rel. Perf. (%)	-3/-25/-48										
M.Cap. (Rs b)	476.6										
M.Cap. (US\$ b)	12.1										
	12/06A	121,034	15,397	7.0	17.5	31.0	17.5	56.5	67.0	3.7	27.2
	12/07E	136,539	17,571	8.0	14.1	27.1	22.6	83.4	99.9	3.3	23.8
	12/08E	149,183	19,552	8.9	11.3	24.4	21.1	86.7	104.8	3.0	20.6
	12/09E	162,177	22,275	10.1	13.1	21.4	17.8	83.2	100.9	2.7	17.9

- ✍ We expect HUL to report 14.8% YoY increase in sales for 4QCY07 to Rs36.2b. EBITDA margins are expected to increase 20bp to 16.0% in 4QCY07. 15.7% increase in EBITDA is expected to result in only 12.1% increase in adjusted PAT, as other income is estimated to be flat due to one-time dividend (Rs3/share) and buyback of shares.
- ✍ We expect soaps and detergents to maintain double-digit growth. We expect sequential pressure on margins due to strong prices in LAB, soda ash and palm oil; 3QCY07 PBIT margins were at a high of last four years.
- ✍ Personal Care is expected report a bounceback during 4QCY07 due to the low base effect (4QCY06 sales growth was 2.5%). Strong onset of winter in northern India is expected to boost sales of skin creams while lifting of the lockout at its Doom Dooma facility will remove production related bottlenecks.
- ✍ HUL has increased EBITDA margins by 60bp in 9mCY07; while adspend has declined 64bp. We would watch out for the advertising spend during the quarter as bounce back in Personal Care sales would enable the company to increase adspend.
- ✍ HUL has completed buyback to the extent of 75% of an estimated total of Rs6.3b from open market purchases. The stock is currently trading at 24.4x CY08E earnings and 21.4x CY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales (incl service inc)	27,981	30,832	30,660	31,561	31,843	34,814	33,646	36,236	121,034	136,539
YoY Change (%)	11.6	8.7	12.2	6.1	13.8	12.9	9.7	14.8	9.4	12.8
Total Expenditure	24,675	26,686	26,631	26,561	28,224	29,695	29,170	30,452	104,553	117,541
EBITDA	3,306	4,146	4,029	5,000	3,620	5,120	4,476	5,783	16,481	18,999
YoY Change (%)	35.8	19.9	17.0	3.8	9.5	23.5	11.1	15.7	14.2	15.3
Margins (%)	11.8	13.4	13.1	15.8	11.4	14.7	13.3	16.0	13.6	13.9
Depreciation	339	301	320	342	329	333	353	337	1,302	1,352
Interest	21	34	34	18	51	110	68	21	107	250
Other Income	694	814	968	1,070	908	1,063	1,059	1,107	3,545	4,137
PBT	3,640	4,625	4,643	5,709	4,147	5,739	5,114	6,533	18,617	21,534
Tax	700	833	812	875	809	1,020	1,021	1,112	3,220	3,963
Rate (%)	19.2	18.0	17.5	15.3	19.5	17.8	20.0	17.0	17.3	18.4
Adjusted PAT	2,940	3,793	3,830	4,834	3,339	4,719	4,093	5,420	15,397	17,571
YoY Change (%)	32.4	26.2	17.7	10.2	13.6	24.4	6.9	12.1	17.5	14.1
Extraordinary Inc/(Exp)	1,489	13	1,377	278	590	212	-12	0	3,157	802
Reported Profit	4,429	3,806	5,208	5,112	3,929	4,931	4,081	5,420	18,554	18,373
YoY Change (%)	77.0	35.1	59.8	-1.9	-11.3	29.6	-21.6	6.0	31.8	-1.0

E: MOST Estimates

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ITC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ITC IN
	REUTERS CODE
S&P CNX: 6,080	ITC.BO

28 December 2007

Buy

Rs 206

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	3,762.2										
52-Week Range	212/140										
1,6,12 Rel. Perf. (%)	3/-7/-30										
M.Cap. (Rs b)	773.1										
M.Cap. (US\$ b)	19.6										
	3/07A	123,693	27,000	7.2	18.4	28.6	7.4	25.9	35.4	5.9	18.6
	3/08E	141,244	30,783	8.2	14.0	25.1	6.5	25.8	35.7	5.2	16.3
	3/09E	171,013	35,593	9.5	15.6	21.7	5.7	26.1	36.3	4.2	13.7
	3/10E	205,913	43,058	11.4	20.8	19.1	5.0	27.6	38.4	3.4	11.2

- ✎ We expect ITC to post 13.2% YoY growth in revenues in 3QFY08 to Rs35.85b. EBITDA margins are expected to decline 59bp YoY to 33.6% in 3QFY08, mainly due to the investment made in New FMCG and Agri businesses. PAT is expected to increase by 11.1% to Rs7,973m.
- ✎ We expect cigarette volumes to decline by 2% v/s a 4% decline in 2QFY08; showing rising consumer resilience to the price increase of April 2007. Our FY08 estimates factor in 3% decline in cigarette volumes.
- ✎ Growth in paper and paperboard division will be steady as increased production from re-building of paperboard machine will increase production. Bingo and Sunfeast will enable the company maintain strong growth momentum in food products.
- ✎ ITC has entered the personal care segment with launch of Fiam Di Wills' s shampoo in the premium end and Superia brand of Soap and Shampoo in the mass market. Fiam Di Wills has been priced at 20% discount to the premium offerings of P&G and HUL. We expect more launches from ITC in these businesses in the coming quarters.
- ✎ We expect Agri business to report 15% increase in sales and flat PBIT after poor 2Q results. We expect Hotels to report 15% growth in sales and profits as the transition to rupee-denominated room rates will show its impact during the quarter.
- ✎ We expect growth rates to accelerate from FY09 due to recovery in cigarette businesses and returns from new investments in Paper, Hotels and New FMCG. The stock is currently trading at 25.1x FY08E earnings and 21.7x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	28,498	28,876	31,656	34,663	33,252	32,734	35,850	39,408	123,693	141,244
YoY Change (%)	25.7	32.3	23.8	24.5	16.7	13.4	13.2	13.7	26.3	14.2
Total Exp	18,792	19,149	20,828	25,360	21,977	22,414	23,800	28,298	84,129	96,489
EBITDA	9,706	9,727	10,828	9,303	11,276	10,320	12,050	11,110	39,564	44,755
Margins (%)	34.1	33.7	34.2	26.8	33.9	31.5	33.6	28.2	32.0	31.7
Depreciation	876	910	921	922	1,010	1,062	1,080	1,182	3,629	4,334
Interest	7	35	-9	-1	-8	9	12	12	33	25
Other Income	849	795	698	1,023	1,016	2,083	765	943	3,365	4,806
PBT	9,672	9,578	10,614	9,404	11,289	11,331	11,723	10,859	39,267	45,202
Tax	3,149	2,782	3,440	2,897	3,461	3,623	3,750	3,586	12,267	14,420
Rate (%)	32.6	29.0	32.4	30.8	30.7	32.0	32.0	33.0	31.2	31.9
Reported PAT	6,523	6,796	7,174	6,507	7,829	7,709	7,973	7,272	27,000	30,783
YoY Change (%)	16.8	18.7	23.2	14.7	20.0	13.4	11.1	11.8	20.8	14.0
Adjusted PAT	6,523	6,796	7,174	6,507	7,829	7,709	7,973	7,272	27,000	30,783
YoY Change (%)	21.1	18.7	33.6	14.7	20.0	13.4	11.1	11.8	18.4	14.0

E: MOST Estimates

Marico

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	MRCO IN
	REUTERS CODE
S&P CNX: 6,080	MRCO.BO

28 December 2007

Buy

Rs68

Previous Recommendation: Buy

Equity Shares (m)	609.0
52-Week Range	78/52
1,6,12 Rel. Perf. (%)	-4/-14/-21
MCap. (Rs b)	41.6
MCap. (US\$ b)	1.1

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	15,569	1,129	1.9	6.9	35.5	21.6	58.7	39.2	2.8	20.5
3/08E	19,157	1,673	2.7	41.2	25.2	16.8	67.5	53.1	2.3	16.1
3/09E	21,862	2,066	3.4	23.4	20.4	11.6	57.8	59.4	1.9	13.6
3/10E	24,678	2,376	3.9	15.0	17.7	8.6	49.4	54.9	1.7	11.9

- ✍ We expect Marico to report sales of Rs5b in 3QFY08 versus Rs4.1b in 3QFY07, a growth of 22.2% YoY. EBITDA margins are expected to be 14% for 3QFY08 compared with 13.5% in 3QFY07. PAT is expected to be Rs.412m in 3QFY08 v/s Rs.277m in 3QFY07, a growth of 48.7% YoY.
- ✍ We expect Parachute, hair oils and Saffola to maintain strong double-digit growth. Fiancée and Haircode will boost topline and enable 50bp margin expansion. Parachute hair cream is likely to be growth driver in Middle East.
- ✍ Marico has witnessed sharp increase in prices of edible oils in 2QFY08, which had impacted margins. Stability in input costs and 5-12% price increase will help maintain margins in edible oils.
- ✍ Marico has one of the most consistent growth and best new product pipelines. The stock is currently trading at 25.2x FY08E earnings, 20.4x FY09E earnings and 17.7x FY10E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	3,728	3,780	4,092	3,970	4,691	4,638	5,000	4,828	15,569	19,157
YoY Change (%)	37.7	37.5	36.2	33.4	25.8	22.7	22.2	21.6	36.1	23.0
Total Exp	3,165	3,174	3,541	3,558	4,031	3,990	4,300	4,162	13,443	16,483
EBITDA	563	605	551	412	660	648	700	666	2,126	2,674
Margins (%)	15.1	16.0	13.5	10.4	14.1	14.0	14.0	13.8	13.7	14.0
Depreciation	112	127	168	115	58	64	67	70	521	259
Interest	48	57	54	47	71	65	58	52	239	246
Other Income	11	1	3	87	7	5	7	42	134	61
PBT	414	422	332	337	539	523	582	586	1,501	2,230
Tax	111	116	55	28	136	101	170	149	372	556
Rate (%)	26.8	27.5	16.6	8.3	25.3	19.3	29.2	25.4	24.8	25.0
Adjusted PAT	303	306	277	309	402	423	412	437	1,129	1,673
YoY Change (%)	30.6	50.7	-22.8	23.0	32.9	38.0	48.7	41.2	30.0	48.2
Exceptional Items	0	-45	7	-28	0	0	0	0		
Reported PAT	303	261	284	281	402	423	412	437	1,129	1,673

E: MOST Estimates

Nestle India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	NEST IN
	REUTERS CODE
S&P CNX: 6,080	NEST.BO

28 December 2007

Buy

Rs 1,459

Previous Recommendation: Buy

Equity Shares (m)	96.4
52-Week Range	1,663/876
1,6,12 Rel. Perf. (%)	-2/-12/-17
M.Cap. (Rs b)	140.7
M.Cap. (US\$ b)	3.6

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	28,161	3,269	33.9	-0.6	43.0	23.2	53.8	79.0	4.9	25.9
12/07E	34,976	4,416	45.8	35.1	31.9	20.6	64.5	95.6	4.0	19.4
12/08E	41,236	5,555	57.6	25.8	25.3	18.4	72.5	107.7	3.3	15.5
12/09E	48,053	6,819	70.7	22.8	20.6	16.6	80.4	119.6	2.8	12.7

* Excluding extraordinary items and provisions

- Nestle is expected to report net sales growth of 20.7% YoY in 4QCY07. Domestic revenues are expected to grow by 23.5% YoY while exports are likely to decline by 4.5%. EBITDA margins at 20.1% are expected to increase by 380bp YoY due to leverage benefits. Adjusted PAT is expected to increase 35.5% YoY to Rs 1,075m in 4QCY07.
- Noodles and Chocolates are expected to record high double-digit growth while domestic instant coffee sales are expected to increase in mid teens due to colder winter. Material costs are expected to remain high due to firm milk and wheat prices.
- The new products launch continues to gain traction as the company launched Nescafe Mild, Polo Sugar Free during the quarter. Nescafe Mild is targeting tea consumers with a mild coffee taste; success of this brand can substantially accelerate growth rates in the coffee segment.
- We expect Nestle to maintain momentum in the launch of high-margin value-added variants, which would enable the company maintain growth momentum in the coming years. The stock trades at 25.3x CY08E and 20.6x CY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	6,759	6,812	7,227	7,362	8,631	8,389	9,067	8,889	28,161	34,976
YoY Change (%)	10	11	16	18	27.7	23.2	25.5	20.7	13.7	24.2
Total Exp	5,421	5,530	5,802	6,160	6,843	6,694	7,152	7,105	22,776	27,794
EBITDA	1,338	1,282	1,425	1,202	1,788	1,695	1,916	1,783	5,385	7,182
Margins (%)	19.8	18.8	19.7	16.3	20.7	20.2	21.1	20.1	19.1	20.5
Depreciation	157	161	168	177	179	178	184	192	-663	734
Interest	0.3	2	0	1.4	1.9	3.7	0.7	-1.6	-4	5
Other income	50	44	47	73	70	32	57	90	206	247
PBT	1,231	1,163	1,303	1,096	1,677	1,544	1,787	1,682	4,924	6,691
Tax	499	421	431	303	563	507	597	608	1,654	2,275
Rate (%)	40.5	36	33	28	34	33	33	36	33.6	34.0
Adjusted PAT	732	742	872	793	1,114	1,037	1,190	1,075	3,270	4,416
YoY Change (%)	-14.2	-16.0	9.9	1.7	52.1	39.8	36.5	35.5	-0.7	35.1
Extraordinary Inc/(Exp)	154	-7	-42	-169	-30	-20	-29	-201	-119	-280
Reported PAT	886	735	830	624	1,085	1,018	1,161	873	3,151	4,136
YoY Change (%)	13.5	-11.2	11.3	-15.9	22.4	38.4	39.8	40.0	1.8	31.3

E: MOST Estimates

Tata Tea

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TT IN
	REUTERS CODE
S&P CNX: 6,080	TTTE.BO

28 December 2007

Neutral

Rs 900

Previous Recommendation: Neutral

Equity Shares (m)	61.8
52-Week Range	990/558
1,6,12 Rel. Perf. (%)	11/-32/-22
MCap. (Rs b)	55.6
MCap. (US\$ b)	1.4

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	40,446	2,985	48.3	2.3	18.6	2.4	13.7	12.3	2.3	12.5
3/08E	40,051	3,073	49.7	3.0	18.1	1.4	7.6	14.3	1.1	5.8
3/09E	43,102	4,721	76.3	53.6	11.8	1.3	10.8	16.0	0.9	4.7
3/10E	46,190	5,400	87.3	14.4	10.3	1.2	11.4	16.8	0.7	3.8

- ✎ We expect Tata Tea to report sales of Rs 11.5b in 3QFY08, a growth of 3.4% YoY. We have taken into account sale of its northern India plantations. Domestic branded business is expected to grow in mid-teens due to the continued success of its branded portfolio.
- ✎ EBITDA margins are expected to increase by 110bp to 19.1% in 3QFY08 due to higher contribution from Eight O' clock Coffee and stabilization of new instant coffee plant of Tata Coffee.
- ✎ Tata Tea will start reporting the benefits of Glaceau stake sale as increase in other income from surplus funds and decline in interest burden will boost adjusted PAT by 161% to 1.09b. Our full year estimates include reduction in debt to Rs 16b and surplus of more than Rs 20b in Tetley's balance sheet.
- ✎ Tata Tea has announced an open offer to acquire Mount Everest Mineral water, which is expected to launch new brands in this vertical. Long term prospects for bottled water business look encouraging; our estimates do not factor in the estimates of Mount Everest acquisition.
- ✎ The stock is currently trading at 18.1x FY08E earnings and 11.8x FY09E earnings. The stock appears to be a good contrarian Buy from a long term horizon despite the **Neutral** rating.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	7,989	9,740	11,126	11,591	10,188	10,965	11,500	7,398	40,446	40,051
YoY Change (%)	11.5	25.1	37.1	41.9	27.5	12.6	3.4	-36.2	30.2	-1.0
Total Exp	6,412	7,938	9,120	9,658	8,523	9,143	9,300	5,745	33,129	32,710
EBITDA	1,577	1,801	2,005	1,933	1,666	1,822	2,200	1,652	7,317	7,340
Margins (%)	19.7	18.5	18.0	16.7	16.4	16.6	19.1	22.3	18.1	18.3
Depreciation	202	258	262	245	258	240	275	313	967	1,086
Interest	274	472	909	1,074	946	660	500	375	2,729	2,480
Other Income	75	410	68	-296	100	204	150	557	783	1,011
PBT	1,175	1,482	901	319	562	1,127	1,575	1,522	4,404	4,785
Tax	322	268	393	93	140	373	400	378	1,076	1,292
Rate (%)	27.4	18.1	43.6	29.2	25.0	33.1	25.4	24.9	24.4	27.0
PAT	853	1,214	508	226	421	753	1,175	1,143	3,328	3,493
YoY Change (%)	32.3	22.1	-36.1	-60.2	-50.6	-38.0	131.1	407	26.7	5.0
Minority Interest/ Share of Associate	-34	57	-91	-79	-50	-51	-85	607	147	420
Adjusted PAT	819	1,271	418	146	371	702	1,090	1,750	3,474	3,913
YoY Change (%)	31.0	23.2	-49.8	-72.8	-54.7	-44.8	161.0	1,095	2.3	12.6
Extraordinary Gains	-18	-670	754	374	86	390	15,562	3,000	1,449	19,038
Reported PAT	801	602	1,172	520	457	1,092	16,652	4,750	4,923	22,951
YoY Change (%)	-7.3	-40.6	44.2	1.0	-43	82	1,320.9	813	48.2	366.2

E: MOST Estimates

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United Spirits

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	UNSP IN
	REUTERS CODE
S&P CNX: 6,080	UNSP.BO

28 December 2007

Buy

Rs 2,406

Previous Recommendation: Buy

	YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	100.2										
52-Week Range	2,188/663										
1,6,12 Rel. Perf. (%)	-3/17/75										
M.Cap. (Rs b)	192.7										
M.Cap. (US\$ b)	4.9										
	3/07A	27,205	2,542	27.8	576.3	69.2	14.7	18.9	17.3	6.1	37.4
	3/08E	48,013	3,998	44.8	61.2	42.9	9.2	17.6	21.5	4.9	24.7
	3/09E	59,209	6,206	69.6	55.2	27.7	7.6	19.4	24.4	4.1	19.7
	3/10E	65,756	8,584	96.2	38.3	20.0	6.2	21.1	28.0	3.4	15.3

FY08E & FY09E includes White & Mackay; * Excluding extraordinary items and provisions

- ✍ We expect United Spirits (standalone) to register 20.2% growth in topline to Rs9.3b in 3QFY08. EBITDA margins are likely to improve 390bp to 20.4% (340bp in 1HFY08). Adjusted PAT to increase to Rs 1.14b, a growth of 48%.
- ✍ We expect strong growth in the deluxe segment to benefit the flagship brand, McDowell No.1, which had grown by more than 28% during 1HFY08.
- ✍ United Spirits has announced the merger of Shaw Wallace, which will dilute the equity by Rs28.2m. This will increase the total stocks under the treasury to 13.7m shares. We estimate the Shaw Wallace merger to be EPS accretive by 4.8% in FY08 and 3.1% in FY09. We expect United Spirits to reduce the debt of the Whyte and Mackay acquisition from the sale of treasury stocks in FY09.
- ✍ United Spirits is launching scotch and single malt products under Dalmore, Isle of Jura and Whyte & Mackay brands in India at a discount to global brands like Chivas and Johnny Walker. In addition, the company is likely to launch the products in some of the developing countries like Taiwan, China and other Asian countries. Success of W&M in the branded business would be a key to watch out for in the coming months.
- ✍ We believe that United Spirits continues to be best bet in the liquor space in India. The stock is trading at 42.9x FY08 and 27.7x FY09. We rate the stock our top pick in the consumer space.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	6,549	6,321	7,734	6,515	7,657	7,526	9,300	7,793	27,205	32,276
YoY Change (%)	101	108	94	85.9	16.9	19.1	20.2	19.6	9.0	18.6
Total Exp	5,540	4,964	6,460	5,771	5,943	5,925	7,400	6,556	22,736	25,825
EBITDA	1,009	1,357	1,274	744	1,714	1,601	1,900	1,237	4,469	6,451
Margins (%)	15.4	21.5	16.5	11.4	22.4	21.3	20.4	15.9	16.4	20.0
Depreciation	60	103	34	114	70	72	85	82	309	309
Interest	255	270	289	217	292	328	330	201	1,068	1,151
PBT From operations	695	983	951	412	1,352	1,201	1,485	954	3,092	4,992
YoY Change (%)	375	1,048	308	339	94	22	56	131	224	61
Other income	36	-7	143	360	49	42	180	297	704	567
PBT	731	976	1,094	772	1,400	1,243	1,665	1,251	3,796	5,559
Tax	279	413	325	236	505	389	525	425	1,276	1,843
Rate (%)	38.2	42.3	29.7	30.6	36.0	31.3	31.5	34.0	33.6	33.2
PAT	451	563	769	535	896	854	1,140	826	2,520	3,716
YoY Change (%)	335	900	350	202	98	52	48	54	205	47
Extraordinary Inc/(Exp)	0	0	2,657	0	-20	-52	0	0	2,627	-72
Reported PAT	451	563	3,425	535	876	802	1,140	826	5,147	3,644

E: MOST Estimates

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Information Technology

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.	
HCL Technologies	150	The medium term outlook for 'offshoring' remains healthy, in our opinion. However, in the short term (next two quarters), there could be concerns on account of tighter credit, rising home foreclosures, and plummeting consumer confidence in the US economy.
Infosys	151	
MphasiS	152	Forrester Research, which had predicted 8% growth in purchases of technology equipment and services in the US during 2008 in October 2007, has recently yanked back its prediction to a more modest 4.6% growth.
Patni Computer	153	
Sasken Communication	154	
Satyam Computer	155	IDC estimates worldwide technology spending growth at 5.5-6% in 2008, down from about 7% in 2007. It estimates that US spending growth would dip to 3-4% in 2008 from 6.6% 2007.
TCS	156	
Tech Mahindra	157	
Wipro	158	Uncertainties persist on the quantum of IT spends/budgets by the global BFSI companies, especially the ones based in USA. Though the non-discretionary IT spend would not undergo much change, it is anticipated that allocation of IT budgets for discretionary spend would be held back or cut at least in 1HCY08.

Nonetheless, we expect the industry – especially the big-5 – to sail through. Though growth might be slower for a couple of quarters, it is likely to pick up post 1HCY08. While IT budgets globally may be restrained, tighter credits could provide Indian offshore vendors an opportunity to help US-based companies to cut costs. This would be a blessing in disguise, as was seen in the 2001 slowdown.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (QOQ)

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Information Technology							
HCL Technologies	Buy	18,385	7.6	3,963	8.9	3,563	15.5
Infosys	Buy	43,828	6.7	13,859	7.9	11,763	6.9
MphasiS	Buy	6,378	6.0	1,165	8.0	730	10.1
Patni Computer	Neutral	6,847	1.6	1,070	-4.2	858	-21.8
Sasken Comm	Buy	1,539	7.5	223	11.9	132	-8.0
Satyam Computer	Buy	21,581	6.2	4,693	16.5	4,345	6.2
TCS	Buy	59,292	5.1	15,812	6.7	12,775	2.5
Tech Mahindra	Neutral	9,536	6.2	2,174	10.3	1,808	-0.4
Wipro	Buy	53,090	12.3	10,868	14.6	8,910	9.7
Sector Aggregate		220,475	7.4	53,828	9.5	44,885	5.7

Among the advantages Indian offshore vendors have vis-à-vis 2001 are:

1. Global clients have higher faith in the capabilities and execution skills of Indian vendors than in 2001.
2. Most Indian IT companies have moved away and added diversified skill sets, evolving as end-to-end players. Also, companies have deepened services like application development, maintenance, enterprise solutions, engineering services and business processing across verticals and service spectrum. Besides, Indian companies are making fast inroads in long-term and prospective services like infrastructure management. Some of them have also made their mark in high-end services like consulting.
3. Unlike 2001, when technology companies vanished/collapsed due to faulty business models and valuation bubble, the sub-prime crises emanating from the financial services industry in the US is leading to business challenges and hence, a possible slowdown in IT spends.
4. The affected companies in the US have been supported by capital infusion by eastern nations. An immediate financial crisis has been averted, which means these companies will see negligible financial impact on their business.
5. Governments have been supportive and proactive.

The projected slowdown in IT spending growth may be bad news for offshore vendors, as it could give CIOs more negotiating power. At same time, it needs to be recognized that India is the only country with the necessary talent pool and cost competitiveness to assist overseas clients in cost rationalization. In an economic downturn, businesses tend to shift from spending on IT that makes money to IT that helps save money. Hence, IT spends would be required to rationalize costs and then to make up for the lost time later.

Our thoughts on the impact of a possible US slowdown on Indian IT companies

- ✎ Indian IT companies have over the years consistently delivered cost savings and have moved up the value chain from cost saving to value addition.
- ✎ No other country in the world today is in position to provide value cost saving and scale at one go.
- ✎ The IT services industry today is not as cyclical as it was in past eras. The recent worry among investors about a slowdown in IT services is likely to prove overblown.
- ✎ Services like infrastructure outsourcing, including remote infrastructure outsourcing, BPO, are likely to weather a slowdown in spending – most such services cannot be switched off due to their critical nature.
- ✎ Even if clients try cost-cutting in IT infrastructure, it would also require some IT consulting, which would be good news for the outsourcing firms.
- ✎ In 2003, about 68% of the business mix for Indian companies was ADM work. It has come down to 57% in 2007.
- ✎ According to Neo IT, an economic downturn in the US will increase demand for global services in 2008 as the Fortune 1000 seek to reduce costs – cost savings become a high priority in a decelerating economy.

Nothing new in Rupee appreciation; a 5-year old phenomenon

During the quarter ended December 2007, the rupee touched a 10-year high of Rs39.25 against the US dollar. The appreciating rupee is major challenge for Indian IT companies. However, rupee appreciation is nothing new. It has been appreciating against the US dollar for the past five years (it touched it's lowest against the US dollar in May 2002 – Rs49.05/US\$).

In the last 22 quarters after it touched an all-time low, the rupee has been continuously appreciating quarter on quarter, save three quarters when it depreciated and two quarters when it was flat. The rupee has appreciated from Rs49.02/US\$ in May 2002 to Rs39.25/US\$ in October 2007 – an appreciation of 20%.

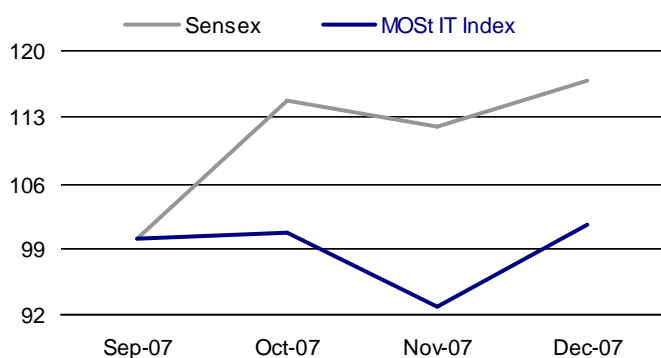
The appreciation in the rupee was very sharp in 1QFY08 – about 9%. We do not anticipate such a sharp rise hereon. We expect a 2% appreciation year on year for the next couple of years. With the rupee continuing to appreciate and supply remaining tight, margin pressures are expected to mount for the Indian IT services sector.

Stock performance and valuations

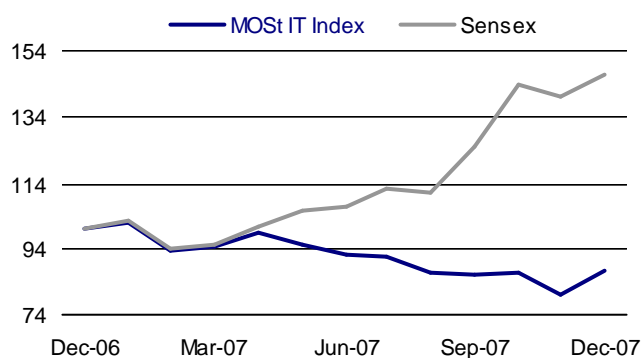
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Information Technology						
HCL Technologies	9	4	-7	-42	8	16
Infosys	-5	-20	-22	-66	-7	-8
Mphasis	5	5	-12	-41	4	18
Patni Computer	-30	-19	-46	-65	-31	-7
Satyam Computer	1	-8	-15	-54	0	4
Sasken Comm.Tech	-1	-37	-18	-83	-2	-25
TCS	2	-11	-15	-57	1	2
Tech Mahindra	-14	-33	-31	-79	-16	-20
Wipro	15	-13	-2	-59	14	0

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Information Technology														
HCL Technologies	328	Buy	20.5	22.9	26.0	16.0	14.3	12.6	11.8	9.8	7.8	27.5	27.3	28.9
Infosys	1,796	Buy	81.6	98.5	109.6	22.0	18.2	16.4	18.0	13.8	10.6	35.3	32.6	28.4
Mphasis	301	Buy	12.9	16.0	19.2	23.3	18.7	15.6	10.5	7.8	7.1	33.2	26.6	26.4
Patni Computer	331	Neutral	32.6	36.7	40.2	10.1	9.0	8.2	6.3	4.6	3.7	18.5	17.9	16.9
Sasken Comm	331	Buy	16.4	22.2	28.1	20.2	14.9	11.8	13.8	9.1	7.0	10.5	12.4	14.0
Satyam Computer	450	Buy	25.7	31.4	34.6	17.5	14.3	13.0	13.7	10.4	7.7	26.6	26.1	23.5
TCS	1,080	Buy	51.2	61.9	71.4	21.1	17.4	15.1	16.9	13.7	10.7	45.7	40.6	35.7
Tech Mahindra	1,141	Neutral	55.2	69.4	79.8	20.7	16.4	14.3	16.0	11.6	8.6	44.8	37.3	37.0
Wipro	530	Buy	23.6	29.5	33.7	22.5	18.0	15.7	17.5	13.5	10.3	30.6	31.5	29.4
Sector Aggregate						20.5	16.8	14.8	16.2	12.6	9.8	30.1	29.0	26.5

HCL Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HCLT IN
	REUTERS CODE
S&P CNX: 6,080	HCLT.BO
Equity Shares (m)	663.7
52-Week Range	366/260
1,6,12 Rel. Perf. (%)	1/-41/-42
M.Cap. (Rs b)	217.7
M.Cap. (US\$ b)	5.5

28 December 2007

Buy

Previous Recommendation: Buy

Rs328

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
6/07A	60,336	12,543	18.9	72.8	17.4	4.3	29.9	33.2	3.2	14.6
6/08E	75,342	13,869	20.5	8.4	16.0	3.9	27.5	30.7	2.5	11.8
6/09E	97,110	15,811	22.9	11.8	14.3	3.5	27.3	31.4	2.0	9.8
6/10E	128,101	18,292	26.0	13.4	12.6	3.4	28.9	36.1	1.5	7.8

* After ESOP charges

- ☞ We expect consolidated revenues to grow 7.6% QoQ (8.6% QoQ in dollar terms). This would be driven by volume growth and some uptake in pricing, primarily in the software services business.
- ☞ Software services are expected to grow 7.9% QoQ (8.6% QoQ in dollar terms). Infrastructure services and BPO are expected to grow 11.4% QoQ (12.6% QoQ in dollar terms) and 1% QoQ (2% QoQ in dollar terms).
- ☞ We expect consolidated EBITDA margins to increase by 30bp, despite part wage hikes during the quarter, driven by better utilization and higher pricing.
- ☞ The company has hedged its net receivables for over 8 quarters and had forward covers of US\$1.9b as of 30 September 2007. In the last quarter, it changed its forex accounting policy from 'marked to market' to 'cash flow' or 'hedge accounting'. We expect HCL to continue its hedging policy on opportunistic basis. It should earn around Rs788m on account of other income, including foreign exchange gains.
- ☞ Net profit is likely to grow 16% QoQ (after ESOP charges) in rupee terms due to effect of the change in accounting policy during the previous quarter.
- ☞ The stock trades at 16x FY08E and 14.3x FY09E earnings (after ESOP charges). HCL's exposure to BFSI is one of the lowest and it has a very good revenue stream from Europe. It enjoys leadership in the remote infrastructure space and has large deal winning capability, along with presence in BPO, and Engineering and R&D. We expect HCL to further strengthen and consolidate its position. We reiterate **Buy**.
- ☞ **Key challenges:** Large deal executions, BPO growth, attrition

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenues	13,794	14,651	15,771	16,120	17,092	18,385	19,426	20,439	60,336	75,342
Q-o-Q Change (%)	10.0	6.2	7.6	2.2	6.0	7.6	5.7	5.2	37.5	24.9
Direct Expenses	8,709	9,107	9,737	10,039	10,763	11,543	12,178	12,994	37,592	47,478
Sales, General & Admin. Expenses	2,098	2,303	2,366	2,607	2,689	2,878	2,971	3,103	9,374	11,642
Operating Profit	2,987	3,241	3,668	3,474	3,640	3,963	4,277	4,342	13,370	16,222
Margins (%)	21.7	22.1	23.3	21.6	21.3	21.6	22.0	21.2	22.2	21.5
Other Income	290	481	615	2,873	504	788	1,005	1,158	4,259	3,454
Depreciation	556	623	659	693	686	770	807	839	2,531	3,102
PBT bef. Extra-ordinary	2,721	3,099	3,624	5,654	3,458	3,981	4,475	4,660	15,098	16,574
Provision for Tax	219	206	283	777	346	408	459	478	1,485	1,690
Rate (%)	8.0	6.6	7.8	13.7	10.0	10.3	10.3	10.3	9.8	10.2
Share of Income from Equity Investees	4	-7	-3	-3	0	0	0	0	-9	0
Minority Interest	5	23	20	7	28	10	11	11	55	60
PAT bef. EO & ESOP Chrg.	2,501	2,863	3,318	4,867	3,084	3,563	4,006	4,172	13,549	14,824
Q-o-Q Change (%)	7.3	14.5	15.9	46.7	-36.6	15.5	12.4	4.1	75.2	9.4

E: MOST Estimates

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Infosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	INFO IN
	REUTERS CODE
S&P CNX: 6,080	INFY.BO

28 December 2007

Buy

Rs 1,796

Previous Recommendation: Buy

Equity Shares (m)	571.8
52-Week Range	2,439/1,511
1,6,12 Rel. Perf. (%)	8/-46/-66
MCap. (Rs b)	1,026.8
MCap. (US\$ b)	26.1

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	138,930	37,250	68.4	53.3	26.2	9.0	42.3	46.4	6.8	21.5
3/08E	169,439	45,851	81.6	19.3	22.0	6.8	35.3	40.8	5.4	17.5
3/09E	216,675	56,427	98.5	20.7	18.2	5.3	32.6	38.1	4.1	13.4
3/10E	268,755	62,884	109.6	11.3	16.4	4.2	28.4	36.5	3.1	10.3

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

- ✎ We expect consolidated revenues to grow 6.7% QoQ; backed by 6% growth in consolidated volumes during the quarter. Revenue growth in US dollar terms is expected to be 8.8% QoQ.
- ✎ We expect EBITDA margins to expand by 35bp to 31.6% during 3QFY08, driven by higher realizations and utilization rates. Rupee appreciation is likely to have a lower impact during 3QFY08.
- ✎ Net profit growth is likely to be slightly better than in 2QFY08 at 6.9% QoQ due to lower tax rate.
- ✎ Infosys' outlook on demand scenario in the light of recent developments in the US economy would be a key factor to watch for, since it would set the tone for expectations in terms IT budgets in CY08. We do not rule out the company building in further conservatism in its rupee guidance, given the uncertainties in the US economy and likelihood of further appreciation in the rupee.
- ✎ The stock currently trades at 22x FY08E and 18.2x FY09E earnings. We remain positive on Infosys' business prospects and believe that it is best placed to tackle supply side pressures as well as rupee appreciation in a robust demand environment. We maintain **Buy**.
- ✎ **Key issues:** Margins, FY08 IT budgets, rupee appreciation

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	30,150	34,510	36,550	37,720	37,730	41,060	43,828	46,820	138,930	169,439
Q-o-Q Change (%)	14.9	14.5	5.9	3.2	0.0	8.8	6.7	6.8	45.9	22.0
Direct Expenses	16,660	18,330	19,380	20,210	21,690	22,310	23,571	24,827	74,580	92,397
Sales, General & Admin. Exp.	4,600	5,090	5,210	5,540	5,200	5,910	6,399	6,812	20,440	24,321
Operating Profit	8,890	11,090	11,960	11,970	10,840	12,840	13,859	15,181	43,910	52,720
Margins (%)	29.5	32.1	32.7	31.7	28.7	31.3	31.6	32.4	31.6	31.1
Other Income	1,250	660	590	1,200	2,530	1,540	1,481	1,488	3,700	7,038
Depreciation	1,060	1,220	1,410	1,450	1,440	1,440	1,622	1,732	5,140	6,234
PBT bef. Extra-ordinary	9,080	10,530	11,140	11,720	11,930	12,940	13,718	14,936	42,470	53,525
Provision for Tax	1,060	1,230	1,300	1,520	1,650	1,940	1,955	2,128	5,110	7,673
Rate (%)	11.7	11.7	11.7	13.0	13.8	15.0	14.3	14.3	12.0	14.3
PAT bef. Minority	8,020	9,300	9,840	10,200	10,280	11,000	11,763	12,808	37,360	45,851
Minority Interest	-80	-10	-10	-10	0	0	0	0	-110	0
PAT before EO	7,940	9,290	9,830	10,190	10,280	11,000	11,763	12,808	37,250	45,851
Extra-ordinary Items	60	0	0	1,250	510	0	0	0	1,310	510
PAT aft. Minority and EO	8,000	9,290	9,830	11,440	10,790	11,000	11,763	12,808	38,560	46,361
Q-o-Q Change (%)	18.9	16.1	5.8	16.4	-5.7	1.9	6.9	8.9	56.9	20.2

E: MOST Estimates

Vikas Jadhav (Vikas.Jadhav@MotilalOswal.com); Tel: +91 22 3982 5585

Mphasis

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	MPHL IN
	REUTERS CODE
S&P CNX: 6,080	MBFL.BO

28 December 2007

Buy

Rs 301

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	164.1										
52-Week Range	340/237										
1,6,12 Rel. Perf. (%)	0/-46/-40										
M.Cap. (Rs b)	49.3										
M.Cap. (US\$ b)	1.2										
	3/07A	11,958	1,199	7.3	-21.5	41.1	10.1	27.4	30.3	4.0	23.6
	3/08E	24,408	2,695	12.9	76.8	23.3	5.5	33.2	36.0	2.5	13.5
	3/09E	31,044	3,349	16.0	24.2	18.7	4.5	26.6	30.1	1.8	10.3
	3/10E	41,095	4,008	19.2	19.7	15.2	3.8	26.4	31.4	1.6	7.7

- ✍ We expect Mphasis to report revenue growth of 6% QoQ, backed by strong growth in EDS driven revenue.
- ✍ EBITDA margins are expected to improve a shade to 18.3%.
- ✍ Other income in 2QFY08 was a negative Rs 15m. In 3QFY08, we expect other income to turn positive at Rs 10m.
- ✍ Tax rate was low at 2.4% in 1QFY08 due deferred tax credits. In 3QFY08, we expect tax rate to increase to 10% levels as against 8.4% in 2QFY08.
- ✍ Net profit is expected to grow at 10.1% QoQ to Rs 730m.
- ✍ The stock is currently trading at 23.3x FY08E and 18.7x FY09E earnings estimates. Maintain **Buy**.
- ✍ **Key issues:** Revenue growth through EDS, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E*
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	2,607	2,919	3,060	3,373	5,316	6,017	6,378	6,697	11,958	24,408
Q-o-Q Change (%)	4.1	12.0	4.8	10.2	57.6	13.2	6.0	5.0	27.2	104.1
Direct Expenses	1,858	1,935	1,982	2,179	3,713	4,290	4,528	4,738	7,954	17,269
Sales, General & Admin. Expenses	434	499	489	547	626	648	684	712	1,969	2,670
Operating Profit	315	485	588	647	978	1,079	1,165	1,247	2,035	4,469
Margins (%)	12.1	16.6	19.2	19.2	18.4	17.9	18.3	18.6	17.0	18.3
Other Income	42	-56	-50	-6	-147	-15	10	10	-69	-141
Depreciation	150	157	161	163	305	340	364	382	631	1,390
PBT bef. Extra-ordinary	207	273	378	478	526	724	812	875	1,335	2,936
Provision for Tax	55	39	20	22	13	61	81	88	136	242
Rate (%)	26.7	14.2	5.3	4.6	2.4	8.4	10.0	10.0	10.2	8.3
PAT bef. Extra-ordinary	152	234	358	456	513	663	730	788	1,199	2,694
Q-o-Q Change (%)	-56.8	54.0	52.9	27.4	12.7	29.2	10.1	7.8	-20.0	124.7

E: MOST Estimates; *Consolidated with EDS (I)

Patni Computer Systems

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	PATNI IN
	REUTERS CODE
S&P CNX: 6,080	PTNI.BO
Equity Shares (m)	138.6
52-Week Range	573/300
1,6,12 Rel. Perf. (%)	-3/-75/-65
M.Cap. (Rs b)	45.8
M.Cap. (US\$ b)	1.2

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs331

	YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
	12/06A	26,112	3,572	25.8	18.8	12.8	2.0	16.8	21.2	1.2	6.6
	12/07E	26,935	4,504	32.6	26.1	10.1	1.7	18.5	22.2	1.1	6.3
	12/08E	31,359	5,075	36.7	12.7	9.0	1.5	17.9	21.8	0.9	4.6
	12/09E	38,402	5,558	40.2	9.5	8.2	16.9	16.9	20.6	0.7	3.7

* Reflects adjusted PAT

- ✍ We expect revenues to grow by a modest 1.6% QoQ in rupee terms.
- ✍ EBIT margins are likely to decline by 90bp QoQ, as the company struggles to contain costs amidst high attrition and slower growth numbers.
- ✍ Other income is expected to be lower at Rs250m in 4QCY07 v/s Rs441m in 3QCY07.
- ✍ We expect a decline of 21.8% in net profit (in rupee terms) for the quarter.
- ✍ The stock trades at 10.1x CY07E and 9x CY08E earnings. We maintain **Neutral** as we remain unconvinced about Patni's organic growth prospects over the near term.
- ✍ **Key issues:** Revenue growth, margins, attrition rates

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	5,776	6,561	6,971	6,805	6,724	6,628	6,736	6,847	26,112	26,935
Q-o-Q Change (%)	3.7	13.6	6.3	-2.4	-1.2	-1.4	1.6	1.6	29.0	3.1
Direct Expenses	3,593	4,273	4,344	4,215	4,204	4,303	4,470	4,579	16,424	17,555
Sales, General & Admin. Expenses	1,160	1,298	1,215	1,123	1,094	1,108	1,149	1,198	4,796	4,548
Operating Profit	1,022	990	1,413	1,467	1,427	1,217	1,117	1,070	4,893	4,831
Margins (%)	17.7	15.1	20.3	21.6	21.2	18.4	16.6	15.6	18.7	17.9
Other Income	11	187	77	172	268	635	441	250	446	1,593
Depreciation	193	205	202	239	234	252	262	274	839	1,021
PBT bef. Extra-ordinary	840	972	1,288	1,400	1,460	1,600	1,296	1,047	4,500	5,403
Provision for Tax	197	201	264	265	260	253	198	188	928	899
Rate (%)	23.5	20.7	20.5	18.9	17.8	15.8	15.3	18.0	20.6	16.6
Net Income bef. Extra-ordinary	642	770	1,024	1,135	1,200	1,348	1,098	858	3,572	4,504
Q-o-Q Change (%)	-2.8	19.9	32.9	10.9	5.8	12.3	-18.5	-21.8	30.6	26.1
Extra-ordinary items	0	917	0	0	0	0	0	0	917	0
Net Income aft. Extra-ordinary	642	-147	1,024	1,135	1,200	1,348	1,098	858	2,654	4,504
Q-o-Q Change (%)	-2.8	-122.9	-796.6	10.9	5.8	12.3	-18.5	-21.8	-3.0	69.7

E: MOST Estimates

Vikas Jadhav (Vikas.Jadhav@MotilalOswal.com); Tel: +91 22 3982 5585

Sasken Communication Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SACT IN
	REUTERS CODE
S&P CNX: 6,080	SKCT.BO

28 December 2007

Buy

Rs331

Previous Recommendation: Buy

Equity Shares (m)	29.3
52-Week Range	624/250
1,6,12 Rel. Perf. (%)	17/-69/-83
MCap. (Rs b)	9.7
MCap. (US\$ b)	0.2

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	4,772	443	15.5	46.3	21.3	2.2	11.0	10.7	2.1	14.1
3/08E	5,923	478	16.4	5.6	20.2	2.0	10.5	9.3	1.7	13.7
3/09E	7,612	654	22.2	35.2	14.9	1.7	12.4	11.3	1.3	9.1
3/10E	9,912	831	28.1	26.7	9.4	1.6	14.0	13.1	1.0	7.0

- ✍ We expect Sasken to report revenue growth of 7.5% QoQ in 3QFY08. Product revenues would grow 8.1% QoQ, driven by growth in royalty income. Services revenue is expected to grow 6.5% QoQ in rupee terms.
- ✍ EBITDA margins are expected to improve to 14.5% in 3QFY08 from 13.9% in 2QFY08 due to expected pick up in revenue growth.
- ✍ Net profit is likely to decline by 8% QoQ to Rs132m due to lower other income during the quarter.
- ✍ The stock is currently trading at 20.2x FY08E and 14.9x FY09E earnings. We remain positive on both the products and services business. Maintain **Buy**.
- ✍ **Key issues:** Product royalty, services pick up, margins, attrition rates

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	932	1,176	1,310	1,354	1,284	1,432	1,539	1,668	4,772	5,923
Q-o-Q Change (%)	19.4	26.2	11.4	3.3	-5.2	11.6	7.5	8.3	54.9	24.1
Direct Expenses	641	751	877	902	937	946	1,001	1,084	3,171	3,969
Sales, General & Admin. Expenses	162	211	245	274	284	287	315	338	892	1,225
Operating Profit	128	214	189	177	62	199	223	245	708	729
Margins (%)	13.8	18.2	14.4	13.1	4.8	13.9	14.5	14.7	14.8	12.3
Other Income	7	12	31	47	106	79	43	38	97	266
Depreciation & Amortization	43	49	55	70	67	68	72	78	218	284
Interest	0	24	10	11	10	10	10	10	45	40
PBT bef. Extra-ordinary	93	153	154	144	90	200	184	195	544	670
Provision for Tax	5	33	35	27	26	57	52	56	101	191
Rate (%)	5.4	21.8	22.8	18.8	29.3	28.4	28.5	28.5	18.5	28.6
PAT bef. Extra-ordinary	88	119	119	117	64	143	132	140	443	478
Q-o-Q Change (%)	39.6	36.0	-0.5	-1.4	-45.5	124.2	-8.0	6.1	49.3	8.0
Extra-ordinary	0	0	0	0	0	0	0	0	0	0
Net Profit after Extra-ordinary	88	119	119	117	64	143	132	140	443	478
Q-o-Q Change (%)	39.6	36.0	-0.5	-1.4	-45.5	124.2	-8.0	6.1	93.3	8.0

E: MOST Estimates

Vikas Jadhav (Vikas.Jadhav@MotilalOswal.com); Tel: +91 22 3982 5585

Satyam Computer

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SCS IN
	REUTERS CODE
S&P CNX: 6,080	SATY.BO

28 December 2007

Buy

Rs450

Previous Recommendation: Buy

Equity Shares (m)	668.9
52-Week Range	525/401
1,6,12 Rel. Perf. (%)	-1/-43/-54
MCap. (Rs b)	300.7
MCap. (US\$ b)	7.6

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	64,851	14,047	21.5	41.7	21.0	5.1	27.9	30.3	4.0	17.1
3/08E	83,375	17,182	25.7	19.8	17.5	4.2	26.6	30.4	3.0	13.7
3/09E	108,266	21,101	31.4	22.0	14.3	3.4	26.1	30.6	2.2	10.4
3/10E	136,541	23,505	34.6	10.4	13.0	2.8	23.5	30.7	1.6	7.7

* PAT figures reflects adjusted PAT, FY06 figures adjusted to reflect 1:1 bonus

- ✍ We expect consolidated revenue growth of 6.2% QoQ in 3QFY08. In dollar terms, we expect consolidated revenue growth of 7% QoQ.
- ✍ EBITDA margins are expected to expand 190bp in 3QFY08; in 2QFY08 salary hikes of 5% for onsite and 16% for offshore were awarded.
- ✍ Net profit is likely to grow 6.2% QoQ in line with revenue growth.
- ✍ The stock is currently trading at 17.5x FY08E and 14.3x FY09E earnings. We continue to be impressed with Satyam's execution in terms of reduction in attrition rates and diversification into other service offerings such as engineering services and infrastructure management, which has improved its earnings visibility significantly. We maintain **Buy**.
- ✍ **Key issues:** Guidance, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	14,429	16,019	16,611	17,792	18,302	20,317	21,581	23,174	64,851	83,375
Q-o-Q Change (%)	9.8	11.0	3.7	7.1	2.9	11.0	6.2	7.4	35.3	28.6
Direct Expenses	8,316	9,827	9,674	10,763	11,062	13,028	13,479	14,136	38,579	51,705
Sales, General & Admin. Expenses	2,563	2,567	2,838	2,927	3,137	3,263	3,410	3,615	10,894	13,425
Operating Profit	3,550	3,625	4,100	4,102	4,103	4,027	4,693	5,423	15,377	18,245
Margins (%)	24.6	22.6	24.7	23.1	22.4	19.8	21.7	23.4	23.7	21.9
Other Income	745	282	102	704	632	1,105	774	778	1,833	3,289
Depreciation	362	375	394	354	387	391	432	452	1,484	1,661
Interest	26	27	32	74	33	42	43	46	159	165
PBT bef. Extra-ordinary	3,908	3,505	3,776	4,378	4,315	4,699	4,992	5,703	15,566	19,709
Provision for Tax	368	307	403	442	532	609	647	739	1,520	2,527
Rate (%)	9.4	8.8	10.7	10.1	12.3	13.0	13.0	13.0	9.8	12.8
Minority Interest	-1	0	0	0	0	0	0	0	-1	0
PAT bef. Extra-ordinary	3,541	3,198	3,372	3,936	3,783	4,090	4,345	4,963	14,047	17,182
Q-o-Q Change (%)	24.4	-9.7	5.4	16.7	-3.9	8.1	6.2	14.2	43.0	22.3

E: MOST Estimates

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Tata Consultancy Services

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TCS IN
	REUTERS CODE
S&P CNX: 6,080	TCS.BO

28 December 2007

Buy

Rs 1,080

Previous Recommendation: Buy

Equity Shares (m)	978.6
52-Week Range	1,399/935
1,6,12 Rel. Perf. (%)	4/-44/-57
MCap. (Rs b)	1,056.9
MCap. (US\$ b)	26.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	186,334	41,316	41.7	39.6	25.9	11.8	54.5	58.8	5.6	20.5
3/08E	229,642	50,149	51.2	23.0	21.1	8.4	45.7	50.1	4.4	16.5
3/09E	287,481	60,585	61.9	20.8	17.4	6.3	40.6	45.6	3.4	13.2
3/10E	355,164	69,876	71.4	15.3	15.1	4.9	35.7	44.9	2.6	10.1

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

- ✍ We expect revenues to grow 5.1% QoQ (6.2% QoQ in dollar terms).
- ✍ Margins are likely to expand 40bp QoQ, driven primarily by better utilization rates.
- ✍ We expect net profit to grow slower at 2.5% QoQ to Rs12.8b due to our assumption of lower other income of Rs600m v/s Rs900m in 2QFY08.
- ✍ While TCS does not provide guidance, remarks on the perceived US slowdown and the implication on Indian IT services in general and TCS in particular, would be closely watched for along with the 3QFY08 results announcements.
- ✍ The stock trades at 21.1x FY08E and 17.4x FY09E earnings. We maintain **Buy**.
- ✍ **Key issues:** Volume growth, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07*				FY08*				FY07*	FY08E*
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	41,443	44,822	48,605	51,464	52,029	56,398	59,292	61,924	186,334	229,642
Q-o-Q Change (%)	11.3	8.2	8.4	5.9	1.1	8.4	5.1	4.4	40.6	23.2
Direct Expenses	22,989	23,880	26,294	27,177	28,221	30,152	31,577	33,089	100,339	123,040
Sales, General & Admin. Expenses	8,327	8,648	8,559	9,720	10,543	11,426	11,903	12,307	35,253	46,179
Operating Profit	10,128	12,294	13,753	14,568	13,265	14,820	15,812	16,527	50,742	60,424
Margins (%)	24.4	27.4	28.3	28.3	25.5	26.3	26.7	26.7	27.2	26.3
Other Income	668	77	300	235	1,516	1,105	600	600	1,280	3,821
Depreciation	863	958	1,080	1,395	1,265	1,381	1,467	1,517	4,296	5,631
PBT bef. Extra-ordinary	9,932	11,414	12,973	13,408	13,516	14,543	14,945	15,610	47,726	58,614
Provision for Tax	1,238	1,447	1,828	2,056	1,816	2,037	2,130	2,224	6,568	8,206
Rate (%)	12.5	12.7	14.1	15.3	13.4	14.0	14.3	14.3	13.8	14.0
Minority Interest	69	52	98	155	138	38	40	44	373	259
Net Inc. bef. Extra-ordinary	8,626	9,915	11,047	11,198	11,563	12,469	12,775	13,342	40,786	50,149
Q-o-Q Change (%)	8.5	14.9	11.4	1.4	3.3	7.8	2.5	4.4	39.6	23.0
PAT aft Extra-ordinary	8,626	9,915	11,047	11,728	11,856	12,469	12,775	13,342	41,316	50,149

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

Tech Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TECHM IN
	REUTERS CODE
S&P CNX: 6,080	TEML.BO
Equity Shares (m)	121.3
52-Week Range (Rs)	2,050/974
1,6,12 Rel. Perf. (%)	3/-58/-79
MCap. (Rs b)	138.4
MCap. (US\$ b)	3.1

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs 1,141

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	29,290	6,124	46.4	105.2	24.6	15.0	66.2	65.2	4.7	18.6
3/08E	37,384	7,275	55.2	18.8	20.7	8.8	44.8	45.0	3.6	16.0
3/09E	46,851	9,154	69.4	25.9	16.4	5.6	37.3	37.3	2.8	11.6
3/10E	61,726	10,520	79.8	14.9	14.3	3.5	37.0	37.0	3.5	8.6

*EPS is diluted

- ✍ We expect revenues to grow 6.2% QoQ in 3QFY08 as compared to a growth of 2.4% QoQ in 2QFY08.
- ✍ We expect EBITDA margins to expand 80bp during the quarter.
- ✍ Net profit is likely to decline 130bp QoQ due to rupee appreciation vis-à-vis the British pound during the quarter.
- ✍ The stock trades at 20.7x FY08E and 16.4x FY09E consolidated (diluted) earnings. We believe that valuations are rich at current levels. Maintain **Neutral**.
- ✍ **Key issues:** BT deal ramp up, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	5,871	6,976	7,698	8,745	8,763	8,976	9,536	10,110	29,290	37,384
Q-o-Q Change (%)	39.4	18.8	10.3	13.6	0.2	2.4	6.2	6.0	135.7	27.6
Direct Cost	3,724	4,149	4,527	5,135	5,492	5,658	5,912	6,268	17,535	23,330
Other Operating Exps	840	1,058	1,098	1,392	1,338	1,346	1,449	1,496	4,388	5,630
Operating Profit	1,307	1,769	2,073	2,218	1,934	1,972	2,174	2,345	7,367	8,425
Margins (%)	22.3	25.4	26.9	25.4	22.1	22.0	22.8	23.2	25.2	22.5
Other Income	11	-57	-32	154	131	249	75	80	76	535
Interest	0	0	12	49	15	26	3	3	61	48
Depreciation	108	113	137	158	168	193	191	202	516	754
PBT bef. Extra-ordinary	1,210	1,599	1,892	2,165	1,882	2,002	2,055	2,220	6,866	8,158
Provision for Tax	144	169	224	204	183	187	247	266	741	883
Rate (%)	11.9	10.6	11.8	9.4	9.7	9.3	12.0	12.0	10.8	10.8
Net Inc. bef. Extra-ordinary	1,066	1,430	1,668	1,960	1,696	1,815	1,808	1,953	6,122	7,275
Q-o-Q Change (%)	19.7	34.2	16.6	17.5	-13.5	7.0	-0.4	8.0	160.1	18.8

E: MOST Estimates; does not include BT deal

Wipro

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	WPRO IN
	REUTERS CODE
S&P CNX: 6,080	WIPR.BO
Equity Shares (m)	1,459.5
52-Week Range	691/425
1,6,12 Rel.Perf.(%)	11/-36/-59
M.Cap. (Rs b)	773.4
M.Cap. (US\$ b)	19.1

28 December 2007

Buy

Rs530

Previous Recommendation: Buy

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	149,431	28,447	19.7	38.8	26.9	7.6	32.4	36.0	4.8	21.2
3/08E	201,751	34,370	23.6	19.3	22.5	6.3	30.6	34.0	3.6	17.6
3/09E	263,602	42,991	29.5	25.1	18.0	5.1	31.5	35.9	2.8	13.5
3/10E	332,605	49,526	33.7	14.3	15.7	4.1	29.4	36.9	2.3	11.4

* Reflects adjusted PAT

- ✍ We expect Wipro to report growth of 13.4% QoQ in global IT business in rupee terms, with an underlying dollar growth of 14% QoQ. Revenues for the quarter include revenues from Info crossing Inc, which Wipro acquired a few months ago.
- ✍ Consolidated EBITDA margins are expected to expand 40bp QoQ.
- ✍ We expect consolidated net profit to grow 9.7% QoQ due to the impact of strong revenue growth during the quarter.
- ✍ The stock is trading at 22.5x FY08E and 18x FY09E earnings – valuations appear attractive. We maintain **Buy**.
- ✍ **Key issues:** Technology services revenue, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Global IT Services incl Spectramind	24,513	27,179	28,873	30,357	30,030	32,285	36,626	40,837	110,922	139,778
Other Businesses	6,800	7,959	10,763	12,988	11,802	14,996	16,463	18,711	38,510	61,973
Revenues	31,312	35,138	39,636	43,345	41,832	47,281	53,090	59,548	149,431	201,751
Q-o-Q Change (%) - Global IT	7.1	10.9	6.2	5.1	-1.1	7.5	13.4	11.5	37.4	26.0
Total Expenses	23,849	26,896	30,691	33,896	32,925	37,801	42,221	46,876	115,333	159,823
EBITDA	7,463	8,242	8,945	9,449	8,907	9,480	10,868	12,672	34,098	41,927
Margins (%)	23.8	23.5	22.6	21.8	21.3	20.1	20.5	21.3	22.8	20.8
Depreciation	941	1,058	1,096	1,105	1,270	1,320	1,495	1,666	4,199	5,751
EBIT	6,522	7,184	7,849	8,344	7,637	8,160	9,373	11,007	29,899	36,177
Margins (%)	20.8	20.4	19.8	19.2	18.3	17.3	17.7	18.5	20.0	17.9
Other Income	512	756	559	827	220	745	829	844	2,653	2,638
PBT	7,033	7,939	8,408	9,170	7,857	8,905	10,202	11,851	32,551	38,815
Provision for Tax	979	1,068	1,080	1,296	839	865	1,428	1,659	4,423	4,791
Rate (%)	13.9	13.5	12.8	14.1	10.7	9.7	14.0	14.0	13.6	12.3
Net Income before EO*	6,120	6,963	7,450	7,914	7,105	8,121	8,910	10,237	28,447	34,373
Q-o-Q Change (%)	2.4	13.8	7.0	6.2	-10.2	14.3	9.7	14.9	40.3	20.8

E: MOST Estimates; * includes Infocrossing

Infrastructure

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.	
BL Kashyap	164	Expect strong 3QFY08 performance
Gammon India	165	We expect the construction companies in our universe to report strong 32.6% YoY growth in revenues, 33% YoY growth in EBITDA and 35% YoY growth in net profit. We expect EBITDA margin for the companies to expand by 200bp to 15.5% from 13.5% in 3QFY07. Strong order book to bill ratio and faster execution are the key drivers for this growth; we expect order intake for the companies to remain strong.
GMR Infrastructure	166	
Hindustan Construction	167	
IVRCL	168	
Jaiprakash Associates	169	
Nagarjuna Construction	170	
Patel Engineering	171	

TREND IN BOOK TO BILL RATIO (X)					
	FY04	FY05	FY06	FY07	SEP-07*
B L Kashyap	2.3	2.3	1.8	1.7	1.7
Gammon	2.7	4.3	3.8	4.1	3.6
Hind. Const.	3.8	3.6	4.9	3.9	3.6
IVRCL	2.1	3.7	4.1	3.0	3.3
Jaiprakash	-	4.2	4.3	4.5	7.0
Nagarjuna Const	2.0	3.0	2.9	2.5	3.0
Patel Engineering	4.6	5.2	4.9	4.6	4.6

* Calculated on FY08E sales Source: Motilal Oswal Securities

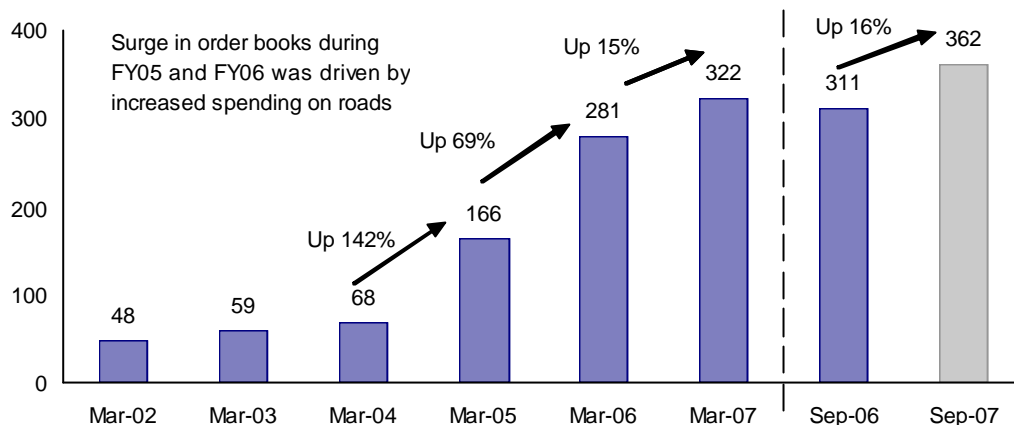
The order book for the construction companies under our coverage as of September 2007 was up 16% YoY, indicating slowdown in project award. Order intake during FY07 too witnessed a mere 15% YoY growth, as against 142% YoY increase during FY05 and 69% YoY increase during FY06. Growth during FY05 and FY06 was driven by increased spending by NHA and the Andhra Pradesh government on irrigation projects.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Infrastructure							
B.L.Kashyap	Neutral	4,133	75.0	491	96.8	280	81.8
Gammon India	Neutral	5,989	30.0	528	2.5	253	4.6
Hindustan Construction	Buy	7,028	30.0	791	19.2	159	10.4
IVRCL Infra.	Buy	7,417	42.0	805	44.7	433	59.5
Jaiprakash Associates	Buy	10,247	15.0	2,979	29.0	1,233	20.9
Nagarjuna Construction	Buy	8,537	22.0	894	11.4	409	14.0
Patel Engg.	Buy	2,839	30.0	554	32.1	290	-0.6
Sector Aggregate		46,190	29.4	7,041	27.7	3,056	23.2

TREND IN ORDER BOOK (RS B)



Source: Company

However, order intake for the construction companies is expected to remain robust in 2HFY08 as NHA will award about 6,270 km of road projects on BOT basis by FY08. The requests for qualification (RFQs) for Phase-V of NHDPI project have been invited for 8 projects, the orders for which are expected to be awarded by March 2008. Besides this, there would be significant project awards from sectors like urban infrastructure, ports, hydro power, railways, nuclear power, irrigation, etc, which would further drive order intake for the construction companies in FY08.

Impressive expansion in EBITDA margin: Construction companies witnessed significant expansion (150bp YoY) in EBITDA margins in 1HFY08. The key reason for this is that several projects which were hitherto under the mobilization phase have entered the revenue recognition stage. Going forward too, major companies have guided stable to marginal improvement in EBITDA margins.

TREND IN EBITDA MARGINS (%)

	FY04	FY05	FY06	FY07	1HFY07	1HFY08	YOY CH (BP)
B L Kashyap	5.4	7.8	10.2	11.4	10.7	11.7	100.8
Gammon	9.6	10.9	11.5	8.8	7.1	8.8	175.6
Hind. Const.	13.5	10.5	9.2	9.1	8.5	10.9	238.2
IVRCL	8.2	8.2	8.8	9.8	9.0	9.1	6.1
Jaiprakash	32.5	32.2	28.0	24.7	23.3	23.3	2.5
Nagarjuna Const	7.7	7.6	8.9	9.4	9.0	11.4	244.6
Patel Engg	9.1	12.2	13.4	12.3	12.8	13.7	93.8
Simplex Infrastructure	7.1	7.6	8.3	9.2	9.1	10.0	87.5

Source: Motilal Oswal Securities

Value unlocking process has begun

During 1HFY08, several companies have derived significant value from subsidiaries/ associates or BOT companies. IVR Prime Urban, for instance, successfully completed its initial public offering (IVRCL's stake at 62.4%) valued at Rs15b. This translates into a value of Rs12b for IVRCL, considering post issue stake of 62.4% and holding company discount of 20%. Similarly, Gammon Infrastructure has filed its draft red herring prospectus with SEBI for its IPO (16.55m equity shares). Also, it has recently ventured into the hospitality business with the Wyndham Group of the US to open a chain of budget hotels in India under the brand name "Super 8".

Lavasa Corp (60.5% subsidiary of Hindustan Construction) has successfully launched Phase-1 at Lavasa comprising 300 units at an average realization of Rs2,950/sft. The company is contemplating private equity of Rs3-4b to fund its expansion plans, which can provide a valuation benchmark. Jaiprakash Associates has launched Phase-1 on the Taj Expressway development at Noida on the first 600 acres (3m sft) at a price of Rs5,700/sft in November 2007. According to media reports, it is in talks with various strategic financial partners for a stake sale in Jaypee Infratech Limited, SPV for executing the Taj Expressway project. Besides this, the company is working to bring all its power projects (operational – 700MW; under development – 4,920MW) under a single entity and is also contemplating an IPO.

L&T has announced plans to list its Infotech subsidiary, L&T Infotech, before March 2009. It also plans to list L&T IDPL, 78.4% subsidiary, in two years, which can again unlock significant value for L&T. Patel Engineering has a land bank of 1,000 acres spread across Hyderabad, Mumbai, Bangalore and Maharashtra (Karjat, Panvel, etc) and development rights for the property have been transferred to Patel Realty India (100% subsidiary). Nagarjuna Construction has consolidated its real estate initiatives under NCC Urban Infrastructure (80% subsidiary) and has a land bank of 530 acres of which 267 acres is being developed currently (development area of 13.4m sft). It also has a BOT subsidiary, NCC Infrastructure Projects Limited, with a portfolio of 7 BOT projects (including Machillipatnam Sea Port Project).

Investments by the various companies in diverse businesses like BOT, real estate, IT, etc have started yielding results and these are now emerging as sizable value creating opportunities for the holding companies.

11th plan target: US\$494b investment in infrastructure

In a report published by Planning Commission in October 2007, investment in the infrastructure sector is envisaged at US\$494b, representing 7.53% of GDP (v/s 5.63% of GDP in 10th plan). The key sectors witnessing major allocation are Power, Roads, Telecom, Railways, Irrigation and Water Supply & Sanitation. There is significant opportunity for the construction companies, as the construction component for these projects would be significant.

SECTOR-WISE PROJECTIONS OF INVESTMENT DURING THE ELEVENTH PLAN

SECTOR	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL	10TH PLAN
Electricity	742	928	1,16,541	1,46,914	1,860	6,165	2,919
Roads	514	543	587	679	795	3,118	1,449
Telecom	331	398	503	634	804	2,670	921
Railways	332	400	486	597	765	2,580	1,197
Irrigation	270	338	426	539	657	2,231	648
Water Supply and Sanitation	258	311	379	466	578	1,991	41
Ports	97	117	143	174	208	739	68
Airports	62	65	68	73	80	347	48
Storage	38	41	44	48	52	224	87
Gas	30	35	40	47	54	205	1,115
Total Investment	2,674	3,176	2,677	3,257	5,853	20,272	8,492
Total (US \$ billion)	65	77	94	115	143	494	212
Investment as % of GDP	6.0	6.5	7.2	8.1	9.2	7.3	5.6
GCF in infrastructure	2,063	2,586	3,186	3,874	4,659	5,713	
GCF in infra. as a % of GDP	5.0	5.8	6.5	7.3	8.0	9.0	

Source: Planning Commission

A large part of the funding arrangement would be met through the Central sector (Rs8t), while the share of private sector in the overall funding has increased to 29.7% in 11th plan v/s 16.7% in 10th plan. This indicates that an increasing number of projects are being awarded on Public Private Partnership (PPP) basis, which would also facilitate faster project award.

SECTOR-WISE PUBLIC AND PRIVATE INVESTMENT DURING 11TH PLAN (RS B)

	10TH PLAN			11TH PLAN			
	PRIVATE	PUBLIC	% PRIVATE	PRIVATE	CENTRAL	STATE	% PRIVATE
Electricity	918	2,000	31.5	1,625	2,183	2,357	26.4
Roads	70	1,379	4.8	1,125	1,131	862	36.1
Telecom	330	590	35.9	1,777	893	-	66.5
Railways	3	1,194	0.3	505	1,975	100	19.6
Water Supply and Sanitation	10	638	1.6	54	1,137	800	2.7
Ports	19	22	46.7	545	158	36	73.7
Airports	29	38	43.4	212	135	1	60.9
Storage	34	14	70.1	112	45	67	50.0
Gas	-	87	-	65	140	-	31.8
Irrigation	-	1,115	-	-	247	1,984	-
Total	1,414	7,078	16.7	6,020	8,044	6,208	29.7

Source: Planning Commission

We remain positive on the sector

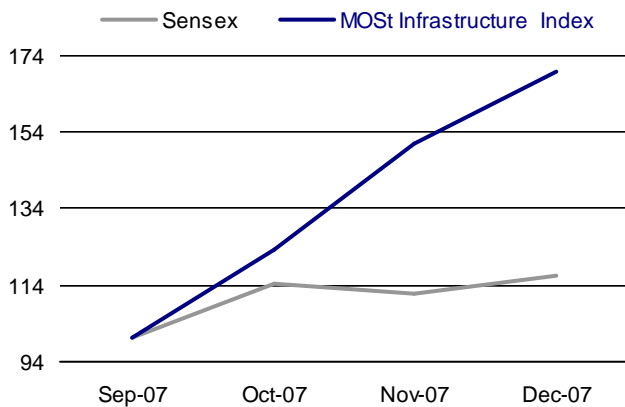
We remain positive on the construction sector, given the strong revenue visibility, significant growth opportunity in the target markets and value unlocking opportunity.

Stock performance and valuations

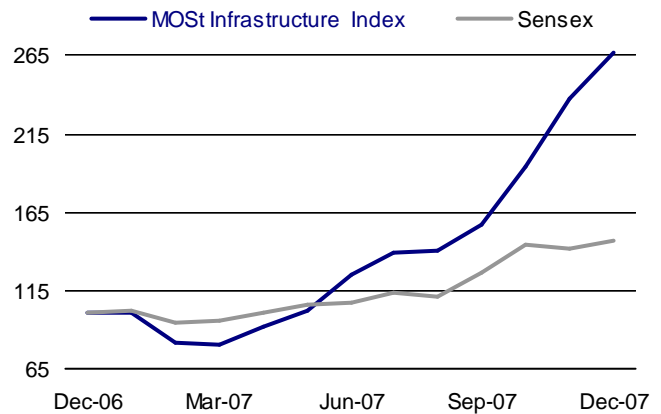
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Infrastructure						
B.L.Kashyap	54	169	37	123	-16	-4
Gammon India	26	52	9	7	-45	-120
GMR Infrastructure	43	254	26	208	-27	82
Hindustan Construction	62	50	45	4	-8	-122
IVRCL	24	39	7	-7	-46	-134
Jaiprakash Associates	94	196	77	150	23	24
Nagarjuna Construction	39	68	22	22	-31	-104
Patel Engineering	105	110	88	64	34	-63

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Infrastructure														
B.L.Kashyap	1,861	Neutral	50.6	75.2	107.3	36.8	24.8	17.3	24.3	16.2	11.9	30.9	34.4	35.9
Gammon India	584	Neutral	12.5	17.8	25.8	46.8	32.8	22.6	23.6	17.5	11.9	8.8	11.3	14.2
GMR Infrastructure	249	Neutral	0.9	1.1	2.5	283.7	231.8	98.4	67.1	41.4	20.3	2.6	3.1	6.9
Hindustan Construction	221	Buy	3.1	5.8	8.2	71.1	38.1	27.1	20.3	15.3	9.4	7.3	10.6	13.6
IVRCL Infra.	524	Buy	14.9	21.5	28.3	35.1	24.3	18.5	20.2	15.0	11.0	13.8	17.4	19.5
Jaiprakash Associates	423	Buy	4.4	5.5	6.1	96.9	76.5	69.0	47.4	37.9	32.7	12.6	11.4	11.6
Nagarjuna Construction	352	Buy	8.2	13.0	18.0	42.8	27.0	19.5	22.6	16.1	9.9	13.7	15.8	18.9
Patel Engg.	926	Buy	20.3	26.8	33.9	45.6	34.5	27.3	29.7	22.6	16.2	15.8	17.8	19.0
Sector Aggregate						88.6	63.9	46.5	39.6	28.7	19.2	9.0	10.3	12.9

BL Kashyap

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	KASH IN
	REUTERS CODE
S&P CNX: 6,080	BLKS.BO

28 December 2007

Neutral

Rs 1,861

Previous Recommendation: Neutral

Equity Shares (m)	20.5	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	1,990/494	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	3/93/123	3/07A	8,080	556	27.1	102.5	61.4	5.9	21.0	27.5	4.1	36.0
MCap. (Rs b)	34.1	3/08E	15,120	1,039	50.6	86.9	32.8	4.5	30.9	35.1	2.3	18.8
MCap. (US\$ b)	0.9	3/09E	23,490	1,544	75.2	48.6	22.1	3.3	34.4	38.3	1.5	12.2
		3/10E	32,886	2,205	107.3	42.8	15.5	2.4	35.9	41.7	1.0	8.6

- ✍ We expect revenue of Rs4.1b (up 75% YoY), EBIDTA of Rs491m (up 96.8% YoY), and net profit of Rs280m (up 81.8% YoY).
- ✍ The company's order book stands at ~Rs20b as of September 2007, 2.5x its FY07 revenue of Rs8.1b. The order book is to be executed over a period of 12-15 months, which should ensure strong near-term growth.
- ✍ BL Kashyap has taken several initiatives to further leverage its execution skills, including formation of a wholly-owned subsidiary - Soulspace Projects - for undertaking joint or co-development of real estate projects. It is currently executing three projects, of which two are in Pune and one is in Bikaner.
- ✍ We expect BL Kashyap to report a net profit CAGR of 71% over FY07-09. The stock trades at 32.8x FY08E and 22.1x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	1,639	1,707	2,362	1,942	3,025	3,723	4,133	4,238	8,080	15,120
Change (%)	0.0	0.0	119.3	28.7	84.6	118.1	75.0	118.2	64.3	97.6
EBITDA	177	182	250	200	352	440	491	500	924	1,783
Change (%)	0.0	0.0	156.2	27.4	98.4	141.6	96.8	150.1	70.1	120.4
As of % Sales	10.8	10.7	10.6	10.3	11.6	11.8	11.9	11.8	11.4	11.8
Depreciation	23	24	26	27	31	38	50	55	99	173
Interest	7	12	12	11	34	35	32	37	50	138
Other Income	9	16	23	8	102	46	14	7	80	169
PBT	156	162	234	170	389	413	423	416	854	1,642
Tax	52	56	80	58	112	142	143	161	298	558
Effective Tax Rate (%)	33.4	34.3	34.3	33.9	28.7	34.4	33.9	38.6	34.9	34.0
Reported PAT	104	106	154	113	278	271	280	255	556	1,083
Adj PAT	104	106	154	113	278	271	280	255	556	1,083
Change (%)	0.0	0.0	185.5	20.7	167.4	154.9	81.8	126.6	73.6	127.3

E: MOST Estimates

Gammon India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GMON IN
	REUTERS CODE
S&P CNX: 6,080	GAMM.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs584

Equity Shares (m)	86.7	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	625/258	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	0/4/7	3/07A	18,647	957	10.8	12.5	54.0	4.5	8.3	11.6	2.9	28.9
MCap. (Rs b)	50.7	3/08E	22,735	1,104	12.5	15.4	46.8	4.1	8.8	11.7	2.4	23.6
MCap. (US\$ b)	1.3	3/09E	29,986	1,575	17.8	42.6	32.8	3.7	11.3	14.7	1.8	17.5
		3/10E	39,952	2,286	25.8	45.2	22.6	3.2	14.2	17.9	1.3	12.6

- ✍ We expect revenue of Rs6b (up 30% YoY), EBITDA of Rs528m (up 2.5% YoY), and net profit of Rs253m (up 4.6% YoY).
- ✍ Gammon Infrastructure Projects Ltd (GIPL), an 86% subsidiary of the company, has submitted the Draft Red Herring Prospectus (DRHP) with the Securities Exchange Board of India (SEBI) for its initial public offer of 16.55m equity shares.
- ✍ Gammon India has entered into a franchisee, operation and management agreement with Wyndham Hotel Group International Inc (WYNDHAM) of USA to open a chain of budget hotels under the brand names of “Super-8” and “Days Inn” across India. It plans to roll out 38-40 hotels over the next 3-4 years at an estimated capex of Rs4b, to be funded entirely by Gammon.
- ✍ Gammon India has signed an agreement with Macquarie through Gammon Infrastructure Projects Ltd (GIPL) to bid for the Chennai airport maintenance project. Macquarie and Gammon will hold equal stakes in the project.
- ✍ The company has tied up with Siemens Transportation for design, commissioning and operation of airport-city rail link for a 30-year period in an expression of interest invited by Delhi Metro Rail Corporation.
- ✍ The order backlog for the company as of September 2007 stood at Rs80b, representing ~4x FY07 revenue.
- ✍ The stock trades at a reported P/E of 46.8x FY08E and 32.8x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	5,539	4,830	4,607	6,207	6,495	4,699	5,989	7,952	20,912	25,134
Change (%)	93.5	67.1	37.5	30.2	17.3	-2.7	30.0	28.1	25.4	20.2
EBITDA	317	418	515	541	577	412	528	762	1,722	2,280
Change (%)	-6.9	-6.6	6.0	53.2	82.1	-1.3	2.5	40.9	-10.9	32.4
As of % Sales	5.7	8.6	11.2	8.7	8.9	8.8	8.8	9.6	8.2	9.1
Depreciation	83	103	102	91	108	113	110	112	352	443
Interest	52	18	53	13	35	38	48	90	136	211
Other Income	3	1	7	118	11	8	2	3	197	23
Extra-ordinary income	27	0	0	0	0	0	0	0	27	0
PBT	211	297	366	556	444	269	372	563	1,458	1,648
Tax	25	36	50	875	159	97	119	169	1,030	544
Effective Tax Rate (%)	11.9	12.0	13.7	157.4	35.7	36.2	32.0	30.0	70.7	33.0
Reported PAT	186	262	316	-319	285	171	253	394	427	1,104
Adj PAT	122	197	242	367	271	171	253	394	946	1,090
Change (%)	-20.8	-20.6	15.5	34.1	122.2	-12.8	4.6	7.4	-8.1	15.2

E: MOST Estimates

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GMR Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GMRI IN
	REUTERS CODE
S&P CNX: 6,080	GMRI.BO

28 December 2007

Neutral

Previous Recommendation: Buy

Rs249

Equity Shares (m)	1,820.7
52-Week Range	269/65
1,6,12 Rel. Perf. (%)	-6/37/208
M.Cap. (Rs b)	453.6
M.Cap. (US\$ b)	11.5

YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07A	16,967	1,744	1.1	-8.5	236.5	20.7	8.8	6.9	25.6	79.9
3/08E	18,437	1,599	0.9	-16.6	283.7	7.4	2.6	4.1	6.0	15.8
3/09E	24,737	1,957	1.1	22.4	231.8	7.3	3.1	5.4	6.1	12.1
3/10E	45,222	4,609	2.5	135.5	98.4	6.8	6.9	9.0	3.6	6.2

* Consolidated

- GMR Energy Limited, a 100% subsidiary of GMR Infrastructure has been awarded a coal mine in consortium with other players in the dip side of Rampia block, which has estimated reserves of 360m tons. Also, the Vemagiri Power Plant has been assured a gas supply of 1.12-1.15m cubic meters of natural gas per day from GAIL India by the state government. The plant is expected to start operations from January 2008.
- GMR has recently allotted 165.2m shares of Rs2 each at a premium of Rs238/share to qualified institutional buyers (QIBs) to raise Rs39.7b.
- The GMR Infrastructure led consortium emerged as the successful bidder for the Sabiha Gocken airport in Italy. The concession (20 years including 30 months for construction) involves operation and maintenance of the existing airport and development of new greenfield international airport, with a passenger handling capacity of 10m per annum.
- It has also signed an MoU with Tamil Nadu Industrial Development Corporation (TIDCO) for the development of a multi-product SEZ in Krishnagiri district, with land acquisition to be completed over a period of one year. The SEZ will be spread around 3,300 acres and the cost for developing the basic infrastructure is estimated around Rs23b.
- We expect GMR to report a net profit CAGR of 38% over FY07-10 on a consolidated basis. We expect its net profit after minority interest to grow from Rs1.7b in FY07 to Rs4.6b in FY10. We maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE
Sales	4,093	3,125	3,554	6,196	4,766	3,953	16,967	18,437
Change (%)	53.50	41.3	62.0	0.0	16.45	26.5	59.8	8.7
EBITDA	1,281	1,250	1,526	1,380	1,386	1,557	5,436	7,064
Change (%)	10.14	9.6	39.6	0.0	8.19	24.6	20.0	29.9
As of % Sales	31.3	40.0	42.9	22.3	29.1	39.4	32.0	38.3
Depreciation	260	268	445	354	406	439	1,345	1,746
Interest	294	236	376	535	375	359	1,441	2,607
Other Income	17	46	121	-1	192	117	183	1,378
Extra-ordinary income	0	0	0	0	0	0	0	0
PBT	744	792	826	490	796	875	2,833	4,089
Tax	96	86	139	94	101	157	215	1,245
Effective Tax Rate (%)	12.9	10.9	16.8	19.3	12.7	17.9	7.6	30.5
Reported PAT	648	706	688	395	695	719	2,618	2,844
Adj PAT (before minority interest)	648	706	688	395	695	719	2,483	2,795
Change (%)	146.84	199.4	43.1	0.0	7.29	1.8	19.3	12.6
Minority Interest	181	170	155	210	231	223	539	996
Adj PAT (after minority interest)	467	536	533	185	464	496	1,744	1,599

E: MOST Estimates; Quarterly numbers do not add up to the full year nos as company changed accounting policy for depreciation for GMR Energy from 3QFY07 onwards and adjusted figure for the past numbers are not available. * Adjusted PAT numbers are before minority interest.

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Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HCC IN
	REUTERS CODE
S&P CNX: 6,080	HCNS.BO

28 December 2007

Buy

Rs221

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	274.3										
52-Week Range	229/83										
1,6,12 Rel. Perf. (%)	3/46/4										
M.Cap. (Rs b)	60.6										
M.Cap. (US\$ b)	1.5										
	3/07A	23,576	595	2.1	-35.3	103.8	6.3	6.1	6.6	3.0	32.6
	3/08E	31,012	853	3.1	46.0	71.1	4.2	7.3	11.3	2.3	20.3
	3/09E	41,300	1,590	5.8	86.3	38.1	3.9	10.6	12.5	1.8	15.3
	3/10E	52,925	2,239	8.2	40.8	27.1	3.5	13.6	14.8	1.5	12.0

- ✍ We expect revenue of Rs7.3b (up 35% YoY), EBITDA of Rs889m, and net profit of Rs244m (up 70.1% YoY).
- ✍ HCC's order backlog at the end of September 2007 is Rs96b (equivalent to 3x FY08E revenue) and it is L1 in projects worth Rs25b (HCC's share Rs19.3b). As of September 2007, share of the power sector in its order backlog increased to 44% (v/s 38% as of March 2006 and 14% as of March 2005).
- ✍ Lavasa Corp (60.5% subsidiary of HCC) has successfully completed the launch of Phase-1 at Lavasa, comprising 300 units at an average realization of Rs2,950/sft. The company has achieved significant progress on other real estate projects: (1) commenced construction for IT park (2m sft); and (2) 1,500 acres of land tied up (100 acres acquired) for developing integrated townships in Thane, Pune and Nashik.
- ✍ During FY07-09, we expect HCC to report a revenue CAGR of 37% and a net profit CAGR of 78%. The stock trades at 71.1x FY08E and 38.1x FY09E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	5,806	4,257	5,407	8,476	7,306	5,487	7,299	12,551	23,945	32,642
Change (%)	25.9	40.9	18.6	10.3	25.8	28.9	35.0	48.1	20.5	36.3
EBITDA	461	395	664	877	791	602	889	1,470	2,396	3,752
Change (%)	12.8	53.3	36.6	29.9	71.5	52.4	33.9	67.7	31.0	56.6
As of % Sales (Adj)	7.9	9.3	11.1	9.1	10.8	11.0	11.2	10.7	9.3	10.9
Depreciation	161	186	206	244	228	226	230	239	797	923
Interest	74	158	175	212	322	342	325	311	620	1,300
Other Income	62	10	2	125	315	106	1	1	199	423
Extraordinary Items	0	0	0	0	0	0	0	0	0	0
PBT	288	61	284	546	556	140	335	921	1,179	1,952
Tax	36	19	65	266	206	23	90	154	386	474
Effective Tax Rate (%)	12.6	31.5	22.8	48.7	37.1	16.5	27.0	16.8	32.8	24.3
Reported PAT	251	42	220	280	350	117	244	767	793	1,478
Adj PAT	201	42	144	160	32	17	244	767	547	1,060
Change (%)	-11.2	45.3	-36.5	-62.4	-84.0	-59.0	70.1	379.1	-33.1	93.8

E: MOST Estimates

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IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	IVRC IN
	REUTERS CODE
S&P CNX: 6,080	IVRC.BO

28 December 2007

Buy

Rs524

Previous Recommendation: Buy

Equity Shares (m)	129.7	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	557/241	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	7/11/-7	3/07A	23,465	1,415	10.9	25.5	48.0	5.1	15.7	14.2	3.0	31.0
MCap. (Rs b)	67.9	3/08E	34,011	1,937	14.9	36.9	35.1	4.6	13.8	16.9	2.1	20.2
MCap. (US\$ b)	1.7	3/09E	48,196	2,791	21.5	44.1	24.3	4.0	17.4	21.1	1.5	15.0
		3/10E	63,935	3,665	28.3	31.3	18.5	3.3	19.5	22.7	1.2	11.6

- ✍ We expect revenue of Rs6.7b (up 28% YoY) and net profit of Rs378m (up 39.4% YoY).
- ✍ Order backlog stood at Rs96b as at the end of September 2007; the company is L1 in orders worth Rs12b. The current order book represents a book-to-bill ratio of 2.8x FY08E revenue of Rs34b.
- ✍ IVRCL has recently acquired Alkor Petroo Limited, an E&P company with five blocks in exploration phase currently. It is located in Yemen and Egypt in JV with Gujarat State Petroleum Corporation Ltd (GSPC) and others. GSPC is the operator for all the five blocks. Alkor had 25% participating interest in Yemen and 20% in Egypt in the joint venture initiative. The company plans to invest US\$50m over the next 5 years in exploration phase, while the acquisition cost was US\$3-3.5m.
- ✍ The management has guided revenue of Rs34-36b in FY08 (up 47-56% YoY) and 40% growth in revenues in FY09. It has also guided EBIDTA margin of 10.5% v/s 10% in FY07, and an order book position of Rs120b as of March 2008.
- ✍ For FY07-FY09, we expect IVRCL to report CAGR of 43.3% in revenue and 40.5% in net profit. The lower growth in net profit would be largely due to the full tax provisioning in FY08 and FY09.
- ✍ The stock trades at 35.1x FY08E and 24.3x FY09E earnings. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	4,266	3,644	5,223	9,923	6,773	6,885	7,417	12,937	23,059	34,011
Change (%)	41.9	42.0	27.9	68.0	58.8	88.9	42.0	30.4	54.2	47.5
EBITDA	407	308	556	1,073	600	553	805	1,532	2,301	3,490
Change (%)	73.3	46.5	61.8	92.3	47.5	79.4	44.7	42.8	71.4	51.6
As of % Sales	9.5	8.5	10.7	10.8	8.9	8.0	10.9	11.8	10.0	10.3
Depreciation	38	49	60	69	66	76	77	80	216	300
Interest	133	103	98	25	57	76	95	109	308	337
Other Income	17	55	18	2	10	16	22	29	74	77
PBT	253	211	416	981	488	416	655	1,371	1,851	2,930
Tax	42	56	94	249	108	64	222	599	436	993
Effective Tax Rate (%)	16.6	26.5	22.7	25.4	22.2	15.3	33.9	43.7	23.6	33.9
Reported PAT	211	155	321	732	380	353	433	772	1,415	1,937
Adj PAT	261	155	271	732	380	353	433	772	1,415	1,937
Change (%)	53.0	38.7	22.4	67.1	45.4	127.0	59.5	5.4	52.2	36.9

E: MOST Estimates

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Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	JPA IN
	REUTERS CODE
S&P CNX: 6,080	JAIA.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs423

Equity Shares (m)	1,255.3
52-Week Range	450/93
1,6,12 Rel. Perf. (%)	11/153/150
M.Cap. (Rs b)	530.9
M.Cap. (US\$ b)	13.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	34,639	4,330	3.9	55.4	107.1	16.1	15.6	10.8	14.6	61.8
3/08E	39,675	5,477	4.4	10.5	96.9	9.1	12.6	11.7	14.1	47.4
3/09E	52,869	6,938	5.5	26.7	76.5	8.4	11.4	12.1	10.8	37.9
3/10E	64,177	7,695	6.1	10.9	69.0	7.6	11.6	12.2	9.2	32.7

* Fully diluted

- ✍ We expect revenue of Rs 10.3b (up 15% YoY) and net profit of Rs 1.3b (up 27.9% YoY).
- ✍ The company has launched its Phase-1 on the Taj Expressway Development at Noida on the first 600xx (3m sft) at a price of Rs 5,700/sft in November 2007. According to media reports, it is in talks with the various strategic financial partners for a stake sale in Jaypee Infratech Limited, an SPV for executing the Taj Expressway project.
- ✍ The company will have an installed capacity of 29mtpa by FY12 (its proportionate share) - 3.5m ton in FY08, 7.7m ton in FY09, 5.6m ton in FY10, 1.2m ton in FY11 and 4m ton in FY12. It has been recently allotted a coal block at Mandla in Madhya Pradesh with estimated reserves of 180m ton (to be operational from 2011) and will meet coal requirement for 7m ton cement plant in Rewa, Madhya Pradesh and 5m ton plant in Baga, Himachal Pradesh and captive plants. Savings are estimated at Rs 1,000-1,200/ton, as the cost of coal (from captive mines) is likely to be Rs 1,600/ton v/s cost of procurement of Rs 2,800/ton.
- ✍ The company currently operates a BOT portfolio comprising of 700MW hydro power projects, while 4,920MW are under various stages of development. For its coal-based project in Madhya Pradesh (1,000 MW), it has been allocated coal mines to be developed in JV with Madhya Pradesh State Mining Corporation.
- ✍ Jaypee Greens has sold 1.9m sft till September 2007 (v/s 1.3m sft in March 2007) at an average realization of Rs 6,460/sft. Land use plan for the balance 2.7msft, which would house spa, resort, golf-related facilities, integrated sports complex, social club, etc is under preparation.
- ✍ Jaiprakash trades at 96.9x FY08E and 76.5x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	8,950	7,700	8,910	8,860	9,270	8,620	10,247	11,539	34,420	39,675
Change (%)	9.5	14.6	11.8	3.6	3.6	11.9	15.0	30.2	9.6	15.3
EBITDA	2,130	1,980	2,310	2,630	2,390	2,210	2,979	4,188	9,040	11,767
Change (%)	37.4	42.4	38.3	70.8	12.2	11.6	29.0	59.2	46.3	30.2
As of % Sales	23.8	25.7	25.9	29.7	25.8	25.6	29.1	36.3	26.3	29.7
Depreciation	380	390	430	420	450	460	493	618	1,630	2,021
Interest	590	620	700	650	790	840	945	1,017	2,570	3,592
Other Income	250	380	400	300	780	600	325	342	1,360	2,047
PBT	1,410	1,350	1,580	1,860	1,930	1,510	1,866	2,896	6,200	8,202
Tax	490	450	560	550	530	470	633	1,092	2,050	2,725
Effective Tax Rate (%)	34.8	33.3	35.4	29.6	27.5	31.1	33.9	37.7	33.1	33.2
Reported PAT	920	900	1,020	1,310	1,400	1,040	1,233	1,804	4,150	5,477
Adj PAT	920	900	1,020	1,310	1,400	1,040	1,233	1,804	4,150	5,477
Change (%)	70.4	4.7	78.9	87.1	52.2	15.6	20.9	37.7	55.4	32.0

E: MOST Estimates

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Nagarjuna Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	NJCC IN
	REUTERS CODE
S&P CNX: 6,080	NGCN.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs525

Equity Shares (m)	240.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	364/139	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	6/67/22	3/07A	28,711	1,335	6.4	26.1	55.0	7.1	13.5	14.9	2.9	30.6
MCap. (Rs b)	84.7	3/08E	37,733	1,980	8.2	28.7	42.8	4.5	13.7	14.1	2.5	22.6
MCap. (US\$ b)	2.1	3/09E	54,060	3,135	13.0	58.3	27.0	4.0	15.8	16.7	1.8	16.1
		3/10E	73,950	4,333	18.0	38.2	19.5	3.4	18.9	19.0	1.4	12.5

- ✍ We expect revenue of Rs10.1b (up 45% YoY) and net profit of Rs606m (up 69% YoY).
- ✍ As of end-September 2007, the company's order book stood at Rs90b – 2.4x FY08E revenues of Rs37.7b. Order book composition: roads 20%, buildings: 24%, water: 17%, irrigation/HEP: 10%, electrical: 4%, power: 1%, oil/gas: 4%, metals: 12%, and international: 8%.
- ✍ The consortium comprising Nagarjuna Construction, Maytas Infrastructure and SREI Finance has received a letter of intent from the Government of Arunachal Pradesh for Machilipatnam Port Project in Andhra Pradesh. The management expects to sign the development agreement for the project by January 2008. The project also entails development of an SEZ on 8,000 acres of land available on 99 year lease.
- ✍ The consortium comprising of NCC Urban Infra (26%), Tishman (37%), and ICICI Ventures (37%) has already paid the first tranche of 25% for the cost of land and has signed the development agreement for an integrated township over 400 acres of land. Nagarjuna has the first right of refusal for the construction contract. The development plan is expected to be completed by January 2008.
- ✍ The stock trades at 42.8x FY08E and 27x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	6,517	6,517	6,998	8,679	7,622	6,772	8,537	14,802	28,711	37,733
Change (%)	81.4	77.0	48.1	35.5	16.9	3.9	22.0	70.6	56.0	31.4
EBITDA	550	618	802	727	794	848	894	1,562	2,697	4,098
Change (%)	97.8	63.0	75.5	36.9	44.3	37.3	11.4	114.8	64.4	51.9
As of % Sales	8.4	9.5	11.5	8.4	10.4	12.5	10.5	10.6	9.4	10.9
Depreciation	58	69	76	96	104	117	115	111	299	448
Interest	57	96	185	166	145	233	210	211	504	799
Other Income	8	10	5	270	4	4	15	38	292	61
PBT	443	462	546	735	548	502	584	1,278	2,186	2,912
Tax	59	69	97	443	187	165	175	404	667	932
Effective Tax Rate (%)	13.3	14.9	17.8	60.2	34.2	32.9	30.0	31.6	30.5	32.0
Reported PAT	384	393	449	293	360	337	409	874	1,519	1,980
Adj PAT	326	334	359	339	360	337	409	874	1,358	1,980
Change (%)	70.3	59.9	33.9	-3.1	10.4	0.6	14.0	158.2	30.7	45.8

E: MOST Estimates

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Patel Engineering

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	PEC IN
	REUTERS CODE
S&P CNX: 6,080	PENG.BO
Equity Shares (m)	59.7
52-Week Range	939/293
1,6,12 Rel. Perf. (%)	15/90/64
M.Cap. (Rs b)	55.3
M.Cap. (US\$ b)	1.4

28 December 2007

Buy

Rs926

Previous Recommendation: Buy

YEAR	NET SALES*	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	10,989	1,122	18.8	28.2	49.3	7.9	24.5	12.9	5.2	42.7
3/08E	14,460	1,211	20.3	8.0	45.6	7.3	15.8	14.4	4.0	29.7
3/09E	19,110	1,600	26.8	32.1	34.5	6.2	17.8	16.2	3.1	22.6
3/10E	24,671	2,022	33.9	26.4	27.3	5.3	19.0	16.3	2.5	17.9

* Consolidated

- ✍ We expect revenue of Rs2.8b (up 30% YoY) and net profit of Rs290m.
- ✍ Order book as of end-September 2007 stood at Rs54b, representing a book to bill ratio of 3.7x FY08E revenues of Rs14.6b. Order book composition stands as: hydro - 56%, irrigation - 21%, and transportation and others - 23%.
- ✍ Patel Engineering has transferred development rights for its existing land bank of 1000 acres to Patel Realty India (PRIL) - a 100% subsidiary. Its entire land bank is free from any encumbrance and 98% of the land bank is FDI-compliant. The land bank is spread over Hyderabad (640 acres), Chennai (230 acres), Bangalore (85 acres), Mysore (21 acres), Panvel (20 acres) and Jogeshwari (6 acres). Phase-1 of the real estate development includes (1) corporate park at Jogeshwari (0.83m sft), (2) IT SEZ park at Gachibowli (2.7m sft), and (3) integrated township at Electronic City near Bangalore (12.1m sft).
- ✍ The stock trades at a reported P/E of 45.6x FY08E and 34.5x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	2,900	1,979	2,184	3,962	3,301	2,358	2,839	6,102	11,036	14,600
Change (%)	52.8	40.6	28.7	31.5	13.8	19.1	30.0	54.0	37.7	32.3
EBITDA	318	307	419	456	358	420	554	763	1,512	2,095
Change (%)	54.2	38.7	15.9	69.2	12.6	36.5	32.1	67.4	42.8	38.6
As of % Sales	11.0	15.5	19.2	11.5	10.9	17.8	19.5	12.5	13.7	14.3
Depreciation	65	66	70	72	66	70	95	86	273	318
Interest	46	-13	24	52	27	28	40	120	109	215
Other Income	26	20	11	35	35	45	20	20	80	120
PBT	233	274	335	368	300	367	439	577	1,210	1,682
Tax	33	24	44	28	37	43	149	343	129	570
Effective Tax Rate (%)	14.2	8.7	13.0	7.7	12.2	11.6	33.9	59.4	10.6	33.9
Reported PAT	200	250	292	340	264	324	290	234	1,081	1,112
Adj PAT	200	250	292	340	264	324	290	234	1,081	1,112
Change (%)	76.9	98.2	16.4	59.9	32.1	29.6	-0.6	-31.0	54.0	2.9

E: MOST Estimates

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Media

BSE Sensex: 20,207

S&P CNX: 6,080

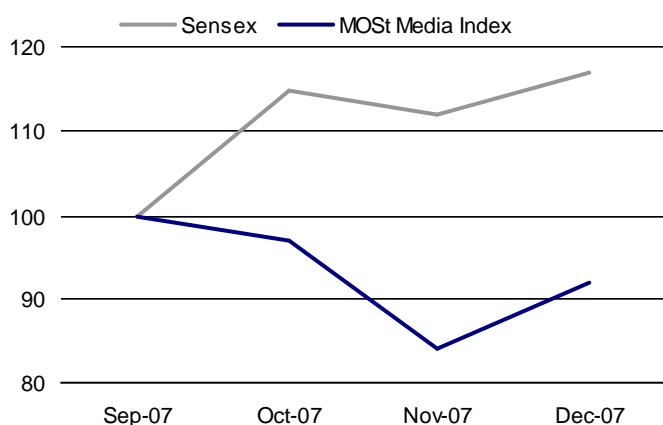
28 December 2007

Stock performance and valuations

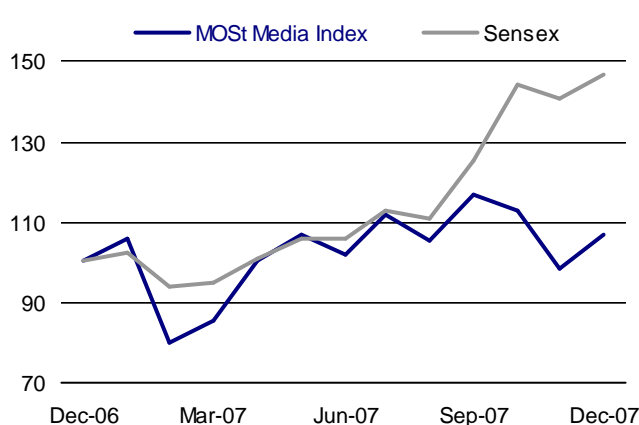
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Media						
Zee Entertainment	-8	8	-25	-38	0	9

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Media														
Zee Entertainment	315	Neutral	8.6	12.0	14.9	36.6	26.3	21.2	24.8	18.0	13.7	17.7	18.9	17.0

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Media							
Zee Entertainment	Neutral	4,474	7.1	1,471	8.4	991	13.2

Zee Entertainment Enterprises

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	Z IN
	REUTERS CODE
S&P CNX: 6,080	ZEE.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs315

Equity Shares (m)	434	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	373/210	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	0/-30/-38	3/07A	15,159	2,374	5.5	11.7	57.6	5.3	14.3	12.8	9.2	43.4
MCap. (Rs b)	136.3	3/08E	17,120	3,738	8.6	57.5	36.6	4.7	17.7	19.4	8.1	24.9
MCap. (US\$ b)	3.5	3/09E	20,975	5,207	12.0	39.3	26.3	4.0	18.9	22.9	6.5	18.1
		3/10E	24,860	6,462	14.9	24.1	21.2	3.4	17.0	24.2	5.3	13.7

- ⚡ We expect overall revenue to grow 12.2% QoQ, driven by growth in both advertising and subscription income.
- ⚡ We believe advertising income would continue to grow, driven by improvement in the ratings of its flagship channel, Zee TV. The gap between Zee TV and Star TV has shrunk and we expect 15% QoQ growth in ZEE's advertising income.
- ⚡ We expect sequential increase in subscription revenue due to increase in DTH subscription base. However, subscription revenue growth is likely to be subdued going forward, with TRAI asking the broadcasters to provide *a la carte* rates in non-CAS regions.
- ⚡ The GEC space is likely to witness a lot of action, with growing number of players. INX Media has already launched its channel 9X and NDTV Imagine is likely to be launched in January 2008. ZEE has also launched Zee Next in response to the new channels. We believe that the new channels would lead to higher fragmentation, adversely impacting advertising revenue and resulting in higher carriage cost for the incumbent broadcasters.
- ⚡ PAT is likely to grow 13.2% QoQ to Rs991m on the back of higher advertising and subscription revenue.
- ⚡ The stock is trading at 36.6x FY08E and 26.3x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Advertising Revenue	1,392	1,717	2,105	1,849	2,044	2,195	2,524	2,592	7,064	9,356
Subscription Revenue	1,327	1,474	1,956	1,849	1,681	1,625	1,750	1,950	6,648	7,006
Other Sales and Services	175	305	116	146	191	167	200	200	742	758
Net Sales	2,894	3,496	4,177	3,844	3,916	3,986	4,474	4,742	14,454	17,120
Change (%)			53.0	10.6	35.3	14.0	7.1	23.4	30.9	18.4
Prog. Transmission & Direct exp	1,598	2,403	1,721	1,632	1,585	1,660	1,853	1,950	7,353	7,048
Staff Cost	244	239	232	292	375	338	350	349	1,008	1,411
Selling and other exp	391	636	867	969	759	668	800	898	2,864	3,125
EBITDA	662	217	1,357	951	1,197	1,321	1,471	1,545	3,229	5,535
Change (%)			186.3	111.9	80.9	508.1	8.4	62.4	30.5	71.4
As of % Sales	22.9	6.2	32.5	24.8	30.6	33.1	32.9	32.6	22.3	32.3
Depreciation	52	51	69	56	67	55	66	66	228	254
Interest	109	34	68	8	118	85	50	21	220	274
Other Income	147	152	155	177	213	225	200	200	630	838
PBT	648	284	1,375	1,064	1,225	1,405	1,555	1,658	3,411	5,845
Tax	109	74	417	365	412	435	519	564	964	1,929
Effective Tax Rate (%)	16.8	26.0	30.3	34.3	33.6	30.9	33.4	34.0	28.3	33.0
PAT	539	210	958	699	813	971	1,036	1,095	2,447	3,916
Minority Interest	13	-12	83	95	42	46	45	45	212	178
Consolidated PAT	526	222	875	604	771	925	991	1,050	2,235	3,738
Change (%)			166.9	12.8	46.6	316.5	13.2	73.8	10.4	67.3

E: MOST Estimates; Quarterly numbers do not add up to full year due to recasting

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

Metals

BSE Sensex: 20,207

S&P CNX: 6,080

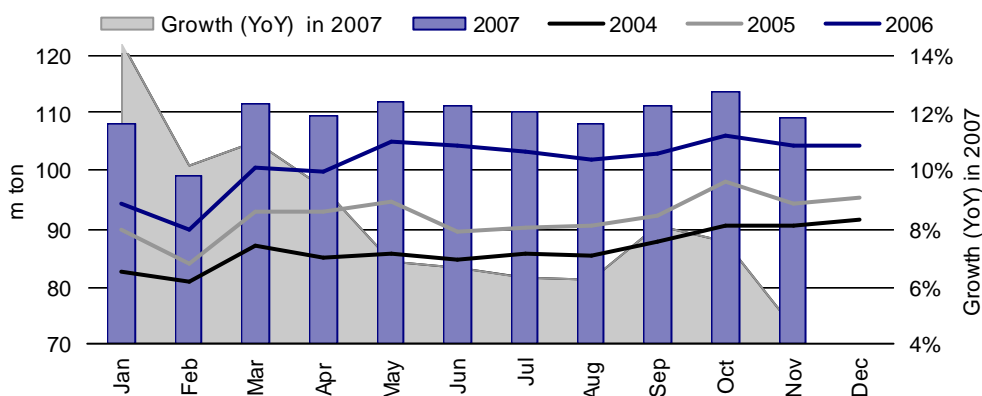
28 December 2007

COMPANY NAME	PG.
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Nalco	185
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SAIL	187
Tata Steel	188

Steel

Growth in crude steel production continues to moderate: Global crude steel output increased 8.2% to 1,206m tons during January-November 2007, driven by 16.4% growth in China, 11.6% in India and 3.4% in the rest of the world (ROW). Monthly crude steel production in China has been 40-42m tons for the nine months March-November 2007 and YoY growth rates have fallen from 26.4% in January 2007 to just 4.6% in November 2007. China is still the largest contributor to growth and accounts for 69% of 91.5m tons of YoY incremental crude steel production during January-November 2007.

GLOBAL MONTHLY CRUDE STEEL PRODUCTION



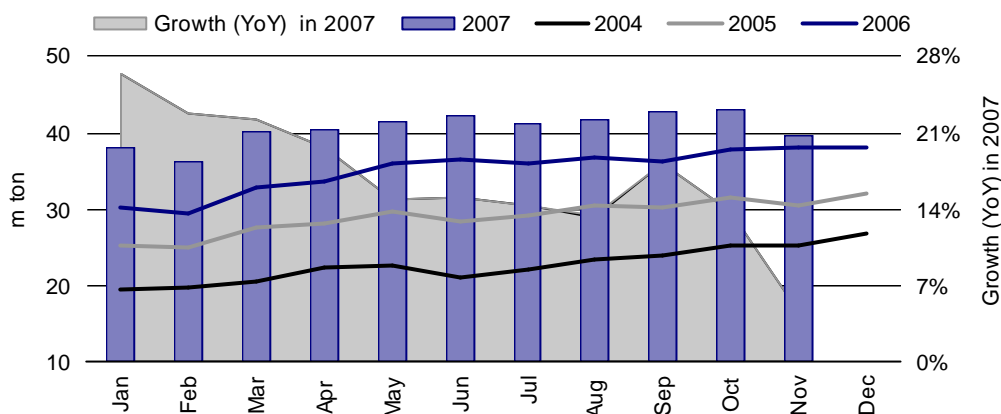
Source: IISI

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Metals							
Hindalco	Neutral	49,913	7.2	8,042	-23.1	4,773	-25.9
Hindustan Zinc	Buy	17,976	-27.5	12,418	-34.9	9,279	-30.5
Jindal Steel & Power	Buy	15,049	49.0	5,689	50.8	2,976	56.7
JSW Steel	Sell	27,575	19.8	8,260	7.3	4,139	16.5
Nalco	Neutral	12,093	-16.5	5,327	-36.9	4,034	-29.5
SAIL	Buy	105,968	24.1	34,225	30.5	22,078	38.3
Sterlite Inds.	Buy	51,321	-24.7	17,210	-37.7	9,526	-26.4
Tata Steel	Buy	49,812	11.4	19,561	9.7	11,049	0.7
Sector Aggregate		329,707	4.0	110,733	-8.6	67,854	-4.2

CHINA'S CRUDE STEEL PRODUCTION GROWTH SHARPLY DECLINING



Source: IISI

Chinese consumption unabated: The consumption of finished steel in China continues to post double-digit growth, driven by continued momentum in fixed asset formation, industrial production, ship building, machinery building, and infrastructure construction.

FINISHED STEEL CONSUMPTION IN CHINA

MONTH	PROD.	IMPORT (M TONS)	EXPORTS			APP. CONS. YOY (%)	YTD (%)
			(M TONS)	(M TONS)	MOM (%)		
Jan-07	40.4	1.5	4.4	-21.4	144	37.5	16.5
Feb-07	38.6	1.2	4.4	0.0	132	35.4	15.0
Mar-07	47.0	1.6	5.4	22.7	93	43.2	15.6
Apr-07	46.3	1.6	7.2	33.3	167	40.7	13.9
May-07	47.5	1.4	6.2	-13.9	77	42.7	13.4
Jun-07	49.2	1.4	6.3	1.6	43	44.3	13.8
Jul-07	47.7	1.4	5.9	-5.7	65	43.2	14.4
Aug-07	48.3	1.5	5.4	-9.4	38	44.4	15.2
Sep-07	48.6	1.4	4.4	-18.2	7	45.6	15.9
Oct-07	49.1	1.2	4.2	-3.6	1	46.0	16.2
Nov-07	47.7	1.4	4.1	-3.3	-11	45.0	16.3
	510.4	15.6	58.0				

Source: Industry

China hikes export duties further with effect from 1 January 2008: The Chinese government continues to discourage exports by removing export rebates and imposing duties to avoid trade friction with partner countries. China's Ministry of Finance has further confirmed hiking of export tax on long products (15% instead of 10% currently), semis (25% instead of 15% currently), welded pipes (15% instead of 'nil' currently) and strip products (15% instead of 5% currently) with effect from 1 January 2008. Export tax on HRC and Plate remains unchanged at 5%. Full details of duty hikes are as follows:

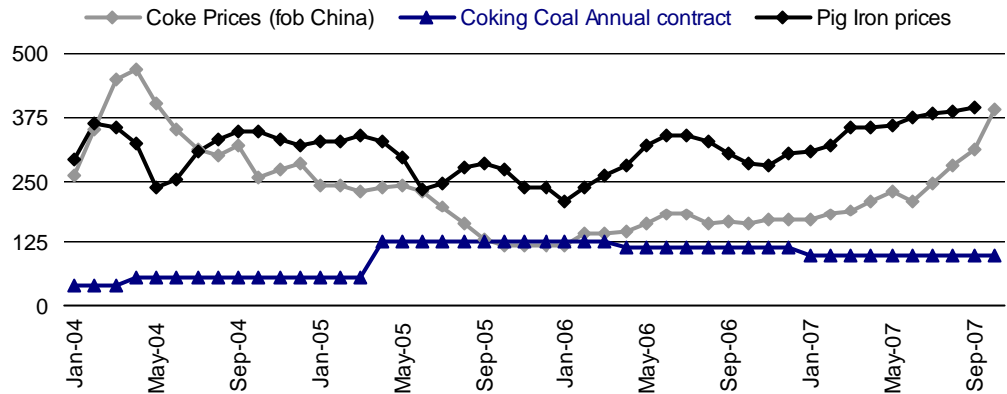
S. NO	PRODUCT	W.E.F. JAN 1, 08	REMARKS
1	BPI / DRI	25% export tax	(increased from 20% export tax)
2	Billet / Slab	25% export tax	(increased from 15% export tax)
3	Hr / Cr / GI strips (width <600mm)	15% export tax	(increased from 5% export tax)
4	Wire rods	15% export tax	(increased from 10% export tax)
5	Debar	15% export tax	(increased from 10% export tax)
6	Round / Flat bar (except forging bar)	15% export tax	(increased from 10% export tax)
7	Hr sections in other shape	15% export tax	(increased from 10% export tax)
8	Cold Forming sections	15% export tax	(increased from 10% export tax)
9	Welding Pipe (except Petroleum/ Natural Gas pipe)	15% export tax	(increased from none export tax)
10	200 series HR Stainless steel products	10% export tax	(increased from 5% export tax)
11	Alloy / Stainless Ingot	15% export tax	(no change)
12	Hrc / Hrp / P&O (width >=600mm)	5% export tax	(no change)
13	Alloy Hr coil / plate	5% VAT rebate	(no change)
14	Crc / GI / PPGI (width >=600mm)	5% VAT rebate	(no change)
15	Si / Mn alloy rods / bars	5% export tax	(no change)
16	Other Alloy rods / bars	5% VAT rebate	(no change)
17	Hr Hbeam / I beam / Channel / Angles	10% export tax	(no change)
18	Steel Wire	5% export tax	(no change)
19	API Welding Pipe	13% VAT rebate	(no change)
20	API Seamless Pipe	13% VAT rebate	(no change)
21	Other Seamless Pipe	5% VAT rebate	(no change)
22	Stainless steel products (except 200 series)	5% VAT rebate	(no change)
23	Rails	5% VAT rebate	(no change)

Source: Company/Motilal Oswal Securities

We believe such initiatives by the Chinese government will further discourage exports of low-end products and the importers in ASEAN countries will look elsewhere to source these products and lift prices of steel scrap, semis and long products in global markets. Indian steel producers like SAIL, Tata Steel, Jindal Steel & Power and midcap producers like Godawari Ispat & Power will be the key beneficiaries of this development.

High coke prices to squeeze margins of small Indian pig iron producers: Indian pig iron producers having small to mini blast furnaces do not have captive coke ovens and have to depend upon purchase of coke. Coke prices have risen sharply due to strong demand and restricted supply from China, which has more than 50% market share in international market. China imposed export duty of 5% in November 2006, hiked further to 15% in June 2007 and has now announced a further increase in duty to 25% from 1 January 2008. The prices of coke have moved from ~US\$200/ton to US\$450/ton in the last one year. Pig iron prices have increased by just US\$80/ton during the same period. Coke forms 70-80% of the cost for these players and is likely to hit them most in January-February 2008, when they exhaust their low cost inventories.

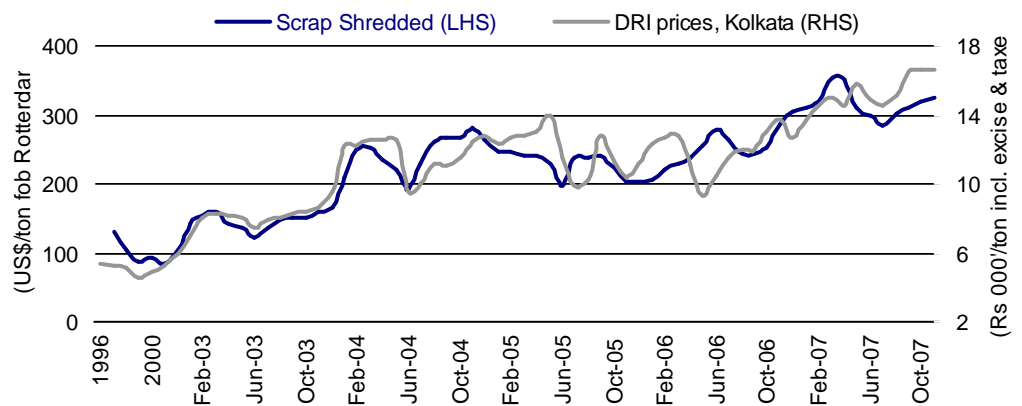
PIG IRON, COKE AND COAL PRICES - PRICES (US\$/TON)



Source: IISI

Indian sponge iron producers are beneficiaries of high metallic prices: Shortage of iron ore and steel scrap has been driving up steel prices. India is dependent on imports for steel scrap, as local generation is low. Therefore, the prices of sponge iron are a function of landed cost of steel scrap. Indian sponge iron producers remain insulated from high ocean freights, international prices of iron ore and coal due to local sourcing of raw materials and sale of finished products. As a result, margins have expanded. We recommend investment in Godawari Power & Ispat.

SCRAP PRICES ARE DRIVING SPONGE IRON PRICES



Source: IISI

Continued strong demand, moderating production, declining exports from low cost countries and raw material cost pressures to push steel prices up in 2008: International steel prices have been inching up. Black Sea and CIS producers are now booking billets & CRC materials for January delivery at prices ~US\$30/ton higher. According to reports, there is shortage of billets in the region. Arcelor-Mittal too has announced a price hike of ~US\$30/ton on long products for deliveries starting January 2008. Chinese export prices (fob) of HRC have moved up sharply from US\$580/ton to US\$670/ton in the past two weeks.

ISSB recently released data on steel global trade for the first nine months and has noted that total global exports increased by 10% to 209m tons while exports from Russia declined by 10% to 21.5m tons, from Brazil by 14% to 7.9m tons, from Ukraine by 2% to 22m tons, and from EU27 by 2% to 23.5m tons. Chinese exports, which have moved down after hitting a peak of 7.6m tons in April 2007, have risen 61%. Chinese crude steel production for November 2007 declined 7.6% MoM to 39.7m tons due to high raw material prices squeezing margins, pressure to reduce exports and close inefficient capacities, and annual repair shutdowns by mills. Our interaction with Indian steel marketers suggests pick-up in demand due to busy season ahead. Continued strong demand, moderating production, declining exports from low cost countries and raw material cost pressures would push steel prices up in 2008.

We are now factoring 7-10% price hikes on steel products for our FY09 estimates:

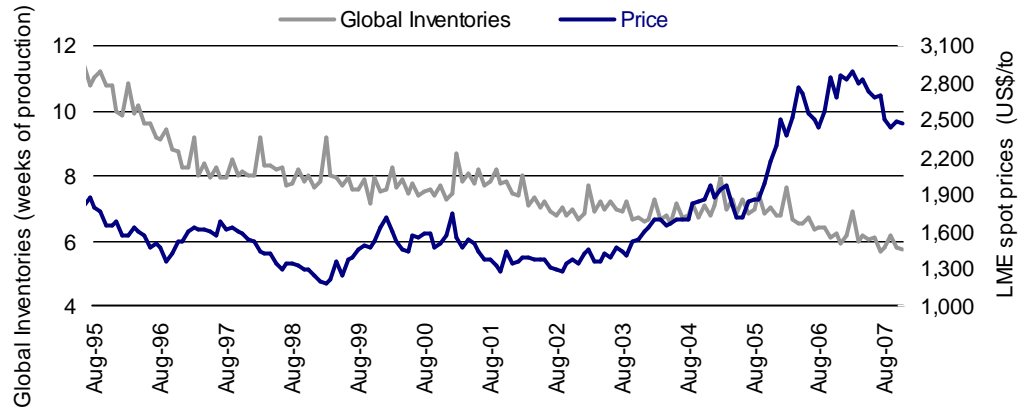
We expect cost pressures on account of higher raw materials and declining exports from China & other low cost countries to push up steel prices in the first quarter of 2008 when buying picks up in international markets after winter vacations in the western world. Higher steel prices are unlikely to be a dampener on demand, as the currencies of high growth regions have appreciated against the USD and local prices are still lower than peak prices of 2004-2005.

We believe that it will be reasonable to factor 7-10% YoY increase in blended realization for Indian companies like Tata Steel, SAIL and JSW Steel. SAIL and JSW Steel are fully exposed to coal price hike, while Tata Steel is partially insulated due to its captive coal mines. JSW Steel is additionally exposed to coke prices and the hit will be harder here. Tata Steel and SAIL are fully insulated from iron ore price hike while JSW Steel is exposed to spot prices of iron ore. Tata Steel's subsidiary, Corus is fully exposed to raw material cost pressures. However, the price increases are likely to offset cost pressures due to its rich product mix, and approx. 15% of its production from its Teeside plant is sold on cost plus basis. We believe Tata Steel and SAIL are better bets to play the steel cycle than JSW Steel.

Non-ferrous metals

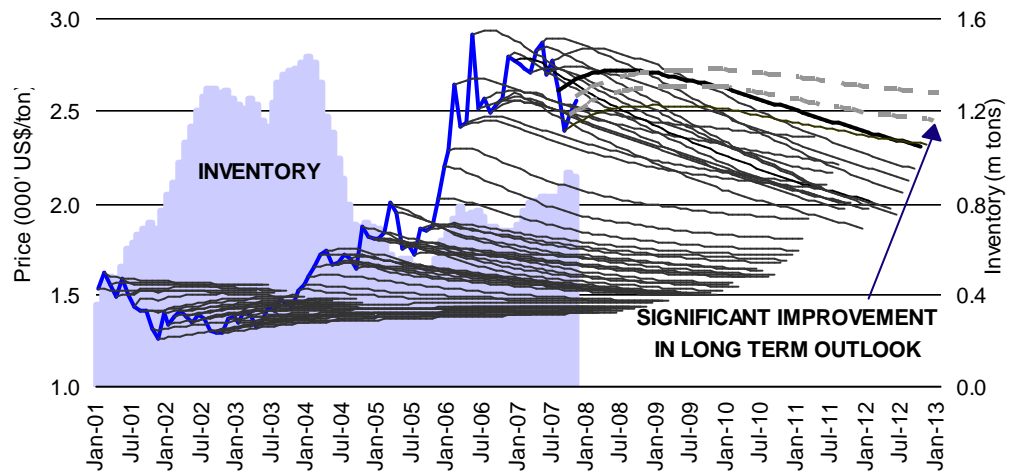
Significant improvement in long-term outlook for aluminum: Aluminum prices at LME have corrected from the peak by ~10% in the last few months and the US dollar too has depreciated significantly against most world currencies. Therefore, the real prices have fallen much more in most parts of the world while the cost pressures are mounting due to rising energy costs and alumina prices. The energy costs for Indian aluminum producers would fall in coming years, as coal blocks have been allotted for captive generation of power. We expect costs to fall by US\$140-180/ton for Indian producers in the next 3-4 years. Rising cost pressures due to higher energy cost and bauxite/alumina prices will push up aluminum prices in the coming years. Fundamentals are moving in favor of Indian producers.

GLOBAL INVENTORIES AND PRICES OF ALUMINUM



Source: IAI and LME

ALUMINUM FORWARD CURVES AND INVENTORIES



Source: Bloomberg/Motilaloswal Research

AVERAGE METAL PRICES ON LME (US\$/TON)

QUARTER	ZINC			ALUMINIUM			COPPER			LEAD			ALUMINA		
	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %
3QFY08	2,676	-17	-35	2,504	-4	-8	7,283	-4	3	3,265	6	106	343	-1	43
2QFY08	3,221	-12	-4	2,610	-7	3	7,624	1	0	3,094	42	159	347	-4	2
1QFY08	3,679	7	14	2,802	2	4	7,578	27	6	2,184	25	95	360	12	-38
4QFY07	3,441	-17	52	2,748	1	12	5,975	-16	23	1,751	10	43	322	34	-47
3QFY07	4,142	23	152	2,726	8	32	7,096	-7	72	1,587	33	57	240	-29	-55
2QFY07	3,359	4	155	2,531	-6	37	7,628	7	115	1,194	7	37	340	-42	-21
1QFY07	3,239	43	152	2,684	10	50%	7,158	47	123	1,119	-9	18	583	-4	34
4QFY06	2,267	38	71	2,447	18	29	4,862	18	55	1,224	21	31	607	15	46
3QFY06	1,642	25	45	2,071	12	14	4,130	17	39	1,011	16	9	530	23	32
2QFY06	1,316	2	32	1,849	3	8	3,544	10	27	869	-8	0	432	0	29
1QFY06	1,287	-3	23	1,795	-5	6%	3,213	3	19%	949	1	22	434	5	-5
4QFY05	1,327	17	22	1,891	4	13	3,127	5	16	937	1	15	415	3	-1
3QFY05	1,131	13	20	1,818	6	19	2,975	7	45	927	6	47	401	19	29
2QFY05	998	-4	19	1,718	2	21	2,788	3	58	872	12	71	336	-27	18
1QFY05	1,043	-4	32	1,690	1	22	2,698	0	63	777	-5	68	458	9	62

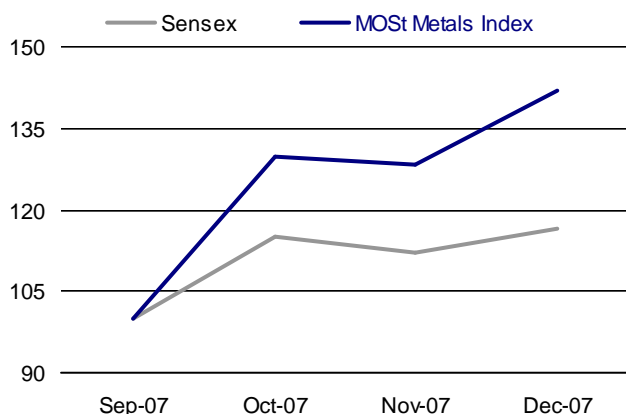
Source: Bloomberg & Motilaloswal Research

Stock performance and valuations

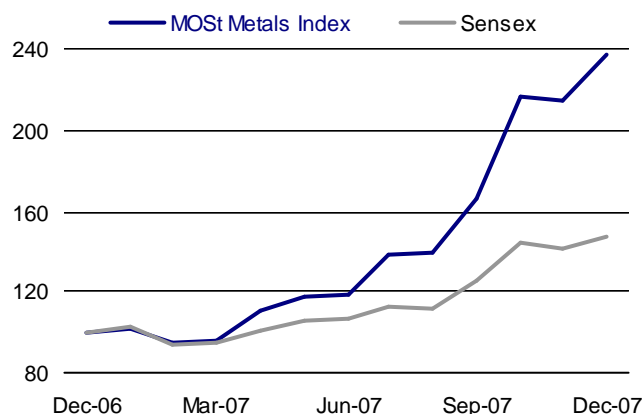
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Metals						
Hindalco	24	22	7	-24	-18	-117
Hindustan Zinc	0	-1	-16	-47	-42	-141
Jindal Steel & Power	193	583	176	537	151	444
JSW Steel	55	247	38	201	13	108
Nalco	65	131	48	85	23	-8
SAIL	35	223	18	177	-7	84
Sterlite Inds.	41	97	24	51	-1	-42
Tata Steel	24	121	7	75	-18	-18

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Metals														
Hindalco	213	Neutral	12.4	16.0	22.8	17.2	13.3	9.4	8.8	7.3	7.0	10.6	11.8	14.9
Hindustan Zinc	816	Buy	100.7	96.3	108.2	8.1	8.5	7.5	4.9	4.3	3.3	36.7	26.6	23.5
Jindal Steel & Power	15,179	Buy	363.6	405.6	588.2	41.7	37.4	25.8	22.9	21.0	15.7	31.6	26.4	28.0
JSW Steel	1,318	Sell	98.0	136.1	156.9	13.4	9.7	8.4	10.5	7.5	6.4	24.7	26.7	23.7
Nalco	498	Neutral	26.4	30.7	38.2	18.8	16.2	13.0	13.0	10.5	7.6	19.2	19.3	20.2
SAIL	280	Buy	19.1	25.5	26.9	14.6	11.0	10.4	8.5	6.4	6.1	33.4	32.2	26.2
Sterlite Inds.	1,052	Buy	59.7	61.3	57.3	17.6	17.2	18.4	7.8	7.0	6.5	19.2	16.8	13.6
Tata Steel	931	Buy	114.7	151.4	165.5	8.1	6.2	5.6	5.6	4.5	4.0	19.5	21.1	19.1
Sector Aggregate						13.5	11.1	9.9	7.9	6.5	5.9	22.7	22.2	20.2

Hindalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HNDL IN
	REUTERS CODE
S&P CNX: 6,080	HALC.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs213

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,306.8										
52-Week Range	223/125										
1,6,12 Rel. Perf. (%)	9/-13/-24										
M.Cap. (Rs b)	279.7										
M.Cap. (US\$ b)	7.1										
	3/07A	199,548	28,006	24.2	77.5	8.9	2.0	22.8	18.8	1.4	6.2
	3/08E	682,355	16,183	12.4	-48.7	17.3	1.8	10.6	7.0	0.8	8.8
	3/09E	718,993	20,966	16.0	29.6	13.3	1.6	11.8	9.0	0.7	7.3
	3/10E	743,866	29,746	22.8	41.9	9.4	1.4	14.9	9.3	0.7	7.0

Consolidated

- ✍ We expect standalone PAT to decline 26% YoY to Rs4.8b due to lower aluminum prices (down 8% YoY) at LME, rupee appreciation, lower import duty and falling TcRc margins despite volume growth of 12% for copper and 9% for aluminum.
- ✍ Hirakud expansion would enhance aluminum capacity from 490ktpa to 533ktpa by June 2008. Muri Alumina expansion would increase capacity by 350ktpa and is due by December 2007. Aluminum capacity would rise 3x to 1.5mtpa by 2010-2012 and growth would be largely back-ended. Very low TcRc margins on copper smelting business may force the company to reduce production in 1HFY09 and take a shutdown.
- ✍ The stock trades at an EV of 8.8x FY08E EBITDA and 7.3x FY09E EBITDA. We are positive on aluminum prices but expect high interest incident due to leveraged buyout of Novelis, which continues to suffer on account of fixed price contracts. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	42,737	46,342	46,562	47,489	46,779	49,597	49,913	52,630	183,130	198,919
Change (YoY %)	93.6	74.2	62.0	29.8	9.5	7.0	7.2	10.8	60.7	8.6
Total Expenditure	33,403	36,478	36,109	36,340	37,936	40,380	41,872	44,438	142,330	164,625
EBITDA	9,334	9,864	10,453	11,149	8,843	9,217	8,042	8,192	40,800	34,294
Change (YoY %)	54.4	102.2	79.3	19.9	-5.3	-6.6	-23.1	-26.5	56.6	-15.9
As % of Net Sales	21.8	21.3	22.4	23.5	18.9	18.6	16.1	15.6	22.3	17.2
Interest	634	515	698	577	562	632	657	682	2,424	2,533
Depreciation	1,341	1,353	1,384	1,576	1,428	1,446	1,446	1,446	5,654	5,766
Other Income	776	1,108	584	1,233	1,246	1,098	700	700	3,701	3,744
PBT (before EO item)	8,135	9,104	8,955	10,229	8,099	8,237	6,639	6,764	36,423	29,739
Extra-ordinary Income	-	-727.0	-	(650)	-	-	-	-	-1,377	
PBT (after EO item)	8,135	8,377	8,955	9,579	8,099	8,237	6,639	6,764	35,046	29,739
Total Tax	2,120	2,401	2,516	2,366	2,070	1,809	1,865	1,901	9,403	7,645
% Tax	26.1	28.7	28.1	24.7	25.6	22.0	28.1	28.1	26.8	25.7
Reported PAT	6,015	5,976	6,439	7,213	6,029	6,428	4,773	4,863	25,643	22,094
Adjusted PAT	6,015	6,495	6,439	7,702	6,029	6,428	4,773	4,863	26,651	22,094
Change (YoY %)	61.1	107.4	89.5	22.9	0.2	-1.0	-25.9	-36.9	61.2	-17.1

E: MOST Estimates

Hindustan Zinc

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HZ IN
	REUTERS CODE
S&P CNX: 6,080	HZNC.BO

28 December 2007

Buy

Rs816

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	422.5										
52-Week Range	969/545										
1,6,12 Rel. Perf. (%)	-1/-22/-47										
M.Cap. (Rs b)	344.9										
M.Cap. (US\$ b)	8.8										
	3/07A	85,602	44,418	105.1	201.7	7.8	4.5	58.2	78.8	3.5	4.7
	3/08E	76,972	42,560	100.7	-4.2	8.1	3.0	36.7	44.1	3.5	4.9
	3/09E	82,457	40,701	96.3	-4.4	8.5	2.3	26.6	34.3	2.9	4.3
	3/10E	90,478	45,718	108.2	12.3	7.5	1.8	23.5	28.1	2.2	3.4

Standalone

- ✍ We expect net sales to decrease 28% YoY to Rs 18b due to lower zinc prices at LME, rupee appreciation, and lower import duty. Average zinc price at the LME has declined 35% YoY to US\$2676/ton.
- ✍ EBITDA is expected to decline 34.9% YoY to Rs 12.4b and margins would contract 780bp to 69.1% due to falling realizations.
- ✍ Profit after tax is likely to decrease 30.5% YoY to Rs 9.3b.
- ✍ We have lowered our zinc price assumption to US\$2,500/ton (earlier US\$3,300/ton). However, we have raised our volume assumption to factor commissioning of new 170ktpa smelter at Chanderiya ahead of schedule and continued strong growth in zinc mine production. The stock trades at attractive EV/EBITDA of 4.9x FY08E and 4.3x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	16,100	24,410	24,800	20,210	19,700	19,840	17,976	19,456	85,602	76,972
Change (YoY %)	205.5	269.8	171.9	13.9	22.4	-18.7	-27.5	-3.7	120.8	-10.1
Total Expenditure	3,660	5,850	5,730	6,210	5,340	5,650	5,558	6,149	21,528	22,697
EBITDA	12,440	18,560	19,070	14,000	14,360	14,190	12,418	13,307	64,074	54,275
Change (YoY %)	465.5	535.6	270.3	11.2	15.4	-23.5	-34.9	-5.0	178.4	-15.3
As % of Net Sales	77.3	76.0	76.9	69.3	72.9	71.5	69.1	68.4	74.9	70.5
Interest	270	100	-110	20	70	60	80	85	284	295
Depreciation	370	370	370	450	450	490	450	450	1,566	1,840
Other Income	470	460	640	740	2,700	1,440	1,560	1,650	2,313	7,350
PBT (after EO item)	12,270	18,550	19,450	14,270	16,540	15,080	13,448	14,422	64,537	59,490
Total Tax	3,530	5,570	6,100	4,920	4,690	3,600	4,169	4,471	20,119	16,930
% Tax	28.8	30.0	31.4	34.5	28.4	23.9	31.0	31.0	31.2	28.5
Reported PAT	8,740	12,980	13,350	9,350	11,850	11,480	9,279	9,951	44,418	42,560
Adjusted PAT	8,740	12,980	13,350	9,350	11,850	11,480	9,279	9,951	44,418	42,560
Change (YoY %)	502.8	562.2	305.8	16.6	35.6	-11.6	-30.5	6.4	201.7	-4.2

E: MOST Estimates

Jindal Steel & Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	JSP IN
	REUTERS CODE
S&P CNX: 6,080	JNSP.BO

28 December 2007

Buy

Rs 15,179

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	30.8										
52-Week Range	16,590/2,002										
1,6,12 Rel. Perf. (%)	9/312/537										
M.Cap. (Rs b)	467.4										
M.Cap. (US\$ b)	11.9										
	3/07A	35,198	7,028	228.2	22.6	66.5	18.9	28.4	16.6	14.3	35.8
	3/08E	55,635	11,196	363.6	59.3	41.7	13.2	31.6	22.5	9.0	22.9
	3/09E	63,602	12,488	405.6	11.5	37.4	9.9	26.4	21.4	7.9	21.0
	3/10E	84,264	18,111	588.2	45.0	25.8	7.2	28.0	21.2	6.1	15.7

Standalone

- ✎ We expect net sales to grow 49% YoY to Rs 15b, driven by volume growth in steel business.
- ✎ EBITDA is likely to increase 51% YoY to Rs 5.7b. Depreciation and interest expenses would move up due to the impact of capex. Post-tax adjusted profit is likely to move up 57% YoY to Rs 3b.
- ✎ JSPL's first 250MW model has already started power generation and has tied up sale of power through mix of contracts to yield average realization above Rs 3/kwh.
- ✎ We expect the company to post consolidated EPS of Rs 598 in FY09, factoring strong volume growth at a CAGR of 72% to 2mtpa by FY09. Strong growth in steel business and JSPL's plans to grow its power business aggressively would result in stock re-rating. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	6,662	7,896	10,101	10,539	12,231	12,690	15,049	15,664	35,198	55,635
Change (YoY %)	5.8	27.1	61.6	56.5	83.6	60.7	49.0	48.6	35.9	58.1
Total Expenditure	3,413	4,812	6,327	6,622	7,440	7,284	9,361	9,743	21,174	33,827
EBITDA	3,249	3,085	3,773	3,917	4,792	5,407	5,689	5,921	14,024	21,808
Change (YoY %)	21.7	18.5	64.5	45.8	47.5	75.3	50.8	51.2	39.3	55.5
As % of Net Sales	48.8	39.1	37.4	37.2	39.2	42.6	37.8	37.8	39.8	39.2
Interest	558	330	363	250	621	791	486	506	1,503	2,404
Depreciation	621	642	919	1,183	1,115	1,178	1,101	1,101	3,365	4,494
Other Income	32	33	24	201	96	29	56	58	290	239
PBT (before EO item)	2,103	2,145	2,516	2,685	3,152	3,467	4,158	4,372	9,446	15,149
Extra-ordinary Income					250				2	250
PBT (after EO item)	2,103	2,145	2,516	2,685	3,402	3,467	4,158	4,372	9,448	15,399
Total Tax	572	573	617	657	901	692	1,182	1,243	2,419	4,019
% Tax	27.2	26.7	24.5	24.5	26.5	20.0	28.4	28.4	25.6	26.1
Reported PAT	1,531	1,572	1,899	2,028	2,501	2,775	2,976	3,129	7,030	11,380
Adjusted PAT	1,531	1,572	1,899	2,028	2,317	2,775	2,976	3,129	7,028	11,196
Change (YoY %)	1.9	8.0	50.1	34.6	51.4	76.5	56.7	54.3	22.6	59.3

E: MOST Estimates

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28 December 2007

183

JSW Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	JSTL IN
	REUTERS CODE
S&P CNX: 6,080	JSTL.BO
Equity Shares (m)	200.6
52-Week Range	1,390/370
1,6,12 Rel. Perf. (%)	30/80/201
MCap. (Rs b)	264.4
MCap. (US\$ b)	6.7

28 December 2007

Sell

Rs 1,318

Previous Recommendation: Sell

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	85,944	12,340	71.7	90.5	18.4	4.2	23.0	21.0	3.0	9.5
3/08E	112,973	16,859	98.0	36.6	13.4	3.3	24.7	15.7	2.7	9.4
3/09E	165,935	23,414	136.1	38.9	9.7	2.6	26.7	16.5	2.2	7.2
3/10E	209,380	29,114	156.9	15.3	8.4	2.0	23.7	16.3	2.0	6.4

Consolidated

- ✎ We expect net sales to grow 20% YoY to Rs27.6b. While volumes would grow 24% YoY, realizations would decline 3% YoY.
- ✎ EBITDA is likely to grow 7.3% YoY to Rs8.26b. Margins would decline 340bp YoY to 30% due to lower prices and mounting raw material cost pressures. PAT should grow 16.5% YoY to Rs4.1b.
- ✎ We have revised our earnings estimate upward to Rs 136.1 for FY09 after factoring 8.8% higher steel prices. The stock is trading at 9.7x FY09E earnings an EV of 7.2x FY09E EBITDA – valuations appear expensive.
- ✎ We believe that the company's increased exposure to spot purchase of iron ore and coke would squeeze earnings. Maintain **Sell**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (tons)	543,000	656,000	688,000	784,000	635,000	730,000	850,000	900,000	2,672,759	3,115,000
Change (YoY %)	21.5	15.7	33.1	33.0	16.9	11.3	23.5	14.8	26.2	16.5
Realisation (Rs per ton)	28,902	33,454	33,452	31,869	34,500	32,644	32,441	32,128	32,042	32,818
Change (YoY %)	-16.1	23.1	13.9	18.6	19.4	-2.4	-3.0	0.8	9.8	2.4
Net Sales	15,694	21,946	23,015	24,985	21,907	23,830	27,575	28,915	85,640	102,227
Change (YoY %)	2.0	42.5	51.6	57.8	39.6	8.6	19.8	15.7	38.6	19.4
Total Expenditure	11,136	14,983	15,318	16,954	14,428	17,046	19,315	20,102	58,390	70,890
EBITDA	4,558	6,963	7,697	8,032	7,479	6,784	8,260	8,813	27,250	31,337
Change (YoY %)	-6.9	86.2	83.4	100.2	64.1	-2.6	7.3	9.7	-40.2	15.0
As % of Net Sales	29.0	31.7	33.4	32.1	34.1	28.5	30.0	30.5	31.8	30.7
EBITDA (Rs per ton)	8,394	10,614	11,188	10,245	11,778	9,293	9,718	9,792	10,196	10,060
Interest	887	967	1,107	1,016	860	681	1,001	1,100	3,978	3,642
Depreciation	1,025	1,164	1,295	1,498	1,322	1,354	1,452	1,452	4,982	5,580
Other Income	16	84	64	245	215	1,247	500	650	409	2,611
PBT (before EO Item)	2,662	4,915	5,360	5,762	5,512	5,996	6,307	6,911	18,699	24,726
EO Items	0	0	0	447	620	1,111	0	0	447	1,731
PBT (after EO Item)	2,662	4,915	5,360	6,209	6,132	7,107	6,307	6,911	19,146	26,458
Total Tax	959	1,452	1,738	2,077	1,854	1,995	2,099	2,299	6,226	8,247
% Tax	36.0	29.5	32.4	33.4	30.2	28.1	33.3	33.3	32.5	31.2
Reported PAT	1,703	3,463	3,622	4,133	4,278	5,112	4,209	4,611	12,920	18,210
Preference Dividend	70	70	70	70	70	70	70	70	279	279
Adjusted PAT	1,633	3,393	3,552	3,765	3,775	4,243	4,139	4,542	12,339	16,740
Change (YoY %)	-18.5	219.2	146.6	143.5	131.2	25.1	16.5	20.6	-63.2	35.7

E: MOST Estimates

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Nalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	NACL IN
	REUTERS CODE
S&P CNX: 6,080	NALU.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs498

Equity Shares (m)	644.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	502/200	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	33/52/85	3/07A	59,402	23,926	37.1	55.1	13.4	4.2	31.1	38.9	4.8	8.0
MCap. (Rs b)	320.6	3/08E	49,367	17,012	26.4	-28.9	18.8	3.6	19.2	20.8	5.9	13.0
MCap. (US\$ b)	8.1	3/09E	51,837	19,766	30.6	16.2	16.2	3.1	19.3	23.0	5.7	10.5
		3/10E	65,040	24,596	38.2	24.4	13.0	2.6	20.2	25.3	4.2	7.6

Standalone

- ✍ We expect net sales to decline 16.5% YoY to Rs12b. Revenue from the chemicals segment is expected to decline 17% YoY due to rupee appreciation. Revenue from the aluminum segment is expected to decline 11% YoY, with LME prices being 8% lower and owing to rupee appreciation.
- ✍ EBITDA is expected to decline 37% YoY to Rs5.3b primarily on account of weak metal prices. Profit after tax is likely to decline 30% YoY to Rs4b.
- ✍ We are revising our EPS estimate for FY09 to Rs30.6 (earlier Rs27.2) to factor higher aluminum prices at LME (US\$2,500/ton against the earlier US\$2,400/ton). Long-term outlook for the metal has improved significantly and new alumina annual contracts (560ktpa for CY08) are at 13% of LME metal prices against 9% earlier.
- ✍ The stock is now trading at 16.2x FY09E EPS. We are positive on the business outlook for the company due to upside risk to our estimates if aluminum metal prices move up on the LME. However, valuations capture current prices fully and leave little headroom. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	14,855	14,416	14,486	15,668	11,652	13,082	12,093	12,541	59,425	49,367
Change (YoY %)	51.8	37.7	9.3	1.9	-21.6	-9.3	-16.5	-20.0	21.6	-16.9
Total Expenditure	5,512	5,665	6,037	6,870	5,488	7,397	6,765	7,151	24,083	26,802
EBITDA	9,344	8,751	8,449	8,798	6,164	5,685	5,327	5,389	35,341	22,565
Change (YoY %)	90.9	90.7	27.2	-9.3	-34.0	-35.0	-36.9	-38.7	36.8	-36.2
As % of Net Sales	62.9	60.7	58.3	56.2	52.9	43.5	44.1	43.0	59.5	45.7
Interest	0	0	0	0	1	6	0	0	0	7
Depreciation	787	771	744	819	692	683	744	798	3,121	2,917
Other Income	834	1,014	978	1,199	1,310	1,644	1,522	1,634	4,025	6,109
PBT (before EO Item)	9,391	8,994	8,684	9,178	6,782	6,639	6,105	6,225	36,246	25,751
Extra-ordinary Exp.									-170	0
PBT (after EO Item)	9,391	8,994	8,684	9,178	6,782	6,639	6,105	6,225	36,076	25,751
Total Tax	3,168	3,044	2,958	3,270	2,315	2,242	2,071	2,111	12,440	8,739
% Tax	33.7	33.8	34.1	35.6	34.1	33.8	33.9	33.9	34.5	33.9
Reported PAT	6,223	5,950	5,726	5,908	4,467	4,397	4,034	4,114	23,636	17,012
Change (YoY %)	121.8	110.2	45.7	-2.8	-28.2	-26.1	-29.5	-30.4	50.8	-28.4

E: MOST Estimates

Sterlite Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	STLT IN
	REUTERS CODE
S&P CNX: 6,080	STRL.BO

28 December 2007

Buy

Rs 1,052

Previous Recommendation: Buy

Equity Shares (m)	708.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	1,140/415	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	12/43/51	3/07A	243,868	45,005	80.6	34	13.1	6.0	45.8	48.7	2.4	6.1
M.Cap. (Rs b)	745.6	3/08E	231,184	42,287	59.7	-26	17.6	3.4	19.2	22.5	2.6	7.8
M.Cap. (US\$ b)	18.9	3/09E	255,723	43,409	61.3	3	17.2	2.9	16.8	19.7	2.1	7.0
		3/10E	267,400	40,579	57.3	-7	18.4	2.5	13.6	15.8	1.8	6.5

Consolidated

- ✍ We expect net sales to decline 25% YoY to Rs51.3b, due to fall in zinc and aluminum prices at the LME, rupee appreciation, reduction in import duty, and falling TcRc margins in the copper business.
- ✍ EBITDA is expected to decline 38% YoY and margin would contract 700bp to 33.5%.
- ✍ Profit after tax is likely to decrease 26% YoY to Rs9.5b.
- ✍ The stock trades at an EV of 7.8x FY08E EBITDA and 7x FY09E EBITDA. We are positive on the stock due to strong volume growth in zinc metal and aggressive plan to grow its power business. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	46,030	67,180	68,143	62,516	61,391	65,671	51,321	52,800	243,868	231,184
Change (YoY %)	146.3	153.8	94.1	22.6	33.4	-2.2	-24.7	-15.5	86.1	-5.2
Total Expenditure	27,531	41,434	40,515	39,799	39,830	46,013	34,111	34,612	149,280	154,565
EBITDA	18,499	25,746	27,628	22,716	21,561	19,658	17,210	18,189	94,589	76,619
Change (YoY %)	379.1	392.4	215.7	19.3	16.6	-23.6	-37.7	-19.9	156.5	-19.0
As % of Net Sales	40.2	38.3	40.5	36.3	35.1	29.9	33.5	34.4	38.8	33.1
Interest	898	1,163	856	874	955	643	500	500	3,791	2,598
Depreciation	1,834	1,871	1,888	2,446	2,031	2,046	1,996	1,996	8,039	8,070
Other Income	1,355	1,112	1,864	2,485	3,501	3,233	4,725	4,725	6,817	16,183
PBT (before XO item)	17,122	23,825	26,749	21,881	22,076	20,202	19,438	20,417	89,576	82,134
Extra-ordinary Exp.	(122)	(1,362)	(25)	(63)	-	-	-	-	(1,572)	-
PBT (after XO item)	17,000	22,463	26,724	21,818	22,076	20,202	19,438	20,417	88,004	82,134
Total Tax	4,790	6,862	7,763	4,702	5,247	4,465	6,123	6,123	24,118	21,958
% Tax	28.2	30.6	29.0	21.5	23.8	22.1	31.5	30.0	27.4	26.7
Reported PAT	12,209	15,600	18,960	17,117	16,829	15,737	13,316	14,294	63,887	60,176
Minority interest	3,419	4,890	6,030	5,683	5,400	4,911	3,789	3,789	20,023	17,889
Adjusted PAT	8,878	11,656	12,948	11,483	11,429	10,826	9,526	10,505	45,005	42,287
Change (YoY %)	435.7	348.2	226.3	41.0	28.7	-7.1	-26.4	-8.5	168.5	-6.0

E: MOST Estimates

Steel Authority of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SAIL IN
	REUTERS CODE
S&P CNX: 6,080	SAIL.BO

28 December 2007

Buy

Rs280

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	4,130.4										
52-Week Range	293/83										
1,6,12 Rel. Perf. (%)	4/73/177										
MCap. (Rs b)	1,154										
MCap. (US\$ b)	29.3										
	3/07A	343,331	62,135	15.0	54.5	18.6	6.7	36.2	42.7	3.2	11.6
	3/08E	393,957	78,957	19.1	27.1	14.6	4.9	33.4	43.5	2.6	8.5
	3/09E	452,349	105,186	25.5	33.2	11.0	3.5	32.2	42.9	2.2	6.4
	3/10E	474,966	110,969	26.9	5.5	10.4	2.7	26.2	35.9	2.1	6.1

Standalone

- We expect net sales to grow 16.1% YoY to Rs106b driven by 6.9% growth in average realization and 16.1% growth in sales volume.
- EBITDA margin is likely to expand 160bp YoY to 32.3%, largely driven by higher realizations and lower coking coal cost.
- Post tax adjusted profit is likely to increase 38% YoY to Rs22b.
- We are now factoring stronger (+9.4% YoY) steel prices for FY09. SAIL remains insulated from iron ore prices due to its captive mines. We expect re-rating of the stock to continue due to its US\$12b capex plan, with full iron ore security, which would expand margins, improve product mix, and deliver strong volume growth in the next 3-5 years. **Maintain Buy.**

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (m tons)	2.47	2.95	3.01	3.45	2.53	3.00	3.50	3.83	11.88	12.86
Change (YoY %)	31.0	5.1	8.6	-10.3	2.4	1.8	16.1	11.0	5.1	8.2
Realization (Rs per ton)	27,766	28,976	28,325	29,763	31,777	30,545	30,277	30,277	28,788	30,634
Change (YoY %)	-7.2	12.5	24.1	24.2	14.4	5.4	6.9	1.7	13.0	6.4
Net Sales	68,583	85,391	85,371	102,681	80,395	91,635	105,968	115,959	342,025	393,957
Change (%)	21.6	18.3	34.8	11.4	17.2	7.3	24.1	12.9	18.8	15.2
EBITDA	17,803	23,333	26,226	31,566	23,829	26,293	34,225	38,240	98,928	122,587
Change (YoY %)	-10.8	18.9	91.1	108.2	33.8	12.7	30.5	21.1	44.5	23.9
As % of Net Sales	26.0	27.3	30.7	30.7	29.6	28.7	32.3	33.0	28.9	31.1
EBITDA per ton	7,208	7,918	8,701	9,149	9,418	8,764	9,779	9,984	8,327	9,532
Interest	937	924	906	555	796	594	650	800	3,321	2,840
Depreciation	2,959	3,035	3,299	2,822	3,012	3,012	3,419	3,682	12,115	13,125
Other Income	1,513	2,261	2,231	2,388	3,069	3,043	3,245	3,494	8,392	12,851
PBT (before EO Inc.)	15,421	21,635	24,252	30,577	23,090	25,730	33,401	37,253	91,884	119,473
EO Income (exp)	5,582		-1,910	-1,330					2,342	
PBT (after EO Inc.)	21,002	21,635	22,342	29,247	23,090	25,730	33,401	37,253	94,226	119,473
Total Tax	7,138	7,207	7,630	10,228	7,839	8,726	11,323	12,629	32,203	40,516
% Tax	34.0	33.3	34.2	35.0	33.9	33.9	33.9	33.9	34.2	33.9
Reported PAT	13,864	14,428	14,712	19,019	15,251	17,004	22,078	24,624	62,023	78,957
Adjusted PAT	10,179	14,428	15,969	19,884	15,251	17,004	22,078	24,624	60,481	78,957
Change (YoY %)	-9.6	28.0	133.3	80.2	49.8	17.9	38.3	23.8	50.7	30.5

E: MOST Estimates; Quarterly results don't add up with full year results due to restating of past quarter results.

Tata Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TATA IN
	REUTERS CODE
S&P CNX: 6,080	TISC.BO

28 December 2007

Buy

Rs931

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	847.6										
52-Week Range	970/353										
1,6,12 Rel. Perf. (%)	7/38/75										
MCap. (Rs b)	789.5										
MCap. (US\$ b)	19.5										
	3/07A	251,197	42,786	70.2	3.1	13.3	3.7	27.9	31.8	2.1	7.2
	3/08E	1,271,848	97,188	114.7	63.2	8.1	1.6	19.5	17.0	0.9	5.6
	3/09E	1,334,036	128,341	151.4	32.1	6.2	1.3	21.1	19.3	0.8	4.5
	3/10E	1,361,787	140,262	165.5	9.3	5.6	1.1	19.1	19.0	0.7	4.0

Consolidated

- ✎ We expect standalone net sales to increase 11.4% YoY to Rs49.8b, driven by 8.6% YoY growth in realizations and 4.5% YoY growth in volumes. Standalone PAT is expected to remain flat as gain in EBITDA would be offset by higher interest costs.
- ✎ Consolidated earnings would grow 126% YoY to Rs24.5b. We expect consolidated EPS to grow at a CAGR of 33% during FY07-10, driven by overall volume growth in India. Tata Steel would save interest cost after completion of rights issue of ~US\$2.5b and get a tax shield on placement of US\$6.1b debt on Corus in subsequent quarters, which would offset iron ore cost pressure.
- ✎ We expect margins of Indian operations to expand in FY09 on factoring 7.5% price hike. Profits of Corus would be maintained, as raw material cost pressure would be offset by price increases. The stock trades at an EV of 5.6x FY08E and 4.5x FY09E EBITDA – at a substantial discount to Indian peers. We reiterate **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Standalone Financials										
Sales (000 tons)	1,115	1,184	1,234	1,261	1,041	1,218	1,290	1,310	4,794	4,859
Change (YoY %)	27.4	0.4	11.5	0.4	-6.6	2.9	4.5	3.9	8.5	1.4
Realisation (Rs per ton)	31,133	31,656	32,236	35,135	36,665	35,280	35,000	35,000	32,599	35,427
Change (YoY %)	-10.1	6.0	8.5	21.8	17.8	11.4	8.6	-0.4	6.9	8.7
Net Sales	39,159	41,858	44,700	49,804	41,976	47,851	49,812	50,512	175,520	190,150
Change (YoY %)	13.0	8.3	21.4	20.6	7.2	14.3	11.4	1.4	15.9	8.3
EBITDA	15,813	17,048	17,836	19,035	16,992	20,254	19,561	19,792	69,733	76,599
Change (YoY %)	-0.4	3.2	28.2	46.3	7.5	18.8	9.7	4.0	17.6	9.8
(% of Net Sales)	40.4	40.7	39.9	38.2	40.5	42.3	39.3	39.2	39.7	40.3
EBITDA(Rs/tss)	12,871	13,236	13,398	13,977	15,204	15,220	13,838	13,804	13,387	14,626
Interest	293	478	520	448	800	2,022	1,494	1,524	1,739	5,839
Depreciation	1,951	1,957	1,991	2,294	2,112	2,050	2,245	2,240	8,193	8,648
Other Income	779	1,772	987	798	1,461	943	987	798	4,337	4,190
PBT (after EO Inc.)	14,164	15,943	15,820	16,690	19,025	17,466	16,452	16,468	62,617	69,411
Total Tax	4,630	4,928	5,183	5,655	6,804	5,558	5,639	5,644	20,395	23,645
% Tax	32.7	30.9	32.8	33.9	35.8	31.8	34.3	34.3	32.6	34.1
Reported PAT	9,534	11,015	10,638	11,035	12,221	11,908	10,813	10,824	42,222	45,767
Adjusted PAT	9,658	11,321	10,969	11,300	9,983	11,676	11,049	11,059	43,247	43,717
Change (YoY %)	2.3	6.3	41.9	48.6	3.4	3.1	0.7	-2.1	22.1	1.1
Consolidated Financials										
Net Sales	57,641	60,083	59,712	74,697	311,542	319,697	317,872	322,737	251,197	1,271,848
EBITDA	17,414	18,504	18,905	19,679	49,043	52,706	48,892	50,545	74,502	201,187
Adjusted PAT	10,318	11,696	10,872	9,894	20,308	26,706	24,519	25,956	42,782	97,188

E: MOST Estimates; tss=ton of steel sales; Exchange rate assumed GBP=1.98 USD, USD=41.0 INR

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Oil & Gas

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.	
BPCL	201	<p>Escalated oil prices; increased refining margins; lower petchem margins</p> <p>YoY comparative (v/s 3QFY07)</p> <ul style="list-style-type: none"> ✎ Benchmark Singapore refining complex margins almost doubled: US\$7.7/bbl v/s US\$3.89/bbl ✎ Brent average up 49% at US\$88.9/bbl v/s US\$59.7/bbl; Dubai crude up 45% at US\$83.2/bbl v/s US\$57.3/bbl ✎ Lower petrochemical margins (spread over naphtha) ✎ Polymer margins significantly down: PE down 17.8%, PP down 20%; Mixed trend in polyester intermediates: PTA down 47%, MEG up 55%; ✎ Integrated polyester margins also down: POY down 13%, PSF down 22%
Cairn India	202	
Chennai Petroleum	203	
GAIL	204	
HPCL	205	
IOC	206	<p>QoQ comparative (v/s 2QFY08)</p> <ul style="list-style-type: none"> ✎ Benchmark Singapore refining margins up 21% from US\$6.4/bbl in 2QFY08 ✎ Brent average up 18.5% from US\$75/bbl; Dubai average up 19% from US\$70/bbl ✎ Petrochemical margins (spread over naphtha) decline. Polymers margins down: PE down 11%, PP down 15.5%; Polyester intermediates mixed trend: PTA down 27.8%, MEG up 55.7%; Integrated polyester down: POY down 7.8% and PSF down 7.7%
Indraprastha Gas	207	
MRPL	208	
ONGC	209	
Reliance	210	
		<p>Factors to watch</p> <ul style="list-style-type: none"> ✎ Fuel under-recovery – Key data to watch out for would be sharing of increasing fuel under-recoveries by oil bonds and upstream discounts. Recent high oil prices have increased under-recoveries substantially. However, rupee appreciation is having a tempering effect ✎ We have not factored in any sale of current oil bond holding. Any sale at a discount would impact profits of marketing companies

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Oil & Gas							
BPCL	Buy	304,030	14.5	2,918	-57.7	1,051	-65.4
Cairn India	Buy	2,934	-	2,182	-	560	-
Chennai Petroleum	Neutral	75,787	28.8	5,230	329.4	2,783	1043.1
GAIL	Buy	42,614	-2.7	8,229	-4.8	5,273	-20.8
HPCL	Buy	290,552	19.8	1,914	-1.3	293	-71.9
Indraprastha Gas	Not Rated	1,844	15.4	792	21.1	441	24.2
IOC	Buy	641,038	18.5	15,373	-35.4	8,118	-52.5
MRPL	Sell	86,362	18.1	5,536	102.3	3,384	185.6
ONGC	Buy	154,590	-0.7	85,526	-4.0	48,278	3.5
Reliance Inds.	Buy	343,166	16.2	58,935	9.3	38,696	20.8
Sector Aggregate		1,939,984	15.7	184,454	-2.3	108,317	0.0

Anil Sharma (AnilSharma@MotilalOswal.com); Tel: +91 22 39825413/Harshad Borawake (HarshadBorawake@MotilalOswal.com) Tel: 39825432

Escalated Oil Prices: Touched US\$100/bbl during 3QFY08

3QFY08 highlights

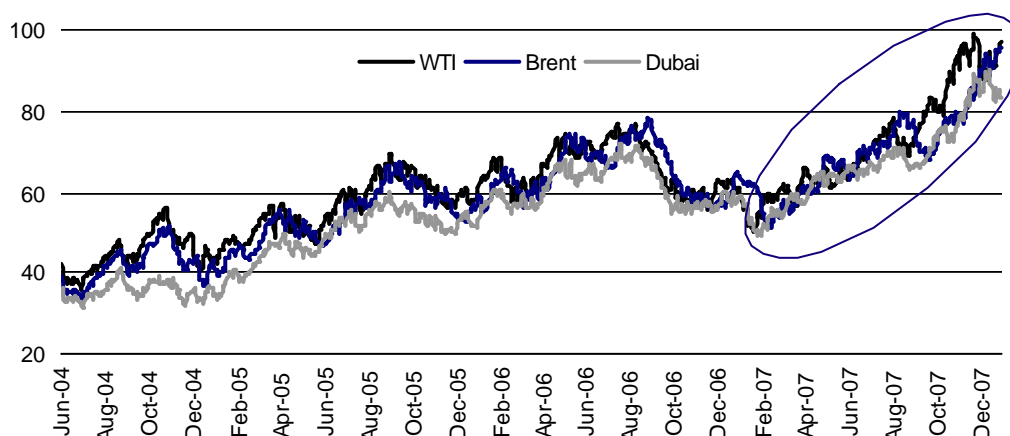
- ✂ Brent up 49% YoY at US\$88.9/bbl (v/s US\$59.7/bbl in 3QFY07)
- ✂ Brent up 18.5% QoQ (v/s US\$75.04/bbl in 2QFY08)

Crude tested new highs reaching US\$100/bbl in late November, making a high psychological impact on the consumers. However, it resided down led by increased supplies from Iraq, UAE fields coming online from maintenance and additional oil from OPEC. The global tightness in oil markets, low spare capacity, lower crude stocks, looming winter and geopolitical tensions are likely to keep oil prices above historical averages.

OPEC's extraordinary meeting held on December 5 did not change any oil production limits. OPEC believes the current high oil prices are more related to speculative activity in the market and geopolitical tensions rather than fundamental demand-supply factors. This decision did not evoke any significant reaction in the oil market (no significant reaction was witnessed even after its September 11 decision to hike output by 500kbpd).

With consumers feeling the pinch of high oil prices in OECD countries, IEA has slightly reduced its demand forecast for 2007 in its latest publication. However, growth in non-OECD countries continues to be unabated as prices in many of these countries are controlled through subsidies. IEA has adjusted global oil product demand growth downwards by about 60kbpd in 2007. Now its 2007 oil demand growth forecast stands at 85.7mmbpd (up 1.1% over 2006) and 87.8mmbpd in 2008 (up 2.5%), driven by non-OECD countries as well as normal weather expectations in the OECD.

HIGH AND RISING OIL PRICES (US\$/BBL):



Source: Bloomberg/Motilal Oswal Securities

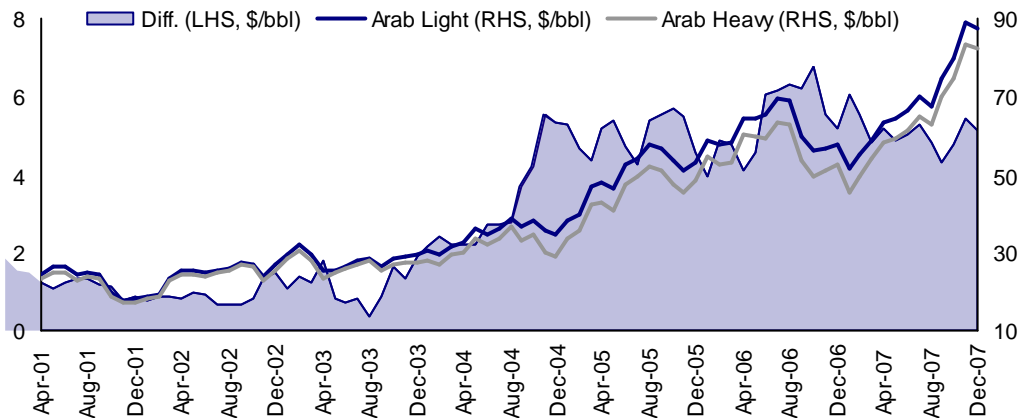
Oil price have been on an upward trajectory since Feb 2007, touching nearly US\$100/bbl

Light & Heavy differentials increased in 3QFY08

Light & Heavy oil differentials, though declined YoY, have improved QoQ. Arab Light & Heavy differentials for 3QFY08 at US\$5.1/bbl, showed a decline of 12% over 3QFY07 (US\$5.85/bbl), and an increase of 5.8% over 2QFY08 (US\$4.84/bbl).

ARAB LIGHT - HEAVY DIFFERENTIALS (US\$/BBL)

Light heavy differentials increased during the quarter; though slightly resided towards end

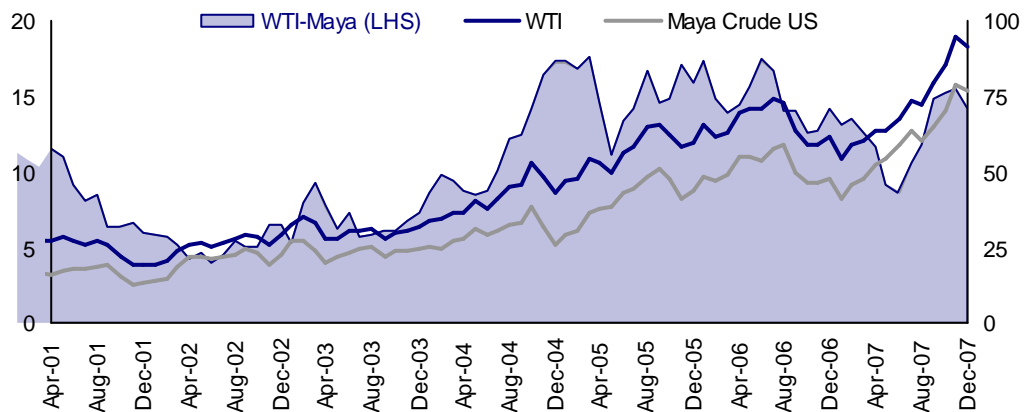


Source: Bloomberg/Motilal Oswal Securities

WTI-Maya (Sweet – Sour) spreads continue uptrend

WTI-Maya spread, which had made recent lows in June 2007, is in an uptrend since July 2007. On QoQ basis, average spreads have increased by over 21% to US\$15/bbl in 3QFY08 (v/s US\$12.4/bbl in 2QFY08). Even on YoY basis, WTI-Maya spread is up 14% as compared to US\$13.2/bbl in 3QFY07.

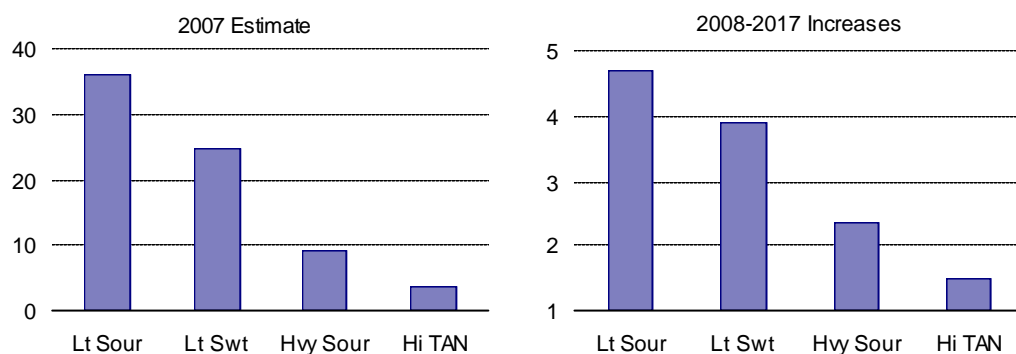
WTI - MAYA DIFFERENTIAL (US\$/BBL)



Source: Bloomberg/Motilal Oswal Securities

Though the spreads have declined in December 2007, we expect them to remain high, mainly due to the increasing supply of sour grade crudes over light grade crudes as shown below.

INCREASING PRODUCTION OF SOURER CRUDES TO KEEP DIFFERENTIALS HIGH (MMBPD)



Source: Tesoro/Purvin & Gertz

Refining margins: Up QoQ, YoY

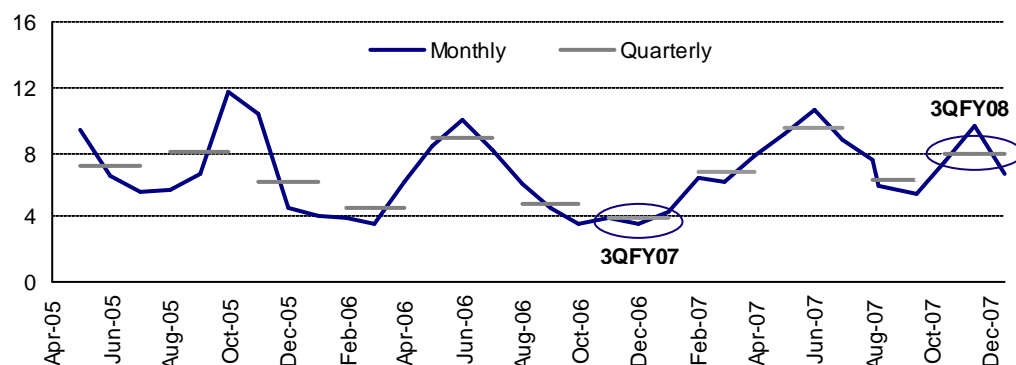
3QFY08 highlights

- ⌘ Singapore refining complex margins have almost doubled over 3QFY07: Up 99% at US\$7.7/bbl (v/s US\$3.9/bbl in 3QFY07)
- ⌘ QoQ up 21% (v/s US\$6.4/bbl in 2QFY08)

The Singapore benchmark margins have rebounded from US\$6.4/bbl in 2QFY08 to US\$7.7/bbl during 3QFY08. Further, on YoY basis, margins have almost doubled from US\$3.9/bbl in 3QFY07. Refining margins are strong as price increases in crude were outpaced by the product price increase and due to maintenance activities in several facilities in East Asia.

Structural problems on the refining side (like on the oil supply side) remain. With not enough capacity seen coming up to meet the increasing demand, refining systems are witnessing high utilization of existing legacy assets leading to higher outages. Thus, we believe average margins would remain high in the medium to short-term. However, large volatility in margins will continue.

SINGAPORE REFINING MARGINS (US\$/BBL)



Source: Industry/Motilal Oswal Securities

Under-recoveries to increase 34%; fuel price hike on cards

We have revised our under-recovery estimates upwards for FY08, primarily due to increased oil prices and no change in fuel product prices. Though, appreciation in rupee has tempered the effect to some extent, our revised estimates indicate under-recoveries to increase 34% over FY07.

FUEL UNDER-RECOVERIES (POST GOI SUBSIDY) - (RS M)

	FY07A	1HFY08A	3QFY08E	4QFY08E	FY08E	CHG.%
Petrol	20,270	26,380	24,277	11,000	61,657	
Diesel	187,758	99,110	119,831	66,773	285,714	
LPG	107,011	56,080	45,115	38,881	140,076	
SKO	178,827	82,060	53,269	39,188	174,517	
Total	493,866	263,630	242,493	155,841	661,965	34

Source: Industry/Motilal Oswal Securities

Sharing of under-recovery burden: Our estimates

We assume government oil bonds will cover 42.7% of the under-recoveries as has been the case in 1HFY08. Upstream companies will share 1/3rd of the total under-recoveries. We estimate net under-recovery burden of OMCs at Rs 158.8b, which is more than thrice the burden shared in FY07.

SHARING OF UNDER-RECOVERIES

	FY07	SHARING %	1HFY08	3QFY08E	4QFY08E	FY08E	SHARING%
Oil Bonds	241,207	48.8	112,564	103,545	66,544	282,653	42.7
Upstream	205,069	41.5	87,871	80,750	51,895	220,516	33.3
OMC' s sharing	47,590	9.6	63,195	58,198	37,402	158,795	24.0
Total	493,866	100.0	263,630	242,493	155,841	661,965	100.0

Source: Industry/Motilal Oswal Securities

Our estimate of net under-recoveries of OMCs: As seen in the above table, percentage sharing by OMCs has increased significantly over FY07 (24% v/s 9.6% in FY07). We expect all OMCs to report higher net under-recoveries. Overall, we expect an increase of 234% in net under-recoveries to OMCs.

OMC BURDEN WILL SIGNIFICANTLY INCREASE

	FY07A	1HFY08	3QFY08E	4QFY08E	FY08E	YOY CHANGE	
						RS M	%
IOC	27,539	35,214	32,125	20,807	88,146	60,607	220
BPCL	10,355	14,450	13,789	8,593	36,832	26,477	256
HPCL	9,696	13,532	12,284	8,002	33,818	24,122	249
Total	47,590	63,195	58,198	37,402	158,795	111,206	234

Source: Industry/Motilal Oswal Securities

Overall upstream discounts to increase only 7% YoY

Upstream discounts are expected to increase only 7% YoY despite 34% increase in total under-recoveries due to lower percentage sharing in FY08 (33.3% v/s 41.5% in FY07). As sharing between upstream companies is based on net profit of last year, we expect ONGC's share to increase by 11% and GAIL's share to reduce 16% YoY.

SHARING BY UPSTREAM COMPANIES

	FY07A	1HFY08	3QFY08E	4QFY08E	FY08E	YOY CHANGE	
						RS M	%
ONGC	170,252	74,480	69,695	44,135	188,310	18,059	11
OIL	19,938	8,071	7,080	4,606	19,757	-180	-1
GAIL	14,880	5,320	3,975	3,154	12,448	-2,432	-16
Total	205,069	87,871	80,750	51,895	220,516	15,447	7.5

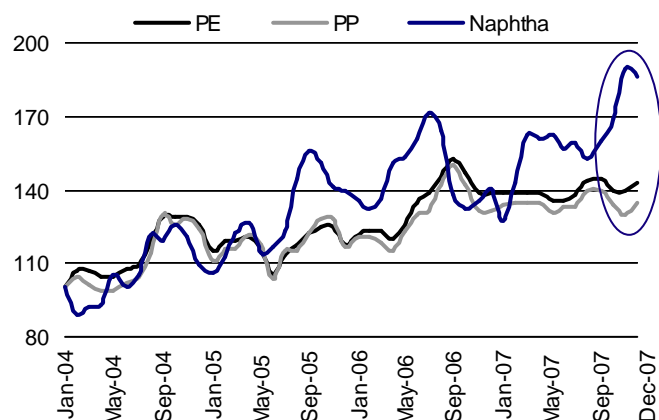
Source: Industry/Motilal Oswal Securities

Petrochemical: Higher naphtha prices lead to reduced margins

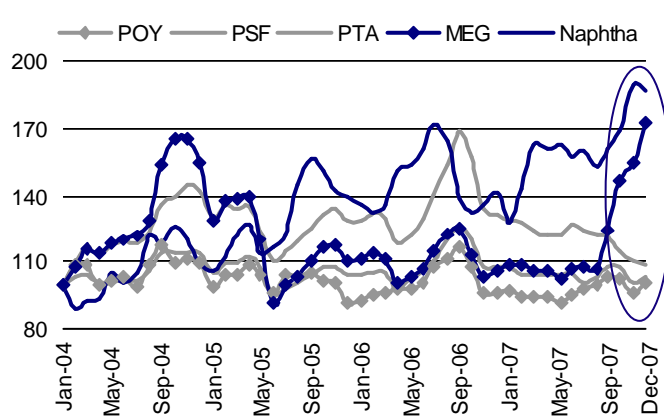
Naphtha prices increased significantly during the quarter with no commensurate increase in petrochemical product prices leading to pressure on margins. Naphtha prices increased 15% on QoQ basis and 33% on YoY basis, primarily led by increase in crude prices.

MEG - polyester intermediate - was the only product which was strong during the quarter, while other products witnessed pressure on margins. MEG prices have witnessed uptrend since August 2007 as production glitches occurred in three SABIC units in Saudi Arabia. Additional unplanned outages and increasing demand from the antifreeze and winter apparel sector tightened the demand-supply balance. We expect overall petrochemical margins to reduce during the quarter.

RELATIVE PRICES - NAPHTHA V/S POLYMERS



RELATIVE PERFORMANCE - NAPHTHA V/S POLYESTER CHAIN



Source: Industry/Motilal Oswal Securities

All the key products were down YoY and QoQ. MEG was the only product, which was up yearly as well as sequentially.

KEY PRODUCT SPREADS (RS/KG)

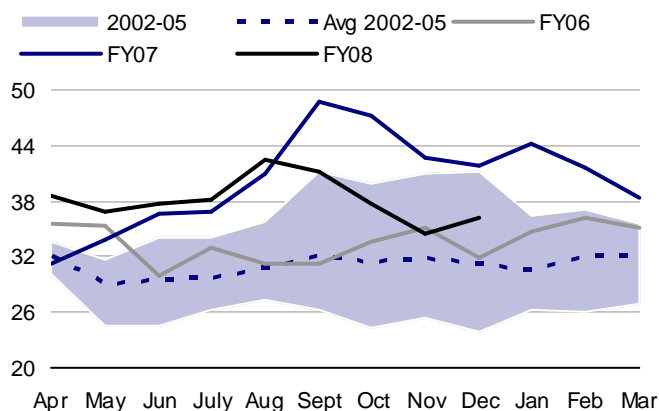
	3QFY08	2QFY08	QOQ CH (%)	3QFY07	YOY CH (%)
PE	36.2	40.6	-11.0	44.0	-17.8
PP	34.4	40.7	-15.5	43.0	-19.9
PTA	17.3	24.0	-27.8	32.5	-46.6
MEG	43.4	27.9	55.7	28.0	55.1
POY integrated	45.4	49.3	-7.8	52.1	-12.9
PSF integrated	40.9	44.3	-7.7	52.5	-22.1

*PE,PP,PTA and MEG spreads over naphtha, POY & PSF spreads over PTA-MEG adjusted for consumption norms

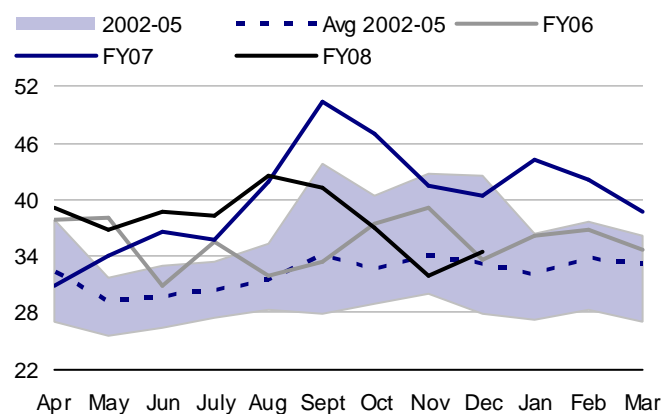
Source: Industry/ Motilal Oswal Securities

The polymer spreads have come down to recent historic average primarily due to strength in Naphtha. We believe the downturn in polymer chain is inevitable in view of the excess capacities coming online in Middle East & China. The Middle East plans to nearly double its petrochemical capacity from 15.5mmtpa in 2007 to 28.3mmtpa by 2010. Similarly, China is increasing petchem capacity by 70% from 9.8mmtpa to 16.4mmtpa by 2010. We currently estimate petchem margins to begin their decline from 2HFY09. However, the cycle could stretch a bit further if there are more delays in new capacity additions.

PE SPREAD OVER NAPHTHA (RS/KG)



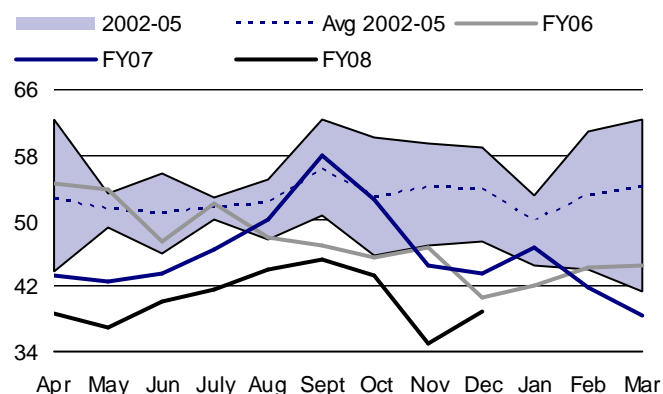
PP SPREAD OVER NAPHTHA (RS/KG)



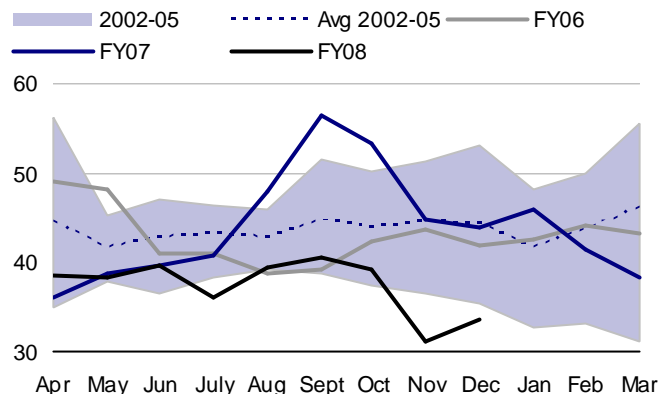
Source: Industry/ Motilal Oswal Securities

In polyester chain, margins which had recovered in 2QFY08, have again come under pressure due to increase in naphtha prices and non-commensurate increase in product prices.

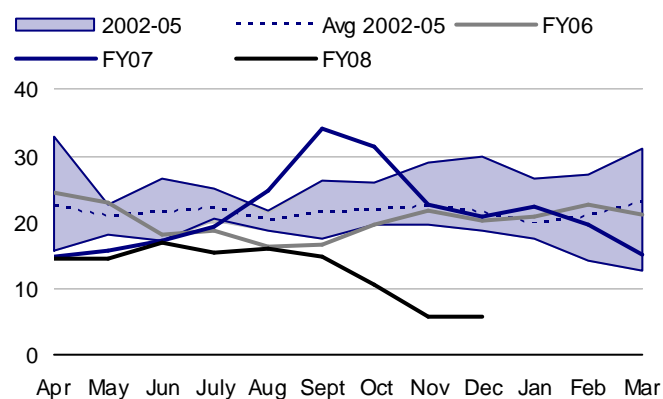
POY SPREAD OVER NAPHTHA (RS/KG)



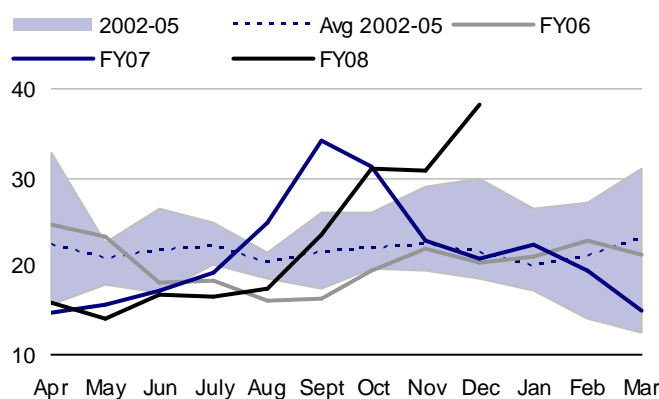
PSF SPREAD OVER NAPHTHA (RS/KG)



PTA SPREAD OVER NAPHTHA (RS/KG)



MEG SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/ Motilal Oswal Securities

Valuation and view

ONGC is our top pick in the oil and gas sector

ONGC is adopting multi-pronged efforts to sustain and increase its production and reserves. We expect its total production to increase at a significantly higher rate than its historical averages owing to its IOR/EOR initiatives, marginal field developments, joint ventures, and increasing contribution from ONGC Videsh.

ONGC has increased its capital expenditure to boost exploration and production activities. The benefits of increased capex are already visible in improved reserve accretion and production.

ONGC has more than 50% of NPL acreage. Initial success has already been seen in KG block – the country's first ultra-deep water discovery. With increased efforts towards E&P, we expect the company to report more oil and gas finds going forward.

Tariff Commission had revised producer price of ONGC from Rs3,200 to Rs3,600/MSCM in 1QFY08. Adjusted for WPI increase current producer price works out to Rs 3,710/MSCM, a rise of 16%. The implementation of the revised pricing has been delayed. We believe early implementation of revised pricing will be positive for ONGC.

The key concern remains high upstream discounts and lack of clarity on subsidy sharing mechanism going forward. To make subsidy sharing transparent and equitable, ONGC has given several suggestions to the Government of India. Acceptance of these suggestions leading to lower subsidy burden over our estimates will provide upsides.

ONGC trades at 10.7x FY09E consolidated earnings. We maintain **Buy** in view of continued higher oil prices, expected production increase through IOR/EOR, impending improved gas pricing and significant growth pipeline from ONGC as well as OVL.

GAIL: Upgraded to Buy

GAIL's transmission volumes are expected to increase significantly going forward as it would be one of the key beneficiaries of several large-scale gas finds in India in recent years. We expect GAIL's transmission volumes to grow 66% to 136mmscmd in FY10 from 82mmscmd currently (a CAGR of 29%), as compared to 5% CAGR growth over the last five years.

We believe there is no threat of further reduction in tariffs for GAIL. Transmission tariffs for most of its network were reduced over the last two years. As GAIL is ramping up investments significantly to upgrade and expand its network, we do not expect any further tariff cuts in the near term.

GAIL's petrochemical capacity is expected to increase 32% post commissioning of 100kta HDPE expansion in 4QFY08. While we remain bearish on the polymer cycle and expect prices to decline from 2HFY09, volume growth will remain strong. We expect cost of gas to increase by 18% in FY09. We expect overall petchem EBIT to decline by 7% in FY09.

GAIL already operates the city gas distribution network in several key cities via nine joint ventures and plans to add a further 130 cities over the next six to seven years. It has stakes in 29 E&P blocks in India and overseas, and has encountered hydrocarbon finds in five of its blocks. We believe significant value could accrue to GAIL from these businesses.

We expect the valuations of GAIL to get re-rated as the visibility on volumes increases significantly. Moreover, with its value of E&P and investment portfolio also seeing an increase, these will be reflected in GAIL's valuations.

Despite the stock delivering a significant outperformance over the last 6-12 months, we believe GAIL offers value at current valuations of 11.7x PE FY09 (adjusting for value of E&P and investments). We have recently upgraded our recommendation from Neutral to **Buy**.

Maintain Buy on Reliance Industries

We believe E&P is the new growth engine in RIL's successful strategy of backward integration. RIL is the largest exploration acreage holder in the private sector in India. It had its world-scale gas find in 2002, and since then has made more than 35 discoveries. In our view, as its KG-D6 gas comes online in FY09, E&P will soon become the key growth driver. Apart from KG-D6, RIL has a large inventory of high potential blocks, in several of which it has reported exploration success. There remains large potential upside from these blocks, which is not quantifiable at this juncture.

We expect refining margins to remain high, as the global demand for refined products is robust and not enough capacity is coming online. Margins in RIL's petrochemicals business have declined from the peak in 2QFY07, primarily due to rise in naphtha prices and no commensurate increase in product prices. High naphtha prices would continue to put pressure on overall petrochemical margins.

We believe that organized retailing in India offers huge growth opportunity and RIL would be able to make the most of this opportunity. Its deep pockets would help sustain a relatively long gestation involved in building a pan-India retailing giant.

The recent approval of gas pricing formula is a key positive. Near term upside could come from: (1) marketing tie-ups with potential gas buyers, (2) the updates on actual progress on KG-D6 field development and pipeline, (3) update on progress of RPL refinery completion, and (4) Progress on retail front. We maintain **Buy**.

Buy on oil marketing companies – BPCL, HPCL and IOC

Recent spike in oil prices to US\$100/bbl has forced government to think hard about long impending fuel price hikes. Though the decision on fuel price hike has not been taken, indications are that it will happen very soon. Fuel price increase decision will augur well for OMCs as it would lessen their under-recoveries burden to some extent. However, concern remains on extent of under-recoveries sharing through oil bonds and discounts from upstream.

Refining margins continue to remain strong and are expected to remain so in short to medium term. OMCs are implementing several upgradation projects for their capacity, which will enable them to: 1) produce higher share of middle distillates, 2) produce Euro-III/IV compliant fuels and 3) to process larger share of sour/heavy crudes. Completion of these projects, in time and within schedules, will be margin accretive in our view.

OMC shares continue to be affected by the subsidy issue, which we feel is already factored in by the market. We believe OMC stocks are inexpensive over the long term. We have **Buy** recommendation on OMCs.

Maintain Buy on Cairn India

The government has given Rights of Use (RoU) approval for Cairn's proposed pipeline from its Rajasthan block to Salaya (Gujarat coast). However, decision on inclusion of pipeline plans in Field Development plan is still pending.

Cairn expects to commence production from Mangala field in Rajasthan Block in 2009. This will be followed by production from its Bhagyam, Aishwariya and other smaller fields, with peak plateau rate of 150,000bpd.

Around 80% of the Cairn's reserves belong to its key Rajasthan block RJ-ON-90/1. Of the total current gross in-place resources of 3.6b boe, 2.2b boe are currently in development phase. Addition of new area in development as well as revised FDP could result in reserve upside from current estimates.

We believe Cairn's valuation has significant potential upside from:

- 1) Rajasthan block: a) upside from current area under development, b) adding new area into development phase, c) development of smaller fields and
- 2) 12 other exploration assets: The most promising of these is ONGC operated (Cairn 10%) deep-water block KG-DWN-98/2. We maintain **Buy**.

Maintain Neutral on Chennai Petro; Maintain Sell on MRPL

CPCL will be benefited from the increased refining margins partly offset by appreciation in the rupee. We have a neutral rating on the stock. However, CPCL trades (7.7x FY09E) at a significant discount to its peer MRPL (trading at 22.7x FY09E), which like CPCL does not have much of subsidy concern. CPCL currently trades at discount to PSU OMCs with large subsidy concerns such as HPCL (13.7x FY09E) and IOC (12.2x FY09E).

MRPL: Though the refining fundamentals continue to remain strong, we believe MRPL's valuations are significantly stretched. At CMP, the implied FY09 GRM at EV/EBITDA of 6x is US\$12.2/bbl, which is way above our estimate Singapore GRM of US\$6-6.5/bbl for medium term. We maintain **Sell**.

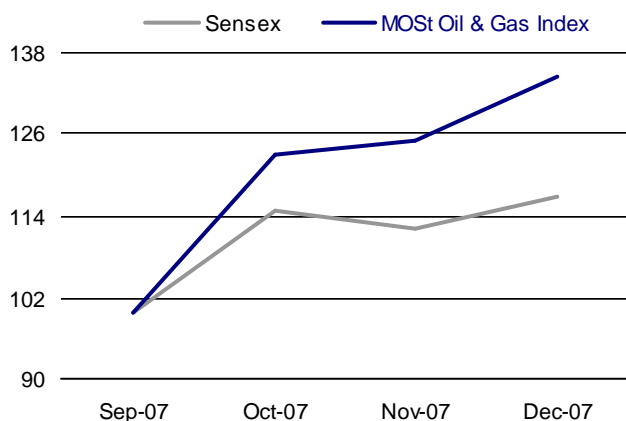
We also present estimates of Indraprastha Gas (IGL) in this preview compendium. We currently do not have a rating on the stock.

Stock performance and valuations

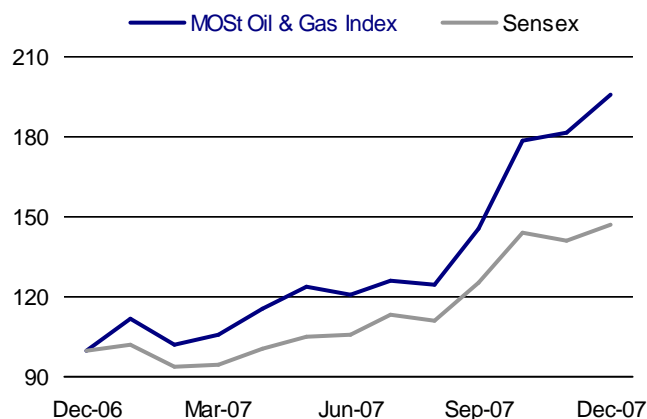
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Oil & Gas						
BPCL	33	40	16	-6	-2	-55
Caim India	36	-	20	-	2	-
Chennai Petroleum	51	96	34	50	16	1
GAIL	40	100	23	54	6	6
HPCL	29	23	12	-22	-5	-71
Indraprastha Gas	24	37	7	-9	-10	-57
IOC	57	66	40	20	23	-29
MRPL	85	235	69	189	51	140
ONGC	28	40	11	-6	-6	-55
Reliance	26	127	9	81	-8	32

RELATIVE PERFORMANCE - 3 MONTHS (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Oil & Gas														
BPCL	473	Buy	54.4	61.1	64.8	8.7	7.7	7.3	7.7	6.9	6.5	15.7	15.8	16.8
Caim India	247	Buy	0.3	0.8	2.8	967.9	303.1	87.9	58.1	58.0	31.2	0.2	0.5	1.7
Chennai Petroleum	422	Neutral	69.0	54.7	54.3	6.1	7.7	7.8	4.4	5.2	5.2	29.7	20.0	17.3
GAIL	531	Buy	28.3	35.3	37.9	18.8	15.0	14.0	12.2	9.5	8.7	18.6	20.4	19.4
HPCL	343	Buy	28.5	25.1	25.9	12.0	13.7	13.2	9.9	9.7	9.3	9.8	8.5	8.8
Indraprastha Gas	160	Not Rated	12.3	13.3	14.9	13.0	12.1	10.7	6.2	5.7	4.6	32.1	28.3	26.2
IOC	739	Buy	64.1	60.6	56.0	11.5	12.2	13.2	9.2	9.5	10.3	18.1	15.2	12.8
MRPL	135	Sell	7.1	5.9	5.8	18.9	22.7	23.3	12.5	13.4	14.4	36.1	26.2	21.6
ONGC	1,227	Buy	109.5	114.7	116.9	11.2	10.7	10.5	5.3	4.7	4.3	31.8	27.8	24.1
Reliance Inds.	2,898	Buy	104.4	111.5	245.1	27.8	26.0	11.8	19.2	18.8	9.1	22.1	19.2	29.4
Sector Aggregate						17.1	16.0	11.6	10.3	9.5	7.2	20.2	18.3	21.0

BPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BPCL IN
	REUTERS CODE
S&P CNX: 6,080	BPCL.BO

28 December 2007

Buy

Rs473

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	361.5										
52-Week Range (Rs)	486/287										
1,6,12 Rel. Perf. (%)	14/1/-6										
M.Cap. (Rs b)	170.9										
M.Cap. (US\$ b)	4.3										
	3/07A	982,049	21,395	59.2	633.7	8.0	1.5	18.8	14.1	0.29	6.6
	3/08E	1,015,496	19,649	54.4	-8.2	8.7	1.4	15.7	9.7	0.26	7.7
	3/09E	887,664	22,103	61.1	12.5	7.7	1.2	15.8	11.3	0.30	6.9
	3/10E	893,238	23,440	64.8	6.1	7.3	1.2	16.8	12.2	0.30	6.5

* Consolidated

- ✍ We expect BPCL to report a net profit of Rs1.1b in 3QFY08 as against Rs3.0b in 3QFY07. Profit has reduced primarily due to higher under-recoveries led by higher oil prices. In the absence of a much needed retail fuel price hike, BPCL's profitability continues to be marred by fuel under-recoveries despite improved operating fundamentals.
- ✍ For 3QFY08, we factor oil bonds issue of Rs24.5b v/s Rs11.35b in 3QFY07. We assume oil bonds amounting to 42.7% of total under-recovery would also be issued in 3QFY08, similar to the issuance in 1HFY08. We assume upstream sharing of under-recoveries at 33% (similar to 1HFY08 v/s 41.5% in FY07)
- ✍ On the operating front, we expect throughput to increase 15% to 5.4mmt in 3QFY08 v/s 4.7mmt in 3QFY07.
- ✍ The key data to watch out for are the government's decision on fuel price hikes, quantum of oil bonds and extent of upstream discounts.
- ✍ BPCL currently trades at 7.7x FY09E consolidated earnings. We maintain **Buy** in view of the continuing strong refining fundamentals and attractive valuations. However, large fuel under-recoveries and lack of transparency on sharing mechanism remain a concern.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	254,338	288,323	265,535	266,327	265,501	278,207	304,030	269,372	1,074,523	1,117,110
Change (%)	36.3	52.1	18.3	6.1	4.4	-3.5	14.5	1.1	26.2	4.0
Raw Material Consumed	105,979	120,207	98,250	97,597	111,518	125,863	129,752	117,926	422,033	485,059
Staff Cost	2,414	2,087	2,651	2,885	2,800	2,825	2,810	2,806	10,037	11,241
Finished Goods Purchase	105,801	118,179	126,491	113,433	113,551	107,840	127,539	105,825	463,904	454,755
Other Exp (incl Stock Adj)	42,753	30,712	31,251	39,674	35,572	26,030	41,011	37,623	144,390	140,237
EBITDA	-2,609	17,138	6,892	12,738	2,060	15,649	2,918	5,191	34,159	25,819
Change (%)	N.M	1,302.5	N.M	-33.5	N.M	-8.7	-57.7	-59.2	256.8	-24.4
% of Sales	-1.0	5.9	2.6	4.8	0.8	5.6	1.0	1.9	3.2	2.3
Depreciation	1,814	1,964	2,484	2,778	2,276	2,322	2,438	2,560	9,040	9,596
Interest	908	920	1,298	1,648	1,240	1,228	1,341	1,347	4,774	5,156
Other Income	1,091	2,207	1,487	2,547	4,341	3,652	2,450	2,475	7,332	12,918
PBT	-4,240	16,461	4,597	10,859	2,885	15,751	1,590	3,759	27,677	23,985
Tax	25	3,876	1,562	4,159	958	5,369	539	1,274	9,622	8,140
Rate (%)	-0.6	23.5	34.0	38.3	33.2	34.1	33.9	33.9	34.8	33.9
PAT	-4,265	12,585	3,035	6,700	1,927	10,382	1,051	2,485	18,055	15,844
Change (%)	N.M	6,594.1	N.M	-60.2	N.M	-17.5	-65.4	-62.9	519.2	-12.2

E: MOST Estimates

Anil Sharma (AnilSharma@MotilalOswal.com); Tel: +91 22 39825413/Harshad Borawake (HarshadBorawake@MotilalOswal.com) Tel: 39825432

Cairn India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CAIR IN
	REUTERS CODE
S&P CNX: 6,080	CAIL.BO

28 December 2007

Buy

Rs247

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,778.4										
52-Week Range	248/111										
1,6,12 Rel. Perf. (%)	12/31/-										
M.Cap. (Rs b)	439.1										
M.Cap. (US\$ b)	11.1										
	12/07A	10,390	454	0.3	-	967.9	1.5	0.2	1.4	41.5	58.1
	12/08E	10,849	1,449	0.8	219.4	303.1	1.5	0.5	1.2	40.9	58.0
	12/09E	18,425	4,993	2.8	244.6	87.9	1.5	1.7	2.8	25.0	31.2
	12/10E	65,114	36,791	20.7	636.9	11.9	1.4	12.0	13.5	6.8	7.7

- ✎ We expect Cairn to report revenue of Rs2.9b and net profit of Rs560m in 4QCY07.
- ✎ We expect gross oil and gas production at Cairn's currently producing blocks at 73kboed v/s 75.3kboepd in 3QCY07. Gas production at its Cambay basin (Lakshmi and Gauri fields) is down due to mechanical problems in these wells as reported by the company in 3QCY07. Company expects to restore the production in early CY08. Adjusting for its working interest in these blocks, we estimate Cairn's share of oil and gas production at ~18,000boepd in 4QCY07 (v/s 18,870boepd in 3QCY07).
- ✎ We estimate average realization at US\$69.8/boe against US\$58.4/boe in 3QCY07.
- ✎ Government has given Rights of Use approval for Cairn's proposed pipeline from its Rajasthan block to Salaya (Gujarat coast). The government decision on inclusion of pipeline (cost of US\$750m shared 70:30 by Cairn and ONGC) in FDP is still pending.
- ✎ Cairn expects to commence production from Mangala field in Rajasthan Block in 2009. This will be followed by production from its Bhagyam, Aishwariya and other smaller fields, with peak plateau rate of 150,000bpd.
- ✎ Cairn currently trades at 11.9x FY10E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY07	CY08E
	1Q	2Q	3Q	4QE		
Net Sales	2,364	2,433	2,658	2,934	10,390	10,849
Inc/Dec in Stock	95	-157	0	0	-61	
Staff Cost	309	288	238	243	1,077	1,185
Operating Expenses	488	407	555	510	1,960	2,014
EBITDA	1,472	1,895	1,865	2,182	7,414	7,650
% of Net Sales	62.3	77.9	70.2	74.4	71.4	70.5
Depreciation & Exploration write-off	1,002	1,145	1,233	1,260	4,640	4,950
Interest	2	8	1	10	20	1,238
Other Income (Net)	224	-1,054	43	220	-568	1,021
PBT	692	-312	674	1,132	2,186	2,483
Tax	317	402	442	572	1,732	1,035
Rate (%)	45.8	-128.6	65.5	50.5	79.2	41.7
PAT	376	-714	232	560	454	1,449

E: MOST Estimates

Chennai Petroleum Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	MRL IN
	REUTERS CODE
S&P CNX: 6,080	CHPC.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs422

Equity Shares (m)	149.0	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	490/173	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	2/16/50	3/07A	246,533	5,653	37.9	17.5	11.1	2.4	21.4	18.8	0.4	6.9
MCap. (Rs b)	62.8	3/08E	265,876	10,286	69.0	82.0	6.1	1.8	29.7	31.0	0.3	4.4
MCap. (US\$ b)	1.6	3/09E	270,932	8,158	54.7	-20.7	7.7	1.5	20.0	22.3	0.3	5.2
		3/10E	271,341	8,089	54.3	-0.8	7.8	1.3	17.3	20.2	0.3	5.2

- ✎ We expect CPCL to record a net profit of Rs2.8b in 3QFY08 v/s Rs0.2b in 3QFY07, primarily due to higher gross refining margins (GRMs)
- ✎ We estimate company to report GRMs of US\$8.4/bbl in 3QFY08 (216% YoY increase) as against actual GRM of US\$2.7/bbl in 3QFY07. As refining fundamentals continue to remain strong, we estimate benchmark Singapore refining margins at US\$7.7/bbl (99% YoY increase) in 3QFY08 v/s US\$3.9/bbl in 3QFY07.
- ✎ Refinery throughput is expected to remain flat at 2.6mmt.
- ✎ However, appreciation of rupee by over 12% YoY will moderate the refining margin gains.
- ✎ The stock trades at 7.7x FY09E earnings and our current rating is **Neutral**. However, CPCL trades at a significant discount to its peer MRPL (trading at 22.7x FY09E), which like CPCL does not have much of subsidy concern. CPCL currently trades at a discount to PSU OMCs with large subsidy concerns such as HPCL (13.7x FY09E) and IOC (12.2x FY09E).

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	64,656	66,527	58,819	56,531	62,966	62,816	75,787	64,307	246,533	265,876
Change (%)	38.7	21.6	7.5	2.9	-2.6	-5.6	28.8	13.8	16.8	7.8
Raw Materials Cons	58,804	63,338	55,551	53,791	54,367	61,761	68,432	58,433	231,484	242,992
Employee Costs	245	353	302	607	303	384	337	354	1,506	1,377
Other Exp (incl Stock Adj)	819	456	1,747	-1,886	2,383	-3,617	1,787	1,512	1,137	2,065
EBITDA	4,789	2,380	1,218	4,019	5,914	4,288	5,230	4,009	12,407	19,442
% of Sales	7.4	3.6	2.1	7.1	9.4	6.8	6.9	6.2	5.0	7.3
% Change	10.8	(39.1)	(7.2)	194.3	23.5	80.1	329.4	-0.3	13.7	56.7
Depreciation	586	586	586	662	637	616	641	644	2,419	2,537
Interest	426	468	412	577	460	561	510	525	1,883	2,056
Other Income	69	146	152	338	83	386	131	138	705	737
PBT	3,845	1,473	373	3,118	4,900	3,497	4,211	2,978	8,809	15,585
Tax	1,300	500	129	1,227	1,668	1,194	1,427	1,009	3,156	5,300
Rate (%)	33.8	34.0	34.6	39.4	34.0	34.2	33.9	33.9	35.8	34.0
PAT	2,546	972	243	1,891	3,232	2,303	2,783	1,968	5,653	10,286
Change (%)	8.8	-50.5	14.4	434.3	26.9	136.8	1,043.1	4.1	16.1	82.0

E: MOST Estimates

GAIL (India)

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GAIL IN
	REUTERS CODE
S&P CNX: 6,080	GAIL.BO

28 December 2007

Buy

Rs531

Previous Recommendation: Buy

Equity Shares (m)	845.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	550/254	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	18/29/54	3/07A	160,472	20,468	24.2	-11.4	21.9	3.9	20.9	21.1	2.7	14.5
MCap. (Rs b)	448.7	3/08E	174,014	23,891	28.3	16.7	18.8	3.5	18.6	23.4	2.6	12.2
MCap. (US\$ b)	11.4	3/09E	245,248	29,857	35.3	25.0	15.0	3.1	20.4	26.3	1.8	9.5
		3/10E	310,728	32,059	37.9	7.4	14.0	2.7	19.4	25.3	1.4	8.7

- ✍ We expect net profit of Rs5.3b in 3QFY08 v/s Rs6.7b in 3QFY07, due to increase in subsidy burden as well as reduced petrochemical margins and volumes.
- ✍ We assume upstream sharing of under-recoveries at 33% and estimate GAIL's subsidy sharing at Rs3.9b v/s Rs3.2b in 3QFY07 and Rs2.6b in 2QFY08.
- ✍ We estimate improved natural gas transmission volumes of 84mmcmd (up 5% YoY).
- ✍ Petrochemical realizations are expected to decrease QoQ due to marginal decline in key petrochemical prices by about 2% QoQ.
- ✍ We assume reduced petchem production at ~85kt (v/s ~94kt in 3QFY07 and 97kt in 2QFY08) due to lower gas availability for petrochemicals during the quarter.
- ✍ With increased gas availability from PMT, gas transmission volumes will improve from 4QFY08. Petchem volumes will also grow post-commission of expanded capacity at Pata (capacity increased by 100kta to 410kta) in January 2008.
- ✍ The stock trades at 15x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	40,784	37,070	43,784	38,834	42,457	45,289	42,614	43,654	160,472	174,014
Change (%)	24.1	2.9	12.0	6.1	4.1	22.2	-2.7	12.4	11.0	8.4
Finished Gds Purchase	24,720	22,130	24,072	23,368	23,529	25,398	24,290	24,883	94,290	98,099
Raw Materials Cons	4,342	4,224	4,759	4,527	4,314	4,503	4,986	5,108	17,851	18,910
Employee Costs	551	907	649	816	688	824	847	867	2,923	3,226
Other Exp (incl Stock Adj)	1,755	3,919	5,662	4,099	3,540	5,782	4,262	3,329	15,435	16,912
EBITDA	9,416	5,891	8,641	6,024	10,387	8,783	8,229	9,468	29,973	36,867
% of Net Sales	23.1	15.9	19.7	15.5	24.5	19.4	19.3	21.7	18.7	21.2
% Change	-0.7	-37.0	-5.2	-14.5	10.3	49.1	-4.8	57.2	-14.3	23.0
Depreciation	1,408	1,436	1,439	1,471	1,407	1,492	1,512	1,593	5,754	6,003
Interest	288	291	271	221	204	201	240	240	1,071	885
Other Income	801	1,674	1,846	1,129	913	1,806	1,500	1,503	5,450	5,722
PBT	8,521	5,838	8,778	5,461	9,689	8,897	7,977	9,138	28,598	35,701
Tax	2,600	1,354	2,124	2,053	2,837	3,171	2,704	3,098	8,130	11,810
Rate (%)	30.5	23.2	24.2	37.6	29.3	35.6	33.9	33.9	28.4	33.1
PAT	5,921	4,484	6,655	3,408	6,852	5,725	5,273	6,040	20,468	23,891
Change (%)	22.5	-42.1	3.5	-16.7	15.7	27.7	-20.8	77.2	-11.4	16.7
EO: Tax Provision Written Back				3,399	0	0	0	0	3,399	
Reported PAT	5,921	4,484	6,655	6,807	6,852	5,725	5,273	6,040	23,867	23,891

E: MOST Estimates

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HPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HPCL IN
	REUTERS CODE
S&P CNX: 6,080	HPCL.BO

28 December 2007

Buy

Rs343

Previous Recommendation: Buy

Equity Shares (m)	338.8
52-Week Range	350/223
1,6,12 Rel. Perf. (%)	13/-9/-22
MCap. (Rs b)	116.2
MCap. (US\$ b)	2.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07E	969,182	12,682	37.4	212.7	9.2	1.2	13.2	10.2	0.19	7.7
3/08E	1,034,996	9,657	28.5	-23.9	12.0	1.2	9.8	4.6	0.17	9.9
3/09E	896,825	8,496	25.1	-12.0	13.7	1.2	8.5	4.5	0.19	9.7
3/10E	905,500	8,771	25.9	3.2	13.2	1.1	8.8	4.7	0.19	9.3

- ✎ We expect HPCL to report net profit of Rs293m in 3QFY08 as against adjusted net profit of Rs1b in 3QFY07. Significantly reduced profits are primarily due to higher under-recoveries driven by higher oil prices.
- ✎ We factor in oil bonds of issue of Rs21.9b in 3QFY08 as against Rs10.3b in 3QFY07. We assume oil bonds amounting to 42.7% of total under-recovery would also be issued in 3QFY08, similar to issuance in 1HFY08. We assume upstream sharing of under-recoveries at 33% (similar to 1HFY08 v/s 41.5% in FY07), and estimate reduced sharing by upstream companies at Rs17b in 3QFY08 v/s Rs5.5b in 3QFY07.
- ✎ Throughput during the quarter is expected at 4.3mmt, marginally higher (4%) than 4.2mmt in 3QFY07.
- ✎ The key data to watch out for are the government's decision on fuel price hikes, quantum of oil bonds and extent of upstream discounts.
- ✎ HPCL trades at 13.7x FY09E earnings. We maintain **Buy** in view of the continuing strong refining fundamentals. However large fuel under-recoveries and lack of transparency on sharing mechanism remain a concern.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	226,795	262,351	242,494	237,542	237,131	256,313	290,552	251,001	969,182	1,034,996
Change (%)	39	47	22	4.5	5	-2	20	5.7	26.0	6.8
Raw Material Consumed	90,409	100,016	86,610	81,133	78,157	90,004	98,808	88,415	358,168	355,385
Staff Cost	1,657	2,202	1,930	1,619	1,805	2,067	2,104	2,025	7,407	8,000
Finished Goods Purchase	114,243	121,223	118,300	114,736	128,882	150,771	155,487	131,746	468,502	566,886
Other Exp, levies and stock adj	25,652	22,447	33,714	29,804	29,573	273	32,239	24,841	111,617	86,925
EBITDA	-5,166	16,462	1,940	10,251	-1,285	13,199	1,914	3,974	23,487	17,801
% of Net Sales	-2.3	6.3	0.8	4.3	-0.5	5.1	0.7	1.6	2.4	1.7
% Change	nm	1,964	nm	-47.8	nm	-20	-1	-61	191.1	-24.2
Depreciation	1,701	1,742	1,733	1,864	1,798	2,017	2,026	2,042	7,040	7,883
Interest	596	983	1,046	1,527	1,334	1,399	1,400	1,350	4,152	5,483
Other Income	1,021	1,925	2,466	1,964	3,351	2,808	1,950	1,925	7,377	10,034
PBT	-6,442	15,663	1,627	8,824	-1,066	12,591	438	2,507	19,672	14,469
Tax	-366	3,443	584	3,329	-197	4,038	145	827	6,990	4,813
Rate (%)	6	22	36	37.7	18	32	33	33	35.5	33.3
PAT	-6,077	12,220	1,044	5,495	-869	8,553	293	1,679	12,682	9,657
Change (%)	nm	nm	nm	-72.7	nm	-30.0	-71.9	-69.4	212.7	-23.9
EO - Tax Prov Write back	0	0	3,030	0	0	0	0	0	3,030	0
Reported PAT	-6,077	12,220	4,073	5,495	-869	8,553	293	1,679	15,712	9,657

E: MOST Estimates

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Indian Oil Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	IOC IN
	REUTERS CODE
S&P CNX: 6,080	IOC.BO

28 December 2007

Buy

Rs 739

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,192.4										
52-Week Range (Rs)	747/370										
1,6,12 Rel. Perf. (%)	30/26/20										
MCap. (Rs b)	881.1										
MCap. (US\$ b)	22.3										
	3/07A	1,999,308	59,887	50.2	18.9	14.7	2.4	16.4	12.6	0.5	9.3
	3/08E	2,455,938	76,473	64.1	27.7	11.5	2.1	18.1	11.7	0.4	9.2
	3/09E	2,109,744	72,277	60.6	-5.5	12.2	1.9	15.2	10.2	0.5	9.5
	3/10E	2,102,338	66,767	56.0	-7.6	13.2	1.7	12.8	8.9	0.5	10.3

Consolidated; Adjusted for extra-ordinary items

- ✘ We expect IOC to report net profit of Rs8.1b in 3QFY08 as against Rs16.8b in 3QFY07. Reduced profit estimates are on account of higher under-recoveries and inadequate compensation by oil bonds and upstream discounts.
- ✘ For 3QFY08, we factor in oil bond issue of Rs57.2b v/s actual issue of Rs25.3b in 3QFY07.
- ✘ We estimate sharing by upstream companies at Rs44.6b in 3QFY08 v/s Rs15.7b in 3QFY07. We assume oil bonds amounting to 42.7% of total under-recovery would also be issued in 3QFY08, similar to the issuance in 1HFY08. We assume upstream sharing of under-recoveries at 33% (similar to 1HFY08 v/s 41.5% in FY07).
- ✘ The key data to watch out for are fuel price hikes, extent of upstream discounts and quantum of oil bonds from the government.
- ✘ IOC trades at 12.2x FY09E consolidated earnings. We maintain **Buy** in view of continuing strong refining fundamental. However, large fuel under-recoveries and lack of transparency on sharing mechanism remain a concern.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	484,996	578,305	540,753	544,609	528,620	561,487	641,038	583,179	2,148,663	2,314,323
Change (%)	25.5	44.3	22.0	7.5	9.0	-2.9	18.5	7.1	23.7	7.7
Raw Material Consumed	200,627	250,034	233,009	201,929	230,738	224,399	261,068	231,154	885,598	947,359
Staff Cost	5,232	6,548	4,352	10,077	6,838	7,502	7,330	7,330	26,209	29,001
Finished Goods Purchase	264,627	273,744	255,252	246,665	253,246	269,770	331,719	298,611	1,040,288	1,153,347
Other Exp (incl Stock Adj)	27,392	8,994	24,352	35,497	23,611	8,603	25,547	27,498	96,235	85,259
EBITDA	-12,882	38,985	23,788	50,442	14,187	51,213	15,373	18,585	100,333	99,358
% of Net Sales	-2.7	6.7	4.4	9.3	2.7	9.1	2.4	3.2	4.7	4.3
% Change	-370.2	157.5	1,229.8	-3.3	nm	31.4	-35.4	-63.2	35.8	-1.0
Depreciation	5,894	6,688	6,152	7,169	6,748	6,765	7,025	6,882	25,903	27,420
Interest	3,385	3,760	3,649	4,261	3,374	3,335	3,500	3,600	15,055	13,809
Other Income	3,201	6,066	7,641	9,512	16,911	12,783	6,750	6,750	26,419	43,193
PBT	-18,960	34,602	21,628	48,525	20,975	53,895	11,598	14,853	85,795	101,321
Tax	60	5,767	4,521	19,508	6,291	15,718	3,479	4,456	29,855	29,944
Rate (%)	-0.3	16.7	20.9	40.2	30.0	29.2	30.0	30.0	34.8	29.6
PAT	-19,020	28,836	17,107	29,017	14,684	38,178	8,118	10,397	55,940	71,377
Change (%)	nm	203.9	nm	-18.8	nm	32.4	-52.5	-64.2	25.5	27.6
Extraordinary Items	32,238	0	-263	-12,920	0.0	0.0	0.0	0.0	19,055	0
PAT incl extra-ordinaries	13,218	28,836	16,844	16,097	14,684	38,178	8,118	10,397	74,995	71,377

E: MOST Estimates

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Indraprastha Gas

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	IGL IN
	REUTERS CODE
S&P CNX: 6,080	IGAS.BO

28 December 2007

Not Rated

Rs 160

Equity Shares (m)	140.0	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	172/89	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-1/-6/-9	3/07A	6,141	1,380	9.9	29.7	16.3	4.8	32.5	43.1	3.4	8.2
MCap. (Rs b)	22.5	3/08E	7,173	1,722	12.3	24.8	13.0	3.8	32.1	44.5	2.7	6.2
MCap. (US\$ b)	0.6	3/09E	7,835	1,861	13.3	8.1	12.1	3.1	28.3	39.3	2.4	5.7
		3/10E	8,704	2,093	14.9	12.4	10.7	2.6	26.2	36.9	2.0	4.6

- ✍ We expect IGL to post a net profit of Rs441m in 3QFY08, up 24% YoY, primarily due to volume growth in its current network.
- ✍ We estimate IGL's EBITDA margin to improve from 40.9% in 3QFY07 to 42.9% in 3QFY08 and in line with ~43% reported in 2QFY08.
- ✍ IGL is focusing on significantly improving its city gas distribution network in Delhi and Greater Noida. Volumes, at its 154 CNG stations, continue to grow at 12%-13% with more conversions of passenger vehicles and taxis led by regulatory norms.
- ✍ We expect CNG volumes to grow 5% QoQ to 131mmscm v/s 125mmscm in 2QFY08 while PNG volumes are expected to increase significantly by 16% QoQ to 12.2mmscm v/s 10.5mmscm in 2QFY08.
- ✍ Its Rs 1.7b capex plan is focusing on expansion of its network in Delhi region as well as new areas in Ghaziabad and Greater Noida.
- ✍ IGL trades at 12.1x FY09E earnings. We do not have a rating on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	1,358	1,542	1,599	1,643	1,618	1,741	1,844	1,971	6,141	7,173
Change (%)	19.1	15.0	16.7	21.1	19.1	12.9	15.4	19.9	17.9	16.8
Raw Material Consumed	586	675	721	696	693	746	790	844	2,677	3,072
Staff Cost	31	36	36	38	36	35	40	42	141	152
Other Exp (incl Stock Adj)	199	186	188	198	202	211	223	236	771	872
EBITDA	541	645	654	711	687	750	792	848	2,552	3,077
% of Net Sales	39.9	41.9	40.9	43.3	42.5	43.1	42.9	43.0	41.6	42.9
% Change	23.8	20.1	12.4	22.5	27.0	16.2	21.1	19.2	19.4	20.6
Depreciation	150	150	150	149	156	158	160	174	598	648
Other Income	22	23	24	34	40	47	35	35	102	157
PBT	413	518	528	596	571	639	667	709	2,056	2,586
Tax	137	170	173	196	187	211	226	240	676	864
Rate (%)	33.1	32.9	32.8	32.8	32.8	33.0	33.9	33.9	32.9	33.0
PAT	276	348	355	401	384	429	441	469	1,380	1,722
Change (%)	36.5	28.7	21.0	34.6	39.0	23.2	24.2	17.0	29.7	24.8

E: MOST Estimates

MRPL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	MRPL IN
	REUTERS CODE
S&P CNX: 6,080	MRPL.BO

28 December 2007

Sell

Rs 135

Previous Recommendation: Sell

Equity Shares (m)	1,752.6
52-Week Range	149/32
1,6,12 Rel. Perf. (%)	8/198/189
M.Cap. (Rs b)	236.2
M.Cap. (US\$ b)	6.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	286,331	5,255	3.0	41.4	44.9	8.6	20.4	20.0	0.9	17.1
3/08E	312,001	12,471	7.1	137.3	18.9	6.6	36.1	24.7	0.8	12.5
3/09E	266,138	10,399	5.9	-16.6	22.7	5.4	26.2	18.6	1.0	13.4
3/10E	269,821	10,155	5.8	-2.3	23.3	4.7	21.6	14.2	1.0	14.4

- ✍ We estimate MRPL's net profit at Rs3.4b v/s Rs1.2b in 3QFY07 and Rs3.3b in 2QFY08, primarily due to higher refining margins and our assumption of MAT credit similar to 2QFY08.
- ✍ Of the available MAT credit of about Rs 1,000m, MRPL had availed Rs523m in 2QFY08. We have factored in MAT credit of Rs480m in 3QFY08 thereby extinguishing the total available MAT credit.
- ✍ We estimate refining margins to improve 259% to US\$8.1/bbl v/s US\$3.9/bbl in 3QFY07.
- ✍ However, EBITDA for 3QFY07 is estimated at Rs5.5b (102% YoY increase) v/s Rs2.7b in 3QFY07. Reported EBITDA in 3QFY07 was higher due to refund of Rs 1.4b for prior period discounts given to OMCs.
- ✍ The stock trades at 22.7x FY09E earnings and 13.4x FY09E EV/EBITDA. Though the refining fundamentals continue to remain strong, we believe MRPL's valuations are significantly stretched. We maintain **Sell**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	64,698	80,522	73,133	67,979	74,391	76,404	86,362	74,844	286,331	312,001
Change (%)	16	30	8	6.4	15	-5	18.1	10.1	14.7	9.0
Raw Material Consumed (incl. inv chg)	57,412	77,504	68,785	59,388	66,664	70,467	78,709	68,339	263,089	284,179
Staff Cost	126	148	131	143	143	354	182	182	548	860
Other Expenditure	2,055	1,453	1,480	2,610	1,400	1,084	1,935	1,979	7,598	6,397
EBITDA	5,104	1,417	2,737	5,839	6,186	4,499	5,536	4,344	15,097	20,565
% of Net Sales	7.9	1.8	3.7	8.6	8.3	5.9	6.4	5.8	5.3	6.6
% Change	12	-64	72	1,140.7	21	217	102	-26	42.6	36.2
Depreciation	854	872	888	934	938	947	1,034	1,188	3,549	4,107
Interest	579	588	511	468	398	358	359	252	2,145	1,367
Other Income	83	182	841	380	1,333	386	250	250	1,487	2,219
PBT	3,755	139	2,179	4,817	6,183	3,580	4,393	3,153	10,889	17,309
Tax	1,596	46	994	2,998	2,498	785	1,489	1,069	5,634	5,841
MAT Credit entitlement adjusted					0	-523	-480	0		-1,003
Rate (%)	43	33	46	62.2	40	7	23	34	51.7	28.0
PAT	2,159	93	1,185	1,819	3,686	3,317	3,384	2,084	5,255	12,471
Change (%)	0	-94	512	nm	71	3,470.9	186	14.6	41.4	137.3
Reported PAT	2,159	93	1,185	1,819	3,686	3,317	3,384	2,084	5,255	12,471

E: MOST Estimates

ONGC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ONGC IN
	REUTERS CODE
S&P CNX: 6,080	ONGC.BO

28 December 2007

Buy

Rs 1,227

Previous Recommendation: Buy

Equity Shares (m)	2,138.9
52-Week Range (Rs)	1,387/750
1,6,12 Rel. Perf. (%)	0/-4/-6
M.Cap. (Rs b)	2,623.8
M.Cap. (US\$ b)	66.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	823	178	83.1	-14.5	14.8	4.0	29.0	27.9	2.9	6.6
3/08E	989	234	109.5	31.9	11.2	3.2	31.8	31.3	2.3	5.3
3/09E	980	245	114.7	4.7	10.7	2.7	27.8	27.2	2.2	4.7
3/10E	1,026	250	116.9	1.9	10.5	2.4	24.1	23.6	2.0	4.3

Consolidated

- ✎ We estimate ONGC to report EBITDA of Rs85.5b v/s Rs89.1b in 3QFY07 despite significantly increased oil prices, mainly due to higher discounts to OMCs and 12% YoY rupee appreciation. We expect net profit to be higher at Rs48.3b as against Rs46.7b in 3QFY07.
- ✎ Bonny light prices increased 47% YoY to US\$90.7/bbl v/s US\$61.8/bbl in 3QFY07. However, due to 12% appreciation in rupee, gross rupee realization increase is only 29% YoY.
- ✎ We assume upstream sharing of subsidy burden at 33% (similar to 1HFY08 and v/s 41.5% in FY07). Despite the reduced sharing burden in percentage terms, we estimate overall subsidy burden to increase to Rs69.7b in 3QFY08 v/s Rs22b in 3QFY07 and Rs37.9 in 2QFY08.
- ✎ Implementation of revised gas prices as per Tariff Commission recommendation remains pending, as notification is yet to be issued. As gas price hike is unlikely to be with retrospective effect, continued delay is a concern.
- ✎ ONGC trades at 10.7x FY09E consolidated earnings. We maintain **Buy** in view of continued higher oil prices, expected production increase through IOR/EOR, impending improved gas pricing and significant growth pipeline from ONGC as well as OVL.

QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	146.0	140.7	155.6	124.0	136.9	154.1	154.6	157.3	566.3	602.9
Change (%)	34.3	11.0	24.8	4.2	-6.3	9.6	-0.7	26.9	18.2	6.5
Raw Material and Purchases	17.5	17.0	15.4	13.4	13.6	16.1	17.8	18.9	63.3	66.3
Statutory Levies	31.1	29.8	30.6	28.4	29.0	32.0	31.0	31.4	119.9	123.3
Employee Costs	3.0	3.2	5.0	6.0	2.5	3.7	2.8	2.9	17.2	11.9
Other Exp (incl Stock Adj)	13.3	17.2	15.5	22.4	12.6	18.2	17.5	18.4	68.5	66.7
EBITDA	81.1	73.4	89.1	53.7	79.2	84.2	85.5	85.7	297.3	334.6
% of Net Sales	55.5	52.2	57.2	43.3	57.9	54.6	55.3	54.5	52.5	55.5
% Change	32.8	2.6	21.0	-20.1	-2.3	14.6	-4.0	59.6	8.7	12.5
Depreciation	22.3	18.5	25.6	28.6	17.5	19.9	20.5	23.1	95.0	81.0
Interest	0.0	0.0	0.1	0.1	0.0	0.3	0.2	0.3	0.2	0.8
Other Income	4.2	9.4	7.0	16.0	8.4	12.1	8.4	8.4	36.6	37.3
PBT	63.0	64.3	70.5	41.0	70.0	76.1	73.3	70.8	238.8	290.2
Tax	21.8	19.5	23.8	15.2	23.9	25.9	25.0	24.2	80.3	99.0
Rate (%)	34.6	30.4	33.8	37.0	34.2	34.1	34.1	34.2	33.6	34.1
PAT	41.2	44.8	46.7	25.8	46.1	50.2	48.3	46.6	158.5	191.1
Change (%)	24.1	8.2	20.0	5.7	11.9	12.0	3.5	80.3	14.9	20.6
Extraordinary Items	0.0	-3.1	0.0	1.0	0.0	0.0	0.0	0.0	-2.0	0.0
Reported PAT	41.2	41.7	46.7	26.8	46.1	51.0	48.3	46.6	156.4	191.9

E: MOST Estimates

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Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	RIL IN
	REUTERS CODE
S&P CNX: 6,080	RELI.BO

28 September 2007

Buy

Previous Recommendation: Buy

Rs2,898

Equity Shares (m)	1,453.4
52-Week Range	3,235/1,250
1,6,12 Rel. Perf. (%)	-3/32/81
M.Cap. (Rs b)	4,212.3
M.Cap. (US\$ b)	106.8

YEAR	NET SALES	PAT#	EPS#	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	1,117	119	82.2	31.7	35.3	6.6	22.4	18.7	4.0	22.3
3/08E	1,271	152	104.4	27.1	27.8	5.3	22.1	18.6	3.5	19.2
3/09E	1,183	175	111.5	6.8	26.0	4.2	19.2	17.0	3.9	18.8
3/10E	1,859	388	245.1	119.8	11.8	3.3	29.4	26.3	2.6	9.1

* FY10E includes RPL financials; # Adjusted for extraordinary

- ✍ We expect RIL to report adjusted net profit of Rs38.7b (up 20.8% YoY) as against Rs32b (RIL+IPCL), and Rs38.4b in 2QFY08. RIL's standalone profit in 3QFY07 was Rs28b.
- ✍ During the quarter, RIL sold 180.4m shares of Reliance Petroleum (RPL), reducing its stake to 70.99% from 75%. We estimate one-time gain from this sale at Rs38.4b. Thus, including this, we estimate RIL to report PAT of Rs77b.
- ✍ Singapore gross refining margins were up 99% YoY at US\$7.7/bbl v/s US\$3.9/bbl in 3QFY07 and US\$6.4/bbl in 2QFY08. We expect RIL's reported GRM at US\$14.6/bbl v/s US\$11.7/bbl in 3QFY07 and US\$13.6/bbl in 2QFY08.
- ✍ The increase in the refining margins will be compensated by appreciation in rupee and decline in petrochemical margins. We expect the petrochemical margins to be under pressure as the margins in polymers as well as polyester were down on QoQ and YoY basis, primarily due to increase in naphtha prices.
- ✍ Besides its core business, RIL's stock performance will continue to be boosted by additional updates/news flow in its E&P business in terms of new discoveries and progress on KG-D6 gas production. RPL refinery and Reliance Retail would provide additional value to the stock.
- ✍ The stock trades at a P/E of 26x FY09E and 11.8x FY10E. We include RIL's gas business and RPL for our FY10 EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE (RIL INCLUDES IPCL)

(RS MILLION)

Y/E MARCH	FY07				FY07**	FY07A	FY08				FY08E
	1Q*	2Q*	3Q**	4Q**	AUDITED	1Q	2Q	3QE	4QE		
Net Sales	259,940	300,560	295,280	289,020	1,144,800	1,116,930	295,240	320,430	343,166	312,150	1,270,987
Change (%)	46.2	45.1	62.5	17.8	41.0	37.5	13.6	6.6	16.2	8.0	13.8
Raw Material Consumed	178,100	216,330	210,120	201,470	806,020	780,380	208,880	233,540	257,168	223,743	923,331
Staff Cost	5,530	4,960	4,120	8,193	22,803	20,940	4,960	4,710	4,804	4,936	19,410
Other Expenses	29,980	28,630	27,140	30,230	115,980	115,150	24,670	24,370	22,259	24,855	96,154
EBITDA	46,330	50,640	53,900	49,127	199,997	200,460	56,730	57,810	58,935	58,617	232,091
% of Net Sales	17.8	16.8	18.3	17.0	17.5	17.9	19.2	18.0	17.2	18.8	18.3
Change (%)	NM	NM	NM	NM	39.9	40.2	22.4	14.2	9.3	19.3	15.8
Depreciation	11,010	12,130	12,060	11,700	46,900	48,150	11,250	11,290	11,403	11,324	45,267
Interest	2,980	2,970	3,250	3,070	12,270	11,890	2,950	2,570	2,780	2,780	11,080
Other Income	1,080	1,250	1,160	1,350	4,840	4,780	1,970	1,680	1,729	1,729	7,109
PBT	33,420	36,790	39,750	35,707	145,667	145,200	44,500	45,630	46,481	46,242	182,853
Tax	6,360	6,790	7,710	6,060	26,920	25,770	8,200	7,260	7,786	7,839	31,085
Rate (%)	19.0	18.5	19.4	17.0	18.5	17.7	18.4	15.9	16.8	17.0	17.0
Adjusted PAT	27,060	30,000	32,040	29,647	118,747	119,430	36,300	38,370	38,696	38,403	151,768
Change (%)	NM	NM	NM	NM	30.9	31.7	34.1	27.9	20.8	29.5	27.1
Extra-ordinary items	0	0	0	-937	-937	0	0	0	38,426	0	38,426
Reported PAT	27,060	30,000	32,040	28,710	117,810	119,430	36,300	38,370	77,122	38,403	190,194

E: MOST Estimates; * RIL has restated 1Q and 2QFY07 numbers for IPCL amalgamation; ** For 3Q and 4QFY07, we have added RIL & IPCL's reported numbers line by line.

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Pharmaceuticals

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.
Aurobindo Pharma	219
Aventis Pharma	220
Biocon	221
Cadila Healthcare	222
Cipla	223
Dishman Pharma	224
Divi's Laboratories	225
Dr Reddy's Labs.	226
GSK Pharma	227
Jubilant Organosys	228
Lupin	229
Nicholas Piramal	230
Pfizer	231
Ranbaxy Labs.	232
Shasun Chemicals	233
Sun Pharmaceuticals	234
Wockhardt	235

Higher base effect and currency appreciation to drag down PAT growth

MOST Pharma universe sales growth for 3QFY08E is likely to be tempered down to 11% YoY, mainly due to higher base effect resulting from one-time opportunities last year, currency appreciation and lackluster performance from MNCs. The big-3 generic companies (by sales) are likely to report 3.5% de-growth in top-line mainly due to 22% sales decline for Dr. Reddy's Labs (because of higher base effect). Other Indian companies are expected to record 27% top-line growth, led mainly by commercialization of their product pipeline in regulated markets, traction in CRAMS business and consolidation of acquired companies.

We expect MNC Pharma to report a 3% de-growth in top-line (mainly due to the proposed divestment of consumer healthcare business for Pfizer and fine chemicals business for GSK Pharma). Overall EBITDA margins for MOST Pharma universe are expected to improve by only 36bp YoY, as the MNC companies report 254bp margin decline over last year. EBITDA margins for the Big-3 generic companies are expected to be flat while that for other Indian companies would witness an improvement of 72bp. Overall, we expect MOST Pharma universe's PAT to grow by only 8.4% YoY, with MNC Pharma reporting de-growth of 7.7% YoY and other Indian Pharma group's PAT growing by 27.8%. The Big-3 generic companies are expected to record 11.4% PAT de-growth mainly due to a 25.6% decline in PAT for DRL and a 7.3% decline for Cipla. PAT for

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO		SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Pharmaceuticals							
Aurobindo Pharma	Sell	6,243	18.2	1,093	39.2	706	19.3
Aventis Pharma	Buy	1,958	-10.0	311	-27.1	238	-31.5
Biocon	Buy	2,867	16.1	801	3.1	616	10.0
Cadila Health	Buy	5,853	23.9	1,037	26.0	580	18.8
Cipla	Neutral	10,251	16.4	2,308	5.2	1,709	-7.3
Dishman Pharma	Buy	2,115	21.8	450	-7.7	271	10.9
Divis Labs	Neutral	2,406	60.8	887	108.6	684	109.0
Dr Reddy's Labs	Buy	11,995	-22.3	1,859	-24.5	1,398	-25.6
GSK Pharma	Buy	3,048	-2.3	659	-19.0	616	-9.7
Jubilant Organosys	Buy	6,633	41.3	1,233	37.3	875	37.4
Lupin	Neutral	6,608	30.7	1,148	27.4	945	52.3
Nicholas Piramal	Buy	7,591	16.9	1,217	25.3	786	42.0
Pfizer	Neutral	1,684	5.1	478	11.9	378	23.8
Ranbaxy Labs	Buy	18,283	2.9	2,866	7.5	1,813	-1.1
Shasun Chemicals	Buy	2,312	22.9	228	68.5	104	264.2
Sun Pharma	Buy	6,294	19.6	2,211	27.5	2,237	12.5
Wockhardt	Neutral	7,413	40.8	1,732	41.7	902	16.9
Sector Aggregate		103,555	11.0	20,517	13.1	14,858	8.4

Ranbaxy and Sun Pharma will be partly boosted due to the translation gains on FCCB loans arising from currency appreciation. Top-line performance of MNCs is likely to be impacted by company-specific factors –divestment of fine chemicals business for GSK and proposed divestment of consumer healthcare business for Pfizer.

Patent expiries to drive generics growth in regulated markets

We expect US\$45b-US\$50b worth of products to go off-patent in the US alone by 2010. At an average of 97% price discount, this is likely to result in a potential market worth US\$1.5b for generics players over the next three years. Western Europe will witness patent expiries worth about US\$6b in the same period. Many countries (for e.g. Japan) are likely to encourage generics to reduce their healthcare costs. All this will ensure that generic volumes continue to expand further.

US generic prices already at 97-99% discount, further declines insignificant

Prices for patent-expired products in the US are already at 97-99% discount to the innovator's price. While we do not expect any significant improvement in the competitive landscape in the short-to-medium term, we believe that further price declines may not be very significant. Price deflation commenced in CY04 and we are already into the fourth year of successive price decline. In fact, Ranbaxy's US portfolio (excluding one-time opportunities) has been recording double-digit growth for the past few quarters.

Low penetration to drive double-digit growth in many European markets

We believe that the generic penetration in several European markets is extremely low. Barring Germany and the UK, generic penetration in most of Western Europe (France, Spain, Italy, Belgium) is in single digits. Japan, the second largest pharmaceutical market, also has a generic penetration of merely 5%. This implies that as more drugs go off-patent in these markets and as respective governments enact favorable legislation, generic penetration in these markets is likely to improve significantly. The larger Indian generic players have already entered these markets (either via the inorganic route or via partnerships), which should augur well for these companies in the long term.

RoW markets offer an attractive opportunity with higher margins

The size of the semi-regulated markets is expected to increase from US\$44b in 2007 to US\$75b by 2012. The opportunity spans more than 150 markets through Latin America, Asia, Eastern Europe and Australia. The current market share of Indian companies is merely about 6%, implying that there is substantial room for growth. Secondly, most of these markets are branded generic markets, thus, resulting in better margins compared with the US generic market (GPM of about 60-70% compared with about 40-50% for the US). Indian generic companies have already established a reasonable presence in some of these markets (like Russia, Latam) while they are in the process of strengthening their presence in some of the other markets (like China, Australia, New Zealand).

Cost structures are being re-aligned/de-risked

To counter the pricing pressure in regulated markets, Indian generic companies have embarked on a cost control cum de-risking drive. Costs are being reduced by focusing on conducting in-house bioequivalence studies; controlling SG&A costs and adopting a pragmatic approach towards patent challenges (leading to out-of-court settlements thus capping litigation costs and resulting in confirmed upsides from the patent challenges). Ranbaxy is a typical example of this approach. Dr. Reddy's Labs has de-risked its fixed costs by resorting to external funding and partnering with private equity investors. Sun Pharma has de-merged its NCE/NDDS Research. Nicholas Piramal and Ranbaxy are in the process of de-risking their NCE/NDDS research by demerging this unit into a separate company with the potential of attracting partners at a future date.

Consolidation to gain further steam ahead, risks of extended payback remain

Intense price competition in the traditional generic markets of the US and UK has forced most generic players to expand geographically and also focus on backward integration. This has led to a big consolidation wave in the global generic industry with large players such as Teva and Sandoz successfully polarizing the market in their favor (via big-ticket acquisitions). While acquisitions are imperative to gain scale, we believe that current valuations for generic assets are extremely demanding implying that inorganic growth for Indian players is likely to come at the cost of extended paybacks of about 8-10 years.

Which generic models will succeed?

In our opinion, the winning business model will include a combination of:

1. Vertical integration
2. Low cost of manufacture
3. Geographically diversified presence
4. Wide product basket with pragmatic mix of FTF/niche and normal products
5. Strong balance sheet

The table below indicates the status of Indian players vis-à-vis each of the above parameters:

PARAMETER	PRE-REQUISITE	STATUS OF INDIAN PLAYERS
Vertical Integration	Complete integration from manufacturing of intermediates to formulations	Most Indian players are vertically integrated
Manufacturing locations	Access to low-cost manufacturing base like India	Most Indian players have a strong manufacturing base in India
Geographical Diversification	Right mix of regulated and semi-regulated markets	Ranbaxy & Cipla have a fairly diversified geographical portfolio
Product Basket	Wide product basket including various dosage forms with some niche products & FTFs	The top four generic Indian players have large product baskets. Other Indian companies in the process of widening their portfolios
Financial Health	Strong balance sheet to manage litigation risks, acquisitions etc.	Amongst the leading players only Sun Pharma has the balance sheet strength to fund large acquisitions without significantly diluting equity capital

Source: Motilal Oswal Securities

US pricing pressure, costly acquisitions – already discounted in current valuations

While valuations for Ranbaxy and Dr Reddy's reflect extreme pessimism led by intense generics, pricing pressure and expensive acquisitions made by these companies, that for Sun Pharma reflect the consistency of performance over the past seven years and the conservative stance of its management.

Sensitivity to US revenues likely to reduce in future for Ranbaxy and DRL

We believe that markets are currently discounting the 97-99% price erosion in the US generic markets despite the fact that the sensitivity to US generic revenues is likely to decline (particularly for Ranbaxy and DRL) in the coming years as initiatives in other markets (which enjoy better margins) start contributing to revenues and profits.

Outsourcing opportunity gaining traction

More MNCs are visiting India for CRAMS tie-ups. We believe that India offers a unique combination of skilled labor (at low costs), international regulatory compliance, IPR protection, presence across CRAMS value chain and good quality. Most of the CRAMS players are expecting a ramp-up in their contract manufacturing revenues.

Large pharmaceutical companies like Pfizer, Merck (USA), AstraZeneca, etc., have undertaken a restructuring of their manufacturing operations and are likely to focus on outsourcing to reduce costs. We believe that India could be significant beneficiary of the increased outsourcing.

Indian CRAMS players are also looking at acquisitions

Most of the Indian CRAMS players are looking at acquisitions to acquire more customer relationships and contracts as well as get access to critical technologies. Nicholas Piramal has already announced two acquisitions (Avecia and Pfizer's UK unit at Morpeth) while Shasun has acquired Rhodia's custom manufacturing unit in UK. Dishman Pharma has acquired Carbogen-AMCIS in Switzerland while Jubilant Organosys has acquired Hollister in the US.

Most of the acquired companies were divested by their existing owners (mostly large pharmaceutical/chemicals companies) as a part of their strategy of divesting non-core assets. It is pertinent to note that most of these companies had invested significant resources some years back to establish their presence in the CRAMS space. Failure/withdrawal of some large molecules, intense generic competition and low R&D productivity (at the customer's end) has adversely impacted most of the CRAMS players in Europe and USA over the past 3 years. This coupled with high fixed costs forced the owners to divest these assets, which have been purchased by Indian CRAMS players at very reasonable valuations (0.5-1x sales).

Top-line growth is imperative for turnaround of acquired CRAMS companies

Although, Indian CRAMS players have acquired these assets at very reasonable valuations (0.5-1x sales), high fixed costs mandate that a turnaround is not feasible without topline growth. It is also important to note that most of these CRAMS assets were divested post restructuring (by their existing owners) implying that; there may not be very significant room to cut costs further. Hence the challenge for Indian companies which acquire such players, will be to grow the top-line by getting more manufacturing contracts.

Turnaround may be achieved faster than anticipated

We are positively surprised by the increased business traction in the acquired CRAMS companies. Increased order-flow coupled with a positive outsourcing stance (by the innovator pharmaceutical companies) is helping CRAMS players to gain increased traction in the custom manufacturing business. Carbogen-AMCIS, Avecia and Shasun's UK units are all witnessing better top-line growth. We believe that this is likely to shorten the turnaround time for these companies (mainly for Avecia and Shasun).

Significant appreciation of the INR could have an adverse impact

The INR has appreciated by about 13% against the US\$ over the last 12 months. Being an export-oriented business model, currency appreciation is likely to have an adverse impact on the generic and the CRAMS players. We believe that the current valuations of these players have already discounted this significant currency appreciation. It has also been factored into our earnings estimates for these companies. Our estimates also take into account a further gradual appreciation of the INR vs the US\$ for the next three years. However, any significant appreciation will have an adverse impact on operational performance of some of these companies with high net exposure to the US\$. These include Ranbaxy, Shasun, Dishman Pharma, Aurobindo and Cipla. Sun Pharma, Cadila Healthcare, MNC Pharma, and Nicholas Piramal will not be significantly impacted as they have lower net exposure to the US\$. However, if the INR were to appreciate against the Euro and the GBP, it will impact companies like Nicholas Piramal, Shasun and Wockhardt due to their exposure to the European markets. We note that the INR has stopped appreciating against these European currencies (if fact there has been a minor depreciation over the last one quarter).

New Pharma Policy: Uncertainty continues

The outlook on the New Pharmaceutical Policy continues to be uncertain as the government is yet to announce the final policy. We believe that there are still differences between the government and the pharmaceutical industry which need to be ironed out. Major differences concern the span and extent of price control on pharmaceutical products. Media reports suggest that the government is not fully satisfied with the price cuts implemented by the pharmaceutical industry in the generic-generics segment.

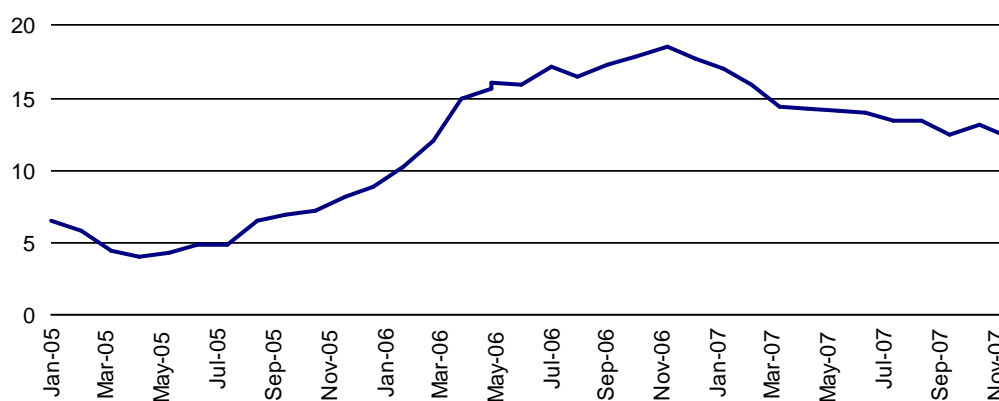
The new policy proposes to significantly increase the span of control by bringing in additional 354 drugs under price control. This could severely impact the profitability of the domestic formulations business. Industry has taken strong objection to the proposed policy and we believe that the policy is unlikely to be implemented in the current form. Given the strong opposition from industry, the government has formed a Group of Ministers (GoM), which would give final recommendations to the government regarding the new pharmaceutical policy. However, the uncertainty related to this will remain until the government finally notifies the new pharmaceutical policy.

It is important to note that these are only recommendations, pending announcement of the final new drug policy. These recommendations may or may not undergo a change in the final policy when the proposed policy is tabled in the cabinet for approval.

Domestic market – showing double digit growth

The domestic formulation industry, has maintained its double-digit growth trajectory at 12.3% (on MAT basis) for November-2007. While higher volumes have primarily driven the growth, we also note that the industry is witnessing a minor positive price contribution.

TREND IN DOMESTIC MARKET GROWTH (% MAT)



Source: ORG IMS

Outlook

Generics

We believe that the worst is over for Indian generic companies and expect gradual improvement in their performance over the next two years. CY05-CY07 were the worst years for generics mainly due to:

- ✘ Increased competition due to aggressive filings from Indian companies and entry of new players
- ✘ Innovators have adopted an aggressive stance including price cuts (on branded products), introduction of authorized generics, patent de-listing, and defending IPRs vigorously.

- ✍ Twin impact of intense competition and very few new launches due to lesser number of patent expiries.
- ✍ **What has changed over CY05-CY07?**
 - ✍ CY08-CY10 to witness patent expiry worth over US\$50b leading to more new launches – takes care of one of key impediments for generics
 - ✍ Pricing to remain intensely competitive due to entry of more players and government pressures – however, significant price deterioration unlikely as generic prices are already at 1-3% of innovator price
 - ✍ Expect more consolidation as generics gain scale and expand geographical reach
 - ✍ Indian generic companies have initiated cost-cutting measures (including R&D hive-off)
 - ✍ Generics and innovators adopting a more pragmatic stance on patent litigations leading to settlements and resulting in monetization of the Para-IV pipeline for some of these companies (especially Ranbaxy, Sun Pharma and DRL).
 - ✍ Governments worldwide trying to reduce healthcare costs

Our top picks in the generic space are **Ranbaxy** and **Sun Pharma**.

MNC Pharma

We remain favorably inclined towards MNC Pharma stocks in the long term. In our view, the current risk-reward equation is stacked in favor of MNC stocks. Leading Pharma MNCs are geared to gain from the opportunities arising in the stronger patent regime post 2005. We remain bullish on the long-term prospects of these companies. The potential upside from product patents would create ‘option value’ in these stocks over the longer term. It should be noted that some of the patented products may be launched by the parent through the 100% subsidiary route. However, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through the listed entities. **GSK Pharma** remains our top picks amongst the MNCs.

CRAMS

We also believe that the Indian contract-manufacturing segment will see strong double-digit secular growth (given India’s advantages) with the financial impact visible from FY09 onwards. **Nicholas Piramal** remains our top pick amongst the CRAMS players.

TREND IN GROWTH / PROFITABILITY OF DIFFERENT SEGMENTS OF THE INDUSTRY (OCTOBER-DECEMBER QUARTER)

INQUIRE PHARMA UNIVERSE	YOY GROWTH (%)			EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	SALES	EBITDA	ADJ PAT	DEC' 07	DEC' 06	CHG (BP)	DEC' 07	DEC' 06	CHG (BP)
AGGREGATES									
MNC Pharma (Aventis, GSK Pharma, Pfizer)	-3.0	-13.2	-7.7	21.6	24.2	-254	18.4	19.3	-94
Indian Big-3 (Cipla, DRL, Ranbaxy) *	-3.5	-3.9	-11.4	17.4	17.4	-8	12.1	13.2	-109
Other Indian Pharma	27.0	31.4	27.8	21.4	20.6	72	15.5	15.4	10
Sector Aggregate	11.0	13.1	8.4	19.8	19.5	36	14.3	14.7	-34

* Ranked according to revenues

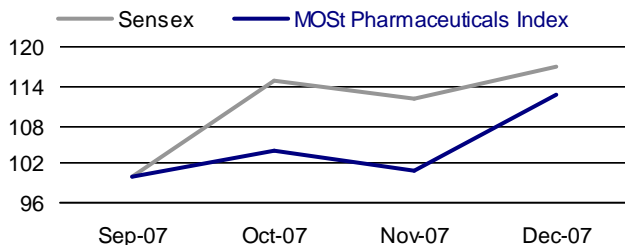
Source: Motilal Oswal Securities

Stock performance and valuations

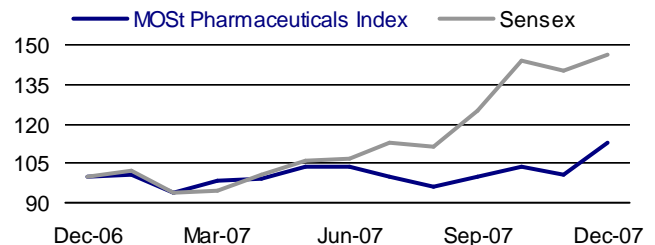
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Pharmaceuticals						
Aurobindo Pharma	-11	-23	-28	-69	-24	-35
Aventis Pharma	-4	-18	-21	-64	-17	-30
Biocon	22	57	5	11	9	44
Cadila Health	0	-12	-17	-57	-13	-24
Cipla	18	-15	1	-61	5	-28
Dishman Pharma	19	33	2	-13	6	20
Divis Labs	54	205	38	159	42	192
Dr Reddy's Labs	10	-11	-7	-57	-3	-23
GSK Pharma	-8	-12	-25	-58	-21	-24
Jubilant Organosys	10	48	-7	2	-3	35
Lupin	7	2	-10	-44	-6	-11
Nicholas Piramal	25	36	8	-10	12	23
Pfizer	11	5	-5	-41	-1	-8
Ranbaxy Labs	-4	5	-21	-41	-17	-7
Shasun Chemicals	-3	-21	-19	-67	-15	-34
Sun Pharma	25	24	8	-22	12	12
Wockhardt	-3	15	-20	-30	-16	3

RELATIVE PERFORMANCE - 3 MONTHS (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Pharmaceuticals														
Aurobindo Pharma	535	Sell	49.6	50.8	59.3	10.8	10.5	9.0	8.6	7.4	6.2	28.0	22.5	21.0
Aventis Pharma	1,122	Buy	61.4	63.6	67.8	18.3	17.6	16.5	12.5	11.0	9.1	21.2	19.7	19.1
Biocon	578	Buy	24.3	28.5	34.4	23.8	20.2	16.8	16.9	13.8	10.8	15.5	16.0	16.8
Cadila Health	310	Buy	20.7	25.8	31.8	15.0	12.0	9.7	9.3	7.7	6.3	27.0	27.0	26.9
Cipla	215	Neutral	7.9	9.5	11.4	27.2	22.7	18.8	20.9	17.9	14.7	16.5	17.1	17.8
Dishman Pharma	346	Buy	13.9	18.5	20.4	24.9	18.7	16.9	20.5	16.0	13.6	30.8	31.1	26.7
Divis Labs	1,880	Neutral	49.6	60.1	75.4	37.9	31.3	24.9	30.2	25.1	19.6	47.8	40.7	37.3
Dr Reddy's Labs	714	Buy	46.2	41.8	48.6	15.4	17.1	14.7	15.7	12.3	10.4	16.4	13.3	13.9
GSK Pharma	1,025	Buy	43.9	47.9	54.1	23.3	21.4	18.9	15.5	13.6	11.6	24.0	22.7	22.3
Jubilant Organosys	343	Buy	22.5	21.6	24.5	15.3	15.9	14.0	12.7	9.9	8.2	35.3	24.6	22.7
Lupin	627	Neutral	35.2	37.1	43.5	17.8	16.9	14.4	13.3	12.9	10.9	31.0	26.2	25.4
Nicholas Piramal	350	Buy	14.2	16.5	20.4	24.6	21.2	17.2	17.0	14.7	12.3	24.9	23.8	25.1
Pfizer	797	Neutral	45.3	46.8	51.2	17.6	17.0	15.6	10.3	9.2	7.9	18.7	14.4	14.4
Ranbaxy Labs	416	Buy	19.1	19.6	22.7	21.8	21.2	18.3	18.8	13.7	11.8	25.7	23.3	23.7
Shasun Chemicals	88	Buy	5.2	7.8	9.0	16.9	11.3	9.8	8.5	6.3	5.7	10.7	14.6	15.0
Sun Pharma	1,207	Buy	43.2	51.3	58.6	27.9	23.5	20.6	22.8	19.0	15.9	23.6	20.3	19.7
Wockhardt	403	Neutral	28.0	31.7	38.1	14.4	12.7	10.6	10.0	8.3	7.1	27.7	25.0	24.5
Sector Aggregate						20.6	18.8	16.0	16.6	13.7	11.4	22.9	20.6	20.6

Aurobindo Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ARBP IN
	REUTERS CODE
S&P CNX: 6,080	ARBN.BO

28 December 2007

Sell

Previous Recommendation: Sell

Rs535

Equity Shares (m)	53.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	820/486	END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	3/-71/-69	3/07A	21,229	2,010	29.4	262.0	18.2	3.2	22.7	8.3	2.0	14.4
M.Cap. (Rs b)	28.6	3/08E	26,608	3,393	49.6	68.9	10.8	2.4	28.0	13.0	1.5	8.6
M.Cap. (US\$ b)	0.7	3/09E	30,413	3,475	50.8	2.4	10.5	1.8	22.5	11.8	1.3	7.4
		3/10E	35,516	4,061	59.3	16.9	9.0	1.5	21.0	12.4	1.1	6.2

* Consolidated results

- Sales are expected to be at Rs6.2b, growth of 18.2% YoY on account of improved traction in Pen-G based business and incremental contribution from USA as well as higher ARV sales. EBITDA margins are expected to improve by 265bp to 17.5% due to improvement in market and product mix.
- Prices of Pen-G and related downstream products have increased YoY due to closure of some Pen-G facilities in China. We expect Aurobindo to benefit from the price increase due to access to captive Pen-G at its China unit. However, we also note that these prices have come-off sequentially.
- While the company has aggressively ramped up its filings in the regulated markets, we believe that it being a late entrant will have to play the price game to gain market share. We believe that it is currently in an investment mode as far as some of the European markets are concerned. Recovery in the Pen-G cycle should benefit the company's legacy business in the short-term. The stock is currently valued at 10.8x and 10.5x FY08E and FY09E earnings respectively. We maintain **Sell**.
- Our quarterly estimates are standalone, while annual estimates are on a consolidated basis.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,141	4,800	5,284	5,572	4,800	6,116	6,243	6,854	19,797	24,013
YoY Change (%)	47.6	50.2	29.2	20.3	15.9	27.4	18.2	23.0	34.5	21.3
Total Expenditure	3,483	4,109	4,499	4,920	4,260	5,038	5,151	5,482	17,011	19,931
EBITDA	659	691	785	652	539	1,078	1,093	1,373	2,786	4,082
Margins (%)	15.9	14.4	14.9	11.7	11.2	17.6	17.5	20.0	14.1	17.0
Depreciation	143	150	163	263	174	188	200	229	718	791
Interest	70	202	197	30	158	163	150	150	187	621
Other Income	60	267	263	152	444	499	60	29	431	1,031
PBT	506	606	688	511	651	1,225	803	1,023	2,312	3,701
Tax	7	48	52	-68	73	205	96	64	39	441
Deferred Tax	137	12	44	-234	-8	11	0	0	-41	3
Rate (%)	28.5	9.8	14.0	-58.9	10.0	17.6	12.0	6.3	-0.1	12.0
PAT	362	546	601	781	586	1,009	706	959	2,291	3,257
Adjusted PAT	362	546	592	781	586	1,009	706	959	2,263	3,257
YoY Change (%)	1,701.5	1,401.1	126.0	108.1	61.8	84.7	19.3	22.8	226.2	43.9
Margins (%)	8.7	11.4	11.2	14.0	12.2	16.5	11.3	14.0	11.4	13.6

E: MOST Estimates

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Aventis Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HOEC IN
	REUTERS CODE
S&P CNX: 6,080	HOEC.BO

28 December 2007

Buy

Rs 1,122

Previous Recommendation: Buy

Equity Shares (m)	23.0
52-Week Range	1,500/960
1,6,12 Rel. Perf. (%)	8/-61/-64
M.Cap. (Rs b)	25.8
M.Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	8,821	1,693	73.5	3.2	15.3	4.4	28.6	42.0	2.5	10.0
12/07E	8,653	1,414	61.4	-16.5	18.3	3.9	21.2	32.0	2.4	12.5
12/08E	8,995	1,464	63.6	3.6	17.6	3.5	19.7	29.9	2.3	11.0
12/09E	9,835	1,562	67.8	6.7	16.5	3.2	19.1	28.9	2.0	9.1

* Standalone results

- Sales are expected to de-grow by 10% YoY to Rs 1.9b due to lower Rabipur and Soframycin revenues in the domestic market. Exports are also expected to de-grow due to removal of some of the company's products from the federal reimbursement list in Russia and appreciation of the INR vs the US\$. The parent has commenced sourcing more products from APL and has identified it as a global sourcing base for some of its patent-expired products like Paracetamol. This is likely to lead to better performance on the export front over the long-term.
- EBITDA margins are likely to decline by 372bp to 16% due to higher contribution from mature brands like Combiflam and higher expenses related to increasing filed force for penetration in non-urban areas.
- PAT is expected to record 31% de-growth due to lower EBITDA margins and reduced other income. Higher tax rates are also likely to adversely impact the bottom-line.
- We believe that APL will be one of the key beneficiaries of the patent regime in the long-term. The parent has a strong R&D pipeline with a total of 125 products under development, of which 25 are in Phase-III. It plans to file 40 NDAs by CY10E. We continue to remain positive on APL's long-term prospects. We believe that, at 17.6x CY08E and 16.5x CY09E earnings, valuations are not demanding. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,005	2,228	2,431	2,176	2,129	2,302	2,264	1,958	8,840	8,653
YoY Change (%)	16.2	4.4	8.8	11.2	6.2	3.3	-6.9	-10.0	9.4	-2.1
Total Expenditure	1,513	1,609	1,744	1,749	1,635	1,857	1,818	1,647	6,633	6,957
EBITDA	492	619	687	427	494	445	446	311	2,207	1,696
Margins (%)	24.5	27.8	28.3	19.6	23.2	19.3	19.7	15.9	25.0	19.6
Depreciation	43	42	43	51	45	47	47	51	179	190
Interest	0	1	0	1	0	0	2	0	2	0
Other Income	96	90	156	111	200	182	176	80	471	638
PBT before EO Items	545	666	800	486	649	580	573	341	2,497	2,145
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0
PBT after EO Items	545	666	800	486	649	580	573	341	2,497	2,145
Tax	176	227	262	139	216	207	205	104	804	732
Effective tax Rate (%)	32.3	34.1	32.8	28.6	33.3	35.7	35.8	30.4	32.2	34.1
Reported PAT	369	439	538	347	433	373	368	238	1,693	1,414
Adj PAT	369	439	538	347	433	373	368	238	1,693	1,414
YoY Change (%)	56.4	28.4	8.2	-7.7	17.3	-15.0	-31.6	-31.5	16.7	-16.5
Margins (%)	18.4	19.7	22.1	15.9	20.3	16.2	16.3	12.1	19.2	16.3

E: MOST Estimates

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Biocon

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BIOS IN
	REUTERS CODE
S&P CNX: 6,080	BION.BO

28 December 2007

Buy

Rs578

Previous Recommendation: Buy

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	100.0	3/07A	9,863	2,002	20.0	15.1	28.9	5.4	18.7	17.0	6.0	20.7
52-Week Range	663/357	3/08E	11,663	2,432	24.3	21.5	23.8	3.7	15.5	13.8	4.8	16.9
1,6,12 Rel. Perf. (%)	-2/-10/11	3/09E	13,268	2,855	28.5	17.4	20.2	3.2	16.0	14.9	4.1	13.8
M.Cap. (Rs b)	57.8	3/10E	14,669	3,445	34.4	20.7	16.8	2.8	16.8	15.8	3.6	10.8
M.Cap. (US\$ b)	1.5											

- Biocon's 3QFY08 sales are expected to grow by 16% YoY to Rs2.9b led by statins supplies to the US and continued momentum in contract research services.
- EBITDA margins are likely to reduce by 352bp (to 27.9%) due to higher R&D and promotional spend as well as currency appreciation.
- Higher depreciation (up by 27% YoY) and higher interest cost (up by 86%) on account of commencement of new facility, is likely to restrict PAT growth to 10% at Rs616m.
- Biocon has recently divested its enzymes business to Novozymes for US\$115m. Since the sale is expected to be effective from 3QFY08, our estimates take into account the revenue impact of this divestment. However, we have not included the one-time cash inflow from this divestment into our estimates.
- While some of Biocon's initiatives look promising, as of now, the visibility of them is poor. Biocon is currently valued at 23.8x FY08E and 20.2x FY09E earnings. Launch of bio-generics in regulated markets remains the key long-term trigger; however, clarity on the regulatory pathway is still awaited from the US FDA. In the interim, Biocon's initiatives in the Insulin space are likely to be key growth drivers. Another re-rating trigger is the proposed listing of its contract research business over the next 12 months. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,120	2,490	2,470	2,782	2,710	2,790	2,867	3,295	9,862	11,663
YoY Change (%)	21.9	24.2	24.0	29.8	27.8	12.0	16.1	18.4	25.1	18.3
Total Expenditure	1,577	1,831	1,693	1,925	1,945	1,985	2,066	2,391	7,022	8,388
EBITDA	544	659	777	857	765	805	801	905	2,840	3,275
Margins (%)	25.6	26.5	31.5	30.8	28.2	28.8	27.9	27.4	28.8	28.1
Depreciation	109.7	177.5	182.8	195.3	216.4	233.6	233.0	233.4	665.3	916.4
Interest	16.7	21.6	21.6	34.5	27.5	26.7	40.0	51.8	94.5	146.0
Other Income	13.6	8.6	2.8	11.9	9.9	19.2	100.0	145.9	31.9	275.0
PBT	431	469	576	639	531	564	628	765	2,112	2,488
Tax	42	22	36	65	15	38	32	42	165	126
Rate (%)	9.8	4.8	6.2	10.2	2.8	6.7	5.1	5.5	7.8	5.1
Minority Interest	-5	-7	-20	-33	-14	-14	-20	-22	-63	-70
PAT	394	453	560	607	530	540	616	746	2,010	2,432
YoY Change (%)	1.8	4.1	27.7	26.9	34.5	19.0	10.0	22.9	15.5	21.0
Margins (%)	18.6	18.2	22.7	21.8	19.6	19.3	21.5	22.6	20.4	20.8

E: MOST Estimates

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Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CDH IN
	REUTERS CODE
S&P CNX: 6,080	CADI.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 310

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
		END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	125.6	3/07A	18,288	2,343	18.7	43.5	16.6	4.5	29.9	24.1	2.3	12.0
52-Week Range	412/285	3/08E	23,128	2,615	20.7	10.7	15.0	3.6	26.7	23.8	1.8	9.7
1,6,12 Rel. Perf. (%)	1/-57/-57	3/09E	27,088	3,246	25.8	25.1	12.0	2.9	27.0	23.7	1.5	8.1
M.Cap. (Rs b)	38.9	3/10E	30,880	3,994	31.8	23.0	9.7	2.4	26.9	24.2	1.3	6.7
M.Cap. (US\$ b)	1.0											

- Cadila's 3QFY08 revenue is expected to grow by 24% to Rs5.8b, driven by 42% growth in exports and 14.4% growth in domestic business.
- EBITDA margins are expected to remain almost flat at 17.7%, mainly due to higher material and staff costs and currency appreciation. This coupled with higher interest cost (up by 94%) would restrict PAT growth to 18% at Rs580m.
- Teva and Sun Pharma have recently received final US FDA approval for generic Protonix (Pantoprazole), which accounts for about 20% of Cadila's PAT. While these two players can potentially undertake a launch-at-risk, we do not rule out an out-of-court settlement between the innovator and the generic players. This will remove a significant overhang on Cadila's stock price.
- Cadila is currently valued at 15x FY08E and 12x FY09E consolidated earnings. Higher growth in the international business, turn-around in French operations, steady supplies to Altana coupled with a de-risked business model should augur well for the company. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Revenues	4,458	4,748	4,724	4,357	5,722	6,097	5,853	5,456	18,288	23,128
YoY Change (%)	19.5	27.3	27.8	25.9	28.4	28.4	23.9	25.2	23.2	26.5
Total Expenditure	3,560	3,658	3,901	3,646	4,610	4,780	4,816	4,549	14,767	18,756
EBITDA	898	1,090	823	711	1,112	1,317	1,037	907	3,521	4,373
Margins (%)	20.1	23.0	17.4	16.3	19.4	21.6	17.7	16.6	19.3	18.9
Depreciation	197	213	212	200	239	235	260	289	823	1,023
Interest	69	54	49	52	73	127	95	81	223	376
Other Income	49	3	0	15	94	0	0	6	264	100
PBT before EO Income	681	826	562	474	894	955	682	543	2,739	3,074
EO Exp/(Inc)	0	0	-196	0	0	24	0	0	0	24
PBT after EO Income	681	826	758	474	894	931	682	543	2,739	3,050
Tax	76	100	98	50	121	114	82	49	324	366
Rate (%)	11.2	12.1	12.9	10.5	13.5	12.2	12.0	9.1	11.8	12.0
Minority Int/Adj on Consol	21	21	1	35	34	16	20	20	77	90
Reported PAT	584	705	659	389	739	801	580	474	2,338	2,594
Adj PAT	584	705	488	389	739	822	580	474	2,338	2,615
YoY Change (%)	47.2	38.8	18.4	13.0	26.5	16.6	18.8	21.8	40.7	11.8
Margins (%)	13.1	14.8	10.3	8.9	12.9	13.5	9.9	8.7	12.8	11.3

E: MOST Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Cipla

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CIPLA IN
	REUTERS CODE
S&P CNX: 6,080	CIPL.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs215

Equity Shares (m)	777.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	262/160	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	11/-33/-61	3/07A	35,618	6,679	8.6	5.9	25.0	5.2	20.7	23.7	4.7	20.6
MCap. (Rs b)	167.0	3/08E	40,062	6,144	7.9	-7.9	27.2	4.5	16.5	18.6	4.2	20.9
MCap. (US\$ b)	4.2	3/09E	46,063	7,351	9.5	19.5	22.7	3.9	17.1	18.4	3.6	17.9
		3/10E	53,126	8,892	11.4	20.7	18.8	3.3	17.8	19.4	3.1	14.7

- ❖ Cipla's 3QFY08 revenues are expected to grow by 16% YoY to Rs10.25b, led mainly by a 27% growth in exports. We believe that the company is likely to have supplied Alendronate Sodium API to Ivax (Teva) during the quarter leading to higher export growth.
- ❖ EBITDA margin are expected to decline by 238bp to 22.5% mainly due to currency appreciation. Higher staff costs (up 26% YoY) and other expenses (up 43% YoY) are also likely to impact EBITDA margins.
- ❖ PAT is expected to de-grow by 7.3% to Rs1.7b due to the significant margin erosion, higher depreciation of new facilities which are currently not fully utilized, and increase in overall tax-rate.
- ❖ Cipla has one of the strongest generic pipelines with tie-ups for 108 products for the US (across 10 partners). The company is spending significant amount (about Rs19b) in expanding manufacturing facilities in the FY05-09 period. While we remain positive on Cipla's business prospects in long-term, we expect the stock price performance to remain muted in the short-term in-line with the company's muted guidance. At 27.2x FY08E and 22.7x FY09E EPS, we maintain our **Neutral** recommendation on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	8,636	8,961	8,805	9,319	9,018	10,984	10,251	9,809	35,618	40,062
YoY Change (%)	30.3	33.4	12.8	7.0	4.4	22.6	16.4	5.3	19.0	12.5
Total Expenditure	6,347	6,685	6,613	7,860	7,411	8,744	7,943	7,920	27,505	32,018
EBITDA	2,289	2,276	2,193	1,459	1,607	2,240	2,308	1,889	8,114	8,043
Margins (%)	26.5	25.4	24.9	15.7	17.8	20.4	22.5	19.3	22.8	20.1
Depreciation	260	245	275	254	303	328	330	345	1,034	1,305
Interest	28	16	13	13	8	24	35	46	70	113
Other Income	220	190	261	397	185	418	250	200	1,068	1,054
Profit before Tax	2,220	2,205	2,166	1,590	1,482	2,307	2,193	1,698	8,078	7,680
Tax	516	403	322	159	284	401	483	368	1,400	1,536
Rate (%)	23.2	18.3	14.9	10.0	19.2	17.4	22.0	21.6	17.3	20.0
Reported PAT	1,704	1,803	1,844	1,431	1,198	1,906	1,709	1,331	6,679	6,144
YoY Change (%)	53.0	47.0	5.2	-25.0	-29.7	5.7	-7.3	-7.0	9.9	-8.0
Margins (%)	19.7	20.1	20.9	15.4	13.3	17.4	16.7	13.6	18.8	15.3

E: MOST Estimates

Dishman Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	DISH IN
	REUTERS CODE
S&P CNX: 6,080	DISH.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 346

Equity Shares (m)	81.6	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	352/194	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	24/-27/-13	3/07A	5,750	893	11.0	94.1	31.5	7.9	35.4	15.6	5.8	29.9
MCap. (Rs b)	28.2	3/08E	8,035	1,129	13.9	26.5	24.9	6.0	30.8	15.8	4.3	20.5
MCap. (US\$ b)	0.7	3/09E	9,735	1,501	18.5	32.9	18.7	4.6	31.1	16.7	3.5	16.0
		3/10E	10,971	1,661	20.4	10.7	16.9	3.6	26.7	17.1	3.0	13.6

- Dishman's 3QFY08 revenues are expected to grow by 22% YoY to Rs2.1b, led by continued momentum in CRAMS business and improvement in supplies to Solvay.
- EBITDA margins are expected to decline by 680bp to 21.3% due to currency appreciation, consolidation of Carbogen-AMCIS acquisition and one-time adjustments, which boosted margins for 3QFY07.
- PAT growth is likely to be tempered down to 11% at Rs271m.
- We believe that Dishman will be one of the key beneficiaries of the increased pharmaceutical outsourcing from India. Expansion of customer base (to reduce dependence on Solvay) and ability to offer the complete range of services across the CRAMS value chain should benefit the company in the long-term. The stock is currently valued at 24.9x FY08E and 18.7x FY09E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	822	1,170	1,736	2,057	1,680	1,866	2,115	2,374	5,786	8,035
YoY Change (%)	34.7	71.0	180.3	139.1	104.2	59.5	21.8	15.4	108.5	38.9
Total Expenditure	620	924	1,248	1,840	1,406	1,461	1,665	1,833	4,632	6,364
EBITDA	202	246	488	218	274	405	450	541	1,154	1,671
Margins (%)	24.6	21.0	28.1	10.6	16.3	21.7	21.3	22.8	19.9	20.8
Depreciation	34	41	156	31	89	111	110	102	263	412
Interest	9	38	72	44	61	72	73	71	162	277
Other Income	34	42	34	122	107	91	30	32	232	260
PBT after EO Income	193	209	294	265	230	314	297	399	961	1,241
Tax	8	39	43	-77	4	32	24	39	13	99
Deferred Tax	0	2	7	9	12	0	3	-3	19	12
Rate (%)	4.3	19.6	17.1	-25.4	7.0	10.3	9.0	9.2	3.3	9.0
Reported PAT	185	168	244	332	214	282	271	363	929	1,129
YoY Change (%)	96.4	23.4	25.8	634.1	15.7	67.8	10.9	9.2	97.9	21.6
Margins (%)	22.5	14.3	14.1	16.2	12.7	15.1	12.8	15.3	16.1	14.1

E: MOST Estimates

Divi's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	DIVI IN
	REUTERS CODE
S&P CNX: 6,080	DIVI.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs 1,880

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	64.6	3/07A	7,244	1,919	29.7	172.1	63.2	22.4	43.5	40.0	16.9	49.9
52-Week Range	1,901/513	3/08E	10,024	3,201	49.6	66.8	37.9	15.2	47.8	46.0	12.2	30.2
1,6,12 Rel. Perf. (%)	10/21/159	3/09E	12,130	3,879	60.1	21.2	31.3	10.9	40.7	41.2	10.0	25.1
MCap. (Rs b)	121.3	3/10E	15,188	4,864	75.4	25.4	24.9	8.1	37.3	39.1	7.8	19.6
MCap. (US\$ b)	3.1											

- Divi's 3QFY08 revenues are expected to grow by 61% YoY to Rs2.4b, led by continued momentum in both the generics and custom chemical synthesis (CCS) business.
- EBITDA margins are expected to improve by 850bp to 36.9% led mainly by higher CCS revenues.
- Commissioning of new SEZ facilities will lead to higher depreciation (up 45%). Currency appreciation is also likely to have some adverse impact on operational performance. PAT growth is expected at 109% at Rs684m.
- We believe that Divi's will be one of the key beneficiaries of the increased pharmaceutical outsourcing from India. Established relationships with the top 20 innovator pharmaceutical companies should help the company in procuring more outsourcing business as well as in spreading the business risk across customers. We believe that low cost of operations is a significant driver for Divi's profitability. The stock is currently valued at 37.9x FY08E and 31.3x FY09E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Op Revenue	1,608	1,614	1,496	2,526	2,281	2,425	2,406	2,912	7,244	10,024
YoY Change (%)	148.8	98.3	38.6	98.8	41.8	50.3	60.8	15.3	90.1	38.4
Total Expenditure	1,148	1,179	1,071	1,387	1,438	1,375	1,518	1,633	4,784	5,964
EBITDA	461	435	425	1,139	843	1,050	887	1,279	2,460	4,059
Margins (%)	28.6	26.9	28.4	45.1	36.9	43.3	36.9	43.9	34.0	40.5
Depreciation	43	42	59	80	86	78	85	89	223	338
Interest	21	6	38	41	34	32	42	58	106	166
Other Income	44	34	25	34	34	15	17	15	136	82
PBT	441	421	353	1,052	757	956	777	1,147	2,267	3,637
Tax	167	114	-1	54	49	1	93	293	334	436
Deferred Tax	6	-6	27	-14	36	42	0	-78	14	0
Rate (%)	39.4	25.7	7.3	3.8	11.1	4.5	12.0	18.8	15.3	12.0
Adj PAT	267	313	327	1,012	673	913	684	931	1,919	3,201
YoY Change (%)	109.6	96.2	73.2	341.9	151.6	191.7	109.0	-7.9	172.3	66.8
Margins (%)	16.6	19.4	21.9	40.0	29.5	37.6	28.4	32.0	26.5	31.9

E: MOST Estimates

Dr Reddy's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	DR IN
	REUTERS CODE
S&P CNX: 6,080	REDY.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 714

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	167.9										
52-Week Range (Rs)	835/580										
1,6,12 Rel. Perf. (%)	10/-30/-57										
M.Cap. (Rs b)	119.8										
M.Cap. (US\$ b)	3.0										
	3/07A	65,095	9,323	55.5	521.1	12.9	2.9	22.4	14.3	1.9	8.7
	3/08E	49,168	7,764	46.2	-16.7	15.4	2.5	16.4	9.8	2.5	15.7
	3/09E	55,529	7,023	41.8	-9.5	17.1	2.3	13.3	10.3	2.2	12.3
	3/10E	61,873	8,160	48.6	16.2	14.7	2.0	13.9	11.4	1.9	10.4

- Dr Reddy's 3QFY08 sales are expected to de-grow by 22% YoY to Rs 12b, mainly due to absence of authorized generic and other one-time revenues (which contributed Rs 4.4b to 3QFY07 sales). Excluding this one-time impact revenues are expected to record only 8% growth, mainly due to pressure on German operations and currency appreciation.
- Overall gross margins are expected to improve by 780bp (to 51%) due to lower base of 3QFY07 (resulting from the authorized generic sales). EBITDA margins are also likely to improve by 200bp to 18% due to absence of low-margin authorized generic revenues. Higher tax rate (11% of PBT v/s tax write-back for 3QFY07) is likely to temper down the impact of margin expansion resulting in a PAT decline of 25.6% to Rs 1.39b.
- DRL is currently valued at 15.4x FY08E and 17.1x FY09E consolidated earnings. We believe that while current valuations reflect the intense pricing pressure in regulated generic markets (including Germany), they are not discounting the improvement in DRL's core business and the growth traction in the semi-regulated markets (which enjoy better margins compared with the US generic markets). We maintain **Buy**.

GLOBAL QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	14,049	20,039	15,434	15,573	12,018	12,669	11,995	12,486	65,095	49,168
YoY Change (%)	151.3	247.1	161.7	124.7	-14.5	-36.8	-22.3	-19.8	168.2	-24.5
EBITDA	2,210	4,220	2,464	5,470	2,132	1,461	1,859	2,415	14,361	7,867
Margins (%)	15.7	21.1	16.0	35.1	17.7	11.5	15.5	19.3	22.1	16.0
Depreciation & Amortization	388	402	330	2,221	351	410	350	389	3,341	1,500
Other Income	-216	-287	-281	264	231	372	62	86	-520	751
Profit before Tax	1,606	3,531	1,853	3,513	2,012	1,423	1,571	2,112	10,500	7,118
Tax	208	737	-27	260	181	-1,248	173	248	1,177	-646
Rate (%)	13.0	20.9	-1.5	7.4	9.0	-87.7	11.0	11.8	11.2	-9.1
Reported PAT	1,398	2,794	1,880	3,253	1,831	2,671	1,398	1,864	9,323	7,764
Minority Interest	0	-4	0	-1	3	1	0	-4	-4	0
EO (Exp)/Inc	42	0	0	0	0	0	0	0	42	0
Adjusted PAT	1,356	2,798	1,880	3,254	1,828	2,670	1,398	1,868	9,285	7,764
YoY Change (%)	255.0	215.4	407.6	-	34.8	-4.6	-25.6	-42.6	576.6	-16.4
Margins (%)	9.7	14.0	12.2	20.9	15.2	21.1	11.7	15.0	14.3	15.8

E: MOST Estimates

GlaxoSmithKline Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GLXO IN
	REUTERS CODE
S&P CNX: 6,080	GLAX.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 1,025

Equity Shares (m)	84.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range (Rs)	1,340/935	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-7/-60/-58	12/06A	15,384	3,617	42.7	18.1	24.0	7.3	30.3	46.4	4.9	15.8
MCap. (Rs b)	86.8	12/07E	15,359	3,721	43.9	2.9	23.3	5.6	24.0	37.3	4.7	15.5
MCap. (US\$ b)	2.2	12/08E	16,895	4,058	47.9	9.0	21.4	4.9	22.7	34.8	4.2	13.6
		12/09E	18,922	4,585	54.1	13.0	18.9	4.2	22.3	34.3	3.6	11.6

- GSK Pharma's 4QCY07 net sales are expected to de-grow by 2.3% to Rs3b, due to the recent divestment of fine chemicals business.
- EBITDA margins are expected to decline by 447bp to 21.6% due to the divestment of the fine chemicals business and higher staff costs. PAT is expected to record 10% de-growth to Rs616m.
- GSK is focused on strengthening its presence in lifestyle disease segment of CVS, CNS, diabetes etc, by in-licensing products and evaluating brand acquisitions in the domestic market.
- GSK Pharma is one of the best plays on the IPR regime with planned launches of 9 patented/exclusive products in CY08-09 period. Our estimates for CY08E take into account the additional marketing and promotional expenditure linked to launch of patented products and divestment of animal healthcare division. Valuations at 21.4x CY08E and 18.9x CY09E earnings do not fully reflect the strong parentage, cash-rich operations and the 'option value' created from product patent regime in the long-term. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	4,254	4,041	3,970	3,119	4,203	3,915	4,193	3,048	15,384	15,359
YoY Change (%)	54.0	-13.1	-3.9	-1.8	-1.2	-3.1	5.6	-2.3	4.6	-0.2
Total Expenditure	2,843	2,789	2,688	2,305	2,753	2,692	2,826	2,389	10,617	10,660
EBITDA	1,411	1,252	1,283	814	1,450	1,223	1,366	659	4,767	4,699
Margins (%)	33.2	31.0	32.3	26.1	34.5	31.2	32.6	21.6	31.0	30.6
Depreciation	38	39	41	41	37	37	38	40	159	152
Other Income	222	183	254	299	272	312	339	344	965	1,267
PBT before EO Expense	1,596	1,396	1,496	1,072	1,686	1,498	1,667	963	5,560	5,814
Tax	567	475	499	348	563	502	555	347	1,889	2,030
Deferred Tax	-6	10	6	43	10	32	22	0	53	63
Rate (%)	35.2	34.8	33.8	36.4	34.0	35.6	34.6	36.1	34.9	36.0
Adjusted PAT	1,034	911	991	682	1,113	964	1,091	616	3,617	3,721
YoY Change (%)	88.9	-13.6	4.4	33.0	7.6	5.9	10.1	-9.7	18.1	2.9
Margins (%)	24.3	22.5	25.0	21.9	26.5	24.6	26.0	20.2	23.5	24.2
Extra-Ord Expense	22	0	-1,864	4	0	0	-1,399	0	-1,838	-1,399
Reported PAT	1,012	911	2,854	678	1,113	964	2,490	616	5,455	5,120

E: MOST Estimates

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Jubilant Organosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	JOL IN
	REUTERS CODE
S&P CNX: 6,080	JUBO.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 343

Equity Shares (m)	144.0	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	378/227	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	6/-29/2	3/07A	18,097	2,280	12.4	44.0	27.7	5.5	26.4	15.4	3.2	17.9
MCap. (Rs b)	49.4	3/08E	24,492	4,144	22.5	81.7	15.3	3.4	35.3	17.1	2.3	12.7
MCap. (US\$ b)	1.3	3/09E	29,171	3,976	21.6	-4.0	15.9	2.8	24.6	14.1	1.8	9.9
		3/10E	33,487	4,518	24.5	13.6	14.0	2.3	22.7	14.5	1.5	8.2

- Jubilant's 3QFY08 sales are expected to grow by 41% to Rs6.6b, driven by robust growth in CRAMS business and consolidation of the Hollister acquisition, resulting in Pharma & Life Sciences business growing by 62% to Rs3.8b.
- EBIDTA margin are expected to decline by 50bp to 18.6%, reflecting higher power and fuel costs and currency appreciation.
- Despite better top-line growth, higher depreciation and interest cost is likely to temper down PAT growth to 37% at Rs875m.
- Despite the currency appreciation, EBITDA margins are expected to be stable at 17.7%, with the growing share of Pharma & Life Sciences business and easing raw material prices. This, along with healthy growth in revenues, would lead to a 24% CAGR in fully diluted earnings over FY07-09E. Valuations of 15.3x FY08E and 15.9x FY09E earnings do not reflect the higher growth potential of the CRAMS business and upsides from acquisitions. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,112	4,659	4,693	4,633	5,400	6,183	6,633	6,276	18,097	24,492
YoY Change (%)	25.9	40.5	10.8	9.6	31.3	32.7	41.3	35.5	20.7	35.3
Total Expenditure	3,367	3,858	3,795	3,836	4,448	5,050	5,400	5,196	14,902	20,094
EBITDA	745	801	898	797	952	1,133	1,233	1,080	3,195	4,398
Margins (%)	18.1	17.2	19.1	17.2	17.6	18.3	18.6	17.2	17.7	18.0
Depreciation	146	153	158	166	194	237	240	244	623	915
Interest	55	37	49	54	84	109	130	178	195	501
Other Income	44	145	168	173	996	385	150	189	576	1,720
PBT after EO Expense	588	756	859	750	1,670	1,172	1,013	846	2,953	4,701
Tax	139	215	236	122	273	76	130	109	712	588
Rate (%)	23.6	28.4	27.5	16.3	16.3	6.5	12.8	12.8	24.1	12.5
PAT	449	541	623	628	1,397	1,096	883	738	2,241	4,114
Minority Interest	-12	-3	-14	-10	-32	-4	8	-2	-39	-30
Adjusted PAT	461	544	637	638	1,429	1,100	875	739	2,280	4,144
YoY Change (%)	116.4	118.5	74.0	32.4	210.0	102.2	37.4	15.9	75.8	81.7
Margins (%)	11.2	11.7	13.6	13.8	26.5	17.8	13.2	11.8	12.6	16.9

E: MOST Estimates

Lupin

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	LPC IN
	REUTERS CODE
S&P CNX: 6,080	LUPN.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs 627

Equity Shares (m)	80.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	755/520	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	11/-53/-44	3/07A	20,057	2,327	26.4	23.0	23.8	5.8	31.1	20.1	2.8	18.9
MCap. (Rs b)	50.4	3/08E	25,370	3,102	35.2	33.3	17.8	4.5	31.0	22.7	2.2	13.3
MCap. (US\$ b)	1.3	3/09E	27,667	3,276	37.1	5.6	16.9	3.7	26.2	20.5	1.9	12.9
		3/10E	30,894	3,838	43.5	17.2	14.4	3.0	25.4	21.0	1.7	10.9

- Lupin's 3QFY08 revenues are expected to grow by 30.7% YoY to Rs 6.6b, driven by continued momentum in domestic formulations business, as well as formulation exports (both regulated and unregulated markets). The company has piled-up significant inventory (in the past quarters) for its US operations to cater to the higher winter demand (for Cephalosporins) thus leading to higher growth for its regulated market portfolio.
- EBITDA margins are expected to decline by 40bp YoY to 17.4% due to currency appreciation. Bottom-line is expected to record 52% growth YoY as we believe that supplies to regulated markets are expected to be made from tax-exempt facilities.
- We expect 17% sales and 19% EPS CAGR in the FY07-09 period. While we continue to remain positive about Lupin's growth prospects (particularly in regulated markets), we believe that FY09 performance is likely to be adversely impacted due to expected competition for Cefdinir and reversal of the Pen-G cycle. The stock is currently valued at 17.8x FY08E and 16.9x FY09E earnings. We maintain **Neutral** rating.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	5,044	4,886	5,054	5,318	5,757	6,590	6,608	6,415	20,137	25,370
YoY Change (%)	-	-	-	-	14.1	34.9	30.7	20.6	18.8	26.0
Total Expenditure	4,395	4,123	4,154	4,542	4,936	5,464	5,461	5,388	17,215	21,249
EBITDA	649	763	901	776	821	1,126	1,148	1,027	2,922	4,121
Margins (%)	12.9	15.6	17.8	14.6	14.3	17.1	17.4	16.0	14.5	16.2
Depreciation	107	112	121	126	127	140	140	142	466	550
Interest	92	93	89	98	89	80	103	147	372	420
Other Income	217	171	99	1,338	159	188	170	208	1,991	725
PBT	667	728	789	1,890	764	1,094	1,075	945	4,075	3,878
Tax	131	210	169	479	206	338	130	102	988	776
Rate (%)	19.6	28.8	21.4	25.3	26.9	30.9	12.1	10.8	24.3	20.0
Reported PAT	536	518	620	1,411	558	756	945	843	3,086	3,102
Extra-Ordinary Exp/(Inc)	0	0	0	-759	0	0	0	0	-759	0
Recurring PAT	536	518	620	652	559	756	945	843	2,327	3,102
YoY Change (%)	-	-	-	-	4.4	45.9	52.3	29.3	34.5	33.3
Margins (%)	10.6	10.6	12.3	12.3	9.7	11.5	14.3	13.1	11.6	12.2

E: MOST Estimates

Nicholas Piramal

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	NP IN
	REUTERS CODE
S&P CNX: 6,080	NICH.BO

28 December 2007

Buy

Rs 350

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	209.0										
52-Week Range	383/195										
1,6,12 Rel. Perf. (%)	7/-17/-10										
M.Cap. (Rs b)	73.2										
M.Cap. (US\$ b)	1.9										
	3/07A	24,202	2,319	11.0	85.4	31.9	7.0	23.1	19.8	3.3	23.8
	3/08E	28,630	2,973	14.2	29.7	24.6	5.5	24.9	19.9	2.8	17.0
	3/09E	31,583	3,448	16.5	16.0	21.2	4.7	23.8	20.2	2.5	14.7
	3/10E	34,363	4,267	20.4	23.7	17.2	4.0	25.1	22.3	2.2	12.3

- NPIL is expected to report revenue growth of 17% to Rs 7.6b in 3QFY08, driven mainly by higher growth in CRAMS supplies from India.
- EBITDA margins are expected to expand by 110bp YoY to 16% driven by commencement of supplies under the Fortune 500 contract.
- While higher depreciation and interest costs are likely to partly temper down the impact of EBITDA margin expansion, significant reduction in tax-rate (due to higher sales from tax-exempt facilities) is likely to boost PAT growth to 42% at Rs 786m. Our estimates do not take into account the proposed de-merger of the company's NCE Research.
- Increasing visibility in CRAMS, turnaround at Avecia and higher growth in the domestic portfolio, would act as catalysts for the stock. Long-term value un-locking for investors can happen through out-licensing of some of the NCE molecules. Valuations at 24.6x FY08E and 21.2x FY09E (17.3x FY08E and 15.3x FY09E adjusted for NCE de-merger) do not fully reflect these triggers. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	5,226	6,547	6,495	6,452	6,081	7,566	7,591	7,312	24,719	28,630
YoY Change (%)	31.2	79.3	61.3	52.9	16.4	15.6	16.9	13.3	55.0	15.8
Total Expenditure	4,348	5,409	5,525	5,603	5,240	6,317	6,375	6,045	20,885	23,977
EBITDA	877	1,138	971	849	841	1,249	1,217	1,267	3,835	4,653
Margins (%)	16.8	17.4	14.9	13.2	13.8	16.5	16.0	17.3	15.5	16.3
Depreciation	228	244	222	158	249	263	285	317	818	1,114
Interest	46	76	88	96	111	111	115	122	305	459
Other Income	0	2	2	54	20	80	58	66	58	224
PBT before EO Expense	604	820	663	649	500	955	875	894	2,770	3,304
Extra-Ord Expense	0	-76	-2	12	3	27	0	0	43	30
PBT after EO Expense	604	896	665	638	497	928	875	894	2,727	3,273
Tax	13	172	59	-2	18	127	81	77	231	303
Deferred Tax	51	9	51	36	45	-47	7	22	158	27
Rate (%)	10.7	20.2	16.5	5.3	12.7	8.6	10.1	11.1	14.3	10.1
PAT	539	715	556	604	434	848	786	795	2,338	2,943
Less: Minority Interest	1	0	0	0	0	0	0	0	1	0
Reported PAT	539	715	556	604	434	848	786	795	2,337	2,943
Adj PAT	539	654	554	615	437	872	786	795	2,374	2,970
YoY Change (%)	11.9	22.8	129.9	318.8	-18.8	33.3	42.0	29.3	87.0	25.1

E: MOST Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Pfizer

Neutral

Rs 797

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	PFIZ IN
	REUTERS CODE
S&P CNX: 6,080	PFIZ.BO

28 December 2007

Previous Recommendation: Neutral

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	29.8										
52-Week Range	925/635										
1,6,12 Rel. Perf. (%)	16/-43/-41										
M.Cap. (Rs b)	23.79										
M.Cap. (US\$ b)	0.6										
	11/06A	6,859	1,210	40.5	46.3	19.7	5.4	27.5	43.6	3.0	12.5
	11/07E	6,757	1,351	45.3	11.7	17.6	3.3	18.7	28.8	2.6	10.3
	11/08E	6,707	1,396	46.8	3.3	17.0	2.5	14.4	22.0	2.3	9.2
	11/09E	7,377	1,528	51.2	9.4	15.6	2.2	14.4	21.8	1.9	7.9

- Pfizer's revenues for 1QFY08E (year end November 2008) are expected to de-grow by 4.3% to Rs 1.5b, due to de-growth in the consumer healthcare business, Codeine short-supply for Corex (a key product accounting for almost 20% of revenues) and sale/discontinuation of certain products like Protinex, Abdec and Pyridium.
- EBITDA margins are likely to decline by 192bp to 24.7% due to increase in material costs and higher base effect of 1QFY07.
- Pfizer (USA) has divested its consumer healthcare business to Johnson & Johnson, which will result in of divestment of its domestic consumer healthcare business in favor of Johnson & Johnson. We estimate divestment to result in loss of sales at Rs 1-1.2b and reduction in PAT by Rs 260m (EPS of Rs 9/share) on annualized basis. The management is yet to take a final decision on the mode of this divestment in India.
- Valuations at 19.8x FY08E and 17.8x FY09E (after adjusting for a divestment of the Consumer Healthcare division in FY08E) adequately reflect Pfizer's business fundamentals. However, we note that that company will have cash of about Rs 6.2b on its books (including the proceeds from the recently divested Chandigarh facility) and may receive an additional Rs 2b from the divestment of the consumer healthcare business. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E NOVEMBER	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Revenues	1,603	1,703	1,800	1,651	1,684	1,613	1,757	1,652	6,757	6,707
YoY Change (%)	4.4	-1.5	-3.0	-6.4	5.1	-5.3	-2.4	0.1	-1.5	-0.7
Total Expenditure	1,176	1,295	1,327	1,236	1,207	1,198	1,276	1,382	5,034	5,064
EBITDA	427	408	474	415	478	414	481	270	1,723	1,643
Margins (%)	26.6	24.0	26.3	25.1	28.4	25.7	27.4	16.3	25.5	24.5
Depreciation	27	30	23	30	30	33	35	40	110	139
Interest	0	0	0	0	0	0	0	0	0	0
Other Income	67	118	130	138	130	135	140	226	453	631
PBT before EO Items	467	496	580	523	578	516	586	455	2,066	2,135
EO Expense/(Income)	26	-2,711	96	100	20	20	20	18	-2,490	78
PBT after EO Items	441	3,207	484	424	558	496	566	438	4,556	2,057
Tax	158	629	176	107	194	172	197	520	1,070	1,083
Rate (%)	35.9	19.6	36.3	44.7	34.7	34.7	34.7	138.4	25.3	56.8
Reported PAT	283	2,578	308	234	364	324	369	-168	3,403	889
YoY Change (%)	14.1	618.2	9.8	37.7	28.7	-87.4	19.8	-171.7	221.9	-73.9
PAT adj. for Excep Items	305	324	379	342	378	338	383	298	1,351	1,396
YoY Change (%)	5.2	11.6	17.2	49.8	23.8	4.0	1.1	-13.0	11.7	3.3
Margins (%)	19.0	19.1	21.1	20.7	22.4	20.9	21.8	18.0	20.0	20.8

E: MOST Estimates; FY08 estimates adjusted for consumer healthcare divestment. Historic numbers include consumer healthcare

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Ranbaxy Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	RBXY IN
	REUTERS CODE
S&P CNX: 6,080	RANB.BO

28 December 2007

Buy

Rs416

Previous Recommendation: Buy

Equity Shares (m)	372.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range (Rs)	490/306	END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	0/-20/-41	12/06A	61,377	5,103	12.8	135.8	32.6	6.0	19.8	11.4	3.1	21.7
M.Cap. (Rs b)	154.9	12/07E	68,688	7,621	19.1	49.3	21.8	5.2	25.7	10.9	2.7	18.8
M.Cap. (US\$ b)	3.9	12/08E*	79,109	7,826	19.6	2.7	21.2	4.6	23.3	13.7	2.3	13.7
		12/09E*	91,784	9,066	22.7	15.9	18.3	4.1	23.7	14.9	2.0	11.8

* Excludes upsides from FTF products

- Ranbaxy is expected to report only 3% YoY growth in revenues to Rs18.2b in 4QCY07 due to higher base of 4QCY06 and currency appreciation. In fact, in US\$-terms, revenues are expected to grow by 21% driven primarily by higher growth in semi-regulated markets (including Romania) and a recovery in the US portfolio (led by new launches).
- EBITDA margins are expected to improve by 70bp to 15.7% due to higher traction in semi-regulated markets, which enjoy higher margins and forward cover gains.
- Higher depreciation (up 21%) and interest cost (up 54%) coupled with lower other income (down 33%) is likely to result in PAT de-growth of 1% to Rs1.8b for the quarter.
- We believe that the worst is over for Ranbaxy and expect a gradual improvement in performance. Ranbaxy's current stock price is not factoring-in the potential leverage arising out of a strong product pipeline, the profitable growth from semi-regulated markets, value unlocking from its Para-IV pipeline and the incremental upsides from a potential merger of NCE/NDDS research (incremental EPS of Rs2/share). Ranbaxy is currently valued at 21.2x CY08E and 18.3x CY09E earnings (excluding patent challenges). An appreciating currency and possibility of expensive acquisitions remain as key risks. Our estimates do not include upsides from FTF opportunities. Reiterate **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06#				CY07				CY06#	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Income	12,922	14,562	16,087	17,769	15,821	16,853	17,731	18,283	61,349	68,688
YoY Change (%)	9.2	6.9	18.4	24.3	22.4	15.7	10.2	2.9	15.5	12.0
EBITDA	1,423	2,648	2,697	2,665	1,908	2,265	2,832	2,866	8,740	9,871
Margins (%)	11.0	18.2	16.8	15.0	12.1	13.4	16.0	15.7	14.2	14.4
Depreciation	427	457	496	531	557	565	613	644	1,843	2,379
Interest	257	277	299	247	313	351	394	380	1,036	1,438
Other Income	114	-355	106	484	604	2,051	543	324	649	3,522
PBT before EO Expense	853	1,559	2,008	2,371	1,642	3,400	2,368	2,166	6,510	9,576
Extra-Ord Expense	0	0	226	0	0	0	-223	0	0	-223
PBT after EO Expense	853	1,559	1,782	2,371	1,642	3,400	2,591	2,166	6,510	9,799
Tax	135	336	378	512	355	738	516	351	1,357	1,960
Rate (%)	15.8	21.6	21.2	21.6	21.6	21.7	19.9	16.2	20.8	20.0
Reported PAT	718	1,223	1,404	1,859	1,287	2,662	2,075	1,815	5,153	7,839
Minority Interest	4	12	11	26	11	27	0	2	50	40
Adj PAT after Minority Int.	714	1,211	1,571	1,833	1,276	2,635	1,897	1,813	5,103	7,621
YoY Change (%)	0.8	19.5	753.8	513.7	78.7	117.6	20.7	-1.1	135.8	49.3
Margins (%)	5.5	8.3	9.8	10.3	8.1	15.6	10.7	9.9	8.3	11.1

E: MOST Estimates; # includes upsides from FTF products. Quarterly figures do not add up to annual numbers due to impact of forex gains

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Shasun Chemicals

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SSCD IN
	REUTERS CODE
S&P CNX: 6,080	SHAS.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs88

Equity Shares (m)	48.2
52-Week Range	157/64
1,6,12 Rel. Perf. (%)	23/-80/-67
M.Cap. (Rs b)	4.2
M.Cap. (US\$ b)	0.1

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	7,719	14	0.3	N.A.	-	1.9	0.7	3.1	0.8	21.6
3/08E	8,726	251	5.2	1,737.8	16.9	1.7	10.7	10.2	0.7	8.5
3/09E	10,000	376	7.8	50.0	11.3	1.6	14.6	13.1	0.7	6.3
3/10E	11,353	433	9.0	15.1	9.8	1.4	15.0	13.0	0.6	5.7

- Shasun is expected to report a 23% YoY growth in revenues to Rs2.3b in 3QFY08 led by strong growth in CRAMS business from India and recovery in Ranitidine supplies. We expect the UK operations to revert back to normalcy after the one-time impact of production problems experienced in 2QFY08.
- EBITDA margins are expected to improve by 267bp to 10% on a significantly low base of last year. Margin expansion will be partly tempered down by currency appreciation. Better margin profile is expected to result in a 264% improvement in PAT to Rs104m albeit on a significant low base of last year.
- Shasun's operations are likely to undergo a gradual transformation, led by higher revenues from CRAMS and commercialization of the company's generics pipeline. Although, the decline in Nizatidine supplies and the recent currency appreciation is likely to negatively impact Shasun's stand-alone earnings for FY08E, we believe that its CRAMS initiatives (both in UK and India) can bring in long-term benefits. At 16.9x FY08E and 11.3x FY09E consolidated EPS, we believe valuations are attractive and partly discount the de-growth in India operations. Any further appreciation of INR and GBP vs the US\$ remains a key risk. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	1,485	2,033	1,882	2,328	2,009	1,930	2,312	2,474	7,729	8,726
YoY Change (%)	98.0	140.9	89.6	134.8	35.3	-5.1	22.9	6.3	116.0	12.9
Total Expenditure	1,553	1,926	1,747	2,214	1,861	1,993	2,084	2,060	7,440	7,999
EBITDA	-68	108	135	114	148	-63	228	414	289	727
Margins (%)	-4.6	5.3	7.2	4.9	7.4	-3.3	9.9	16.7	3.7	8.3
Depreciation	69	67	70	53	79	79	85	105	259	348
Interest	14	27	25	25	31	36	40	50	91	157
Other Income	4	5	-8	76	18	14	11	17	76	60
PBT	84	199	128	161	57	-109	121	283	572	352
Tax	9	39	12	-15	9	-31	10	1	23	31
Deferred Tax	0	0	0	0	-1	0	0	10	23	8
Rate (%)	11.2	19.6	9.2	-9.3	14.7		8.2	3.9	7.9	11.2
Adj. PAT	-130	15	29	121	49	-164	104	265	14	251
YoY Change (%)	-397.9	-77.0	-79.2	-14.6	-137.7	-1,224.0	264.2	118.6	-95.8	1,737.8
Margins (%)	-8.7	0.7	1.5	5.2	2.4	-8.5	4.5	10.7	0.2	2.9

E: MOST Estimates

Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SUNP IN
	REUTERS CODE
S&P CNX: 6,080	SUN.BO

28 December 2007

Buy

Rs 1,207

Previous Recommendation: Buy

Equity Shares (m)	193.4
52-Week Range	1,265/886
1,6,12 Rel. Perf. (%)	3/-20/-22
M.Cap. (Rs b)	233.5
M.Cap. (US\$ b)	5.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	20,792	7,842	37.9	36.8	31.9	8.4	35.9	22.7	11.0	34.0
3/08E	24,975	8,949	43.2	14.1	27.9	5.2	23.6	22.8	8.1	22.8
3/09E	29,282	10,622	51.3	18.7	23.5	4.4	20.3	22.1	6.7	19.0
3/10E	33,957	12,143	58.6	14.3	20.6	3.7	19.7	21.3	5.5	15.9

- ☞ Sun's 3QFY08 revenues are expected to grow by 19% YoY to Rs6.3b, driven by 22% YoY growth in international sales and 16% growth in domestic sales.
- ☞ EBITDA margins are expected to improve by 200bp to 35% due to lower material and R&D expenses (due to merger of NCE Research). However, lower other income and higher tax outgo (tax rate of 2% of PBT v/s tax write-back for 3QFY07) is likely to temper down PAT growth to 12.5% to Rs2.2b.
- ☞ The de-merged R&D entity of SPIL, SPARC is currently working on 4 NCE and 12 NDDS products, with earliest launch expected in 2009 for one of the NDDS product.
- ☞ SPIL's ability to sustain high growth rates at superior margins even on a high base is a clear positive. With the domestic business progressing well and increasing traction on the US front (both in Caraco and from India), the possibility of a rapid scale-up over the next couple of years is high. While valuations at 27.9x FY08E and 23.5x FY09E EPS (excl. Taro acquisition) appear rich, they do not fully factor in the ramp-up in US and expected value unlocking by leveraging acquired companies (Taro, Able Labs & Valeant). Stock performance in the short-term may remain muted till further clarity on Taro acquisition emerges. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Revenues	4,987	5,239	5,263	5,313	6,153	6,465	6,294	6,064	20,792	24,975
YoY Change (%)	31.8	27.4	24.2	33.5	23.4	23.4	19.6	14.1	30.4	20.1
EBITDA	1,811	1,708	1,733	1,545	2,148	2,409	2,211	2,159	6,798	8,928
Margins (%)	36.3	32.6	32.9	29.1	34.9	37.3	35.1	35.6	32.7	35.7
Depreciation	202	204	212	201	226	230	245	259	818	959
Net Other Income	274	402	636	942	606	111	505	594	2,253	1,816
PBT	1,883	1,906	2,157	2,286	2,528	2,290	2,471	2,494	8,233	9,784
Tax	2	-22	-29	-18	98	1	49	47	-67	196
Rate (%)	0.1	-1.1	-1.3	-0.8	3.9	0.0	2.0	1.9	-0.8	2.0
Profit after Tax	1,882	1,928	2,186	2,304	2,430	2,289	2,422	2,447	8,300	9,588
Share of Minority Partner	115	64	198	183	158	104	185	192	559	639
Adj Net Profit	1,767	1,864	1,989	2,121	2,272	2,185	2,237	2,255	7,741	8,949
YoY Change (%)	29.9	26.1	35.8	48.4	28.6	17.2	12.5	6.3	35.0	15.6
Margins (%)	35.4	35.6	37.8	39.9	36.9	33.8	35.5	37.2	37.2	35.8

E: MOST Estimates; Quarterly results have been recasted and hence do not tally with full year results

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Wockhardt

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	WOCK IN
	REUTERS CODE
S&P CNX: 6,080	WCKH.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs403

Equity Shares (m)	109.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	450/324	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-5/-34/-30	12/06A	17,290	2,558	21.4	-0.5	18.8	4.1	27.2	15.0	3.1	13.5
MCap. (Rs b)	44.1	12/07E	26,324	3,345	28.0	30.8	14.4	3.3	27.7	16.3	2.4	10.0
MCap. (US\$ b)	1.1	12/08E	34,454	3,779	31.7	13.0	12.7	2.6	25.0	16.4	1.8	8.3
		12/09E	38,307	4,543	38.1	20.2	10.6	2.2	24.5	16.7	1.5	7.1

- Wockhardt's 4QCY07 revenues are expected to grow by 40% YoY to Rs7.4b, driven by higher growth in domestic business and consolidation of Negma acquisition.
- EBITDA margins are expected to be flat at 23.4%, due to higher R&D and staff costs as well as due to the impact of currency appreciation. While the company has commenced capitalizing part of its R&D expenses beginning 3QCY06, we continue to expense R&D costs fully. Higher interest costs (linked to acquisitions) will restrict adjusted PAT growth to 17% YoY at Rs902m. Reported PAT growth is expected to be higher due to R&D capitalization.
- We believe that Wockhardt still has to display the ability to fully leverage its assets (particularly the biotech facilities) and scale up substantially in regulated markets, for a further re-rating in its valuation multiples. Wockhardt is valued at 12.7x CY08E and 10.6x CY09E fully diluted earnings, which we believe is a fair reflection of the gradual progress, which the company is making in its key markets. Maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Sales	3,515	4,127	4,377	5,265	5,228	6,303	7,381	7,413	17,291	26,324
YoY Change (%)	13.5	9.5	21.8	43.9	48.7	52.7	68.6	40.8	22.4	52.2
Total Expenditure	2,826	3,230	3,406	4,043	4,069	4,781	5,572	5,681	13,288	20,103
EBITDA	689	897	971	1,222	1,159	1,522	1,809	1,732	4,003	6,221
Margins (%)	19.6	21.7	22.2	23.2	22.2	24.1	24.5	23.4	23.2	23.6
Depreciation	137	140	141	212	181	172	196	232	621	781
Interest	-77	-6	-5	115	129	85	268	271	26	753
Other Income	33	18	61	78	22	25	26	19	190	92
PBT before EO Items	662	781	896	973	871	1,290	1,371	1,247	3,546	4,778
EO Income	-604	0	0	0	0	0	0	0	-604	0
PBT after EO Items	58	781	896	973	871	1,290	1,371	1,247	2,942	4,778
Tax	95	147	156	101	208	266	288	241	529	1,003
Rate (%)	163.8	18.8	17.4	10.4	23.9	20.6	21.0	19.4	18.0	21.0
Reported PAT	-37	634	740	872	663	1,024	1,083	1,006	2,413	3,775
R&D Capitalized	0	0	170	164	180	170	180	170	570	700
Adjusted PAT	543	634	636	771	552	870	972	902	2,558	3,345
YoY Change (%)	30.2	-18.3	-2.4	5.7	1.8	37.2	53.0	16.9	-0.5	30.8
Margins (%)	15.4	15.4	14.5	14.6	10.6	13.8	13.2	12.2	14.8	12.7

E: MOST Estimates; Quarterly numbers don't add up to annual numbers due to re-classification

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Real Estate

BSE Sensex: 20,207

S&P CNX: 6,080

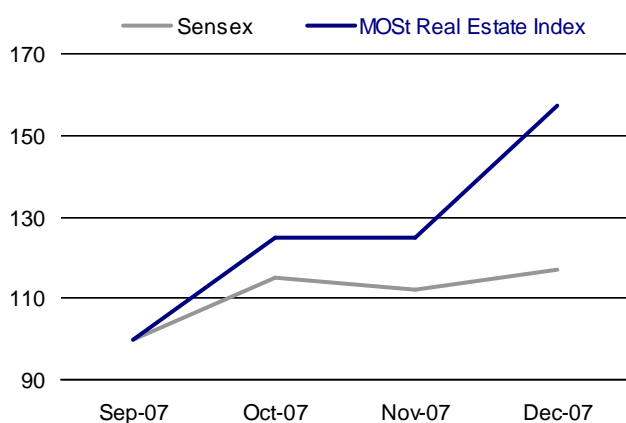
28 December 2007

Stock performance and valuations

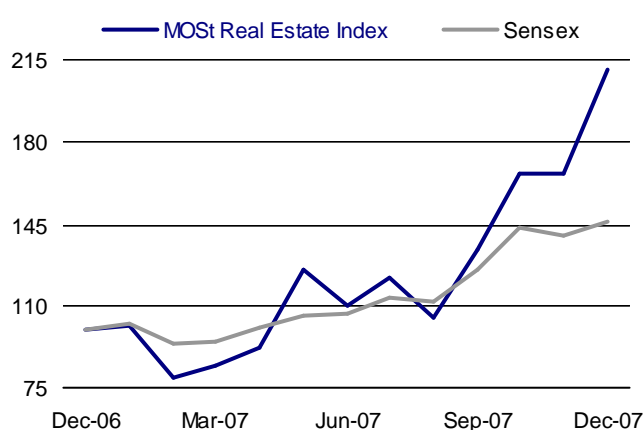
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Real Estate						
DLF	39	-	23	-	11	-
Unitech	57	109	41	64	29	28

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Real Estate														
DLF	1,064	Buy	47.0	48.9	53.9	22.7	21.8	19.7	20.2	16.1	14.0	45.0	35.4	30.7
Unitech	484	Buy	10.9	18.8	44.6	44.6	25.7	10.8	36.1	19.4	7.9	57.4	59.5	66.4

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Real Estate							
DLF	Buy	35,749	-	23,756	-	19,925	-
Unitech	Buy	12,931	29.0	5,754	-17.2	4,659	3.0
Sector Aggregate		12,931	29.0	5,754	-17.2	4,659	3.0

DLF

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	DLFU IN
	REUTERS CODE
S&P CNX: 6,080	DLF.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs 1,064

		YEAR	NET SALES	PAT	EPS*	EPS	P/E*	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,704.8	3/07A	39,419	19,437	12.7	56.2	83.7	41.0	49.0	30.0	48.4	67.6
52-Week Range	1,072/506	3/08E	138,926	80,055	47.0	269.5	22.7	10.2	45.0	51.1	13.2	20.2
1,6,12 Rel. Perf. (%)	14/-/-	3/09E	180,882	83,367	48.9	4.1	21.8	7.7	35.4	42.1	9.6	16.1
MCap. (Rs b)	1,813.4	3/10E	176,948	91,950	53.9	10.3	19.7	6.1	30.7	41.0	9.5	14.0
MCap. (US\$ b)	46.0											

- ☞ We expect DLF to report robust performance in 3QFY08, with revenues of Rs35.7b and net profit of Rs25.4b (no YoY comparison available). This profit includes one-time PBT of Rs7b from stake sale of 49% in township projects to Merrill Lynch (ML).
- ☞ During 3QFY08, ML acquired 49% equity stake in DLF's seven residential projects for Rs14.8b. These seven projects are spread over ~69m sft (Chennai - 30.5m sft, Bangalore - 23m sft, Kochi - 3m sft, Indore - 6.8m sft, Paunchkula ~5.7m sft) and are expected to be developed in the next 7-8 years.
- ☞ DLF has received all clearances and is expected to file the REIT listing document in the first week of January to list its subsidiary, DLF Assets in Singapore following a US\$1.2b IPO.
- ☞ During 3QFY08, the company undertook a price increase of 33% in Magnolias, luxury homes project in Gurgaon and further price increase is expected in January 2008.
- ☞ DLF successfully launched projects in Kochi and Kolkata during 3QFY08. The second phase of this project is expected to be launched in mid-January 2008 at ~10% premium to the first launch.
- ☞ We estimate DLF's revenue to increase from Rs39.4b in FY07 to Rs177b in FY10, a CAGR of 65%. Our FY09 NAV for DLF is Rs656/share. The residential vertical accounts for ~36% of GAV, commercial ~29% of GAV and retail ~23% of GAV. We believe DLF is one of the best proxies of the real estate sector in India. **Buy**

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY08				FY07	FY08E
	1Q	2Q	3QE	4QE		
Sales	30,738	32,499	35,749	39,940	26,344	138,926
Change (%)						427.4
Total Expenditure	8,699	9,863	11,993	17,153	11,477	47,708
Cost of land/construction	7,263	8,326	10,266	15,210	6,394	41,065
Staff Cost	526	606	619	629	1,051	2,380
Others	909	930	1,108	1,315	4,032	4,263
EBITDA	22,039	22,637	23,756	22,787	14,866	91,218
As % of Sales	71.7	69.7	66.45	57.05	56.4	65.7
Depreciation	166	110	148	193	578	616
Interest	1,077	36	194	630	3,076	1,938
Other Income	472	993	579	425	14,190	9,509
Extra-ordinary Income	0	0	7,040	0		7,040
PBT	21,268	23,484	31,033	22,389	25,402	98,173
Tax	6,024	3,301	5,617	3,176	6,036	18,118
Effective Tax Rate (%)	28.3	14.1	18.10	14.19	23.8	18.5
Reported PAT	15,244	20,182	25,416	19,213	19,366	80,055
Change (%)						313.4
Adj. PAT	15,244	20,182	19,925	19,213	19,366	73,015

E: MOST Estimates; Comparable quarterly numbers are not available, as 1QFY08 is the first quarter post listing
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Unitech

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	UT IN
	REUTERS CODE
S&P CNX: 6,080	UNTE.BO

28 December 2007

Buy

Previous Recommendation: Buy

Rs484

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,623.4	3/07A	32,883	13,094	8.1	1,846.7	60.0	19.7	65.7	46.5	25.3	41.5
52-Week Range	495/160	3/08E	48,795	17,619	10.9	34.6	44.6	25.6	57.4	32.0	16.9	35.8
1,6,12 Rel. Perf. (%)	28/56/64	3/09E	80,210	30,206	18.8	73.3	25.7	15.3	59.5	65.2	9.6	18.2
MCap. (Rs b)	785.4	3/10E	191,305	71,954	44.6	137.1	10.8	7.2	66.4	120.8	3.7	7.3
MCap. (US\$ b)	19.9											

- ☞ We expect Unitech to report revenue of Rs 12.9b (up 29% YoY) and net profit of Rs 4.6b (up 3% YoY) in 3QFY08. We expect EBITDA margin at 44.5%, 5.5% lower compared to 50.4% in 2QFY08.
- ☞ We expect the new land bank to be announced in 3QFY08, which would provide further clarity on the company's development plans.
- ☞ Unitech has undertaken a price increase of ~10% at its Kona Expressway project (1.4m sft). The company undertook ~2% price increase in Cascade project in New Town, Kolkata and further price increase of 2.4% is expected in January 2008.
- ☞ Barring its project in Kolkata, the company has not increased prices at any of its residential projects across cities. However, it must be noted that most of the company's projects are sold out. Hence, absence of any planned increase in prices may not have an impact, but may be considered as indication of a possible slowdown in volumes in the real estate market.
- ☞ Phase-7 of Uniworld City is expected to be launched within the next six months, mainly supported by the heated residential demand in Rajarhat and New Town, Kolkata.
- ☞ We estimate Unitech's revenues to increase from Rs 32.8b in FY07 to Rs 191.3b in FY10, a CAGR of 80% and net profit to increase from Rs 13.1b in FY07 to Rs 72b in FY10, a CAGR of 77%. Our FY09 NAV for Unitech is Rs 267. The residential vertical accounts for ~56% of GAV, commercial ~10% of GAV and retail ~15% of GAV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07*				FY08				FY07	FY08E
	1Q	2Q#	3Q	4Q	1Q#	2Q#	3QE	4QE		
Sales	2,678	4,306	10,027	8,487	8,656	10,135	12,931	17,074	33,183	48,795
Change (%)	88.9	150.5	483.3	307.9	135.4	49.4	165.2	94.4		
Total Expenditure	1,918	2,895	3,077	3,387	3,651	5,064	7,177	9,892	12,865	25,783
EBITDA	760	1,411	6,950	5,101	5,005	5,071	5,754	7,182	20,318	23,012
Change (%)	334.3	495.2	2,832.5	765.7	259.5	-17.2	40.8	60.9	47.2	
As of % Sales	28.4	32.8	69.3	60.1	57.8	50.0	44.5	42.1	61.2	47.16
Depreciation	10	17	13	12	32	30	32	35	80	129
Interest	159	216	495	744	601	790	712	746	3,020	2,849
Other Income	385	98	139	354	341	508	540	473	700	1,861
PBT	977	1,275	6,580	4,699	4,714	4,759	5,550	6,874	17,919	21,896
Tax	237	241	2,057	1,128	1,044	660	891	1,860	4,864	4,454
Effective Tax Rate (%)	24.2	18.9	31.3	24.0	22.1	13.9	16.1	27.1	27.1	20.3
Reported PAT	740	1,034	4,524	3,571	3,670	4,099	4,659	5,014	13,055	17,442
Adj PAT	740	1,034	4,524	3,571	3,670	4,099	4,659	5,014	13,055	17,442
Change (%)	917.9		3,190.0	907.0		296.3	3.0	40.4	160.4	33.6

E: MOST Estimates; *Standalone, # Consolidated

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Retailing

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.
Pantaloon Retail	243
Shopper' s Stop	244
Titan Industries	245

The retailing industry in India has reached an inflexion point. Organized retail is getting increasing acceptance by the consumers but opposition from small retailers has intensified. The scale is delicately balanced with small retailers on one side and the farming community on the other; particularly as we are approaching general elections in coming 12-15 months. Rising lease rentals, service tax, power tariff and manpower costs are adding to the woes of the retailers. We foresee early phase of consolidation in the retail sector as large groups try to achieve critical scale. Despite short term pressures, long term outlook continues to be encouraging. We maintain **Pantaloon Retail** as our top pick.

Organized retail faces backlash

Organized retail is on a high growth trajectory with market size expected to increase from Rs530b in FY07 to Rs1797b by 2011. Food and grocery (74% of total retail sales), which is least organized segment (2%), is witnessing a flurry of activity with players like Reliance, Bharti, Pantaloon, Spencer' s, Subhiksha, Heritage Foods and Vishal Retail expanding in this vertical. The initiatives include setting up of cold chains, contract farming, logistics and direct sourcing. In addition to the large format food stores, neighborhood and convenience stores concept is fast catching up with Indian retailers.

Traditionally, the small retail shop (Mom & Pop outlet) was the only purchase point for such products, particularly in the residential areas, but the emergence of 2,000-4,000 sq ft stores from big retailers has started providing competition to the small retailers. Credit facilities, better display and convenience, discounted prices and free home delivery are some of the top ups which organized convenience stores have started offering to the consumers. The small retailers have been protesting against these large formats.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

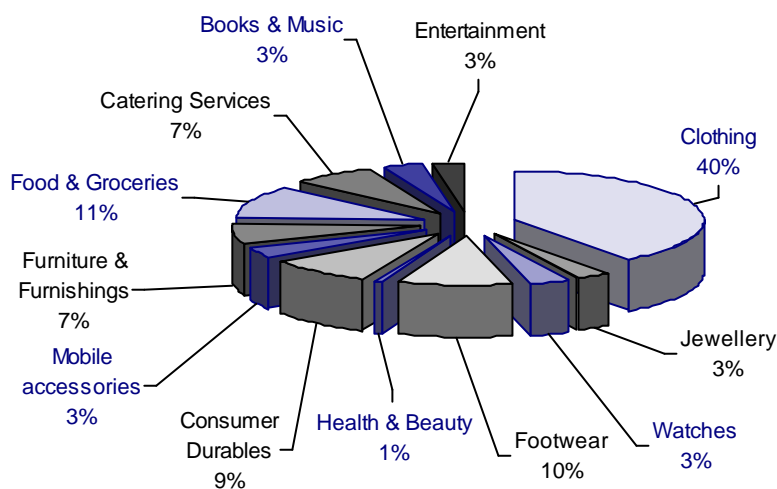
(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Retailing							
Pantaloon Retail	Buy	13,400	78.0	890	56.1	283	47.8
Shopper's Stop	Neutral	3,500	46.0	220	-11.2	77	-45.6
Titan Industries	Neutral	7,200	36.1	765	31.8	466	57.4
Sector Aggregate		24,100	58.4	1,875	34.1	826	31.3

Delicate balance between small retailer and farmer

Recently, the UP government banned opening of new stores of Reliance Fresh and Spencer's and the central government has called for a survey in order to understand the impact of organized retail formats on the small retailers. The initial reports suggest that there has been a 16% drop in the revenue of small retailers and the pressure is expected to intensify. However, organized retail is expected to benefit large section of the farming community and create employment for millions of graduate and undergraduates. Organized retail has the potential to transform agriculture sector in India, which has huge disguised unemployment and low productivity. Poor realizations and huge cut by middlemen has left little incentive for investment in agriculture, which still is the livelihood of 60% of the population directly or indirectly. Organized retail has the potential to change this trend by development of cold chains, large wholesale cash to carry stores, food processing and focus on commercial farming, although middlemen are likely to be hit. We believe the scale is delicately balanced with small retailers and middlemen on one side and the farming community on the other.

MODERN RETAIL PIE



Source: India Retail Report 2007

Policy initiatives to remain on the backburner

We believe major policy initiatives regarding retail sector will be put on the backburner for the coming 12-15 months, as we are approaching general elections. Large retailers like Reliance have also slowed down rollout of small format stores like Reliance Fresh, which we believe will continue in the coming year. We are of the firm view that the development of organized retail, agriculture, food processing, manufacturing and real estate is interlinked which has significant spillover effect on the entire economy. We believe status quo will be maintained for major policy initiatives in this sector.

Specialty retail segment up to see more action

Specialty retail segment is witnessing a lot of activity as many global giants are planning single brand retail outlets. Luxury goods, garments, personal accessories and watches are likely to see entry of players like LVMH. Even existing players like Titan, Rajesh Exports, Gitanjali Gems, Raymond's, Bata, Koutons, Liberty and Samsung have huge expansion plans. Large retail groups like Reliance, Tata and Pantaloon have lined up large forays for specialty retail in durables, personal accessories, electronics etc targeting the premium end consumer with assured sales and service and right kind of ambience. Although specialty stores are unlikely to account for a very substantial part of sales, they are likely to be used for launch of premium products and brand re-positioning strategies. We expect heightened level of activity in the coming one to two years, which will intensify competition in certain segments of specialty retail.

Rising operating costs indicate early signs of consolidation

Rising real estate costs impact lease rentals, which have been rising for some time now. Imposition of service tax on lease rentals has further added to the woes of retailers. Lease rentals have risen by 15-40% in the past one year due to which many of the leading retailers have slowed down their plans to book fresh real estate at these prices. Quality human resource is the key issue as retail companies are facing higher attrition rates at all levels and sharp increase in salaries. Deposit costs for leasing a property and power costs are other problems, as the rising competition is limiting the capability to increase the gross margins. The ensuing situation calls for fast scale up of retail chains to achieve economies of scale. Indiabulls has decided to acquire Pyramid Retail, which we believe is an indication of early consolidation in the sector. Smaller players, which would scale up at a fast pace, will find it hard to survive. We expect the consolidation trend to accelerate substantially over the coming 12-18 months.

Valuation and view

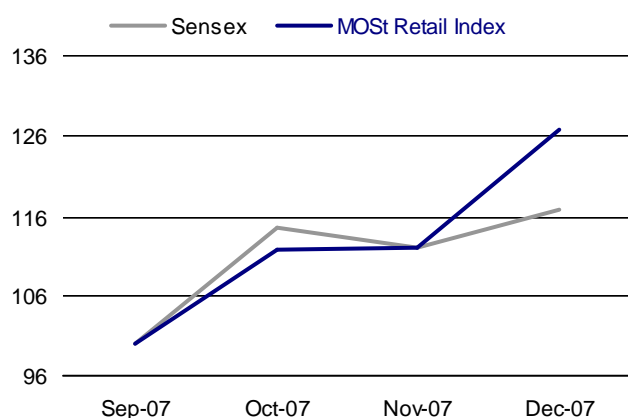
We believe the existing retailers will continue to grow topline and attract footfalls due to low penetration. However, the same does not hold good for the profit margins in the medium term due to rising lease rentals and manpower costs. We expect specialty stores to flourish on the back of committed customers and strong brand recall. We believe competition will intensify due to entry of strong players such as Reliance, Bharti and the A V Birla group. We believe scale of operations would be the key to survival in the long term. We expect the sector to enjoy premium valuations due to huge growth potential. We maintain a positive view on the sector with **Pantaloon Retail** as our top pick.

Stock performance and valuations

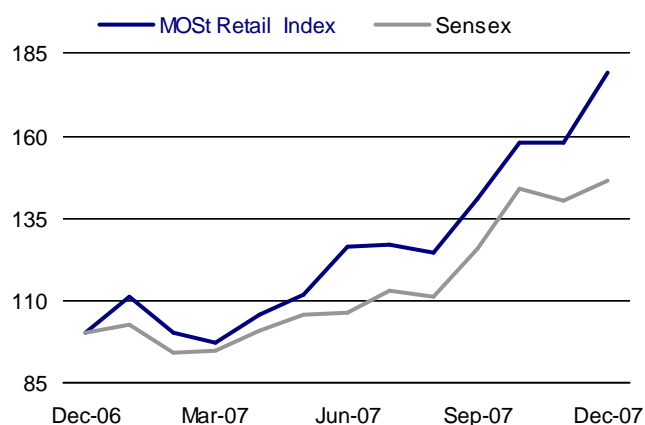
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Retailing						
Pantaloon Retail	53	104	36	58	24	22
Shopper's Stop	-5	-21	-22	-67	-33	-103
Titan Industries	4	92	-13	46	-24	10

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Retailing														
Pantaloon Retail	825	Buy	7.8	13.0	21.3	106.3	63.3	38.7	35.2	23.2	15.5	8.8	13.3	12.7
Shopper's Stop	553	Neutral	4.2	5.7	9.6	131.3	97.6	57.4	29.9	22.0	16.1	4.9	6.5	10.4
Titan Industries	1,533	Neutral	37.5	54.7	68.3	40.8	28.1	22.4	23.7	17.1	13.9	36.4	38.1	35.2
Sector Aggregate						70.7	45.5	29.8	30.4	21.0	15.0	14.4	19.0	17.3

Pantaloon Retail

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	PF IN
	REUTERS CODE
S&P CNX: 6,080	PART.BO

28 December 2007

Buy

Rs 825

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	151.0										
52-Week Range	870/365										
1,6,12 Rel. Perf. (%)	17/26/58										
M.Cap. (Rs b)	124.6										
M.Cap. (US\$ b)	3.2										
	06/07A	32,367	611	4.2	-11.2	198.3	11.1	5.6	7.4	4.1	61.9
	06/08E	56,271	1,139	7.8	86.5	106.3	9.3	8.8	9.3	1.8	35.2
	06/09E	87,030	1,967	13.0	68.1	63.3	8.4	13.3	12.4	1.2	23.2
	06/10E	121,860	3,643	21.3	63.4	38.7	4.9	12.7	14.2	1.2	15.5

- Pantaloon's revenue is expected to grow 78% YoY in 2QFY08 with value retailing driving growth during the quarter.
- EBITDA margin is expected to decline 93bp to 6.6%. PAT is expected at Rs283m, a growth of 47.8%.
- Pantaloon is expected to end the quarter with stores addition of close to 1msf. In October and November 2007, the company has already added 0.65msf including its fifth Central Mall – 100,000 sq ft at Pune. The management expects to end FY08 with retail space of 11msf.
- The company is focusing on building brands by increasing its private label in its hypermarket. Pantaloon plans to have its private label in food, electronics, apparel and cosmetics.
- The company is likely to launch the IPO of Future Capital and Future Ventures, which will unlock value for the shareholders.
- The stock is currently trading at 106.3x FY08E EPS and 63.3x FY09E EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	6,034	7,527	8,610	10,196	10,864	13,400	15,100	16,907	32,367	56,271
YoY Change (%)	65.4	59.5	89.1	77.3	80.1	78.0	75.4	65.8	73.3	73.9
Total Exp	5,618	6,957	8,008	9,629	9,908	12,510	14,000	15,895	30,211	52,313
EBITDA	415	570	603	568	956	890	1,100	1,012	2,156	3,958
Margins (%)	6.9	7.6	7.0	5.6	8.8	6.6	7.3	6.0	6.7	7.0
Depreciation	67	82	93	126	153	145	180	253	369	731
Interest	125	207	229	337	352	335	325	522	898	1,534
Other Income	17	5	9	0	7	15	8	2	32	32
PBT	241	286	290	105	459	425	603	239	921	1,726
Tax	79	94	103	36	162	142	210	73	311	587
Rate (%)	32.7	33.0	35.5	34.0	35.3	33.4	34.8	30.4	33.7	34.0
Adjusted PAT	162	191	187	69	297	283	393	166	611	1,139
YoY Change (%)	19.6	3.1	15.3	-56.2	82.9	47.8	110.0	139.7	-3.0	86.5
Exceptional Income	224	249	0	117	0	0	0	0	589	0
Reported PAT	386	440	187	187	297	283	393	166	1,200	1,139

E: MOST Estimates

Shopper's Stop

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	SHOP IN
	REUTERS CODE
S&P CNX: 6,080	SHOP.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs553

Equity Shares (m)	34.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	731/441	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	4/-46/-67	3/07A	8,280	343	9.8	39.8	56.2	6.6	11.7	14.6	2.3	28.0
MCap. (Rs b)	19.3	3/08E	11,638	147	4.2	-57.2	131.3	6.5	4.9	6.9	1.7	29.6
MCap. (US\$ b)	0.5	3/09E	15,952	197	5.7	34.5	97.6	6.3	6.5	9.0	1.3	21.8
		3/10E	20,870	336	9.6	70.0	57.4	6.0	10.4	12.0	1.0	15.9

- Shopper's Stop is expected to report revenues of Rs3.6b in 3QFY08, an increase of 50.1%, driven by strong same store sales growth. EBITDA margin is expected at 9% for 3QFY08, a decline of 130bp. Adjusted PAT at Rs143m is expected to be flat on a YoY basis.
- We expect profit margins to remain under pressure due to change in method of depreciation and rising overheads due to staff costs, lease rentals and new store openings.
- Shopper's Stop, under its subsidiary Gateway Multichannel Retail (India) Ltd, has opened its first store 'Hypercity Argos' at Thane.
- Shopper's Stop continues to ramp up the retail space under each of its formats with focus on Shopper's Stop and Hypercity. The company is also taking initiatives to increase its reach by venturing into catalog retailing and has tied-up with Agros. The total investment required for the expansion would be ~Rs15b which would be financed through rights issue, internal accruals and debt equally. Rights issue is likely to be offered in 4QFY08.
- The stock is currently trading at 131.3x FY08E EPS and 97.6x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	1,720	2,013	2,398	2,149	2,188	2,774	3,500	3,176	8,280	11,638
YoY Change (%)	35.0	32.9	24.6	31.5	27.2	37.8	46.0	47.8	30.5	40.6
Total Exp	1,600	1,852	2,150	1,997	2,050	2,640	3,280	2,998	7,599	10,968
EBITDA	119	162	248	152	138	134	220	178	681	670
Margins (%)	6.9	8.0	10.3	7.1	6.3	4.8	6.3	5.6	8.2	5.8
Depreciation	41	55	43	50	93	115	108	110	189	426
Interest	9	11	11	-4	12	17	20	22	-41	71
Other Income	25	31	37	11	5	19	15	18	36	56
PBT	95	126	231	117	38	20	107	64	569	229
Tax	41	46	90	49	19	19	30	15	226	83
Rate (%)	43.0	36.4	38.8	42.4	48.6	96.9	28.0	23.1	39.7	36.0
PAT	54	80	142	67	20	1	77	49	343	147
YoY Change (%)	95.8	148.0	21.0	9.7	-63.5	-99.2	-46	-26.5	44.0	-57.2
Minority Interest Exceptionals	0	0	0	-101	0	0	0	0	-101	0
Reported PAT	54	80	142	-34	20	1	77	49	242	147

E: MOST Estimates

Titan Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TTAN IN
	REUTERS CODE
S&P CNX: 6,080	TITN.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs 1,533

Equity Shares (m)	42.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,795/730	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-3/-25/46	3/07A	20,902	1,158	26.5	21.0	57.8	28.3	35.4	29.7	3.2	32.0
MCap. (Rs b)	64.8	3/08E	28,536	1,666	37.5	41.5	40.8	19.8	36.4	33.6	2.3	23.7
MCap. (US\$ b)	1.6	3/09E	36,215	2,426	54.7	45.6	28.1	10.2	38.1	44.3	1.8	17.1
		3/10E	44,491	3,033	68.3	25.0	22.4	7.5	35.2	43.5	1.4	13.9

- ✎ We expect Titan to register a 36.1% growth in revenue to Rs 7.2b in 3QFY08. Jewellery and watches are expected to be major growth drivers. Adjusted PAT is expected to grow by 57.4% to Rs 466m.
- ✎ EBITDA margin is likely to dip 40bp to 10.6% in 3QFY08 due to rising store operating expenses and overheads on new *Titan* and *Gold Plus* stores. In addition, the deteriorating sales mix will limit margin expansion.
- ✎ Watch business is expected to report 20% sales growth due to festive season sales. Further, new stores opening of The World of Titan and Fastrack is on track with expected addition of 80 company run stores by 1QFY09.
- ✎ Jewellery segment is expected to report margin pressure due to rising sales from low margin Gold Plus and Coin sales in the festival season.
- ✎ Titan Eye+ is performing as per expectations. We expect the company to undertake plans to scale up the model in the coming months.
- ✎ The stock is currently trading at 40.8x FY08E and 28.1x FY09E. Although we are positive on long term prospects, current stock price factors in the near term growth potential. We maintain **Neutral** due to high valuations.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,410	5,235	5,291	5,966	6,575	7,114	7,200	7,647	20,902	28,536
YoY Change (%)	54.1	47.9	42.9	41.0	49.1	35.9	36.1	28.2	45.5	36.5
Total Exp	4,245	4,690	4,711	5,273	6,206	6,318	6,435	6,808	18,918	25,766
EBITDA	165	546	581	693	369	797	765	840	1,984	2,770
Margins (%)	3.7	10.4	11.0	11.6	5.6	11.2	10.6	11.0	9.5	9.7
Depreciation	49	66	70	72	72	72	85	89	256	319
Interest	49	43	47	66	48	39	55	64	204	206
Other Income	14	5	9	4	5	4	11	17	32	38
PBT	81	442	473	560	254	689	636	704	1,556	2,283
Tax	12	100	177	85	127	226	170	93	398	616
Rate (%)	14.4	22.6	37.4	15.1	50.2	32.8	26.7	13.2	25.6	27.0
PAT	70	342	296	475	126	463	466	611	1,158	1,666
YoY Change (%)	-7.4	-7.1	122.9	13.5	81.6	35.3	57.4	28.5	20.3	43.9
Extraordinary Items	29	21	17	172	0	0	20	25	240	45
Reported PAT	41	322	279	303	126	463	446	586	918	1,621

E: MOST Estimates

Telecom

BSE Sensex: 20,207

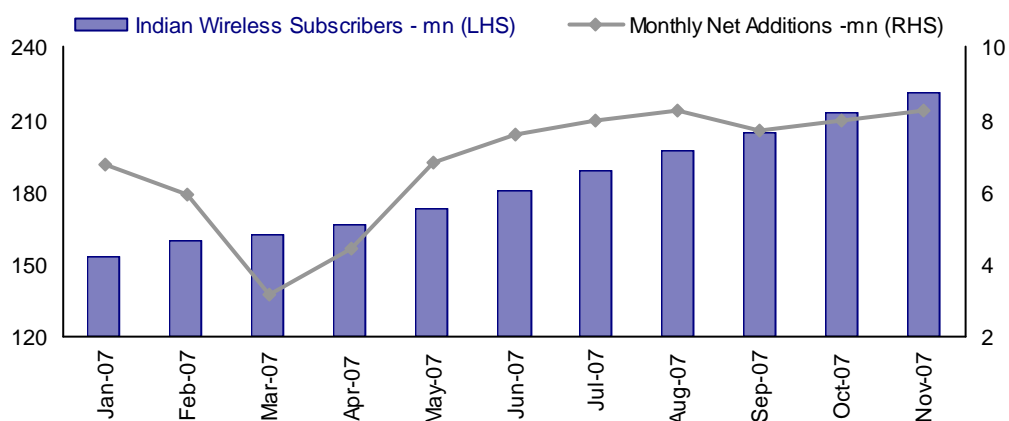
S&P CNX: 6,020

28 December 2007

COMPANY NAME	PG.
Bharti Airtel	251
Idea Cellular	252
Reliance Communication	253

The momentum in subscriber net addition continued to be strong during 3QFY08. We expect the industry to add ~24m subscribers in the quarter ended December 2007 v/s 23.4m subscribers added in the quarter ended September 2007.

WIRELESS SUBSCRIBER ADDITIONS



Source: Company/Motilal Oswal Securities

Major pro-competition policy announcements

During the quarter, the government announced major policy decisions on subjects related to “cap on number of service providers”, “spectrum allocation criteria”, and “use of dual technology (CDMA + GSM) by a single operator”. This is pursuant to the recommendations made on similar issues by the telecom regulator TRAI in August 2007. The Ministry accepted most of TRAI’s recommendations. The policy stance is positive for operators planning to rollout GSM networks in new circles but negative for the incumbents.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Telecom							
Bharti Airtel	Buy	69,966	42.4	30,131	50.2	16,604	36.6
Idea Cellular	Not Rated	17,065	48.6	5,627	51.9	2,392	110.4
Reliance Comm	Buy	49,951	33.0	21,419	40.3	13,925	50.2
Sector Aggregate		136,982	39.5	57,177	46.5	32,921	45.9

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Highlights

No cap on number of service providers per circle: The government backed TRAI's recommendations on this issue and refrained from putting any cap on the number of service providers in a service area. This implies that new players can continue to apply for licenses and would be granted the same on payment of the prescribed entry fee. The fee varies from circle to circle and entry fee for a pan-India license comes to ~Rs 16.5b (US\$400mn). Note that the Ministry received a flurry of new applications post the August 2007 TRAI recommendations. However, the government also made it amply clear that while new universal access service (UAS) licenses will continue to be issued on payment of requisite fee under existing criteria, the grant of wireless license and spectrum allotment under these licenses is not "guaranteed" and would be subject to availability. We believe that this will act as an effective deterrent for "non-serious" applicants.

Enhanced subscriber thresholds accepted, incumbents rendered ineligible for more spectrum: The government also upheld TRAI's proposal for an upward revision in the subscriber thresholds required for allocation of spectrum. TRAI had recommended a multifold increase in the subscriber thresholds citing the technology advancements that now facilitate better spectrum utilization. The revised criteria are much more stringent and the current subscriber base of existing operators renders them ineligible for incremental spectrum. The government also accepted the TRAI proposal for setting up an expert committee to further study these criteria and submit a report to the government.

"Dual technology" permitted, RCom eligible for GSM spectrum: The UAS licensees would be permitted to expand their networks using alternate wireless technologies. The "dual technology" debate had been triggered by RCom's application for GSM spectrum under its UAS license last year. As recommended by TRAI, RCom would be eligible for GSM spectrum in its 14 "CDMA – only" circles on payment of requisite fee (RCom immediately paid the required fee of Rs 16.5b on Friday, 19 October 2007). We believe this is significant for RCom's proposed GSM expansion. A combination of current mega passive infrastructure rollout (the company is rolling out ~26,000 towers to end up with ~40,000 towers by March 2008) and GSM expansion could provide significant upside for RCom's future subscriber additions. RCom would require US\$1b in capex and a time period of 12 months post spectrum allocation for a full-blown GSM rollout.

No spectrum as yet: While our interactions with industry sources indicate that the much awaited physical release of spectrum in the 1800MHz band by defence forces still remains at least some six months away, the battle for allocation of the same continues to be fought intensely in the government and regulatory circles, legal domain, and media.

Awaiting licensees likely to be allocated startup spectrum: Currently, average ~2 licensees/circle are awaiting GSM spectrum allocation in order to kick-start operations. These include Aircel (14 circles), Idea (2 circles), Vodafone (6 circles) and RCOM (crossover GSM spectrum allocation in 15 circles). We believe that these operators will be allocated start-up spectrum once the same is made available by the defence forces.

Incumbents would be eligible for additional spectrum under TRAI criteria: Our analysis suggests that incumbents would be eligible for additional spectrum in most circles within the next 18 months. Based on current monthly subscriber run rates of various operators, we expect Bharti to be eligible in 15/23 circles for additional spectrum while Vodafone would be eligible in 11/16 circles. Similarly Aircel would be eligible in 5, Idea in 3, BSNL in 2 and RCOM in 1 circle.

“Spectrum enhancement charge” to be levied for higher allocations: As recommended by TRAI, a new one-time fee called “spectrum enhancement charge” would be imposed on operators for spectrum allotment of more than 10MHz in case of GSM and more than 5MHz in case of CDMA operators. Note that TRAI had also recommended an increase in the “revenue sharing” charge for spectrum allocated beyond 8MHz, but this proposal has not been upheld. We would also like to point out that no operator has been allocated spectrum beyond these ceilings in any of the circles and none is currently eligible for such allocation under the new subscriber thresholds.

Private GSM majors pool their tower assets

Bharti Airtel (BHARTI), Vodafone Essar (VOD), and Idea Cellular (IDEA) announced the formation of an independent tower (passive infrastructure) company - Indus Towers (INDUS). INDUS will be the largest tower company in the world.

Highlights

- ✍ BHARTI and VOD will own around 42% each in INDUS while the balance 16% will be held by IDEA.
- ✍ At inception, INDUS will have about 70,000 sites across 16 circles (all 16 circles where VOD has presence). Bharti Infratel will transfer around 30,000 towers to INDUS.
- ✍ Bharti Infratel (BHARTI's 100% passive infrastructure subsidiary) will operate as an independent tower company in the balance 7 circles namely - Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, North East, and Orissa

Impact

- ✍ The formation of INDUS formalizes the passive infrastructure deal signed between VOD and BHARTI in February 2007. VOD had then indicated a target of 66% cell-site sharing with BHARTI v/s 33% in February 2007.
- ✍ Apart from value-unlocking, the three incumbents will also benefit in their core operations – a leaner balance sheet, and lower depreciation and capex, going forward.

Stake sale in Bharti Infratel

- ✍ Bharti Airtel announced stake sale in its 100% subsidiary Bharti Infratel. Several international investors agreed to buy stake for a total investment of US\$1bn
- ✍ This pegs Bharti Infratel' s EV at US\$10-12.5bn. Bharti Infratel owns ~20,000 towers and holds ~42% stake in Indus Towers (the three way JV between Bharti, Vodafone, and Idea to which Bharti Infratel is transferring 30,000 towers)
- ✍ The actual valuation will be based on operating performance in FY09
- ✍ Assuming proportionate net debt of US\$1.5bn, the Bharti Infratel' s equity valuation would be US\$8.5-11bn
- ✍ This translates into a valuation of Rs 180-232/sh of Bharti Airtel. The deal valuation is in-line with expectations.

Valuation and view

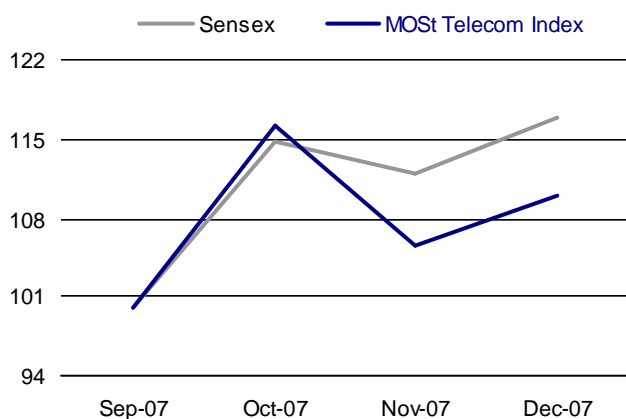
Momentum in subscriber additions continues to be strong, primarily driven by higher coverage and attractive tariffs. We expect strong near-term earnings momentum to shield against concerns on the regulatory front. We believe that ongoing value-unlocking initiatives, good response from new projects like DTH/IPTV/Retail Broadband, and news flow on international expansion/industry consolidation could be positive triggers while adverse regulatory environment and increase in competitive activity pose key risks. Valuations for majors at ~12-13x FY09E EV/EBITDA and ~10-11x FY10E EV/EBITDA remain attractive.

Stock performance and valuations

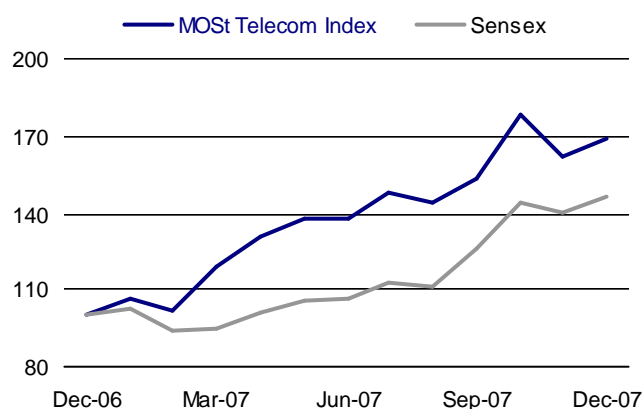
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Telecom						
Bharti Airtel	0	49	-17	3	-10	-19
Reliance Communication	25	54	8	8	15	-14
Idea Cellular	5	-	-12	-	-5	-

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10	FY08E	FY09E	FY10	FY08E	FY09E	FY10
Telecommunication														
Bharti Airtel	941	Buy	34.7	47.7	62.3	27.1	19.7	15.1	16.2	11.5	8.7	38.6	37.6	36.3
Idea Cellular	132	Not Rated	3.9	5.0	7.4	33.4	26.4	17.9	17.5	12.2	9.0	30.1	31.3	34.7
Reliance Comm	733	Buy	25.9	33.6	44.5	28.3	21.8	16.5	18.6	13.0	9.9	22.5	23.3	25.3
Sector Aggregate						28.1	21.1	15.9	17.3	12.2	9.2	26.9	27.7	28.4

Bharti Airtel

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BHARTI IN
	REUTERS CODE
S&P CNX: 6,080	BRTI.BO

28 December 2007

Buy

Rs941

Previous Recommendation: Buy

Equity Shares (m)	1,896
52-Week Range (Rs)	1,149/544
1,6,12 Rel. Perf. (%)	-3/-28/3
MCap. (Rs b)	1,783.1
MCap. (US\$ b)	45.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	185,196	42,572	22.5	88.0	41.9	13.0	37.0	26.6	9.9	24.5
3/08E	267,506	65,840	34.7	54.7	27.1	8.8	38.6	28.4	6.9	16.1
3/09E	352,813	90,423	47.7	37.3	19.7	6.4	37.6	29.8	5.2	11.4
3/10E	443,286	118,058	62.3	30.6	15.1	4.8	36.3	31.3	4.1	8.9

- ✍ We expect overall revenues to grow 42% YoY and 10% QoQ, driven by healthy mobile subscriber additions and seasonally strong mobility MOU.
- ✍ Overall EBITDA margins are expected to expand by 30bp QoQ to 43.1% on the back of modest margin accretions in mobility, B&T, and enterprise businesses. We expect an overall EBITDA growth of 50% YoY and 11% QoQ.
- ✍ Mobility revenues are expected to grow 11% QoQ, implying an ARPU decline of ~2% to Rs359. EBITDA margins for mobile telephony business are expected to increase 30bp QoQ, primarily from opex leverage.
- ✍ Net profit is expected to grow 37% YoY and 3% QoQ to Rs16.6b. QoQ earnings growth would remain relatively subdued due to higher tax rate (the company reported negative deferred tax in 2QFY08) while YoY growth would be impacted by the lack of major derivative gains on forex movements.
- ✍ The stock is currently trading at 27.1x FY08E and 19.7x FY09E earnings. We expect Bharti to maintain its leadership in the mobility markets, while continuing to invest aggressively. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenue	38,564	43,571	49,129	53,932	59,046	63,374	69,966	75,119	185,196	267,506
YoY Growth (%)	53.2	60.8	62.4	58.1	53.1	45.4	42.4	39.3	58.8	44.4
QoQ Growth (%)	13.0	13.0	12.8	9.8	9.5	7.3	10.4	7.4		
Net Revenue	31,952	36,381	40,887	44,597	49,975	54,057	59,488	63,720	153,817	227,240
Total Operating Expenses	16,931	19,356	20,832	22,189	25,509	26,960	29,358	31,210	79,309	113,037
EBITDA	15,021	17,025	20,055	22,408	24,466	27,097	30,131	32,510	74,508	114,203
Margin (%)	39.0	39.1	40.8	41.5	41.4	42.8	43.1	43.3	40.2	42.7
Net Finance Costs	1,691	587	-1,318	477	-1,752	1,126	894	1,019	1,438	1,287
Cash Profit from Operations	13,330	16,438	21,373	21,931	26,218	25,971	29,237	31,491	73,070	112,917
Depreciation & Amortisation	4,972	5,926	7,072	7,239	8,120	9,062	9,614	10,537	25,208	37,333
Profit before Tax	8,599	10,782	14,412	15,068	18,901	17,472	19,750	21,385	48,861	77,504
Income Tax Expense / (Income)	952	1,378	2,139	1,353	3,594	1,135	2,962	3,208	5,822	10,899
P/(L) to Minority Shareholders	96	66	122	184	191	197	183	198	468	768
Reported Net Profit / (Loss)	7,551	9,338	12,151	13,531	15,116	16,139	16,604	17,978	42,571	64,420
QoQ Growth (%)	10.7	23.7	30.1	11.4	11.7	6.8	2.9	8.3	88.5	51.3

E: MOST Estimates; Financials as per US GAAP

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Idea Cellular

STOCK INFO. BLOOMBERG
BSE Sensex: 20,207 IDEA IN
REUTERS CODE
S&P CNX: 6,080 IDEA.BO

28 December 2007

Not Rated

Rs132

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	2,635.4	3/07A	43,664	5,032	2.2	137.6	59.3	8.9	25.2	11.7	8.6	25.5
52-Week Range (Rs)	161/84	3/08E	65,798	10,357	3.9	76.8	33.5	9.8	30.1	14.7	5.9	17.5
1,6,12 Rel. Perf. (%)	1/-29/-	3/09E	93,741	13,116	5.0	26.4	26.5	7.2	31.3	18.0	4.2	12.2
MCap. (Rs b)	347.9	3/10E	119,268	19,382	7.4	47.8	17.9	5.5	34.7	21.3	3.4	9.4
MCap. (US\$ b)	8.8											

- ✍ We expect revenues to grow 49% YoY and 9% QoQ, driven by sustained subscriber additions. We expect Idea to add 2.3m (down 8% QoQ) subscribers in 3QFY08.
- ✍ We expect ARPU decline of ~4% v/s ~10% decline in 2QFY08. MOU are expected to pick up, given strong seasonality.
- ✍ EBITDA margins are likely to expand by ~30bp to 33%, aided primarily by continued paring of EBITDA losses in the three “newly-launched” circles. We expect flat EBITDA margin for the 8 “established circles”.
- ✍ Net profit is expected to grow 110% YoY and 9% QoQ, driven mainly by EBITDA growth.
- ✍ The stock is currently trading at 33.5x FY08E and 26.5x FY09E earnings.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenue	9,002	10,096	11,482	13,085	14,773	15,622	17,065	18,338	43,664	65,798
YoY Growth (%)					64.1	54.7	48.6	40.1	47.2	50.7
QoQ Growth (%)		12.1	13.7	14.0	12.9	5.7	9.2	7.5		
Total Operating Expenses	5,982	6,548	7,776	8,722	9,645	10,515	11,437	12,188	29,028	43,789
EBITDA	3,020	3,548	3,706	4,363	5,128	5,107	5,627	6,150	14,636	22,009
QoQ Growth (%)		17.5	4.4	17.7	17.5	-0.4	10.2	9.3		
Margin (%)	33.5	35.1	32.3	33.3	34.7	32.7	33.0	33.5	33.5	33.4
Net Finance Costs	721	790	806	975	143	641	683	692	3,292	2,159
Cash Profit from Operations	2,299	2,758	2,900	3,388	4,985	4,466	4,945	5,458	11,344	19,850
Non-Operating Income	20	51	68	326	3	21	18	16	465	58
Depreciation & Amortisation	1,456	1,700	1,800	1,761	1,887	2,007	2,270	2,457	6,718	8,621
Profit before Tax	863	1,108	1,168	1,953	3,101	2,480	2,693	3,017	5,091	11,288
Income Tax Expense / (Income)	4	6	31	19	16	277	301	337	60	931
Adjusted Net Profit / (Loss)	859	1,102	1,137	1,934	3,085	2,203	2,392	2,680	5,032	10,357
QoQ Growth (%)		28.2	3.2	70.1	59.5	-28.6	8.6	12.0		

E: MOST Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Reliance Communication

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	RCOM IN
	REUTERS CODE
S&P CNX: 6,080	RLCM.BO

28 December 2007

Buy

Rs733

Previous Recommendation: Buy

Equity Shares (m)	2,045.0
52-Week Range (Rs)	815/371
1,6,12 Rel. Perf. (%)	1/4/8
MCap. (Rs b)	1,498.2
MCap. (US\$ b)	38.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	144,684	31,937	15.6	563.6	46.9	7.3	19.9	11.1	10.5	26.5
3/08E	192,714	52,950	25.9	65.8	28.3	5.6	22.5	13.0	8.0	18.6
3/09E	265,601	68,689	33.6	29.7	21.8	4.6	23.3	15.3	5.7	13.0
3/10E	329,352	90,924	44.5	32.4	16.5	3.8	25.3	19.3	4.8	10.7

- ✎ We expect overall revenues to grow 33% YoY and 9% QoQ, driven by growth in mobility and broadband segments. We expect the company to add 4.5m (flat QoQ) subscribers in 3QFY08. We expect the subscriber addition momentum to pick-up in the coming quarters, as RCom is currently adding significant capacity.
- ✎ Overall EBITDA margins are expected to remain largely flat at ~43%. We expect a 3% ARPU decline on a QoQ basis.
- ✎ Recurring net profit should grow 50% YoY and 5% QoQ to Rs 13.9b. The YoY growth reflects strong topline growth accompanied with EBITDA margin expansion while QoQ growth would be adversely impacted by lower net interest gains.
- ✎ The stock is currently trading at 28.3x FY08E and 21.8x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenue	32,501	35,260	37,554	39,369	43,037	45,785	49,951	53,941	144,684	192,714
YoY Growth (%)	42.4	39.8	25.6	32.5	32.4	29.8	33.0	37.0	34.4	33.2
QoQ Growth (%)	9.4	8.5	6.5	4.8	9.3	6.4	9.1	8.0		
Total Operating Expenses	20,440	21,736	22,283	23,017	24,895	26,166	28,533	30,542	87,479	110,141
EBITDA	12,062	13,524	15,271	16,352	18,142	19,618	21,419	23,399	57,205	82,573
Margin (%)	37.1	38.4	40.7	41.5	42.2	42.8	42.9	43.4	39.5	42.8
Net Finance Costs	999	53	-657	-391	-1,274	-1,125	-502	744	4	-2,157
Cash Profit from Operations	11,063	13,471	15,927	16,743	19,416	20,743	21,921	22,655	57,200	84,730
Depreciation & Amortisation	5,514	6,237	6,524	6,378	6,192	6,754	6,950	7,771	24,653	27,667
Profit before Tax	5,549	7,234	9,404	10,365	13,224	13,989	14,971	14,884	32,548	57,063
Income Tax Expense / (Income)	272	61	130	148	1,031	698	1,046	1,338	611	4,113
Adjusted Net Profit / (Loss)	5,277	7,173	9,274	10,217	12,193	13,291	13,925	13,546	31,937	52,950
QoQ Growth (%)	19.2	35.9	29.3	10.2	19.3	9.0	4.8	-2.7		
Margin (%)	16.2	20.3	24.7	26.0	28.3	29.0	27.9	25.1	22.1	27.5
Extraordinary Expen./Minority Int.	150	150	30	-27	-15	245	0	0	303	230
Reported Net Profit / (Loss)	5,127	7,023	9,244	10,244	12,208	13,046	13,925	13,546	31,634	52,720

E: MOST Estimates; Financials as per US GAAP

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Textiles

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.
Alok Industries	259
Arvind Mills	260
Gokaldas Exports	261
Himatsingka Seide	262
Raymond	263
Vardhman Textiles	264
Welspun India	265

Surge in Chinese exports to EU seen in early CY08

We expect garment exports from China to EU to surge due to lifting of quotas on textile exports (key categories) in CY08. However, under the WTO rules, EU retains the right to reimpose quotas on Chinese exports until the end of 2008. Hence, a surge in Chinese exports could lead to reimposition of quotas on China till December 2008.

Removal of trade restrictions on China poses threat for Indian textiles

We believe the removal of quota restrictions on China would be particularly negative for India (as compared to competitors such as Pakistan, Bangladesh and Sri Lanka) due to the sharp appreciation of the Indian rupee against the US dollar. Though there is a possibility of reimposition of quotas on China for a year by mid-CY08 (in case of any major upsurge in Chinese textile exports to EU), this would only be a temporary reprieve for the Indian textile industry, as the US quota on Chinese exports would be lifted from CY09, which would again exert severe price pressure on the Indian textile industry.

RESTRICTION ON CHINA BY EU-25: GROWTH RATES IN KEY CATEGORIES (%)

	CY05	CY06	CY07
Jersey and Pullovers	8	10	10
Men's and Boy' s Bottomwear	8	10	10
Women and Girl' s Shirt/Blouses	8	10	10
T-Shirts and Vests	10	10	10
Women' s and Girl' s Dresses	10	10	10

Source: Industry/CRISIL Research

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Textiles							
Alok Ind	Buy	5,487	14.3	1,317	22.7	418	12.8
Arvind Mills	Neutral	5,813	29.8	796	12.2	85	LP
Gokaldas Exports	Neutral	2,859	12.0	295	1.5	164	-8.0
Himatsingka Seide	Neutral	482	4.0	111	-21.8	91	-39.4
Raymond	Neutral	5,942	99.9	933	90.6	354	2.9
Vardhman Textiles	Buy	6,177	13.6	1,019	5.3	329	-36.2
Welspun Ind	Neutral	3,059	19.8	520	17.2	173	8.5
Sector Aggregate		29,820	28.2	4,991	21.2	1,614	-4.9

RESTRICTION ON CHINA BY USA: GROWTH RATES IN KEY CATEGORIES (%)

	2006	2007	2008
Growth Rate Cap			
Men' and Boys' Cotton Knit Shirts	10	12.5	15
Men' and Boys' MMF Knit Shirts	10	12.5	15
Women' and Girls' Cotton Knit Shirts/Blouses	10	12.5	15
Women' and Girls' MMF Knit Shirts/Blouses	10	12.5	15
Men's and Boys' Cotton Woven Shirts	10	12.5	15
Men' s and Boys' MMF Woven Shirts	10	12.5	15
Men's and Boys' Cotton Bottom-wear	10	12.5	15
Women' s and Girls' Cotton Bottom-wear	10	12.5	15
Cotton Bras	10	12.5	15
MMF Bras	10	12.5	15
Cotton Underwear	10	12.5	15
MMF Underwear	10	12.5	15
Sweaters	10	12.5	15

Source: Industry/CRISIL Research

However, in spite of increased competition from China, we expect Indian textile exports to continue to do well in select high-value-added cotton-based categories, where it already enjoys a leadership position in the US and EU.

INDIA' S MARKET SHARE IN US FOR KEY CATEGORIES

APPAREL CATEGORY	MARKET SHARE (%)
Women' s/Girls' Cotton Woven Shirts/Blouses	27.8
Cotton Skirts	21.9
Cotton Dresses	15.0
Men' s/Boys' Cotton Shirts, Woven	11.3
Women' s/Girls' Woven MMF Shirts/Blouses	10.2
MMF Skirts	10
MMF Dresses	7.1

Source: OTEXA/CRISIL Research

INDIA' S MARKET SHARE IN EU MARKET FOR KEY CATEGORIES

APPAREL CATEGORY	MARKET SHARE (%)
Women' s/Girls' Woven Dresses	16.2
Women' s/Girls' Woven Blouses/Shirts	15.9
Women' s/Girls' Knitted Dresses	15.1
Woven Skirts	13.9
Women' s/Girls' Knitted Blouses/Shirts	9.9

Source: Eurostat, CRISIL Research

Rupee appreciation – a severe blow for domestic industry

3QFY08 results of most textiles companies would reflect the negative impact of close to ~9-10% appreciation in the rupee versus the US dollar. Companies such as Himatsingka, Welspun, Alok and Gokaldas, where exports constitute a large portion of the turnover, would face the maximum impact. We believe EBITDA margins for all companies would be negatively impacted during 3QFY08 as a result of the sharp appreciation in the rupee against the US\$.

Competitiveness of Indian players to be impacted

The growth in Indian textile exports, post quota abolishment, has been lagging the growth witnessed by other neighboring countries such as Pakistan, Bangladesh, Sri Lanka etc. We believe that competitiveness of the Indian textile industry will be substantially impacted further owing to the sharp rupee appreciation.

Trade shift to developing countries slower than anticipated

World textile trade was expected to shift from the artificially protected developed countries to the low-cost developing countries in the post quota era. Though the initial trade data in the post-quota period confirms the above prognosis, the pace of trade shift has been substantially slower than anticipated. Key factors responsible for the slower-than anticipated impact resulting from quota abolishment are: (1) tariff differentials; (2) preferential agreements; (3) re-imposition of quotas on China by the US and EU and (4) transition time required by large buyers. Going forward, though tariff differentials and preferential agreements may continue to be a deterrent to growth, we expect trade shifts to accelerate as a result of aggressive outsourcing ramp-up by global retailers from key sourcing countries such as India.

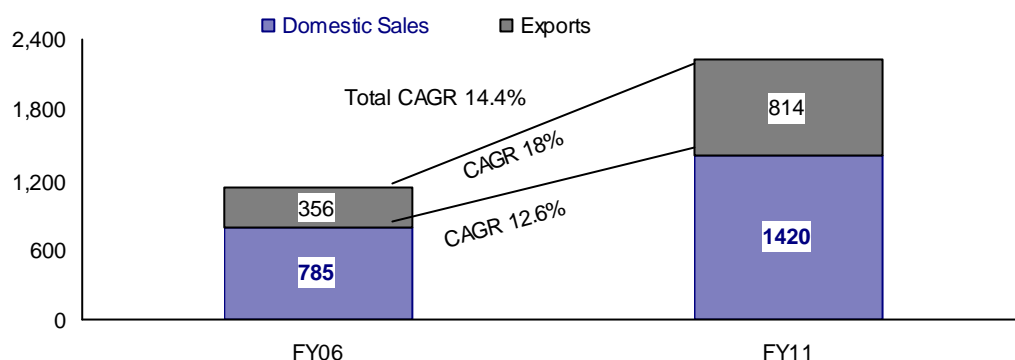
Textile players shift focus from exports to domestic markets

A clear trend seems to be emerging in the domestic textile industry, wherein players are shifting their focus from the export market to the domestic market. This shift in strategy has been driven by two key factors. Firstly, the export market has become less attractive due to the appreciating rupee, raw material and labor cost push and the relative competitive advantage enjoyed by neighboring countries. Secondly, domestic market has become extremely attractive, on the back of rising per capita income and emergence of organized retail. This has resulted in large companies such as Arvind, Raymond, Alok etc trying to forward integrate into branding and retail.

Domestic RMG market to emerge as a big opportunity

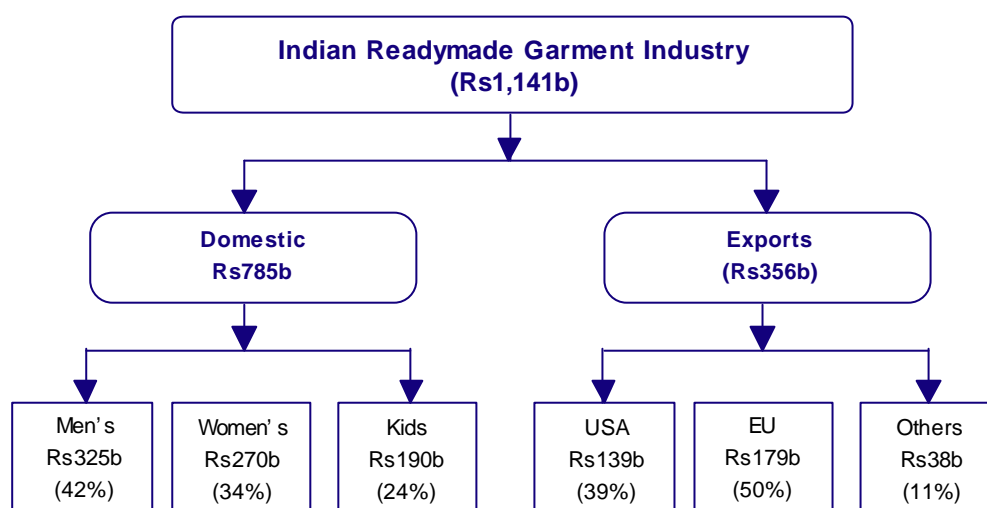
CRISIL estimates overall readymade garment (RMG) market size to grow at a CAGR of 14.4%, over FY06-FY11, to US\$50.4b from around US\$25.8b in FY06. CRISIL estimates the domestic RMG market to grow at a CAGR of 12.6% to US\$32b by FY11 from around US\$17.7b in FY06. This growth will primarily be led by increasing income levels and a shift in consumption pattern from tailored to readymade garments. We believe with the consolidation of retail industry in India, the domestic RMG market would present a big opportunity for the Indian garment manufacturers.

RMG MARKET: AN OUTLOOK (RS B)



Source: CRISIL

OVERVIEW OF INDIAN RMG MARKET (FY06)



Source: CRISIL

Valuations

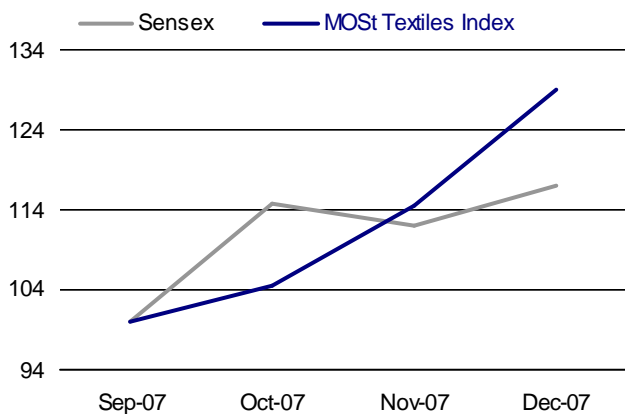
Most of the textile companies have expanded and modernized their capacities to reach critical size. Consequently, due to their modern plans and global capacities, they have also managed to attract large international institutional buyers with whom they now have established strategic relationships. This has allowed them to move their business from being a transitional based model to one that is based on strategic vendor-based relationships. At the same time, their financials are extremely healthy, as they have resorted to substantial withdrawals from the subsidized TUF scheme. Further, there is no immediate concern of large dilutions, as most companies have already completed a substantial portion of their capex plans. We maintain our **Neutral** rating on Arvind, Gokaldas, Welspun, Raymond and Himatsingka Seide. We remain bullish on Vardhman Textiles. While, we have upgraded Alok from Neutral to **Buy**.

Stock performance and valuations

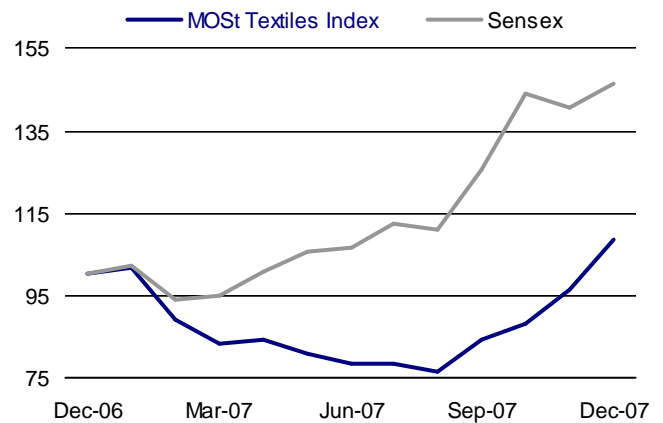
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Textiles						
Alok Ind	45	47	28	1	16	38
Arvind Mills	45	72	28	26	15	63
Gokaldas Exports	4	-16	-13	-62	-25	-24
Himatsingka Seide	0	-16	-17	-61	-29	-24
Raymond	33	9	16	-37	4	0
Vardhman Textiles	14	-39	-3	-85	-15	-47
Welspun Ind	53	20	36	-26	24	12

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Textiles														
Alok Ind	103	Buy	9.3	10.3	13.4	11.1	10.0	7.7	10.2	9.9	8.4	13.7	13.5	15.3
Arvind Mills	90	Neutral	1.6	4.1	6.8	57.7	21.9	13.1	11.9	10.1	7.9	2.0	5.1	8.1
Gokaldas Exports	259	Neutral	15.9	25.6	28.3	16.3	10.1	9.1	10.5	7.5	6.6	13.0	18.3	17.3
Himatsingka Seide	102	Neutral	6.2	11.4	12.2	16.3	8.9	8.3	10.9	6.5	5.8	9.8	16.4	15.7
Raymond	431	Neutral	20.0	27.9	31.0	21.5	15.4	13.9	10.2	7.1	6.4	8.5	11.0	11.2
Vardhman Textiles	168	Buy	18.9	28.0	38.8	8.9	6.0	4.3	9.4	7.2	6.3	10.4	14.0	16.9
Welspun Ind	102	Neutral	8.8	12.8	15.3	11.6	8.0	6.7	9.9	7.4	6.9	10.6	14.0	14.8
Sector Aggregate						16.0	11.0	8.7	10.3	8.3	7.2	8.7	11.4	12.8

Alok Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ALOK IN
	REUTERS CODE
S&P CNX: 6,080	ALOK.BO

28 December 2007

Buy

Previous Recommendation: Neutral

Rs 103

Equity Shares	199.1
52-Week Range	104/50
1,6,12 Rel.Per. (%)	36/47/1
MCap (Rs. b)	20.5
MCap (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	18,290	1,419	8.3	32.7	12.4	1.7	17.1	6.6	2.4	10.3
3/08E	22,397	1,852	9.3	30.5	11.1	1.5	13.7	7.2	2.5	10.2
3/09E	27,334	2,049	10.3	10.7	10.0	1.4	13.5	7.2	2.3	9.9
3/10E	35,220	2,678	13.4	30.7	7.7	1.2	15.3	8.4	2.0	8.4

*Fully Diluted EPS

- For 3QFY08, we expect Alok to post revenue of Rs5.5b, up 14.3% YoY, aided by higher capacities across all textile segments. We expect value added sales to increase from 21% of total sales in FY07 to ~36% of total sales in FY09.
- EBITDA margin is likely to increase 164bp YoY to 24% led by higher sales from value added segments.
- During 1QFY08, Alok announced several new initiatives, which include foray into real estate business and increased focus on the retail business. We believe the real estate vertical could alone lead to value creation of around Rs36/share.
- The management has drawn up restructuring plans which include creating dedicated verticals for the textile and retail businesses.
- It has ambitious expansion plans for its domestic retail business, which entails introducing international brands in India and opening ~500 H&A retail outlets over the next three years. Post restructuring, we expect Alok to emerge as a large retail play.
- Alok is trading at attractive valuations of 11.1x FY08E EPS of Rs9.3 and 10x FY09E EPS of Rs 10.3. We believe that the real estate vertical could lead to value creation of ~Rs36/share. We are upgrading the stock from a **Neutral** to **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	3,579	4,172	4,799	5,741	4,189	4,648	5,487	8,073	18,290	22,397
Change (%)	19.6	20.8	31.0	40.8	17.1	11.4	14.3	40.6	28.9	22.4
Total Expenditure	2,772	3,204	3,726	4,420	3,173	3,562	4,170	6,083	14,123	16,989
EBITDA	806	968	1,073	1,321	1,016	1,086	1,317	1,989	4,168	5,408
Change (%)	37.1	36.7	32.5	50.8	26.0	12.3	22.7	50.6	40.7	29.8
As % of Sales	22.5	23.2	22.4	23.0	24.2	23.4	24.0	24.6	22.8	24.1
Depreciation	246	280	325	354	358	364	400	478	1,205	1,599
Interest	170	213	242	269	270	283	315	446	893	1,314
Other Income	-4	-16	32	19	2	139	18	17	32	175
Non Recurring Expense	0	0	0	334	396	0	0	0	334	396
PBT	386	459	539	1,051	785	579	619	687	2,435	2,670
Tax	117	132	168	265	235	149	201	233	682	818
Effective Tax Rate (%)	28.2	28.9	31.2	25.2	30.0	29.0	32.5	33.9	28.0	30.7
Reputed PAT	269	326	371	787	550	430	418	454	1,753	1,852
Change (%)	31.0	28.1	25.7	139.4	104.3	31.8	12.8	-42.3	61.8	5.6
Adj. PAT	269	326	371	452	285	430	418	454	1,419	1,456
Change (%)	31.0	28.1	25.7	30.4	5.9	31.8	12.8	0.3	30.9	2.6

E: MOST Estimates

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Arvind Mills

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ARVND IN
	REUTERS CODE
S&P CNX: 6,080	ARMI.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs90

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	209.4										
52-Week Range (Rs)	91/42										
1,6,12 Rel.Per. (%)	16/69/26										
M.Cap (Rs b)	18.7										
M.Cap (US\$ b)	0.5										
	3/07A	18,449	1,196	0.8	-6.0	106.5	1.2	1.1	8.2	2.0	12.1
	3/08E	22,358	325	1.6	84.5	57.7	1.2	2.0	5.3	1.6	11.9
	3/09E	25,461	855	4.1	163.4	21.9	1.1	5.1	7.1	1.4	10.1
	3/10E	32,225	1,431	6.8	67.4	13.1	1.0	8.1	9.3	1.1	7.9

- For 3QFY08, we expect Arvind to record revenue growth of 29.8% YoY to Rs5.8b, primarily driven by higher garment sales. However, 3QFY08 results are not comparable on a YoY basis, as the result for the quarter under consideration includes revenues from the merged Arvind Brands.
- EBITDA margin is likely to decline 214bp YoY to 13.7% v/s 15.8% in 3QFY07. EBITDA margin is likely to continue to be under pressure due to increasing raw material prices and rising energy costs.
- During 3QFY08, the denim scenario improved in the international markets, however, the domestic market continues to be plagued by a huge overcapacity situation. We do not expect domestic demand-supply equilibrium in the denim sector to emerge in the near-to-medium term. Hence, we expect pressure on denim margins.
- We expect Arvind to record brand/retail sales of Rs3.8b in FY08 (~180 stores in FY08; to increase to ~250 by FY09). It owns brands such as Newport, Excalibur, Flying Machine, Ruf and Tuf, retail hypermarket chain 'Megamart' and has perpetual licensee agreement with international apparel brands such as Arrow, Tommy Hilfiger, Diesel, Polo and Cherokee.
- Arvind is currently working on restructuring plans, which could include relocating a part of its commodity grade denim capacity to other countries and increasing its focus on branded apparel and garment manufacturing.
- The stock is trading at 57.7x FY08E and 21.9x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	4,208	4,931	4,479	4,831	5,103	5,637	5,813	5,804	18,449	22,358
Change (%)	0.1	15.2	14.8	35.0	21.3	14.3	29.8	20.1	15.6	21.2
Total Expenditure	3,376	4,094	3,769	4,159	4,382	4,854	5,017	4,996	15,398	19,249
EBITDA	832	837	710	672	721	783	796	808	3,051	3,108
Change (%)	-27.6	-21.2	-22.7	-22.1	-13.3	-6.4	12.2	20.2	-23.6	1.9
As % of Sales	19.8	17.0	15.8	13.9	14.1	13.9	13.7	13.9	16.5	13.9
Depreciation	404	380	347	302	355	351	356	362	1,434	1,423
Interest	373	407	399	407	438	337	393	343	1,579	1,511
Other Income	53	2	27	81	52	17	44	63	163	175
Non Recurring Expense	-56	0	1,068	15	83	0	0	0	1,020	83
PBT	52	51	1,058	58	63	112	92	167	1,220	432
Tax	6	4	10	4	5	7	6	7	24	25
Effective Tax Rate (%)	11.3	8.0	1.0	7.2	5.0	5.0	7.0	4.2	2.0	5.8
Reported PAT	46	47	1,048	54	58	105	85	160	1,196	407
Adj. PAT	103	47	-20	39	-24	105	85	160	176	325
Change (%)	-77.2	-87.3	-108.5	-81.6	-123.9	121.5	-530.3	304.0	-86.2	84.5

E: MOST Estimates, * Restated Quarterly Numbers

Siddharth Bothra (Sbothra@MotilalOswal.com); Tel: +91 22 39825407

Gokaldas Exports

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GOKL IN
	REUTERS CODE
S&P CNX: 6,080	GOKL.BO

28 December 2007

Neutral

Previous Recommendation: Buy

Rs259

Equity Shares (m)	34.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	338/186	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel.Per. (%)	-4/-29/-62	3/07A	10,344	703	17.7	15.6	12.7	2.2	18.9	15.7	1.1	9.2
MCap (Rs. b)	8.9	3/08E	11,963	547	15.9	-22.2	16.3	2.0	13.0	11.5	0.9	10.5
MCap (US\$ b)	0.2	3/09E	13,674	880	25.6	60.8	10.1	1.7	18.3	15.5	0.8	7.5
		3/10E	15,176	974	28.3	10.7	9.1	1.5	17.3	16.0	0.7	6.6

- ✍ We expect revenue to increase 12% in 3QFY08 to Rs2.9b, primarily aided by rise in volumes. Revenue growth would have been higher but for the sharp rupee appreciation by ~9-11%. Almost 94% of Gokaldas revenues are derived from exports.
- ✍ We expect EBITDA margin to decline 107bp YoY to 10.3% as a result of the sharp rupee appreciation against the US dollar.
- ✍ We expect PAT to decline 8% YoY to Rs164m v/s Rs178m in 3QFY07.
- ✍ During 2QFY08, the promoters of Gokaldas sold 50.1% stake in the company to Blackstone FP Capital Partners (Mauritius) at a price of Rs275/sh. Post this transaction, Blackstone would further make an open offer for another 20% of the equity capital from existing shareholders, implying a total investment of US\$165m.
- ✍ We are lowering our profit estimates for FY08 by % to Rs547m to account for the sharp rupee appreciation.
- ✍ We expect the company to register revenue CAGR of 13.4% and profit CAGR of 11.5% over FY07-FY10. The stock is trading at 16.3x FY08E and 10.1x FY09E earnings. At CMP, the stock trades close to our one-year target price of Rs260/sh. Hence, we are downgrading the stock to **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	2,216	2,810	2,553	2,766	2,619	2,499	2,859	3,236	10,344	11,213
Change (%)	23.8	13.7	16.4	15.7	18.2	-11.1	12.0	17.0	17.0	8.4
Total Expenditure	1,991	2,494	2,263	2,398	2,410	2,274	2,565	2,882	9,146	10,131
EBITDA	225	316	290	367	209	225	295	353	1,198	1,082
Change (%)	26	19	21	33	-7	-29	2	-4	25	-9.7
As % of Sales	10.2	11.2	11.4	13.3	8.0	9.0	10.3	10.9	11.6	9.7
Depreciation	52	60	68	70	72	75	76	82	250	306
Interest	46	54	55	65	71	73	62	53	220	259
Other Income	22	16	12	1	51	43	24	-28	51	90
PBT	150	218	179	234	116	120	180	191	780	608
Tax	14	10	1	52	11	8	16	26	77	61
Effective Tax Rate (%)	9.7	4.4	10.2	22.4	8.0	9.0	9.0	13.6	9.9	10.0
Reported PAT	135	208	178	181	105	113	164	165	703	547
Change (%)	16.3	12.4	13.4	20.6	-22.1	-45.9	-8.0	-9.2	15.4	-22.2

E: MOST Estimates

Himatsingka Seide

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	HSS IN
	REUTERS CODE
S&P CNX: 6,080	HMSD.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs102

Equity Shares (m)	97.4	YEAR	NET SALES	PAT	EPS *	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	150/96	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel.Per. (%)	-4/-54/-61	3/07A	1,742	546	5.6	12.3	18.1	1.6	9.3	7.4	5.3	18.9
MCap (Rs. b)	9.9	3/08E	3,626	606	6.2	11.0	16.3	1.6	9.8	9.1	2.6	10.9
MCap (US\$ b)	0.3	3/09E	6,355	1,109	11.4	82.9	8.9	1.4	16.4	15.5	1.6	6.5
		3/10E	6,623	1,188	12.2	7.1	8.3	1.2	15.7	15.4	1.4	5.8

* Consolidated

- For 3QFY08, we expect Himatsingka's standalone revenue to increase 4% YoY to Rs482m on the back of higher contribution from the fabric segment.
- We expect EBITDA margin to drop 760bp YoY to 23% on the back of higher raw material cost.
- PAT is likely to drop 36.7% YoY to Rs95m.
- Its 20m bed linen plant located at the Hassan special economic zone (SEZ), Kamataka, could post revenues of Rs4b once it is fully operational.
- We expect the company to post EPS of Rs6.2 for FY08 and Rs 11.4 for FY09. The stock is trading at a P/E of 16.3x FY08E and 8.9x FY09E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	378	470	463	432	396	431	482	618	1,427	1,926
Change (%)	10.5	23.5	13.5	14.0	4.9	-8.3	4.0	43.1	-5.5	35.0
Total Expenditure	252	311	321	374	309	361	371	461	963	1,502
EBITDA	126	159	142	58	87	70	111	156	464	424
Change (%)	-4.9	7.8	7.4	-45.3	-30.6	-55.9	-21.8	169.1	-10.4	-8.5
As % of Sales	33.3	33.8	30.6	13.4	22.0	16.3	23.0	25.2	32.5	22.0
Depreciation	35	37	37	31	40	42	46	49	140	176
Interest	1	1	2	1	5	13	10	12	4	40
Other Income	62	69	68	71	59	35	44	37	271	175
PBT	151	190	171	98	102	51	98	132	589	383
Tax	7.0	27.0	20.8	8.5	10.5	0.6	7.4	7.0	63.3	24.5
Effective Tax Rate (%)	4.6	14.2	12.2	8.7	10.3	1.2	7.5	5.3	10.7	6.4
Reported PAT	144	163	150	89	92	50	91	125	526	359
Adj. PAT	144	163	150	89	92	50	91	125	526	359
Change (%)	27.8	22.7	25.5	-24.8	-36.4	-69.1	-39.4	40.4	8.9	-31.8

E: MOST Estimates

Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	RW IN
	REUTERS CODE
S&P CNX: 6,080	RYMD.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs431

Equity Shares	61.4
52-Week Range	445/251
1,6,12 Rel.Per. (%)	2/1/-37
MCap (Rs. b)	26.4
MCap (US\$ b)	0.7

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	20,407	949	15.5	-27.4	27.9	1.9	10.5	8.4	1.5	12.4
3/08E	22,680	1,227	20.0	29.4	21.5	1.8	8.5	9.6	1.4	10.9
3/09E	25,367	1,712	27.9	39.5	15.4	1.6	11.0	11.7	1.2	7.6
3/10E	28,394	1,903	31.0	11.2	13.9	1.5	11.2	12.1	1.0	6.9

* Consolidated

- ☞ We expect Raymond to report consolidated revenue of Rs5.9b in 3QY08 compared to standalone revenue of Rs3b in 3QFY07.
- ☞ EBITDA for 3QFY08 is likely to be around Rs933m v/s standalone EBITDA of Rs489m in 3QFY07.
- ☞ Raymond's denim JV is facing cost pressures at its international plants in the US and Romania and is operating at low utilization rates of ~70%.
- ☞ Raymond expects to aggressively roll out 40-50 flagship stores in FY08. We feel these stores are unlikely to breakeven in the medium term, due to high rentals. Management has given guidance for its branded apparel business to register growth rates of 20% to 25% CAGR over the next two to three years.
- ☞ The stock is trading at 21.5x FY08E and 15.4x FY09E earnings. It has an EV/EBITDA of 10.9x FY08E and 7.6x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08 *				FY07*	FY08E*
	1Q*	2Q#	3Q#	4Q#	1Q	2Q	3QE	4QE		
Net Sales	3,688	3,586	2,973	3,477	4,609	6,003	5,942	6,126	20,407	22,680
Change (%)		2.6	-13.9	-9.5	25.0	67.4	99.9	76.2	54.0	11.1
Total Expenditure	3,361	2,945	2,483	3,040	4,378	5,412	5,009	5,062	17,934	19,861
EBITDA	327	641	489	437	231	591	933	1,064	2,473	2,819
Change (%)	2.8	16.4	-17.0	-17.7	-29.4	-7.8	90.6	143.3	24.3	14.0
As % of Sales	8.9	17.9	16.5	12.6	5.0	9.8	15.7	17.4	12.1	12.4
Depreciation	210	146	134	165	340	340	346	358	1,257	1,384
Interest	84	93	72	78	216	205	192	154	502	766
Other Income	196	160	268	94	375	412	117	71	780	975
Extra-ordinary Income	-14	859	43	-29	-36	-6	0	0	451	-42
PBT	215	1,421	552	259	14	390	512	727	1,945	1,643
Tax	46	6	165	153	22	43	159	213	549	437
Effective Tax Rate (%)	24.0	0.5	29.9	58.9	157.1	28.0	31.0	29.3	28.2	26.6
Reported PAT	135	1,415	387	107	-8	347	354	514	1,396	1,206
Adj. PAT after MI	149	556	344	136	28	353	354	514	949	1,227
Change (%)	-20.6	66.4	31.6	-61.0	-81.2	-36.5	2.9	278.5	-13.8	29.4

E: MOST Estimates, * Consolidated, # Standalone

Vardhman Textiles

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	VTEX IN
	REUTERS CODE
S&P CNX: 6,080	MHSP.BO

28 December 2007

Buy

Rs168

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	64.1										
52-Week Range (Rs)	298/129										
1,6,12 Rel.Per. (%)	8/-37/-85										
MCap (Rs. b)	10.8										
MCap (US\$ b)	0.3										
	3/07A	20,876	1,717	26.8	-12.5	6.3	1.0	16.6	9.3	1.2	7.3
	3/08E	23,759	1,209	18.9	-29.6	8.9	0.9	10.4	6.9	1.5	9.4
	3/09E	29,817	1,792	28.0	48.2	6.0	0.8	14.0	8.1	1.3	7.2
	3/10E	41,147	2,487	38.8	38.8	4.3	0.7	16.9	9.4	1.0	6.3

Vardhman Textiles has issued a bonus of 1:2

- For 3QFY08, Vardhman is likely to report revenue growth of 13.6% to around Rs6.2b. We expect EBITDA margin to decline 130bp to 16.5% v/s 17.8% in 3QFY07, as a result of improved performance from the fabric business.
- Adjusted PAT is likely to register 36.2% YoY decline to Rs329m vs Rs516m in 3QFY07.
- The company is currently implementing an ambitious Rs16b capex plan, which would double its fabric capacity and increase spinning capacity by nearly 50%.
- We are lowering our PAT estimates for FY08 and FY09 by % and % respectively due to margin pressure from higher fuel cost, raw material pressure and sharp appreciation in the rupee.
- We expect Vardhman Textiles' sales and earnings to witness CAGR of 25.3% and 13.1% respectively over FY07-FY10E.
- The stock is trading at 8.9x FY08E and 6x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	4,755	5,283	5,438	5,400	5,276	5,661	6,177	6,645	20,876	23,759
Change (%)	12.7	15.0	6.1	9.1	10.9	7.1	13.6	23.1	10.5	13.8
Total Expenditure	133	4,366	4,470	4,632	4,380	4,778	5,158	5,552	17,388	19,868
EBITDA	836	917	968	768	896	883	1,019	1,093	3,488	3,891
Change (%)	6.8	7.5	1.0	-8.2	7.2	-3.7	5.3	42.4	1.7	11.5
As % of Sales	17.6	17.4	17.8	14.2	17.0	15.6	16.5	16.4	16.7	16.4
Depreciation	286	301	290	317	346	354	413	446	1,194	1,559
Interest	110	99	87	81	165	131	247	444	377	988
Other Income	62	37	77	129	66	116	75	43	340	300
Extra-ordinary Income	0	35	0	1	0	0	0	0	35	0
PBT	501	590	668	500	451	514	434	246	2,292	1,645
Tax	126	132	152	131	134	140	105	57	541	436
Effective Tax Rate (%)	25.2	22.4	22.8	26.2	23.7	25.1	24.2	23.2	23.6	26.5
Reported PAT	375	458	516	369	317	374	329	189	1,752	1,209
Adj. PAT	375	423	516	369	317	374	329	189	1,717	1,209
Change (%)	29.4	5.9	0.5	-24.9	-15.5	-11.6	-36.2	-48.8	1.4	-29.6

E: MOST Estimates

Welspun India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	WLSP IN
	REUTERS CODE
S&P CNX: 6,080	WLSP.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs102

Equity Shares	76.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	115/50	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel.Per. (%)	4/23/-26	3/07A	9,736	521	6.8	25.3	15.1	1.3	8.8	5.4	2.0	12.4
MCap (Rs b)	7.9	3/08E	12,237	678	8.8	30	11.6	1.2	10.6	6.3	1.7	9.9
MCap (US\$ b)	0.2	3/09E	13,209	984	12.8	45.0	8.0	1.1	14.0	8.4	1.6	7.4
		3/10E	14,233	1,173	15.3	19.3	6.7	0.9	14.8	9.2	1.5	6.9

- For 3QFY08, we expect Welspun to post revenue growth of 19.8% YoY to Rs3.1b.
- EBITDA margin is likely to decline by 40bp YoY to 17%, as a result of better utilization in the bed-linen segment.
- PAT is likely to increase by 8.5% YoY to Rs173m in 3QFY08. During 3QFY08, utilization rates for the bed linen plant improved to around 70%.
- During 3QFY08, Welspun acquired a 76% stake in bath rug major Sorema of Portugal at an EV of Rs600m. Sorema is a leading player in bath rugs and shower curtains around the world, with an estimated turnover of Rs570m.
- Going forward, margins in the bed-linen are likely to improve on the back of increased capacity utilization rates.
- We expect Welspun's revenues and earnings to witness 13.4% and 31% CAGR (FY07-FY10) respectively. Welspun is trading at a P/E of 11.6x FY08E and 8x FY09E earnings. We are **Neutral** on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	1,989	2,764	2,554	2,485	2,647	2,938	3,059	3,593	9,736	12,237
Change (%)	38.1	78.7	65.4	21.1	33.1	6.3	19.8	44.6	47.9	25.7
Total Expenditure	1,576	2,342	2,110	2,133	2,281	2,470	2,539	2,937	8,213	10,227
EBITDA	413	423	444	352	367	468	520	655	1,523	2,010
Change (%)	31.5	32.2	16.7	11.9	-11.2	10.8	17.2	86.3	14.6	32.0
As % of Sales	20.8	15.3	17.4	14.2	13.8	15.9	17.0	18.2	15.6	16.4
Depreciation	144	157	166	183	195	207	206	217	651	825
Interest	112	122	129	123	155	157	154	149	478	615
Other Income	52	40	75	165	124	148	100	28	429	400
Extra-ordinary Income	-90	88	0	0					-2	
PBT	119	272	224	210	141	252	260	369	823	1,022
Tax	43	89	65	107	48	84	87	124	304	344
Effective Tax Rate (%)	36.2	32.6	28.8	51.0	33.9	33.9	33.6	33.6	36.9	33.6
Reputed PAT	76	183	159	103	92	168	173	245	519	678
Adj. PAT	166	95	159	103	92	168	173	245	521	678
Change (%)	53.7	-24.6	115.4	-3.8	-44.4	76.1	8.5	137.8	25.4	30.2

E: MOST Estimates

Utilities

BSE Sensex: 20,207

S&P CNX: 6,080

28 December 2007

COMPANY NAME	PG.
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Tata Power	275

Coal blocks allocation to private players to boost investment...

The Government of India (GoI) has allocated 15 coal blocks with total reserves of 4b tonnes to the private sector players for captive use in power generation, indicating continued thrust and commitment of the centre towards the power sector. The coal block award has led to fuel linkages to many projects (like CESC 1,000MW project in Orissa and GMR Energy's proposed project in Madhya Pradesh) and has also given boost to private sector players to plan and develop the power project based on the coal mines allocation.

LIST OF COAL BLOCKS AWARDED TO PRIVATE SECTOR

SR.NO.	NAME OF COAL BLOCK	RECOMMENDED COMPANIES	RESERVES (M TONS)
1	Mandakini	Monnet Ispat & Energy Limited Jindal Photo Limited Tata Power Company Limited	290.52
2	Rampia & Dip side of Rampia	Sterlite Energy Limited GMR Energy Limited Lanco Group Limited Navbharat Power Private Limited Mittal Steel India Limited Reliance Energy Limited	285.24 360.00
3	Durgapur II/Sariya	D B Power Limited	91.67
4	Durgapur II/Taraimar	Bharat Aluminium Co. Limited	211.37
5	Sayang	AES Chattisgarh Energy P. Limited	150.00
6	Fatehpur	SKS Ispat & Power Limited Prakash Industries Limited	120.00
7	Fatehpur East	JLD Yavatmal Energy Limited Green Infrastructure P. Limited RKM Powergen P. Limited Visa Power Limited Vandana Vidyut Energy Limited	450.00
8	Lohara West & Lohara East	Adani Power P. Limited	169.83
9	Ganeshpur	Tata Steel Limited Adhunik Thermal Energy Limited	137.89
10	Seregarh	Mittal Steel Limited GVK (Goindwal Sahib) Limited	150.00

*Continued on next page...***EXPECTED QUARTERLY PERFORMANCE SUMMARY**

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		DEC.07	CHG. (%)	DEC.07	CHG. (%)	DEC.07	CHG. (%)
Utilities							
CESC	Neutral	6,360	7.3	1,365	9.2	730	19.7
Neyveli Lignite	Neutral	5,485	7.5	3,702	95.5	2,013	31.9
NTPC	Neutral	93,812	15.2	30,955	37.0	19,349	11.1
PTC India	Buy	13,929	72.5	120	45.9	104	21.2
Reliance Energy	Buy	17,024	11.0	2,724	229.4	2,212	10.1
Tata Power	Buy	13,526	12.7	2,130	1.1	971	-19.4
Sector Aggregate		150,136	17.4	40,996	42.6	25,379	11.1

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LIST OF COAL BLOCKS AWARDED TO PRIVATE SECTOR (CONTINUED FROM PREVIOUS PAGE)

SR.NO.	NAME OF COAL BLOCK	RECOMMENDED COMPANIES	RESERVES (M TONS)
11	Ashok Karnataka Central	Essar Power Limited	110.00
12	Patel East	Bhushan Power & steel Limited	200.00
13	Amarkonda Murgadangal	Jindal Steel & Power Limited Gayan Sponge Iron P. Limited	*410
14	Mahuagarhi	CESC Jas Infrastructure P. Limited	*220
15	Gourangdih ABC	Himachal Ernta power Limited JSW steel Limited	131.70
Total Allocation			3,488.21

Entries prefixed with * have been updated on 16.11.06

Source: Industry/Motilal Oswal Securities

...but execution continues to lag planned capacity addition

The actual capacity addition between April-November 2007 has been lagging behind the planned capacity addition during the same period. Of the targeted 9,891MW of thermal project, only 3,700MW is commissioned. The hydro power projects commissioned during the period stand at 1,195MW v/s 2,050MW planned.

PLANNED V/S ACHIEVEMENT – NOVEMBER 2007 (MW)

SCHEMES	TARGET 2007-08	APRIL-NOVEMBER 2007		DEVIATION (+) / (-)
		PROGRAMME	ACHIEVEMENT	
Thermal				
Central	4,650	3,490	1,490	(2,000)
State	5,017	4,685	1,960	(2,725)
Private	3,037	1,716	250	(1,466)
Total	12,704	9,891	3,700	(6,191)
Hydro				
Central	1,030	520	520	-
State	1,721	1,530	675	(855)
Private	-	-	-	-
Total	2,751	2,050	1,195	(855)
Nuclear				
Central	880	440	220	(220)
Total	880	440	220	(220)
All India				
Central	6,560	4,450	2,230	(2,220)
State	6,738	6,215	2,635	(3,580)
Private	3,037	1,716	250	(1,466)
Total	16,335	12,381	5,115	(7,266)

Source: CEA

The key variance has been the capacity addition from the state electricity boards (SEBs). We believe with the award of the project on turnkey basis by various SEBs (Haryana, Rajasthan, Tamil Nadu, etc) to private sector players, the process of capacity addition should pick momentum going forward.

Transmission capacity addition on track

The capacity addition in the transmission sector is progressing as per the plan and is in fact higher than the expected capacity addition during April-November 2007.

PLANNED V/S ACHIEVEMENT YTD NOV-07 (MW)

VOLTAGE	TARGET 2007-08	APRIL-NOVEMBER 2007	
		PROGRAMME	ACHIEVEMENT
765 kV			
Central Sector	160	0	220
State Sector	0	0	0
Total	160	0	220
400 Kv			
Central Sector	4,894	3,544	3,934
State Sector	2,013	1,391	673
Total	6,907	4,935	4,607
220kV			
Central Sector	224	147	275
State Sector	5,224	2,577	2,410
Total	5,448	2,724	2,685

Source: CEA

UMPPs: Slow but satisfactory progress

The progress on the Ultra Mega Power Projects (UMPPs) though slow has been satisfactory given India's precarious power capacity addition pace, specifically for large size projects. The Ministry of Power has completed the bid evaluation for the Krishnapatnam Ultra Mega Power Project, wherein Reliance Power Ltd has emerged as the L1 bidder. Reliance Power quoted a levelised tariff of Rs2.33/unit as against the Rs2.7/unit by L&T and Rs4.2/unit by Sterlite. Krishnapatnam is the third UMPP project to be awarded by the government while Tilaiya project in Jharkhand is the next in line. The government has not invited the Request for Qualification (RFQs) for the project yet.

STATUS OF ULTRA MEGA POWER PROJECTS (UMPP)

STATUS OF UMPP	LOCATION	FUEL	STATUS
Sasan	Madhya Pradesh	Pithead	Awarded to Reliance Power
Mundra	Gujarat	Imported Coal	Awarded to Tata Power
Krishnapatnam	Andhra Pradesh	Imported Coal	Price bids invited, Reliance Power emerges as L1 with a tariff bid of Rs2.33/unit
Tilaiya Project	Jharkhand	Pithead	RFQs to be invited
Tadri	Karnataka	Imported Coal	State govt clearance pending
Girye	Maharashtra	Imported Coal	State govt clearance pending
Jharsuguda	Orissa	Pithead	Land and Water issues
Cheyur	Tamil Nadu	Imported Coal	Site selection awaited
Akaltara	Chhattisgarh	Pithead	Discussions with state govt on
Marakkanam	Tamil Nadu	Imported Coal	Recently announced

Source: Industry/Motilal Oswal Securities

Valuation and view

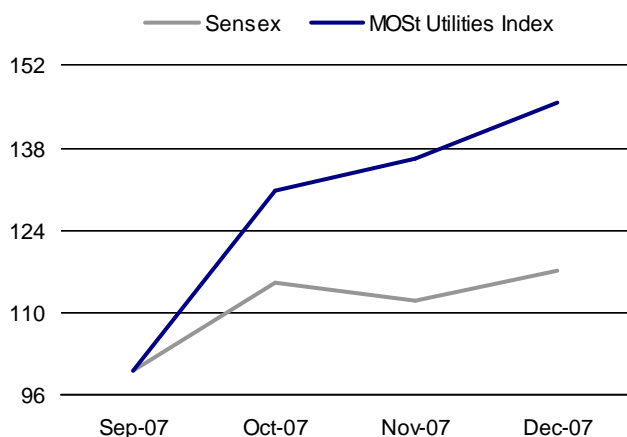
For 3QFY08, we expect utilities to report a steady performance in revenue and profitability. The slower pace of reforms, under achievement of the target capacity addition and attracting private sector investments in generation and privatization of distribution represent key challenges for the Indian power sector. However, the reforms are on track, albeit at a slower rate, which is reflected in UMPP projects and various initiatives by the government to ensure the fuel linkages, etc. We remain positive on the sector.

Stock performance and valuations

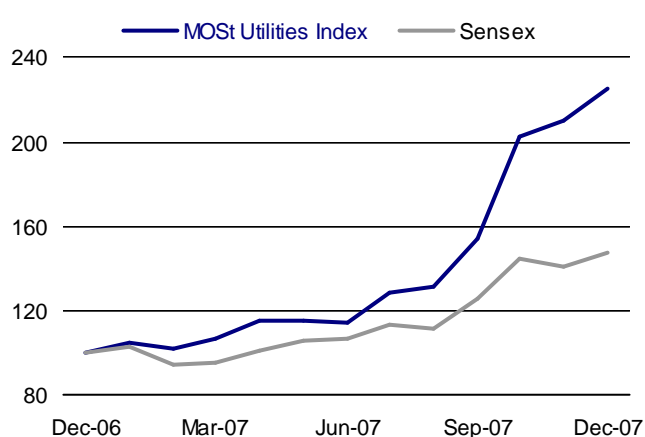
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Utilities						
CESC	25	97	8	51	-21	-29
Neyveli Lignite Corporation	136	338	119	292	91	213
NTPC	25	77	8	31	-21	-48
PTC India	75	190	59	144	30	64
Reliance Energy	79	313	62	268	33	188
Tata Power	63	150	46	104	17	24

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.12.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Utilities														
CESC	607	Neutral	23.0	25.6	31.3	26.5	23.7	19.4	15.5	14.7	12.7	10.8	10.9	11.9
Neyveli Lignite	248	Neutral	5.5	5.6	7.8	45.1	44.1	32.0	27.1	25.4	14.2	10.8	10.4	13.2
NTPC	241	Neutral	10.1	9.8	10.1	24.0	24.7	23.8	16.1	15.8	14.4	14.4	14.3	13.6
PTC India	160	Buy	2.9	3.7	6.0	54.6	43.3	26.7	53.6	40.7	24.5	15.9	18.1	25.6
Reliance Energy	2,155	Buy	33.8	36.7	57.2	63.8	58.8	37.7	52.4	53.9	40.6	10.7	10.7	10.7
Tata Power	1391	Buy	33.0	33.9	37.6	42.2	41.0	37.0	26.4	25.3	21.1	8.9	7.6	8.4
Sector Aggregate						32.3	29.9	27.3	19.7	19.1	16.1	12.0	11.9	12.0

CESC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CESC IN
	REUTERS CODE
S&P CNX: 6,080	CESC.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs607

Equity Shares (m)	124.9	YEAR	NET SALES	PAT	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	672/291	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf.(%)	-2/28/51	3/07A	24,843	2,257	28.2	30.9	21.5	3.0	13.5	12.2	3.5	15.1
MCap. (Rs b)	75.9	3/08E	26,783	2,868	23.0	-18.6	26.5	3.0	10.8	10.3	3.1	15.5
MCap. (US\$ b)	1.9	3/09E	29,023	3,198	25.6	11.5	23.7	2.7	10.9	10.3	3.2	14.7
		3/10E	30,884	3,908	31.3	22.2	19.4	2.4	11.9	10.8	3.2	12.7

* Excl Spencers; fully diluted

- For 3QFY08, we expect CESC to post revenue of Rs6.4b, up 7.3% YoY, and net profit of Rs758m, up 24.3% YoY.
- CESC has been recently awarded Mahuagarhi coal block in Jharkhand (50% stake) with estimated reserves of 220MT. CESC's share of 110m ton can support 1,000MW power plant, which would be on merchant basis.
- CESC is working on 1) 250MW Budge Budge Expansion (expected completion September 09) and 2) 600MW Haldia power project (coal linkage received, project completion by FY11). Further, 1,000MW merchant power project in Jharkhand would be commissioned by end FY12. Thus, CESC's effective power capacity by end FY12 should stand at 2,825MW, v/s 975MW currently. The total capex planned by company for the expansion is Rs54b.
- Spencer plans to expand its retail space from 0.6msf currently to 4.5msf by March 10. The company has already tied up for 1.5msf to be commissioned in the coming 12-15 months.
- We expect CESC to report a net profit of Rs2.9b in FY08 (up 27.1% YoY) and Rs3.2b in FY09 (up 11.5% YoY), excluding Spencer. At CMP of Rs607, the stock is traded at a P/E of 26.5x FY08E and 23.7x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	6,740	6,750	5,930	5,470	7,170	7,300	6,360	5,953	24,890	26,783
Change (%)	0.0	0.4	2.6	-6.3	6.4	8.1	7.3	8.8	-0.8	7.6
EBITDA	1,360	1,400	1,250	1,170	1,300	1,410	1,365	1,299	5,180	5,374
Change (%)	-9.9	-9.1	-6.0	-18.8	-4.4	0.7	9.2	11.0	-11.0	3.7
As of % Sales	20.2	20.7	21.1	21.4	18.1	19.3	21.5	21.8	20.8	20.1
Depreciation	410	410	410	410	410	400	440	471	1,640	1,721
Interest	540	420	370	360	390	340	375	411	1,690	1,516
Other Income	210	220	220	290	290	260	280	407	940	1,237
Extraordinary Income/(Expense)	0	0	0	0	140	120	0	0	0	0
PBT	620	790	690	690	930	1,050	830	825	2,790	3,374
Tax	70	100	80	80	110	120	100	99	390	506
Effective Tax Rate (%)	11.3	12.7	11.6	11.6	11.8	11.4	12.0	12.0	14.0	15.0
Reported PAT	550	690	610	610	820	930	730	726	2,400	2,868
Adjusted PAT	550	690	610	610	697	820	730	726	2,400	2,868
Change (%)	34.1	21.1	64.9	38.6	26.7	34.8	19.7	19.0	34.1	19.5

E: MOST Estimates, Standalone Numbers (excl Spencers Retail)

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National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	NTPC IN
	REUTERS CODE
S&P CNX: 6,080	NTPC.BO
Equity Shares (m)	8,245.5
52-Week Range	285/129
1,6,12 Rel. Perf. (%)	-2/20/31
MCap. (Rs b)	1,990
MCap. (US\$ b)	50.5

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs241

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	326,317	65,681	8.0	23.6	30.3	4.1	13.9	21.2	5.9	16.6
3/08E	375,248	73,976	9.0	13.8	26.9	3.7	14.4	22.9	5.3	14.0
3/09E	420,215	80,517	9.8	8.8	24.7	3.4	14.3	20.3	5.0	13.9
3/10E	483,015	83,547	10.1	3.8	23.8	3.1	13.6	18.9	4.6	12.5

* Pre Exceptional Earnings; FY05 reported Net Profit Rs58.1b

- ✍ We expect NTPC to report revenue of Rs93.8b (up 15.2% YoY) and net profit of Rs19.3b (up 11.1% YoY) in 3QFY08.
- ✍ The power capacity, as of September 2007, stood at 26,850MW (excluding JV capacity of 1054MW), up from 26,350MW in March 2007. For Eleventh Plan, the company plans to add 22,350MW and of this, capacity under construction stands at 13,360MW, and expects to issue the main plant award for the balance 8,990MW by March 2008.
- ✍ The expected ramp up for the targeted capacity of 22,350 MW in 11th plan is: FY08 - 2,500MW, FY09 - 2,580MW, FY10 - 3,000MW, FY11 - 5,960MW and FY12 - 8,310MW. The management has indicated that capacity addition during FY08 will be 2,500MW (Kahalgaon 1,000MW, Sipat 1,000MW and Bhilai JV 500MW). During FY09, capacity addition is expected at 2,580MW (Sipat 1,320MW, Barh 660MW and Koldam hydro power 600MW).
- ✍ It has recently signed MoU with UP State Thermal Power Generation Corporation (UPSTPGC) to set up a coal-based power plant having a capacity of 1,320 MW (2x660MW). UPSTPGC and NTPC will have 50% each in this joint venture.
- ✍ We expect NTPC to report net profit of Rs80.5b in FY08 and Rs83.5b in FY09. At CMP, NTPC is trading at a P/E of 26.9x FY08E and 24.7x FY09E. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	71,536	68,138	81,468	88,603	89,697	80,169	93,812	111,570	326,317	375,248
Change (%)	18.1	15.0	18.6	21.5	25.4	17.7	15.2	25.9	24.8	21.1
EBITDA	19,960	18,408	22,595	23,397	26,945	27,490	30,051	38,522	100,932	123,008
Change (%)	29.4	41.9	24.2	33.1	35.0	49.3	33.0	64.6	57.3	21.9
As of % Sales	27.9	27.0	27.7	26.4	30.0	34.3	32.0	34.5	30.9	32.8
Depreciation	4,755	4,780	5,138	6,081	4,914	5,134	6,936	8,842	20,754	25,826
Interest	5,238	4,630	2,807	5,919	278	4,964	4,912	9,125	18,594	19,279
Other Income	6,369	6,505	7,752	6,864	7,181	7,323	7,674	7,899	27,490	30,078
PBT	16,336	15,503	22,402	18,261	28,934	24,715	25,877	28,454	89,074	107,980
Tax	808	764	1,369	914	5,235	5,460	6,469	7,804	20,427	24,968
Effective Tax Rate (%)	4.9	4.9	6.1	5.0	18.1	22.1	25.0	27.4	22.9	23.1
Reported PAT	15,528	14,739	21,033	17,347	23,699	19,255	19,408	20,651	68,647	83,013
Adj. PAT (Pre Exceptional)	15,318	14,410	17,415	18,539	17,648	16,269	19,408	20,651	65,681	73,976
Change (%)	25.4	24.8	37.4	18.4	15.2	12.9	11.4	11.4	23.6	12.6

E: MOST Estimates

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Neyveli Lignite Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	NLC IN
	REUTERS CODE
S&P CNX: 6,080	NELG.BO
Equity Shares (m)	1,677.7
52-Week Range	270/49
1,6,12 Rel. Perf.(%)	12/272/292
MCap. (Rs b)	417.4
MCap. (US\$ b)	9.5

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs249

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	21,467	8,966	5.3	15.1	46.6	5.0	11.0	8.9	17.7	49.9
3/08E	24,583	9,241	5.5	3.1	45.2	4.7	10.8	12.3	15.7	27.1
3/09E	26,020	9,460	5.6	2.4	44.1	4.4	10.4	10.7	15.4	25.5
3/10E	35,372	13,026	7.8	37.7	32.0	4.0	13.2	15.7	40.9	14.2

* Pre Exceptionals; FY05 reported net profit Rs12.2b

- For 3QFY08, we expect Neyveli Lignite to report net profit of Rs2b, up 33.4% YoY.
- It plans to expand its lignite mining capacity to 61.9MTPA (from 24MTPA) and the power generation capacity to 11,990MW (from 2,490MW) at present.
- Update on on-going expansion plans:** a) Mine-II Expansion (10.5MTPA to 15.0MTPA) linked to thermal power Stn-I Expansion (1,470 to 1,970MW), commissioning by June 2009. b) Barsingsar mine project of 2.1MTPA and 250MW generation capacity to be commissioned by June 2009
- New Projects:** Coal based power plant at Tuticorin (1,000MW) in JV with Tamil Nadu Electricity Board (TNEB) has received the approval from Public Investment Board (PIB) and is awaiting sanction by Government of India (GOI). The project is expected to be commissioned within 48 months from the date of approval by GOI.
- Project under feasibility study stage:** a) Jayamkondam mine project of 9MTPA with 1,000MW power generating capacity b) Barsingsar thermal power project extension (250MW) linked with mine (2.1 MTPA) at Bithnok & Hadla in Rajasthan c) Power project of 500MW linked to lignite mine of 4.2 MTPA at Riri in Rajasthan d) Coal-based Thermal Power Plant at Orissa (4x500MW) with coal supply from Mahanadi Coalfields Ltd (MCL) e) Gujarat Power Project (1,000MW) linked to lignite mine of 8MTPA in JV with Gujarat Power Corporation Ltd f) Mine-III of 8MTPA and thermal power project of 1,000MW at Neyveli.
- It has significant cash and cash equivalents up to Rs52b as of March 2007, which will facilitate scalability. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	6,397	6,079	5,102	3,502	7,776	7,278	5,485	4,044	21,467	24,583
Change (%)	-24.4	-15.4	-10.5	-4.7	21.6	19.7	7.5	15.5	-2.4	14.5
EBITDA	3,085	2,143	1,894	511	3,855	2,610	3,702	4,083	7,633	14,250
Change (%)	-38.3	-36.2	-12.7	292.7	24.9	21.8	95.5	699.2	-0.1	86.7
As of % Sales	48.2	35.3	37.1	14.6	49.6	35.9	67.5	101.0	35.6	58.0
Depreciation	1,070	1,064	1,045	1,295	1,148	999	1,306	1,447	4,473	4,900
Interest	134	121	120	58	19	10	300	363	433	692
Other Income	1,213	1,260	1,326	2,172	1,484	1,543	1,000	1,200	5,971	5,227
PBT	3,095	2,218	2,055	1,330	4,172	3,144	3,097	3,473	8,698	13,886
Tax	856	580	529	1,114	1,358	812	1,084	1,391	3,079	4,645
Effective Tax Rate (%)	27.7	26.1	25.7	83.8	32.6	25.8	35.0	40.0	35.4	33.5
Reported PAT	2,238	1,639	1,527	215	2,813	2,332	2,013	2,083	5,619	9,241
Adjusted PAT (Pre Excep.)	2,238	1,639	1,527	3,562	2,813	2,332	2,013	2,083	8,966	9,241
Change (%)	-24.9	-26.5	9.8	199.5	25.7	42.3	31.9	-41.5	15.1	3.1

E: MOST Estimates

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PTC India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	PWTC IN
	REUTERS CODE
S&P CNX: 6,080	PTCI.BO
Equity Shares (m)	150.0
52-Week Range	175/53
1,6,12 Rel. Perf.(%)	4/114/144
MCap. (Rs b)	24.1
MCap. (US\$ b)	0.6

28 December 2007

Buy

Rs160

Previous Recommendation: Buy

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	36,307	353	2.3	-13.7	68.6	9.1	13.8	17.7	0.6	84.5
3/08E	58,529	441	2.9	25.6	54.6	8.3	15.9	17.0	0.4	53.6
3/09E	76,412	556	3.7	26.1	43.3	7.4	18.1	17.7	0.3	40.7
3/10E	130,991	901	6.0	62.2	26.7	6.3	25.6	19.6	0.2	24.5

* Pre-exceptional

- For 3QFY08, we expect PTC to report revenue of Rs 13.9b, up 72.5% YoY, and net profit of Rs 104m, up 21.2% YoY. EBITDA for the quarter is estimated at Rs 120m, up 45.9% YoY, with increasing contribution from medium and long term contracts.
- As of September 2007, the company has signed power purchase agreements (PPA) for 10,434MW and MoUs for 21,689MW of power capacity on a long term basis. PTC has also entered into back-to-back power sale agreement for 5,011MW.
- PTC India and Financial Technologies have received approval from the central electricity regulatory commission to set up India's first national level power exchange, Indian Energy Exchange Ltd (IEX) for trading electricity. PTC has 26% stake in the company.
- PTC Financial Services, 100% Subsidiary of PTC India, is in talks with the various financial investors to offload up to 40% stake to a strategic partner.
- PTC's FY07 traded volumes of 9.6BUs is expected to increase to 15.4BUs in FY08. This would be driven by the commissioning of the Tala project in Bhutan (1,020MW) and part of the greenfield projects where PTC has signed long-term PPAs. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Power Traded (MUs)	2,625	3,268	2,211	1,445	3,544	4,110	3,869	3,884	9,549	15,407
Sales	10,421	13,147	8,074	6,025	11,586	14,672	13,929	18,342	37,667	58,529
Change (%)	138.3	52.5	-23.4	-20.2	11.2	11.6	72.5	204.4	21.2	55.4
EBITDA	88	95	82	53	58	103	120	174	318	456
Change (%)	8.0	-32.7	-55.3	-42.6	-34.0	8.3	45.9	231.5	-36.3	43.3
As of % Sales	1.3	0.7	1.0	0.9	0.5	0.7	0.9	1.0	0.8	0.8
Depreciation	8	8	8	9	7	8	11	17	33	42
Interest	3	7	7	2	3	6	9	30	20	48
Other Income	79	39	44	32	97	64	45	16	193	222
Extraordinary Income/(Expense)	-1	0	0	0	0	0	0	0	0	0
PBT	155	119	111	73	144	154	145	144	459	588
Tax	35	32	25	15	25	39	41	42	106	147
Effective Tax Rate (%)	22.3	27.1	22.2	20.5	17.4	25.3	28.0	29.3	23.2	25.0
Reported PAT	120	86	86	58	119	115	104	102	352	441
Adjusted PAT	120	86	86	58	119	115	104	102	352	441
Change (%)	6.3	-11.2	-32.7	-16.5	-0.8	33.3	21.2	74.9	-13.7	25.1

E: MOST Estimates

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Reliance Energy

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	RELE IN
	REUTERS CODE
S&P CNX: 6,080	RLEN.BO

28 December 2007

Buy

Rs2,155

Previous Recommendation: Buy

Equity Shares (m)	228.6
52-Week Range	2,218/448
1,6,12 Rel. Perf. (%)	20/232/268
MCap. (Rs b)	492.6
MCap. (US\$ b)	12.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	56,930	8,015	35.1	26.6	61.5	5.7	10.2	8.7	7.7	91.8
3/08E	65,454	9,676	42.3	20.7	50.9	5.2	10.7	9.8	6.6	52.4
3/09E	74,108	9,490	41.5	-1.9	51.9	4.8	10.7	9.8	5.7	53.9
3/10E	92,536	11,714	51.3	23.4	42.1	4.4	10.7	9.8	4.5	40.6

* Consolidated, Fully Diluted

- For 3QFY08, we expect Reliance Energy to report a revenue of Rs17b, up 11% YoY, and a net profit of Rs2.2b, up 10.1% YoY.
- Reliance Power Ltd (RPL), where Reliance energy holds 50% stake currently has filed draft red herring prospectus with SEBI for its proposed issue (1.3b shares of face value of Rs2/each). RPL is developing 12 projects with an aggregate capacity of 24,200MW which comprises six coal-fired projects (10,620MW) to be fueled by reserves from captive mines and supplies from India and abroad, two gas-fired projects (10,280MW) and four hydroelectric projects (3,300MW). It has recently emerged as the L1 bidder for Krishnapatnam Ultra mega power projects with a bid of Rs2.33/unit (4,000MW).
- ADAG along with few qualified institutions has infused Rs80b in the company while the board of Reliance energy has also approved the issuance of FCCBs for Rs50b.
- The order backlog for the EPC division stood at Rs47.2b (v/s Rs23.6b as of September 2006). The company has also submitted bids for the 1) 1,200MW Malwa project on EPC basis (Rs40b), 2) T&D projects of Rs7b (erection of five 400/220kV substation, transmission line work from PGCIL), 3) rural electrification projects of Rs10b.
- We believe the stock is largely a play on the future growth opportunities rather than on existing assured return businesses. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	11,549	14,076	15,337	16,143	16,240	15,417	17,024	16,773	56,930	65,454
Change (%)	21.6	35.0	55.2	55.5	40.6	9.5	11.0	3.9	41.6	15.0
EBITDA	1,334	1,775	827	598	376	1,813	2,724	3,283	4,804	8,195
Change (%)	-17.4	-12.8	-53.9	-68.5	-71.8	2.1	229.4	448.8	-34.5	70.6
As of % Sales	11.6	12.6	5.4	3.7	2.3	11.8	16.0	19.6	8.4	12.5
Depreciation	619	635	612	535	581	556	618	631	2,401	2,386
Interest	459	671	551	823	693	854	617	642	2,503	2,806
Other Income	1,711	1,761	2,867	2,754	3,599	2,582	1,347	1,268	8,823	8,797
PBT	1,967	2,230	2,531	1,994	2,701	2,985	2,836	3,278	8,724	11,800
Tax (incl contingencies)	201	366	522	-380	485	484	624	531	709	2,124
Effective Tax Rate (%)	10.2	16.4	20.6	-19.1	18.0	16.2	22.0	16.2	8.1	18.0
Reported PAT	1,766	1,864	2,009	2,374	2,216	2,501	2,212	2,748	8,015	9,676
PAT (Pre Exceptionals)	1,666	1,864	2,009	1,848	1,341	1,599	2,212	2,748	7,388	7,929
Change (%)	12.7	16.8	22.0	40.1	-19.5	-14.2	10.1	48.7	23.2	7.3

E: MOST Estimates; Quarterly numbers are on standalone basis

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Tata Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	TPWR IN
	REUTERS CODE
S&P CNX: 6,080	TTPW.BO

28 December 2007

Buy

Rs 1,391

Previous Recommendation: Buy

Equity Shares (m)	197.9
52-Week Range	1,449/483
1,6,12 Rel. Perf.(%)	18/68/104
MCap. (Rs b)	275.4
MCap. (US\$ b)	7.0

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	47,153	5,670	26.7	24.6	52.2	5.1	9.5	4.8	6.3	40.8
3/08E	54,202	7,007	33.0	23.6	42.2	4.0	8.9	7.2	6.3	31.5
3/09E	56,835	7,210	33.9	2.9	41.0	3.9	7.6	6.7	6.0	29.1
3/10E	62,147	8,749	37.6	10.8	37.0	3.7	8.4	7.6	5.6	24.3

* Consolidated excluding share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted

- For 3QFY08, Tata Power is expected to report net profit of Rs 1.3b, down 24.4% YoY.
- Tata Power has recently signed an EPC contract for supply of 5x800MW steam turbine generators with Toshiba Corporation for its Mundra Ultra Mega Power Project. It has earlier awarded the boiler EPC contract to Doosan Heavy Industries, which represents 45% of the total project cost. It has also completed acquisition of 30% stake in PT Kaltim Prima Coal and PT Arutmin Indonesia and other companies owned by PT Bumi Resources Tbk. The acquisition was funded through a bridge loan of US\$950m with tenure of one year. The company has earlier signed an off take agreement with Bumi resources for purchase of 10.1m tons of coal per annum. This represents significant progress on Mundra power project's front.
- The company has outlined extensive expansion plans which include: 1) Maithon power project (1,000MW, 74% stake): 50% of the land acquisition has been completed and coal linkages are in place; EPC contract award likely by end FY08, 2) Coastal Maharashtra (2,400MW): Plans to invite the EPC bids by January 2008; land acquisition completed, 3) Trombay unit 8 (250MW): Scheduled completion by September 2008, 4) Jojbera Expansion (120MW): Scheduled commissioning by September 2008, 5) Haldia unit (120MW): Scheduled commissioning by March 2008, 6) Wind power: 50MW commissioned during March 2007; 50MW September 2007, 7) 100MW Diesel gensets: Scheduled commissioning September 2008.
- At CMP, the stock trades at a P/E of 42.2x FY08E and 41x FY09E. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Operating Income	13,766	12,008	12,005	9,474	15,115	13,506	13,526	12,055	47,153	54,202
Change (%)	25.3	13.1	-2.5	-19.1	9.8	12.5	12.7	27.2	3.3	14.9
EBITDA	2,581	2,495	2,108	51	2,903	2,614	2,130	2,182	7,234	10,783
Change (%)	7.1	3.8	7.1	-96.8	12.5	4.7	1.1	4,220.5	-13.4	49.1
As of % Sales	18.7	20.8	17.6	0.5	19.2	19.4	15.8	18.1	15.3	19.9
Depreciation	760	731	735	693	714	709	918	1,070	2,919	3,411
Interest	524	388	510	473	594	414	325	919	1,895	2,253
Other Income	410	783	460	1,787	685	1,404	500	736	3,440	3,325
PBT	1,706	2,160	1,322	672	2,279	2,895	1,387	929	5,860	8,444
Tax	488	137	-1,477	-255	377	320	416	426	-1,108	1,539
Effective Tax Rate (%)	28.6	6.3	-111.7	-38.0	16.5	11.1	30.0	45.8	-18.9	18.2
Reported PAT	1,218	2,023	2,799	927	1,902	2,574	971	503	6,968	6,905
Adjusted PAT	1,130	1,682	1,205	638	1,832	1,634	971	503	4,655	5,895
Change (%)	3.1	33.8	26.0	-39.3	62.2	-2.8	-19.4	-21.1	6.8	26.6

E: MOST Estimates

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Ashapura Minechem

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	ASMN IN
	REUTERS CODE
S&P CNX: 6,080	ASHM.BO

28 December 2007

Neutral

Previous Recommendation: Buy

Rs382

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity shares (m)	39.1										
52-Week Range	425/96										
1, 6, 12 Rel. Perf. (%)	13/70/192										
M. Cap. (Rs b)	14.9										
M. Cap. (US\$ b)	0.4										
	3/07A	12,724	1,302	16.6	37.0	22.9	7.4	47.4	45.4	2.4	15.5
	3/08E	18,370	2,240	28.6	71.9	13.3	4.9	44.3	49.6	1.6	9.6
	3/09E	28,175	3,693	47.2	64.9	8.1	3.2	47.8	60.1	1.0	5.6
	3/10E	33,249	4,301	54.9	16.5	6.9	2.2	37.8	47.8	0.7	4.1

- Ashapura continues to benefit from buoyant demand for bauxite from alumina refineries in coastal China. Meanwhile, we believe the company is focused on building its business model – (1) adding minerals to its portfolio, (2) adding value to existing minerals and (3) spreading geographically.
- We expect 2QFY08 sales at Rs4.8b, up 122% YoY. The key driver will be bauxite volumes, which we expect at 1.8m tonnes.
- We expect EBITDA margin of 16.6%, down 830bps over 3QFY07, which was an unusual quarter with no trading sales at all. Expected EBITDA is Rs797m, up 48.5% YoY. Effective tax rate in 3QFY08 at 16% should be much lower YoY, due to EOU status for its bauxite processing units. We expect PAT of Rs609m, up 82% YoY.
- The volume and price outlook for bauxite is positive. Further, the full impact of Ashapura's new projects – kaolin in Kerala, barites in Nigeria, mineral complex in Belgium – should be felt in FY09.
- We believe most of the positives are priced in. The stock trades at an EV/EBITDA of 9.6x FY08E and 5.6x FY09E, in line with global majors such as BHP Billiton. The stock is trading 30% higher than our SOTP target price of Rs293. We are **Neutral** on the stock.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	4,614	2,510	2,157	3,444	4,270	4,459	4,790	5,338	12,724	18,370
Change (%)	89.0	37.3	20.9	38.3	-7.5	77.6	122.0	55.0	48.9	44.4
Total Expenses	4,123	2,186	1,621	2,791	3,688	3,753	3,993	4,387	10,721	15,324
EBITDA	491	324	537	653	581	706	797	950	2,004	3,046
Change (%)	97.7	17.8	44.1	84.8	18.4	118.1	48.5	45.7	60.5	52.0
EBITDA Margin (%)	10.6	12.9	24.9	18.9	13.6	15.8	16.6	17.8	15.7	16.6
Depreciation	16	17	17	23	21	12	35	50	73	122
Interest	31	22	31	31	32	37	48	57	115	184
Other Income	2	5	15	25	9	19	12	3	46	35
PBT	446	290	503	623	538	676	726	846	1,862	2,775
Tax	98	75	168	207	154	142	116	123	549	535
Tax/PBT (%)	22.0	26.0	33.5	33.2	28.6	20.0	16.0	14.6	29.5	19.3
Prior Period Items	0	0	0	-7	-2	0	0	0	-7	0
Share from Associate	0	0	0	-3	-4	-5	0	0	-3	0
Minority Interest	0	0	0	0	0	0	0	-1	-1	-1
Consolidated PAT	348	214	334	406	378	530	609	722	1,302	2,240
Adjusted PAT	348	214	334	406	378	530	609	722	1,302	2,240
Change (%)	108.8	19.5	46.2	87.6	8.5	147.3	82.4	78.0	66.2	72.0
PAT Margin (%)	7.5	8.5	15.5	11.8	8.8	11.9	12.7	13.5	10.2	12.2

E: MOST Estimates

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Blue Star

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BLSTR IN
	REUTERS CODE
S&P CNX: 6,080	BLUS.BO

28 December 2007

Buy

Rs485

Previous Recommendation: Buy

Equity shares (m)	89.9	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	500/180	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1, 6, 12 Rel. Perf. (%)	5/67/111	3/07A	16,013	712	7.9	45.6	61.3	20.5	36.9	36.1	2.8	38.0
M. Cap. (Rs b)	43.6	3/08E	22,418	1,481	16.5	108.0	29.5	14.6	58.0	58.0	2.0	19.2
M. Cap. (US\$ b)	1.1	3/09E	29,143	2,096	23.3	41.6	20.8	10.3	58.1	66.7	1.5	13.3
		3/10E	36,429	2,833	31.5	35.1	15.4	7.3	55.3	73.1	1.2	10.0

- Blue Star is a market leader in central air-conditioning and commercial refrigeration. It continues to benefit from the 4 mega trends of IT/Telecom, retail & entertainment, SEZs and cold chain. The emerging segments of central AC demand are hospitals, hotels, airports, power plants, etc.
- Blue Star's order book at the beginning of 3QFY08 was Rs10.3b, up 31% YoY. Accordingly, we expect 3QFY08 revenue growth of 36% YoY to Rs5b.
- As in 1H, we expect EBITDA margins to improve sharply – 280bps higher at 9.2%, reflecting benefits of scale, and increasing “dealer-ization” i.e. delegating installation and maintenance work to technically competent business partners.
- Factoring in normal increase in interest and depreciation, we expect PAT of Rs271m, up 135% YoY. For full year FY08, we maintain our estimates – revenue of Rs22.4b, up 40%, and PAT of Rs1.48b, up 108%.
- In 3QFY08, Blue Star board approved the acquisition of Naseer Electricals, an electrical contracting company with FY07 revenue of Rs1b. We have not incorporated the same in our estimates, pending deal finalization.
- The stock trades at a PE of 30x FY08E and 21x FY09E. We believe Blue Star will continue to enjoy premium valuation, given its high-quality growth. We maintain **Buy** with a target of Rs581 (25x FY09E), 20% upside.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Operating Income	3,123	3,759	3,701	5,429	4,623	5,478	5,044	7,274	16,013	22,418
Change (%)	35.8	33.0	40.4	36.4	48.0	45.7	36.3	34.0	36.3	40.0
Total Expenses	2,965	3,431	3,463	4,985	4,243	4,794	4,581	6,463	14,844	20,082
EBITDA	158	328	238	445	379	684	463	810	1,169	2,336
Change (%)	36.1	67.5	52.2	11.7	139.4	108.4	94.5	82.2	34.9	99.8
EBITDA Margin (%)	5.1	8.7	6.4	8.2	8.2	12.5	9.2	11.1	7.3	10.4
Depreciation	43	46	58	62	50	52	65	95	209	262
Interest	20	24	22	30	22	16	31	37	95	106
Other Income	5	8	4	44	1	8	4	47	61	60
PBT	100	266	163	397	308	624	371	726	926	2,028
Tax	27	82	48	57	85	164	100	203	214	548
Tax/PBT (%)	27.1	30.9	29.2	14.4	27.5	26.3	27.0	28.0	23.1	27.0
Reported PAT	73	184	115	340	223	460	271	523	712	1,481
Adjusted PAT	73	184	115	340	223	460	271	523	712	1,481
Change (%)	44.6	58.8	66.4	34.0	205.8	149.8	135.3	53.8	45.6	108.0
PAT Margin (%)	2.3	4.9	3.1	6.3	4.8	8.4	5.4	7.2	4.4	6.6

E: MOST Estimates

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Bombay Rayon

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	BRFL IN
	REUTERS CODE
S&P CNX: 6,080	BRFL.BO

28 December 2007

Buy

Rs347

Previous Recommendation: Buy

Equity shares (m)	63.0	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	368/150	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1, 6, 12 Rel. Perf. (%)	6/2/-3	3/07A	4,894	544	8.6	133.8	40.2	4.5	17.1	15.3	4.7	25.3
M. Cap. (Rs b)	21.9	3/08E	9,834	1,158	16.0	85.2	20.7	3.4	19.5	14.8	3.5	16.0
M. Cap. (US\$ b)	0.6	3/09E	14,912	1,786	25.8	61.5	13.4	2.8	23.0	15.1	2.6	11.0
		3/10E	23,698	2,798	40.5	56.7	8.6	2.2	29.0	19.4	1.7	6.7

- ✍ We expect Bombay Rayon to clock EPS CAGR of 55% during FY07-12, on the back of -
 - (1) ramp-up at its new integrated garment unit near Bangalore,
 - (2) acquisition of Leela Scottish Lace in August 2007 (15m garments per annum),
 - (3) acquisition of LNJ Apparels in October 2007 (1.8m trousers per annum), and
 - (4) mega expansion plan in Maharashtra, to be commissioned by mid-FY09 (30m garments and 180m meters fabric per annum).
- ✍ In FY09, Bombay Rayon's total capacity would be 77m garments and 245m meters of fabric (FY07 capacity: 30m garments and 65m meters of fabric).
- ✍ In 3QFY08, we expect a high 88% YoY growth in sales, 96% growth in EBITDA and 96% growth in PAT. For full year FY08, we expect over 100% growth in standalone sales and PAT.
- ✍ We value standalone Bombay Rayon at Rs310 (12x FY09E), Leela Lace at Rs58 (12x FY09E) and LNJ Apparels at Rs10 (based on DCF). Our SOTP target of Rs378 offers 10% upside from current levels. We see room for earnings upgrade and valuation re-rating. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	812	1,033	1,316	1,733	2,013	2,246	2,468	3,107	4,894	9,834
Change (%)	87.3	142.1	139.6	198.6	147.8	117.5	87.5	79.3	145.9	100.9
Total Expenses	659	833	1,042	1,440	1,617	1,754	1,930	2,398	3,974	7,699
EBITDA	153	200	275	293	396	492	538	709	920	2,135
Change (%)	134.4	199.5	213.7	153.6	158.1	146.8	96.1	142.3	174.6	132.2
EBITDA Margin (%)	18.9	19.3	20.9	16.9	19.7	21.9	21.8	22.8	18.8	21.7
Depreciation	13	15	35	42	65	66	70	74	105	274
Interest	20	31	43	36	54	67	75	96	130	291
Other Income	3	13	11	44	40	16	13	11	71	80
Extraordinary inc/ (exp)	0	0	0	0	0	78	0	0	0	0
PBT	123	167	208	258	317	454	407	550	756	1,728
Tax	43	56	71	42	97	147	138	189	212	570
Tax/PBT (%)	34.9	33.5	33.9	16.4	30.4	32.4	33.9	34.3	28.0	33.0
PAT	80	111	138	216	221	307	269	362	544	1,158
Adjusted PAT	80	111	138	216	221	254	269	362	544	1,105
Change (%)	69.1	162.6	145.3	498.6	174.6	129.5	95.5	67.8	199.3	103.2
PAT Margin (%)	9.9	10.7	10.5	12.4	11.0	11.3	10.9	11.6	11.1	11.2

E: MOST Estimates

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Container Corporation of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	CCRI IN
	REUTERS CODE
S&P CNX: 6,080	CCRI.BO

28 December 2007

Buy

Rs 1,855

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	65.0										
52-Week Range	2,444/1,740										
1,6,12 Rel. Perf. (%)	-1/-59/-59										
M.Cap. (Rs b)	120.6										
M.Cap. (US\$ b)	3.1										
	3/07A	30,373	6,961	107.1	33.0	17.3	4.6	29.5	35.1	3.6	12.3
	3/08E	32,867	7,454	114.7	7.1	16.2	3.8	25.7	32.8	3.2	10.6
	3/09E	38,786	9,040	139.1	21.3	13.3	3.2	25.8	33.5	2.5	8.5
	3/10E	45,530	10,147	156.1	12.2	11.9	2.6	24.2	32.9	2.0	6.9

- ✎ We expect revenue to grow 8% YoY to Rs8b, EBITDA to grow 15.4% YoY to Rs2.6b and net profit to grow 13.1% YoY to Rs1.9b.
- ✎ The company plans to convert its domestic terminal, now under construction in Durgapur (West Bengal), into a full-fledged container freight station (CFS). It has acquired 30 acres of land from the local administration at Durgapur to set up the terminal (to be developed into a CFS) and would spend around Rs75m on it.
- ✎ Rising rupee and other factors have led to drop in export volumes for the company, which is impacting its overall volumes. The running of empty containers has resulted in decline in margins too.
- ✎ We expect Concor to report a net profit of Rs7.5b in FY08 (up 7.1% YoY) and Rs9b in FY09 (up 21.3% YoY), resulting in an EPS of Rs115 and Rs139, respectively.
- ✎ The stock trades at 16.2x FY08E and 13.3x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	7,213	7,693	7,472	8,081	7,759	8,188	8,070	8,850	30,460	32,867
Change (%)	33.9	31.3	17.5	18.7	7.6	6.4	8.0	9.5	25.5	7.9
EBITDA	2,160	2,522	2,224	2,202	2,281	2,123	2,566	2,886	9,109	9,856
Change (%)	39.1	44.0	26.0	12.0	5.6	(15.8)	15.4	31.1	31.9	8.2
OPM (%)	30.0	32.8	29.8	27.3	29.4	25.9	31.8	32.6	29.9	30.0
Depreciation	223	232	242	223	258	260	300	278	919	1,097
Interest	0	0	0	0	0	0	0	0	0	0
Other Income	163	169	205	148	351	325	250	294	684	1,219
Extra-ordinary items	-	-	1	1	-	-	-	-	-	-
PBT	2,100	2,458	2,187	2,128	2,374	2,187	2,516	2,902	8,874	9,978
Tax	437	563	530	434	503	445	642	935	1,965	2,525
Effective Tax Rate (%)	20.8	22.9	24.2	20.4	21.2	20.3	25.5	32.2	22.1	25.3
Reported PAT	1,663	1,895	1,657	1,692	1,871	1,742	1,874	1,967	6,909	7,454
Change (%)	54.8	55.2	21.1	24.3	12.5	-8.1	13.1	16.2	31.9	7.9
Adjusted PAT	1,663	1,895	1,657	1,693	1,871	1,742	1,874	1,967	6,909	7,454
Change (%)	54.8	55.2	21.1	24.3	12.5	-8.1	13.1	16.1	31.9	7.9

E: MOST Estimates

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Everest Kanto Cylinders

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	EKCL IN
	REUTERS CODE
S&P CNX: 6,080	EKCL.BO
Equity shares (m)	97.6
52-Week Range	370/128
1, 6, 12 Rel. Perf. (%)	-2/26/100
M. Cap. (Rs b)	33.7
M. Cap. (US\$ b)	0.9

28 December 2007

Under Review

Previous Recommendation: Buy

Rs345

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
	3/07A	4,251	718	7.4	95.5	46.9	11.1	31.7	34.4	7.5	29.5
	3/08E	5,858	1,148	11.4	54.4	30.4	7.2	29.1	29.1	5.7	20.9
	3/09E	8,419	1,659	15.7	38.2	22.0	4.8	26.6	29.2	4.1	14.7
	3/10E	12,194	2,407	22.8	45.1	15.2	3.8	27.8	32.0	2.8	9.8

- Everest Kanto is timely expanding capacities to ride the booming global demand for CNG cylinders, including India and China. FY08 will see the benefit of ramp-up at its new units at Gandhidham (estimated at 80% capacity of 340,000 cylinders, against 30% in FY07) and Dubai (100,000 cylinders commissioned in October 2007, ~30,000 cylinders expected in 2HFY08).
- We have estimated 3QFY08 sales at Rs 1.5b, up 35% YoY. We have maintained EBITDA margin at 28.5%.
- We expect effective tax rate at 19% to be lower than 24.5% a year ago. This is mainly because Dubai operations moved to a tax-free subsidiary only during the middle of 3Q last year. Our PAT estimate for the quarter is Rs287m, up 41% YoY.
- During 3QFY08, Everest Kanto raised US\$35m by issue of FCCBs (convertible at Rs303) and US\$22.5m by way of preferential issue of shares at Rs250. This, we believe, completes its medium-term equity program.
- The stock is trading 10% above our target price of Rs314 (20x FY09E). We believe Everest Kanto's high growth with healthy RoE will ensure sustained rich valuation. We see room for earnings upgrade and valuation re-rating, and will review our target price and rating after the 3Q results.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	796	1,001	1,118	1,336	1,113	1,277	1,509	1,959	4,251	5,858
Change (%)	97.6	74.4	93.8	66.7	39.9	27.6	35.0	46.6	80.5	37.8
Total Expenses	575	738	800	994	805	881	1,079	1,395	3,106	4,160
EBITDA	221	263	318	343	309	397	430	564	1,145	1,699
Change (%)	116.7	60.6	98.9	110.3	39.6	50.8	35.1	64.5	94.5	48.4
EBITDA Margin (%)	27.8	26.3	28.5	25.6	27.7	31.0	28.5	28.8	26.9	29.0
Depreciation	42	44	48	43	43	49	62	85	178	239
Interest	9	17	12	16	16	26	23	29	53	94
Other Income	6	6	12	15	9	19	9	13	40	50
Extraordinary inc/ (exp)	0	0	0	0	0	12	0	0	0	12
PBT	176	208	270	299	259	353	354	462	953	1,416
Tax	62	72	66	36	36	69	67	82	236	255
Tax/PBT (%)	35.0	34.6	24.5	12.1	14.0	19.6	19.0	17.8	24.7	18.0
PAT	115	136	204	263	223	284	287	380	718	1,161
Adjusted PAT	115	136	204	263	223	272	287	380	718	1,148
Change (%)	144.6	45.9	133.4	144.6	94.0	99.6	40.9	44.4	114.2	60.1
PAT Margin (%)	14.4	13.6	18.2	19.7	20.0	21.3	19.0	19.4	16.9	19.6

E: MOST Estimates

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Great Offshore

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GOFF IN
	REUTERS CODE
S&P CNX: 6,080	GOFS.BO

28 December 2007

Buy

Rs933

Previous Recommendation: Buy

Equity Shares (m)	38.1	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,013/502	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1, 6 Rel. Perf. (%)	-9/-27/-33	3/07A	5,822	1,452	38.1	49.6	24.5	5.8	23.5	14.1	7.3	16.1
M. Cap. (Rs b)	35.5	3/08E	7,121	1,969	49.2	29.2	19.0	3.9	25.4	11.9	6.2	12.1
M. Cap. (US\$ b)	0.9	3/09E	7,862	3,159	75.7	53.9	12.3	2.9	23.6	13.7	5.6	9.3
		3/10E	10,133	3,255	78.0	3.0	12.0	2.5	20.7	15.0	4.0	6.9

- ✎ We expect 2HFY08 for Great Offshore to be significantly better than 1H. Drill barge *Badrinath* has been re-commissioned in end-September at a sharply higher day rate of US\$80,500 compared to US\$30,000 earlier. Also, hefty dry-docking charges of about US\$9m in 1H will not be incurred in 2H.
- ✎ E&P activity level should stay high, more so in India, given the proposed auctioning of oil blocks under NELP VII. So, offshore support vessels should continue to enjoy high day rates, which will get renewed at even higher levels.
- ✎ In 3QFY08, Great Offshore issued Rs 1.5b (US\$38m) worth of 10% preference shares to Exim Bank convertible at Rs 875 per share. Further, it also issued FCCBs worth US\$42m, also convertible at Rs 875 per share. The fully diluted equity is 41.7m shares of Rs 10 each.
- ✎ We maintain our FY08 estimates – consolidated revenue of Rs 7.1b, up 22%, and PAT of Rs 1.97b, up 36%.
- ✎ The stock trades at a PE of 17x FY08E and 11x FY09E. Our DCF-based target price of Rs 976 offers 17% upside from current levels. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07 *				FY08 #				FY07#	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Operating Income	1,122	1,271	1,483	1,493	1,450	1,523	2,081	2,067	5,822	7,121
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	49.9	22.3
Total Expenses	543	646	761	812	1,090	921	780	668	3,194	3,460
EBITDA	579	624	722	681	360	602	1,301	1,398	2,628	3,662
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	62.5	39.3
EBITDA Margin (%)	51.6	49.1	48.7	45.6	24.8	39.5	62.5	67.7	45.1	51.4
Depreciation	137	147	193	220	236	231	275	295	709	1,038
Interest	58	73	95	133	136	145	135	126	361	542
Other Income	36	9	6	27	83	90	61	33	79	267
Extraordinary Inc/ (Exp)	0	0	0	0	207	83	0	0	0	291
PBT	421	414	439	354	277	399	952	1,010	1,638	2,639
Tax	70	26	64	54	-4	23	90	96	186	204
Tax/PBT (%)	16.6	6.3	14.5	15.4	-1.6	5.8	9.4	9.5	11.3	7.7
Reported PAT	351	388	375	299	282	376	863	914	1,452	2,435
Adjusted PAT	351	388	375	299	74	293	863	739	1,452	1,969
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	49.6	35.6
PAT Margin (%)	31.3	30.5	25.3	20.0	5.1	19.2	41.5	35.8	24.9	27.6

E: MOST Estimates; * Standalone; # Consolidated

Greaves Cotton

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	GRV IN
	REUTERS CODE
S&P CNX: 6,080	GRVL.BO

28 December 2007

Buy

Rs391

Previous Recommendation: Buy

Equity shares (m)	48.8
52-Week Range	415/276
1, 6, 12 Rel. Perf. (%)	12/-22/-30
M. Cap. (Rs b)	19.1
M. Cap. (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
6/07A	10,867	1,216	24.9	63.3	15.7	6.5	48.0	47.7	1.5	11.4
6/08E	13,988	1,249	25.6	2.7	15.3	5.0	37.0	47.7	1.2	9.4
6/09E	17,965	1,675	34.3	34.2	11.4	3.8	38.0	54.3	0.9	6.6
6/10E	21,304	2,043	41.8	22.0	9.3	2.9	35.5	49.7	0.7	5.3

- ✍ In 2QFY08, engine sales should be up 5% YoY due to – (1) Three-wheelers up only 2% YoY on account of higher interest rates and cannibalization by *Tata Ace*, and (2) Non-auto engines sales growth muted at 9.5% YoY due to defense order in 2QFY07.
- ✍ Low engine sales growth should be offset by high 69% YoY growth in infrastructure equipment, leading to total sales growth of 17% YoY to Rs3.3b.
- ✍ Given high operating leverage in auto engines, we expect EBITDA margin to drop 270bps YoY to 14%. Expected PAT is Rs282m, down 6% YoY.
- ✍ Greaves has lined up new range of engines and infrastructure equipment. We believe the full benefit of this will be felt from 2HFY08.
- ✍ The stock is currently trading at 11.4x FY09E EPS of Rs34.3. We maintain **Buy** with a target of Rs411 (12x FY09E).

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E JUNE	FY07				FY08				FY07#	FY08E#
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales*	2,488	2,835	2,856	2,482	2,723	3,318	3,747	3,716	10,867	13,988
Change (%)	30.9	36.6	35.0	10.7	9.5	17.0	31.2	49.7	30.2	28.7
Total Expenses	2,093	2,361	2,377	2,208	2,374	2,853	3,212	3,168	9,237	12,023
EBITDA	395	474	478	273	350	465	535	548	1,630	1,965
Change (%)	33.5	39.8	54.0	-14.9	-11.5	-2.0	11.8	100.5	22.1	20.6
EBITDA Margin (%)	15.9	16.7	16.8	11.0	12.8	14.0	14.3	14.8	15.0	14.0
Depreciation	37	39	42	42	50	55	60	67	176	244
Interest	32	51	41	32	55	57	63	43	187	223
Other Income	21	28	26	58	25	44	48	57	174	179
PBT	348	412	421	257	270	397	460	495	1,440	1,677
Tax	102	114	82	-84	32	115	133	148	224	428
Tax/PBT (%)	29.4	27.6	19.5	-32.6	11.8	29.0	29.0	29.9	15.6	25.5
Reported PAT	246	298	339	341	238	282	327	347	1,216	1,249
Adjusted PAT	246	298	339	341	238	282	327	347	1,216	1,249
Change (%)	66.4	66.3	59.3	53.1	-3.1	-5.6	-3.7	1.9	63.3	2.7
PAT Margin (%)	9.9	10.5	11.9	13.7	8.7	8.5	8.7	9.3	11.2	8.9

E: MOST Estimates; * - net of estimated excise; # Consolidated

United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,207	UNTP IN
	REUTERS CODE
S&P CNX: 6,080	UNPO.BO

28 December 2007

Buy

Rs348

Previous Recommendation: Buy

Equity Shares (m)	211.7
52-Week Range (Rs)	407/269
1,6,12 Rel. Perf. (%)	-3/-24/-31
MCap. (Rs b)	73.6
MCap. (US\$ b)	1.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	24,710	2,884	14.3	33.9	24.2	4.4	20.8	13.9	3.5	14.5
3/08E	37,211	3,773	14.7	2.6	23.6	2.8	18.4	14.1	2.0	9.7
3/09E	42,190	5,423	21.2	43.7	16.4	2.4	19.0	17.1	1.7	7.1
3/10E	46,783	6,978	27.2	28.7	12.8	2.0	20.4	20.0	1.4	5.5

Excluding Advanta & Cerexagri

- ⊗ We expect consolidated revenue to grow 66% YoY to Rs8b, driven primarily by acquisition of Cerexagri and two products. As the acquisitions occurred in November 2006, the numbers may not be strictly comparable. Domestic business is likely to grow 12% YoY (organic growth) while exports should grow 100% YoY on account of Cerexagri consolidation.
- ⊗ EBITDA margins are expected to decline by 460bp to 19.5%, impacted by consolidation of Cerexagri. Also, higher depreciation (up by 26%) and higher interest (up 119%) would restrict PAT growth at 14% to Rs406m. However, after accounting for Rs27m of share of loss of Advanta, reported PAT would grow 6% YoY to Rs379m.
- ⊗ Cerexagri integration process is on track, with layoffs at France likely to be completed shortly. We have not factored in restructuring expenses in our quarterly estimates.
- ⊗ Our EPS estimate has been adjusted for equity dilution, resulting in 21% dilution in FY08E and FY09E EPS. Impact of rupee appreciation and acquisition related cost (~US\$2m to be booked in 3QFY08) would be mitigated by interest income generated on funds raised. Valuations at 16.4x FY09E EPS (fully diluted) and an EV of 7.1x FY09E EBITDA do not adequately reflect the growth potential (both organic and inorganic). We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenues	4,804	5,169	4,840	9,897	8,450	8,867	8,048	11,530	24,709	37,211
YoY Change (%)	17.9	18.0	25.8	73.1	75.9	71.5	66.3	16.5	37.1	50.6
Total Expenditure	3,589	3,824	3,671	7,743	6,754	7,123	6,479	9,157	18,827	29,513
EBITDA	1,215	1,345	1,169	2,154	1,697	1,743	1,569	2,373	5,883	7,698
Margins (%)	25.3	26.0	24.1	21.8	20.1	19.7	19.5	20.6	23.8	20.7
Depreciation	360	370	409	517	505	503	515	527	1,656	2,049
Interest	241	219	183	403	320	331	400	399	1,046	1,450
PBT before EO Expense	614	755	577	1,234	872	910	654	1,447	3,181	4,199
Extra-Ord Expense	0	0	0	76	0	0	0	0	76	0
PBT after EO Expense	614	755	577	1,158	872	910	654	1,447	3,105	4,199
Tax	22	4	47	79	139	10	249	337	153	546
Deferred Tax	51	94	174	52	0	102	0	0	372	189
Rate (%)	12.0	13.1	38.2	11.4	15.9	12.3	38.0	23.3	16.9	17.5
Reported PAT	541	656	357	1,026	733	798	406	1,110	2,580	3,464
Income from associate co	0	0	0	242	4	85	-27	248	242	310
Adjusted PAT	541	656	357	1,335	738	883	379	1,358	2,885	3,773
YoY Change (%)	40.8	39.1	54.2	20.2	36.5	34.6	6.1	1.7	32.4	30.8
Margins (%)	11.3	12.7	7.4	13.5	8.7	10.0	4.7	11.8	11.7	10.1

E: MOST Estimates; *Excludes Cerexagri's restructuring cost

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