

Indices

	Last close	% Chg	% YTD
Sensex	10,130	(0.2)	7.8
Nifty	2,981	(0.0)	5.1
CNX Midcap	3,795	(0.8)	(5.8)
Nasdaq	2,112	0.6	(4.2)
DJIA	10,974	0.4	2.4

Volumes

	US\$m	% Chg
BSE	760	(1.2)
NSE	1,281	(24.2)
Derivatives (NSE)	6,438	(20.0)

ADR/GDR (US\$)

	Latest	% Chg	% Prem
Dr Reddy's Lab	27.3	(0.0)	(0.8)
HDFC Bank	49.6	0.2	5.0
ICICI Bank	22.5	(0.2)	6.3
ITC	3.8	(1.3)	(2.3)
Infosys	72.7	2.4	13.0
Satyam	32.2	1.1	8.6
Ranbaxy	7.7	(2.2)	0.9
Reliance	42.7	0.2	(1.5)
Wipro	12.2	2.4	16.1
SBI	38.9	(1.0)	25.5
Tata Motors	16.2	0.2	0.9

Net Inflows/Outflows (US\$m)

	27-Jun	MTD	YTD
FIIIs	(24.5)	360	2,622
Dom MFs	(6.8)	(546)	2,523

Currencies

	Closing	Chg
Rs/US\$	46.20	(0.20)
US\$/EUR	1.25	(0.0)

Bond Markets

	Closing	Chg
10 yr bond	8.12	(0.02)
Interbank call	5.80	(0.02)

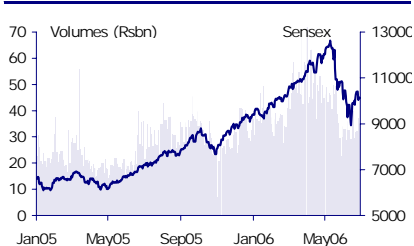
Commodities

	Latest	% Chg	% Chg 1 m
Brent (US\$/bbl)	71.6	(0.0)	2.8
Gold (US\$/oz)	582	1.9	(10.2)
Cu (US\$/MT)	7,045	0.7	(15.1)
Steel (US\$/MT)	465	-	-

FII activity in derivatives 27-Jun

	Index	Stocks
Net buying	44.3	40.6
Open interest	2,782.4	2,037.6
Chg in open int. (DoD)	83.3	19.2

Sensex



What's inside

ONGC, Arvind Mills

News headlines: Corporate

- **Niko Resources** has increased its estimate of the natural gas reserves in the KG D6 block by 197% to 35.4tn cubic feet. (ET)
- **Qualcomm** has ruled out any cut in royalties on CDMA handsets and is instead looking at local manufacture of handsets. (ET)
- UK Court of Appeal has rejected **Ranbaxy's** appeal against UK High Court ruling regarding patent infringement of its atorvastatin product. (ET)
- **Birla Corp** to set up a 2mt cement plant in Jharkhand. (BS)
- **Tata Tele** to launch services in three additional circles by end-FY07. (BS)
- **Mittal Steel's** Jharkhand plant is getting delayed over lack of availability of iron ore. (BS)
- **Reliance Ind.** in talks with Pequiven (Venezuela) to form a joint venture to manufacture plastics, resins and other petro-products. (BS)
- **Suzlon** has received shareholder approval to raise Rs50bn. (BL)

News headlines: Economic and Political

- Finance Ministry has relaxed ADR/GDR norms permitting unlisted companies to make sponsored share issues abroad. (ET)
- Govt has reduced customs duty on wheat from 50% to 5%. (BS)
- Govt is planning to encourage smaller airlines by relaxing norms and exempting them from payment of user charges. (BS)
- Govt has asked ONGC and Reliance Ind. to surrender 10 oil and gas blocks for not adhering to minimum work programme commitments. (BS)
- Cement prices in Mumbai have come down by Rs2-4/bag to Rs245/bag. (BS)

Turnover highlights

	Price (Rs)	Chg (%)	Vol (\$m)	YTD chg (%)
Bajaj Auto	2,683	3.6	11.1	34.1
TCS	1,694	3.1	27.4	(0.5)
Hindalco	165	2.1	22.0	15.0
Wipro	484	1.9	20.5	4.3
BHEL	1,829	1.7	24.9	31.9
Gail	253	1.6	4.3	(4.8)
Reliance	1,001	1.5	231.8	46.2
Zee	227	1.5	4.4	44.4
Grasim	1,803	0.9	12.7	29.6
Hero Honda	758	0.8	5.6	(11.9)
ITC	177	0.7	49.7	24.9
Infosys	2,973	0.6	42.4	(0.8)
Bharti	363	0.5	10.1	5.0
NTPC	109	0.4	2.8	(3.1)
Maruti	724	0.3	23.6	13.7
Tata Motors	742	(0.5)	39.2	13.6
Satyam	684	(0.6)	39.4	(7.3)
L&T	2,070	(0.7)	13.4	12.2
Sun Pharma	760	(0.7)	6.8	11.4
Tata Steel	515	(0.7)	90.9	35.4
IOC	400	(1.0)	1.8	(28.1)
HDFC Bank	727	(1.8)	15.0	2.7
HLL	216	(1.8)	14.8	9.6
ICICI Bank	489	(2.0)	16.6	(16.4)
SBI	715	(2.1)	39.1	(21.2)
Dr. Reddy's	1,270	(2.3)	4.5	29.8
Ranbaxy	352	(2.5)	18.4	(3.0)
ONGC	1,033	(2.7)	44.0	(1.1)
SAIL	78	(3.1)	27.5	43.9
HDFC	1,051	(3.5)	6.6	(12.8)

BSE 200 Movers and Shakers

	Price (Rs)	Chg (%)	YTD chg (%)
Top Gainers			
GE Shipping	228	10.3	(13)
Essar Oil	47	9.7	13.0
GTL	152	7.7	41.4
Finolex Ind.	77	6.5	(0.7)
Colgate-Palmolive	392	4.8	45.5
VSNL	399	3.8	4.3
Bajaj Auto	2,683	3.6	34.1
Engineers India	496	3.4	(25.4)
Apollo Tyres	245	3.4	(12.0)
ABB	2,416	3.4	25.3
Birla Corp	218	3.3	(15.0)
TCS	1,694	3.1	(0.5)
Dabur India Ltd	134	3.0	27.3
Balrampur Chini	117	2.6	0.2
Top Losers			
Jaiprakash Associate	344	(6.9)	(11.6)
Jindal Saw	241	(6.0)	(39.3)
Alok Ind	55	(5.8)	(19.5)
Sesa Goa	1,051	(5.1)	3.8
Jubilant Organ.	211	(4.4)	(1.8)
Ispat Industries	14	(4.3)	33.7
Bombay Dyeing	540	(4.1)	44.8
Kotak Mahindra	222	(4.0)	(1.0)
Volta	769	(4.0)	28.2
HPCL	245	(3.9)	(25.5)
JSW Steel	267	(3.5)	16.3
HDFC	1,051	(3.5)	(12.8)
Jet Airways	605	(3.3)	(47.2)
Corporation Bank	222	(3.3)	(38.6)

Sonal Jain

sonal.jain@cls.com
(91) 2256505080

Somshankar Sinha

somshankar.sinha@cls.com
(91) 2266505071

28 June 2006

India

E&P

Reuters ONGC.BO
Bloomberg ONGC IN

Priced on 28 June 2006

India Sensex @ 10,129.7

12M price target Rs1,200.00

±% up/downside +16%

Target set on 20 Jun 06

Market cap US\$31,770m

Shares in issue 1,425.9m

Free float (est.) 15.8%

3M average daily volume

Rs2,907.7m (US\$64.0m)

12M high/low

Rs1,514.00/854.00

Foreign shareholding 8.5%

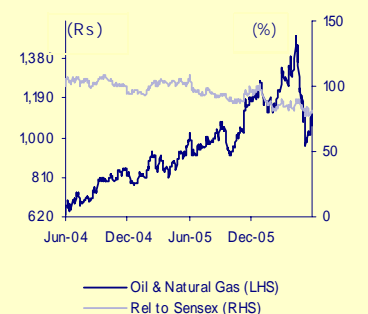
Major shareholders

Government of India 74.1%

IOC 7.7%

Stock performance (%)

	1M	3M	12M
Absolute	(12.2)	(19.3)	5.6
Relative	(6.3)	(11.6)	(26.5)
Abs (US\$)	(13.1)	(22.3)	(0.9)



Source: Bloomberg

www.cls.com

Value play

ONGC's FY06 operating numbers were inline with estimates but a slew of exceptionals and higher recouped costs pulled down reported EPS below forecasts. Rs4.5bn of goodwill write-off by ONGC Videsh also impacted consolidated EPS. We are cutting our FY07 EPS estimate by 11% to factor in a 3 month delay in production ramp-up in Sakhalin and operational cost increase but still expect ONGC to report a 14.4% EPS growth led by 7% production growth. The outlook on subsidies remains key to near term stock performance but at 4.8% dividend yield and 8.4x PE, the stock is one of the cheapest in the Indian market. At US\$4/boe, it is also one of the cheapest global upstream plays. BUY.

ONGC's operational numbers were inline with estimates

ONGC's earnings grew 11% in FY06. While operational numbers were inline with estimates, a slew of exceptionals (net negative of Rs2bn) and higher than expected recouped costs pulled down reported numbers below our forecasts. Core Ebitda grew 36%YoY to Rs395bn but Rs120bn in subsidies shaved off 30% from Ebitda and 33% from profits. ONGC's net crude price realization has remained at US\$26-27/bbl (after subsidies and taxes) for FY05-06 and we expect this to remain the same in FY07.

Rs4.5bn write-off in ONGC Videsh. Reserve replacement ratio of 1.2x

Consolidated profits grew at a more muted 7%YoY as MRPL (72% owned) profits fell 58%YoY to Rs3.7bn and ONGC Videsh profits grew at a lacklustre 18%YoY to Rs9bn. Much of the disappointment can, however, be explained by a Rs4.5bn goodwill write-off taken by ONGC Videsh. ONGC accrued 375mboe of domestic reserves pushing up reserve replacement ratios to 1.1 for the year. ONGC Videsh has accrued 107mboe of reserves in the year pulling up overall reserve replacement ratios to a healthy 1.2x.

Cutting estimates but still expect 14.4% earnings growth

We are cutting our earnings estimates by 11% for FY07 to account for a 3-4 month delay in Sakhalin production ramp-up and also lower price realisations due to a delay in commissioning of the export terminal. Nevertheless, we expect ONGC to report a 14.4% EPS growth in FY07 led a 10% increase in domestic crude volumes (Mumbai High comes back to full steam after the fire) and also additional volumes in ONGC Videsh (Sakhalin). Our estimates, as yet, do not, include earnings from the Syrian acquisition (1.3mtpa) and Sudan 5A (0.5mtpa); these can add 3-4% to estimates.

Valuations are attractive at 4.8% dividend yield and US\$4/boe

The outlook on retail fuel subsidies remains key to near term stock performance (and also the principal concern especially if volatility in crude prices skews the subsidy sharing and reduces net realisations) However, at 4.7% dividend yield (Rs45/share declared dividend in FY06) and 8.4x PE, ONGC is one of the cheapest Indian stocks. At US\$4/boe (implied US\$28-29/bbl terminal crude) it is also one of the cheapest global upstream plays. Our target price indicates 16% upside. BUY.

Financials

Year to 31 Mar	05A	06CL	07CL	08CL	09CL
Revenue (Rsm)	471,141	625,643	711,628	655,872	691,131
Ebitda (Rsm)	289,499	317,632	341,953	351,934	365,584
Net profit (Rsm)	143,277	153,976	176,210	189,892	196,684
NP forecast change (%)			(11.4)	(5.2)	(4.6)
EPS (Rs)	100.5	108.0	123.6	133.2	137.9
CLSA/consensus(14) (%)	-	-	95	97	104
EPS (% YoY)	52.9	7.4	14.4	7.7	3.5
PEX (@Rs1,033.2)	10.3	9.6	8.4	7.8	7.5
Price/book (x)	3.0	2.6	2.2	1.9	1.7
EV/Op Ebitda (x)	4.9	4.5	4.2	4.0	3.7
Dividend yield (%)	3.9	4.4	4.8	4.8	5.3

Source: CLSA Asia-Pacific Markets

Figure 1

Quarterly results summary

Rsm	4QFY05	4QFY06	%YoY	FY05	FY06	%YoY
Gross Sales	123,529	158,757	29	460,245	592,286	29
Crude	91,515	113,492	24	338,042	422,900	25
Natural Gas	12,900	19,191	49	53,123	71,388	34
Others	19,114	26,074	36	69,080	97,998	42
Statutory duties	(26,077)	(31,550)	21	(103,257)	(124,808)	21
Net Sales	97,452	127,206	31	356,987	467,478	31
Employee cost	(1,927)	(3,077)	60	(9,279)	(10,424)	12
Operating expenses	(16,173)	(20,856)	29	(55,970)	(61,749)	10
Ebitda	79,353	103,273	30	291,738	395,306	36
Subsidy sharing	(9,896)	(34,069)	244	(41,038)	(119,533)	191
Reported Ebitda	69,456	69,204	(0)	250,700	275,773	10
Recouped Cost	(17,584)	(23,365)	33	(62,016)	(68,904)	11
PBIT	51,872	45,839	(12)	188,684	206,870	10
Other Income	4,931	4,539	(8)	17,298	17,710	2
Interest expenses	(102)	(323)	217	(377)	(460)	22
PBT	56,701	50,056	(12)	205,605	224,120	9
Prior periods/XO	(5,684)	2,270	(140)	(8,950)	2,151	(124)
MUT pipeline depreciation		(4,264)	nm	-	(10,199)	nm
Subsidiary dividends		-	nm	-	2,310	nm
PBT	51,017	48,061	(6)	196,655	218,382	11
Taxes	(13,040)	(17,202)	32	(66,826)	(74,064)	11
<i>Eff tax Rate %</i>	<i>25.6</i>	<i>35.8</i>		<i>34.0</i>	<i>34.3</i>	
PAT	37,977	30,859	(19)	129,830	144,318	11
EPS	26.6	21.6	(19)	91.0	101.2	11
EPS ex LPG/kero	35.8	35.4	(1)	109.0	151.8	39

Source: CLSA Asia-Pacific Markets

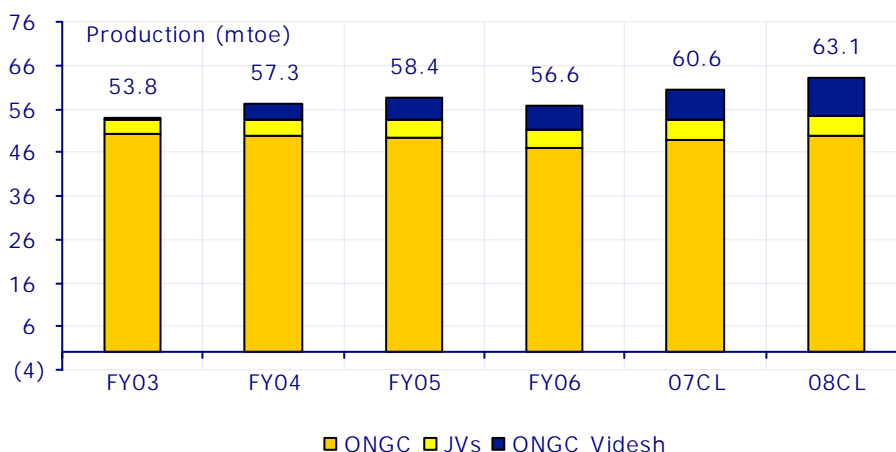
Figure 2

ONGC group profits

Rsm	FY04	FY05	FY06	07CL	08CL
ONGC	86,644	129,830	144,318	155,367	164,458
ONGC Videsh	4,285	7,614	9,010	21,476	30,003
MRPL	4,594	8,798	3,716	4,226	4,173
Consolidated	93,803	143,390	153,976	176,210	189,892
Share of EPS (Rs)	60.7	91.0	101.1	108.9	115.3
ONGC Videsh	3.0	5.3	6.3	15.1	21.0
MRPL	3.2	6.2	2.6	3.0	2.9
Consolidated	65.7	100.5	107.9	123.5	133.1
% higher	8.3	10.4	6.7	13.4	15.5

Source: CLSA Asia-Pacific Markets

Figure 3

Group production profile


Source: CLSA Asia-Pacific Markets. Note: We have excluded 0.993mtoe of crude production from the Syrian acquisition pertaining to the July-05 to Jan-06 period (both inclusive).

Core Ebitda growth of 36% in the year

Recouped costs were sharply higher than estimates in 4QFY06

A slew of exceptionals in 4QFY06

Profits would have been 50% higher without subsidies in FY06

Rs4.5bn in goodwill write-off for ONGC Videsh pulls down reported numbers

We expect ONGC Videsh to be a meaningful contributor from next year onwards

An adjusted overall production of 1.2mbpd of production

We are factoring in higher crude prices and higher subsidies in FY07

Crude net realisation for ONGC is largely flat due to subsidies

Subsidy sharing shaved off US\$7/boe from Ebitda in FY06

Our estimates imply US\$16/boe of reported Ebitda over FY06-08CL

US\$8.4/boe of reported profits

Figure 4

Key assumptions						
	FY03	FY04	FY05	FY06	07CL	08CL
Pricing						
Brent (US\$/bbl)	27.7	29.2	42.4	58.0	70.0	52.0
CLSA estimate (US\$/bbl)					60.0*	52.5*
Gas consumer price (Rs/mcm)	2,850	2,850	2,850	3,113	3,200	3,200
Others						
Retail subsidies (Rsm)	-	(26,904)	(41,038)	(119,533)	(214,275)	(74,857)
US\$/bbl on own crude	-	(3.4)	(5.3)	(16.9)	(26.7)	(9.1)
Post subsidy crude price (US\$/bbl)	27.7	25.8	36.8	41.1	43.3	42.9
Exchange rate (Rs/US\$)	48.4	46.0	44.9	44.6	45.7	45.0
Depr/(Appr) (%)	1.8	(5.1)	(2.2)	(0.7)	2.5	(1.5)

Source: CLSA Asia-Pacific Markets. * US\$60/bbl for calendar 2006 and US\$52.5/bbl for calendar 2007.

Figure 5

ONGC earns US\$26-27/bbl on crude after statutory duties and subsidies						
(US\$/bbl)	FY03	FY04	FY05	FY06	07CL	08CL
Crude realizations						
Brent	27.7	29.2	42.2	58.0	70.0	52.0
Import duties	1.4	1.5	2.0	1.5	1.8	1.3
Sales tax benefit	0.6	0.6	0.8	1.1	1.3	1.0
Quality and other discounts	(1.5)	(1.7)	(2.5)	(3.8)	(4.3)	(3.2)
Gross Realization	28.1	29.6	42.6	56.8	68.8	51.1
Statutory levies						
Cess	(4.9)	(5.1)	(5.3)	(5.3)	(7.2)	(7.3)
Royalties	(2.9)	(3.0)	(4.3)	(5.7)	(6.8)	(5.1)
Sales tax	(1.1)	(1.2)	(1.7)	(2.2)	(2.7)	(2.0)
NCCD	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total	(8.9)	(9.4)	(11.4)	(13.4)	(16.8)	(14.5)
Net Core Realization	19.2	20.2	31.2	43.4	52.0	36.6
Subsidies	-	(3.3)	(5.1)	(15.9)	(25.1)	(8.6)
ONGC Realization	19.2	17.0	26.2	27.5	26.9	28.0

Source: CLSA Asia-Pacific Markets

Figure 6

Standalone income statement summary in US\$/boe						
(US\$/boe)	FY03	FY04	FY05	FY06	07CL	08CL
Gross Sales	17.9	20.1	25.6	34.6	40.7	32.1
Statutory duties	(4.7)	(5.1)	(5.7)	(7.3)	(8.6)	(7.6)
Net Sales	13.1	15.0	19.8	27.3	32.0	24.5
Operational expenses	(2.6)	(3.3)	(3.7)	(4.1)	(4.3)	(4.6)
Ebitda	10.5	11.7	16.2	23.1	27.7	19.9
Subsidy sharing	-	(1.5)	(2.3)	(7.0)	(11.7)	(4.1)
Reported Ebitda	10.5	10.2	13.9	16.2	16.0	15.8
Recouped Costs	(2.1)	(3.2)	(3.4)	(3.8)	(3.6)	(3.7)
Ebit	8.4	7.0	10.4	12.3	12.4	12.1
Other Income	1.0	0.9	1.0	1.2	1.3	1.4
Interest expenses	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Adjustments/others	(1.1)	(0.1)	(0.4)	(0.7)	(0.7)	(0.1)
PBT	8.3	7.8	10.9	12.7	13.0	13.5
Taxes	(2.9)	(2.8)	(3.7)	(4.3)	(4.5)	(4.5)
PAT	5.4	4.9	7.2	8.4	8.6	8.9

Source: CLSA Asia-Pacific Markets

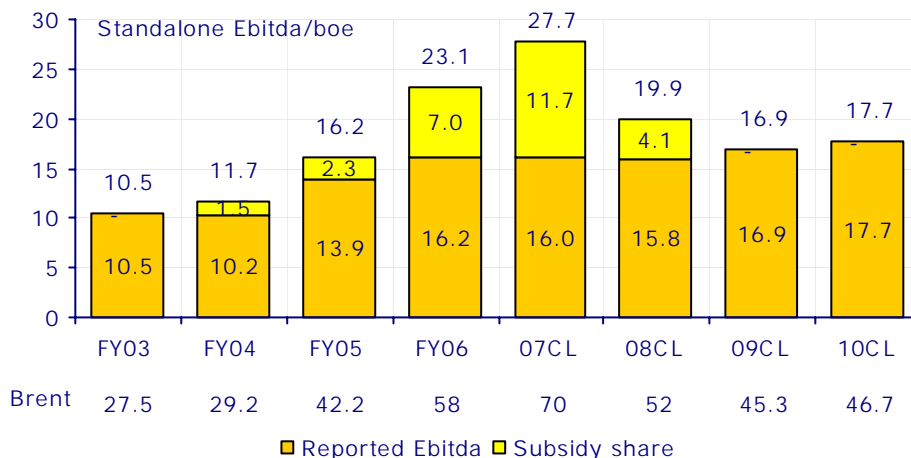
Incremental revenues from higher crude prices is taken away due to higher subsidies

Our profit growth estimate for FY07 is led by the strong 4mtoe (7%) increase in production

Target price of Rs1200/share

Figure 7

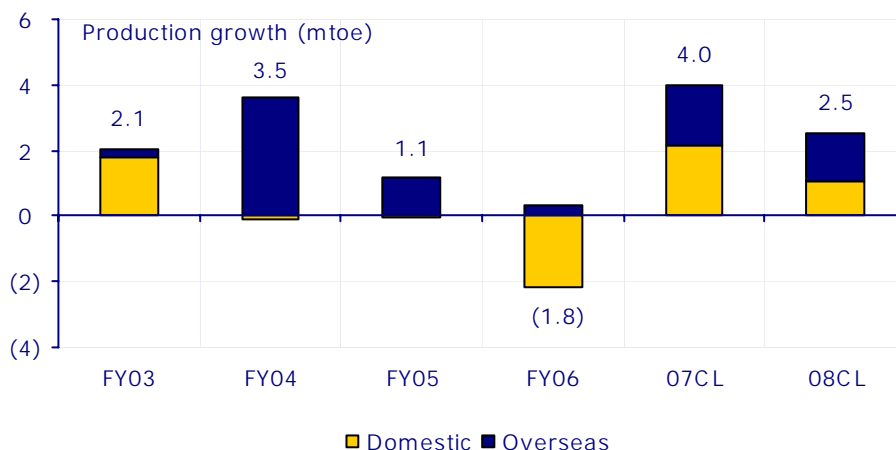
We have factored in net Ebitda at c.US\$16/boe after subsidies in FY06-08CL



Source: CLSA Asia-Pacific Markets

Figure 8

Production growth drives earnings higher in FY07



Source: CLSA Asia-Pacific Markets

Figure 9

Sum of parts valuation for ONGC

	US\$m	Rs/share	Comment
Existing crude and gas assets	36,215	1,143	Implied asset value of US\$5.4/boe
Domestic crude and oil assets	31,061	980	Risk adjusted DCF based asset valuations for ONGC Videsh
ONGC Videsh	5,154	163	crude and gas assets
Exploration assets	1,511	48	At Myanmar, Sudan, Syria and KG Basin
Other core assets	2,691	85	Value added products, drilling assets
ONGC core business value	40,416	1,275	
Strategic Investments	853	27	
Value of MRPL	781	25	20% discount to current market prices
Value of Petronet LNG	72	2	20% discount to current market prices
Financial investments	941	30	
Value of IOC stake	757	24	20% discount to current market prices
Value of Gail stake	184	6	20% discount to current market prices
Total enterprise value	42,210	1,332	
Adjusted net cash	1,551	49	FY06 end estimated net cash
Site restoration fund	(1,596)	(50)	Estimated deposit for statutory requirement
Implied fair equity value	42,166	1,331	
Less DCF of subsidy sharing	(3,972)	(125)	NPV of subsidy sharing expected from ONGC
Adjusted fair core equity value	38,194	1,205	Implied US\$5.4 EV/boe for E&P Assets

Source: CLSA Asia-Pacific Markets

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Note: In the interests of timeliness, this document was not edited.

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03/01/2006

Anirudha Dutta

anirudha.dutta@cls.a.com
(91) 2266505056

28 June 2006

India Textiles

Reuters ARMI.NS
Bloomberg NARVND IN

Priced on 27 June 2006
India Sensex @ 10,151.0

12M price target Rs50.00
±% up/downside -13%
Target set on 28 Jun 06

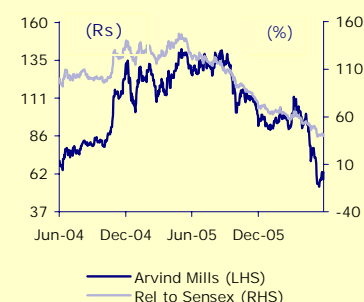
Market cap US\$260m
Shares in issue 208.9m
Free float (est.) 63.0%

3M average daily volume
Rs161.5m (US\$3.6m)
12M high/low
Rs143.80/51.00

Foreign shareholding 26.5%
Major shareholders
Promoters 37.0%

Stock performance (%)

	1M	3M	12M
Absolute	(26.2)	(38.3)	(54.7)
Relative	(21.4)	(32.6)	(68.1)
Abs (US\$)	(27.0)	(40.5)	(57.5)



Source: Bloomberg

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Denim blues

Denim prices in the domestic market are under pressure after fresh capacities have been commissioned. While volumes in the export markets have picked up, price recovery is some time away. Given the above, the next 12-month outlook remains uncertain and we are cutting our estimates for FY07 by 54%. FY08 performance will primarily depend on the recovery in denim prices and volumes. Maintain UNDERPERFORM.

FY06: denim troubles hit performance

During FY06 Arvind's sales declined by 4% and net profits were flat, primarily due to deterioration in performance of the denim division. Consolidated net profits declined by 27% yoy. Denim volumes declined in every quarter for the last three quarters and price realisations also fell (see Charts inside). Results would have been further impacted but for soft cotton prices. Company's debt has increased by about Rs2bn (12% yoy) as working capital requirements have increased (higher cotton inventory).

FY07: Denim blues will continue to hurt the company

The pressure on denim prices has worsened in the domestic market with commissioning of fresh capacities. While the volumes in the export markets have recovered, prices have not. It will take at least another 12 months for the excess capacity to be absorbed. We are cutting our forecasts for FY07 by 54% on the back of lower denim volumes (-20% from previous estimates) and lower prices (-5%). Energy costs are also expected to increase due to shortage of natural gas. Shirting business continues to perform steadily and garment business is witnessing growth in excess of 20% cagr.

Garments: Future growth avenue

In FY06 garments was 12% of the company's turnover and this is expected to increase to over 25% by FY08. We believe ramp up in productivity in the garments business will be slow as Arvind learns to deal with larger complexities and low volume runs, unlike its traditional fabric business of high volumes. The company plans to increase its garmenting facilities from 12.7mn pcs pa to nearly 42mn pcs pa by FY09, which will catapult it to among top 3 players in India in apparels by the end of the decade. The increase in capacity is also being matched by the increase in retail shelf space to increase the sales of branded garments in the domestic market.

Near term outlook puts cap on stock performance

We believe that the uncertain near term outlook puts a cap on stock price performance notwithstanding recent price declines. Recovery in the denim cycle coupled with visible signs of success in garments will be the next triggers, which are still at least 12-months away. Maintain UNDERPERFORM.

Financials

Year to 31 Mar	04A	05A	06CL	07CL	08CL
Revenue (Rsm)	14,577	17,024	16,923	17,583	19,569
Rev forecast change (%)			0	(8.9)	(5.9)
Net profit (Rsm)	884	1,233	1,177	891	1,283
NP forecast change (%)				(53.6)	(43.5)
EPS (Rs)	4.5	6.3	5.6	4.3	6.1
CLSA/consensus(3) (%)	-	-	92	67	85
EPS (% YoY)	(34.5)	39.3	(10.7)	(24.3)	44.0
PEX (@Rs57.6)	12.7	9.1	10.2	13.5	9.4
Dividend yield (%)	-	2.0	2.0	1.0	1.0
ROAE (%)	8.30	10.50	8.70	5.80	7.90
EV/Op Ebitda (x)	8.2	7.7	5.8	5.8	4.9

Source: CLSA Asia-Pacific Markets

Figure 1

Denim: Volume and realisation trend

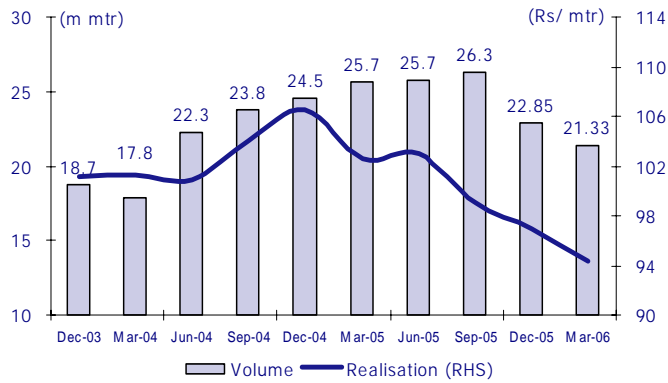
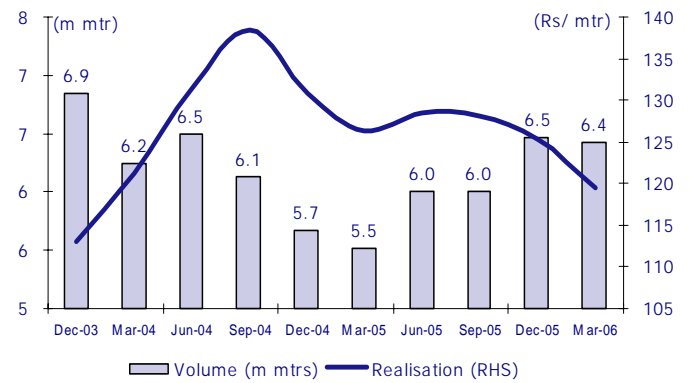


Figure 2

HVCS: Volume and realisation trend

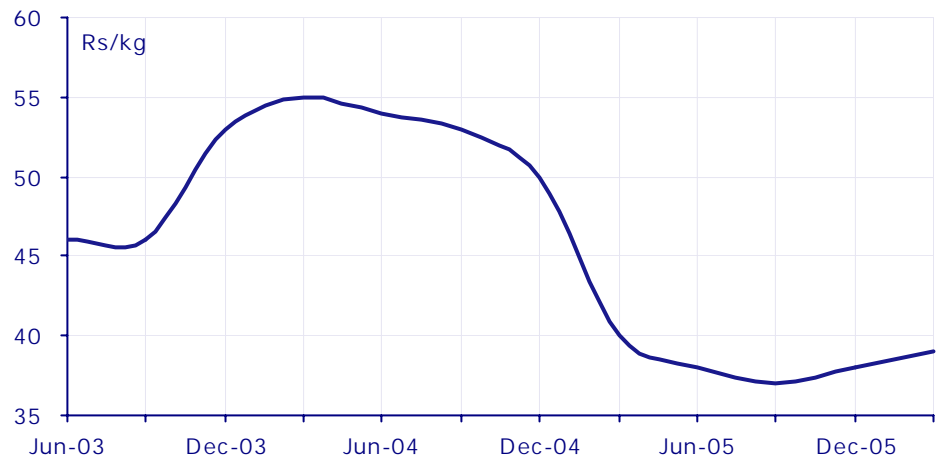


Source: Company

Cotton prices remain soft

Figure 3

Cotton price trend for Arvind



Source: Company

Garment capacity to expand >3x over next 3 years...

Figure 4

Garments: Capacity addition plans

Category	Installed capacity (m pcs)	Planned additions			Total
		FY07	FY08	FY09	
Jeans	4.0	5.0	5.0	3.0	17.0
Shirts	4.5	-	3.0	2.0	9.5
Knits	4.2	1.0	3.0	3.0	11.2
Khakis	-	1.5	3.0	-	4.5
Cum total	12.7	20.2	34.2	42.2	

Source: Company

...will drive change in sales mix

Figure 5

Current sales mix skewed towards denim...

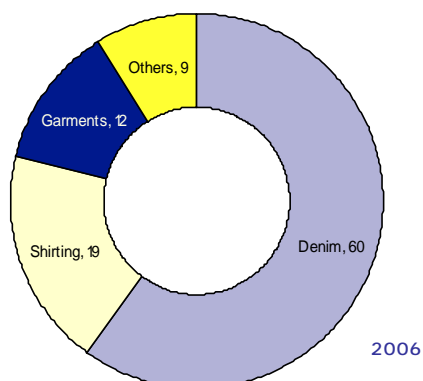
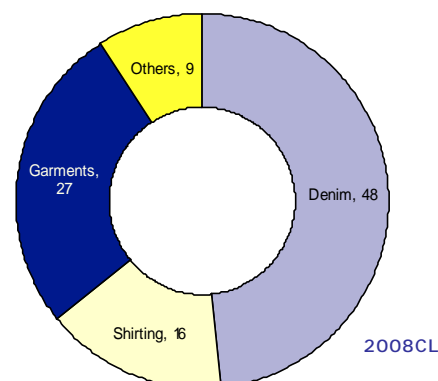


Figure 6

...likely to improve by FY08



Source: Company/ CLSA Asia-Pacific Markets

Figure 7

Profits on a declining trend over the last few quarters

Sales impacted as denim prices turned soft

Soft cotton prices have helped to maintain margins

Power costs increase as gas availability is impacted

Quarterly financials (Rsm)	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
Net sales	4,450	4,204	4,280	3,902	3,578
% YoY	27.4	6.2	0.9	(5.7)	
Expenditure:					
(Inc)/ dec in stock	(139)	(66)	146	258	(239)
Raw materials	1,643	1,383	1,331	1,114	1,220
Power & fuel	338	373	375	318	370
Stores consumed	413	456	457	380	417
Staff cost	337	338	369	309	342
Other expenditure	740	571	542	510	553
Total expenditure	3,332	3,055	3,219	2,888	2,663
Op Ebitda	1,118	1,149	1,061	1,014	915
Depreciation	382	385	387	385	394
Op Ebit/ operating profit	737	764	674	629	521
Other income	50	67	77	21	60
Ebit	787	831	751	650	581
Interest	317	335	342	296	330
Forex Gain/ (Loss)		40	20	(96)	(51)
PBT	470	497	409	258	200
Taxation	(60)	46	37	24	(15)
Extraordinaries inc/ (exp)	-			-	-
PAT	530	451	372	234	215
Eps (Rs)	2.48	2.25	1.74	1.07	0.98
Ratios:					
% Op Ebitda	25.1%	27.3%	24.8%	26.0%	25.6%
% Op Ebit	16.6%	18.2%	15.7%	16.1%	14.6%
% NPM	11.9%	10.7%	8.7%	6.0%	6.0%
% Raw materials	33.8%	31.3%	34.5%	35.1%	27.4%
% Power & fuel	7.6%	8.9%	8.8%	8.1%	10.3%
% Stores consumed	9.3%	10.9%	10.7%	9.7%	11.7%
% Staff cost	7.6%	8.0%	8.6%	7.9%	9.6%
% Other expenditure	16.6%	13.6%	12.7%	13.1%	15.5%

Note: Based on Standalone financials; Source: CLSA Asia-Pacific Markets

Summary P&L forecast (Rsm)

Year to 31 March	2004A	2005A	2006A	2007CL	2008CL
Revenue	14,577	17,024	16,923	17,583	19,569
Operating Ebitda	3,112	3,734	4,121	3,884	4,374
Operating Ebit	1,609	2,243	2,562	2,239	2,642
Interest income	0	0	0	0	0
Interest expense	(1,133)	(1,179)	(1,275)	(1,035)	(893)
Other items	537	229	125	125	125
Profit before tax	1,013	1,293	1,412	1,329	1,874
Taxation	(46)	(20)	(169)	(372)	(525)
Minorities and other	(83)	(41)	(66)	(66)	(66)
Profit	884	1,233	1,177	891	1,283

Summary cashflow forecast (Rsm)

Operating Ebit	1,609	2,243	2,562	2,239	2,642
Depreciation/amort	1,503	1,491	1,559	1,645	1,732
Working capital - trade	(704)	(1,445)	(1,218)	(329)	(363)
Other operating items	(1,060)	(2,650)	4,441	555	(159)
Operating cashflow	1,347	(361)	7,344	4,111	3,852
Net interest/taxes/other	(1,133)	(1,199)	(1,445)	(1,407)	(1,418)
Cashflow	214	(1,559)	5,900	2,704	2,434
Capital expenditure	(393)	(1,367)	(769)	(1,200)	(900)
Acq/inv/disposals	(140)	(67)	(1,060)	0	0
Free Cashflow	(318)	(2,993)	4,071	1,504	1,534
Ord div paid/Other items	170	(275)	1,500	(107)	(511)
Decrease in net debt	(148)	(3,269)	5,571	1,396	1,024

Summary balance sheet forecast (Rsm)

Cash & equivalents	127	129	2,054	1,450	1,125
Debtors - trade	2,354	3,191	2,870	2,982	3,319
Inventories - trade	3,804	5,112	6,463	6,846	7,203
Other current assets	4,455	7,585	3,046	2,637	2,935
Fixed assets	14,971	14,848	14,058	13,612	12,781
Intangible assets	0	0	0	0	0
Other term assets	1,464	1,531	2,590	2,590	2,590
Total assets	27,176	32,394	31,081	30,118	29,953
Short-term debt	0	0	0	0	0
Creditors - trade	1,689	2,389	2,201	2,367	2,699
Other current liabs	73	324	102	123	137
Long-term debt/CBs	13,554	16,824	13,178	11,178	9,830
Other long-term liabs	46	46	46	46	45
Minorities/other equity	695	660	660	660	660
Shareholder funds	11,118	12,151	14,894	15,743	16,582
Total liabs & equity	27,176	32,394	31,081	30,118	29,953

Ratio analysis (Rsm)

Revenue growth (%)	(6.0)	16.8	(0.6)	3.9	11.3
Op Ebitda growth (%)	(25.5)	20.0	10.4	(5.7)	12.6
Op Ebit growth (%)	(40.4)	39.4	14.2	(12.6)	18.0
Op Ebitda margin (%)	21.3	21.9	24.4	22.1	22.3
Op Ebit margin (%)	11.0	13.2	15.1	12.7	13.5
Net profit margin (%)	6.1	7.2	7.0	5.1	6.6
Dividend payout (%)	0.0	18.0	20.0	12.0	10.0
Tax rate (%)	4.5	1.5	12.0	28.0	28.0
Ebitda/net int exp (x)	2.7	3.2	3.2	3.8	4.9
Net debt/equity (%)	113.7	130.3	71.5	59.3	50.5
Gross debt/equity (%)	114.7	131.3	84.7	68.1	57.0
Net debt/op Ebitda (x)	4.3	4.5	2.7	2.5	2.0
Gross debt/op Ebitda (x)	4.4	4.5	3.2	2.9	2.2
Return on equity (%)	8.4	10.6	8.7	5.8	7.9
ROCE (%)	8.7	9.0	9.6	9.0	10.6
Return on assets (%)	3.3	4.1	3.7	2.9	4.3

Source: CLSA Asia-Pacific Markets

Recommendation history - Arvind Mills NARVND IN

Date	Rec level	Closing price	Target
28 June 2006	U-PF	57.55	50.00
28 October 2005	U-PF	101.30	100.00
02 August 2005	U-PF	139.20	110.00
14 December 2004	O-PF	111.90	110.00
23 August 2004	BUY	74.15	90.00
20 August 2004	N-R	74.75	
19 August 2004	N-R	75.90	
18 August 2004	N-R	75.35	

Source: CLSA Asia-Pacific Markets

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Note: In the interests of timeliness, this document was not edited.

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