OCTOBER 2007

MOSt value

Snapshot of Value Investing

MOTILAL OSWAL
Wealth Management
Solid *research.* **Solid** *advice.*

From the desk of
Raamdeo Agrawal

"Investing without research is like playing poker without looking at the cards"

Dear Investor,

The month of September will mark as one of the biggest months in index movements with full 2000 points rise, making the nonbelievers believe in Indian growth story. A banker recently said ***"there are only 2 assets which are popular right now - Gold and India".*** We have seen the true colour of what change of opinion at global level can do to a $ Trillion market.

The secondary market asset pricing with more than 4x book value in India, it is the best place for creation of new corporate assets. We are going to see accelerated boom in corporate capex; the big corporates are going to announce global size projects and will execute them successfully. This phenomenon is going to bring a lot more premium to the pricing of leader companies.

The new entrants in the market are aggressive and are typically buying large chunks of liquid stocks. They are also likely to exit quickly whenever the tide turns. Hence, we have entered an era of super volatility. The past has proved that "sitting" has been the best mantra. Whosoever is trying to time the market is either bereft of blue chips in its portfolio or is sitting on a pile of cash.

Among the interest sensitive sectors, automobiles look to be extremely well poised. Maruti which grew at about 20% even while the whole sector was slumping is likely to see much better days in sales earnings and even valuations. I believe the demand for 2-wheelers and trucks have also picked up very well. Valuations are at significant discount to the index. Purchase of Bajaj Auto, Hero Honda, Telco, M&M, etc. are also going to give an attractive returns from here onwards.

Sincerely yours,

Raamdeo Agrawal

market roundup

INDEX

Index	Sensex	Nifty
Aug-31	15318.6	4464
Sep-28	17291.1	5021.3
Change (Pts)	1972.5	557.3
Change (%)	12.88	12.48
High	17361	5056
Low	15323	4446

Global Market

Index	Market Level as on 28-Sep-07	Chg. (Pts)	Chg. (%)
Hang Sang	27142	3158	13.2
Sensex	17291	1972	12.9
Nifty	5021	557	12.5
Nasdaq	2701	105	4.0
Dow	13896	538	4.0
FTSE 100 Index	6467	164	2.6
Nikkei	16786	217	1.3

FIIs and MFs fund flows for the Month of September 2007 (Rs Cr)

Particulars	FII's	MF's
Gross Purchase	70,695	14,758
Gross Sales	51,746	15,551
Net Investment	**18,949**	**-793**

Major event during the month of September 2007

- US Fed cut interest rate by 50bp at 4.75%
- Both BOJ and BOE keeps unchanged interest rate
- Both Sensex and Nifty closes all time high at above 17k and 5k respectively
- Crude oil price touches all time high at $82.88 p/b
- India's Current account deficit widened less than expected last quarter, the shortfall was $4.69bn while analysts expected a $5.7bn

Major event to watch out in the next month

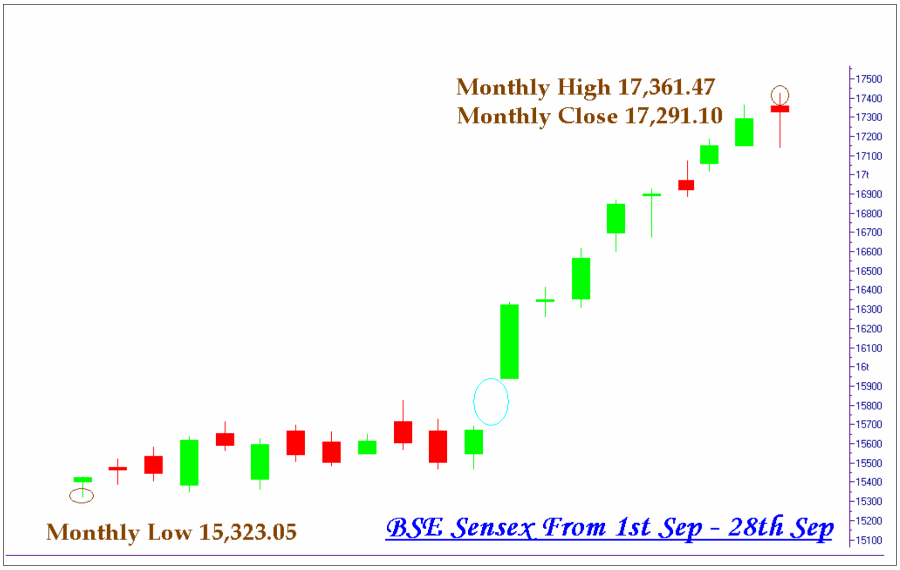
- Corporate results - Infosys will announce Q2 results on 11-Oct.
- US FED will announce change of interest rate if any on 31st Oct.
- RBI Credit policy will announce last week of Oct.

It was raining sixes last month at Durban when India became 20-20 champions . Similar scene was seen on the bourses where the sensex and the nifty crossed 17000 and 5000 in style respectively . Dollar inflows continue unabated into Asia which include India ever since the unexpected cut of a 50bp by the US Fed. Whether the US decision was right or wrong is irrelevant. The RBI is in a catch 22 situation whether to cut rates or raise CRR to stem the capital flows . If it raises the CRR , the INR rises and thus raises the interest rates which further attracts capital into the country. If it cuts rates, and eases money supply there are concerns on inflation and a fear of giving encouragement to speculative activities. If one was to assess the extent of dollar flows, FIIs have pumped in close to $3.3bn in the week ended on 28th September.

Equity markets in India have rallied 1973 points on the sensex and 554 points on the nifty last month. The sensex has rallied approximately 3500 points without any major correction This is cause of concern as the markets have run up too fast too soon The long term bullish outlook on the markets remain intact. However the short to medium term is quite hazy. Markets are clearly running ahead of fundamentals, at least in the short term. What remains to be seen is whether there would be an expansion of PE multiples and would that be sustainable? Any disappointment on the earnings front or the IIP numbers could see a big sell off. Open interests are huge, technicals suggest an overbought situation, sub prime issues have not gone away and the political situation is still in a limbo.. The second half of the year have typically been good for the markets and this seasonality is lending a helping hand to the euphoria all around. However the market breadth is quite negative and rally is becoming quite narrow, as we are moving higher.

The message is quite clear, to make hay while the sun shines, but be prepared to run for the exit at the first signs of trouble. One should also be aware that the trouble could come in any form, more often than not due to reasons unknown It is also quite apt to quote here.

I buy when you cry and I sell when you yell..... only that the yelling could be a bit louder.



Puravankara Projects: (Buy)

17 Sep. '07 / CMP: Rs.378 / Target: Rs.483

Leading south-based middle income residential player:

Puravankara Projects Ltd (PPL) is a leading south-based real estate company, focusing mainly on developing middle income residential properties, with almost 73% of its land bank in Bangalore. It has a strong marketing network, with sales offices in Bangalore, Chennai, Kochi, Mumbai and UAE, and representative offices in US and UK.

High quality land bank at Rs97/sf:

PPL has one of the best quality land banks, which is almost fully paid with clear titles. PPL is trying to leverage on its strategic land holding by increasingly diversifying towards commercial development. It has built its 106.8msf land bank at an average cost of Rs97/sf, which is competitive. PPL has also entered into a MoU for purchase/joint development of land parcels located in and around Chennai, aggregating ~43.5msf.

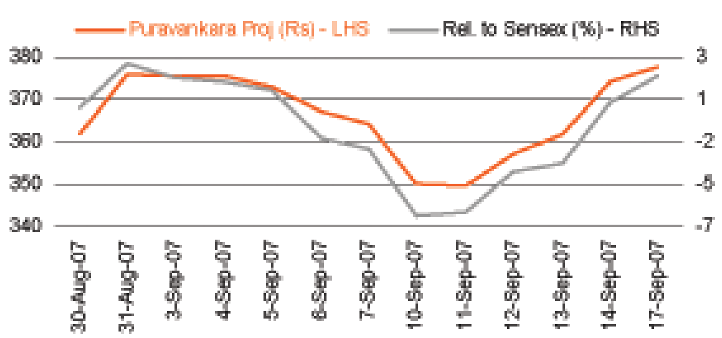
Backward integration model:

PPL has a unique backward integration model, wherein it possesses the key competencies and in-house resources to deliver a project from conceptualization to completion. Backward integration ensures excellent quality standards and timely execution and provides the company a competitive edge over other developers, who outsource development activities to third parties.

Strong growth ahead:

We expect PPL's revenue and net profit to increase at a CAGR (FY07-10) of 71% and 75% respectively. Our target price for PPL at Rs483 is in line with our FY09 NAV estimate. Concentration of land bank in Bangalore and high focus on middle income housing segment are the key concerns, which restrain us from assigning premium to the NAV.

STOCK PERFORMANCE (FROM 30 AUGUST 2007)



Bombay Rayon: (Buy)

7 Sep. '07 / CMP: Rs.226 / Target: Rs.293

Changing the rules of the garments business:

Bombay Rayon Fashions (BRFL) is a fast-growing exporter of fashion garments from India. Integrated operations, increasing scale and innovative management are helping it change a few rules of the business. For instance, it charges a premium for delivery of garments within 30 days from order, and has an order book for high-margin "organic" garments. The result is top-of-the-line margins and profits.

Acquisition and mega expansion to drive synergistic growth:

BRFL has an annual capacity of 30m garments and 65m meters of fabric. In July 2007, it acquired Leela Scottish Lace (LSL), adding a garment capacity of 15m. It has planned a mega Rs11b (US$270m) expansion in Maharashtra to add further capacity of 15m garments and 200m meters of fabric. Economies of scale and state incentives will drive down costs, resulting in synergistic and profitable growth.

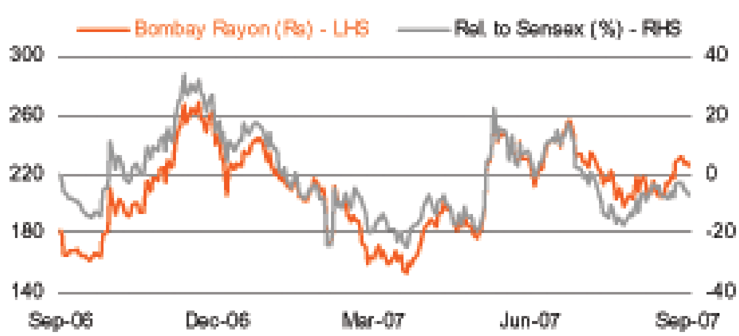
Expect 5-year EPS CAGR of 47%:

BRFL has a strong client list including DKNY, Guess, Next and Zaara. LSL has brought in names like Banana Republic, Gap and Wal-mart. This coupled with BRFL's strong business positioning convinces us to factor in an aggressive 46% CAGR in sales and 50% CAGR in PAT through FY12. EPS CAGR would be slightly lower at 47% assuming exercise of share warrants by promoters (priced at Rs207 per share).

SOTP target price of Rs293 implies 30% upside; Buy:

We have valued standalone BRFL at 12x FY09E EPS (Rs245 per share) - a small premium to the recent Blackstone buyout of Gokaldas Exports. We have valued the more steady-state LSL at 10x FY09E EPS (Rs48 per share).

STOCK PERFORMANCE (1 YEAR)



CMP: current market price

Everest Kanto Cylinders: (Buy)

6 Sep. '07 / CMP: Rs.227 / Target: Rs.279

Dominant player in the high-pressure cylinders market:

Everest Kanto Cylinders (EKCL) is by far the largest player in the Indian gas cylinders market. With aggressive expansion plans in Dubai and China, EKCL is poised to be a dominant player in the world market as well.

Excellent play on global CNG opportunity:

There are two demand drivers for high-pressure cylinders: (1) steady-state growth in industrial gas applications, and (2) hyper growth in CNG use, especially in emerging economies like China and India. EKCL is the largest cylinder company in India; it has plans to add capacity of 1.5m cylinders in China over the next five years. We believe EKCL offers an excellent play on the global CNG opportunity.

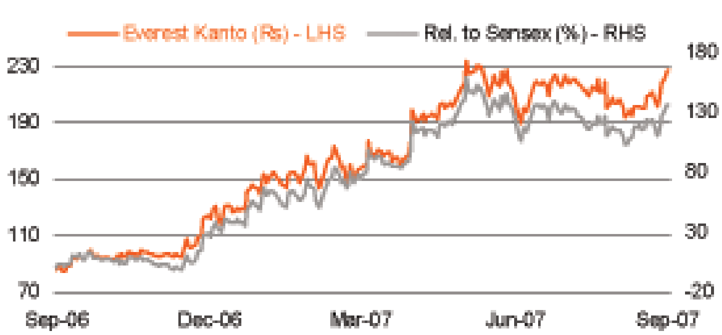
Timely investments to sustain de-risked growth:

EKCL plans to invest US$125m over the next five years. These investments are not just in manufacturing capacity (additional 2m cylinders), but also in new products (jumbo cylinders) and alternative technologies (cylinders from billets and plates). At the end of this investment plan, we believe EKCL will emerge not only profitable, but also scaleable and de-risked.

40% EPS CAGR to FY10E; target price Rs279; Buy:

We believe there is high earnings visibility for EKCL. Based on gradual ramp up of new capacities, we estimate revenue CAGR of 43% and PAT CAGR of 42% through FY10E. EPS CAGR is slightly lower at 40% due to 5% equity dilution. We believe EKCL's de-risked growth merits premium valuation. At 20x FY09E, our target price of Rs279 offers 23% upside from current levels.

STOCK PERFORMANCE (1 YEAR)



Subex Azure:

14 Sep. '07 / CMP: Rs.510 / Target: Rs.635

Guidance cut by 13% in revenue and 32% in profits for FY08

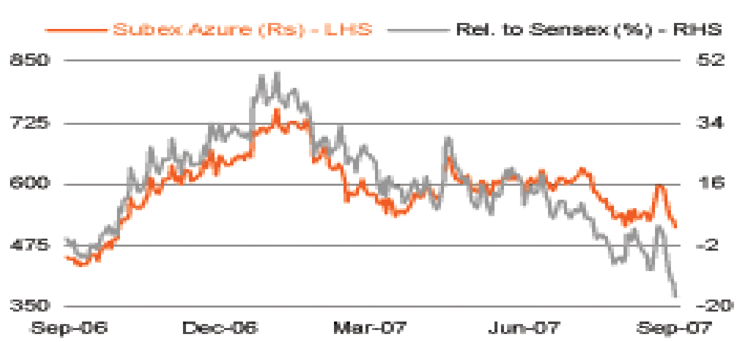
Subex Azure has downgraded its guidance for FY08 citing slowdown in a key customer in the US, which has resulted in delay of US$20m worth of deal flow (US$10m each for Syndesis and organic business for Subex Azure) during the year. The revised revenue guidance for FY08 now stands at US$130m v/s US$150m earlier, down 13%. The profit guidance for FY08 has been cut to US$26m from US$38m earlier. In rupee terms, the revenue guidance has declined to Rs5,200m v/s Rs6,150m earlier while the profit guidance is Rs1,040m v/s Rs1,550m earlier (at Rs40/USD v/s Rs41.5/USD).

The management has reiterated that this in not indicative of any slowdown in the sector and is due to internal issues in the concerned client. However, the loss of high probability deal flow has resulted in the hit ratio for Subex's order pipeline (US$317m at the end of 1QFY08) to reduce to 34% from 40% earlier, which has led to the revision in guidance. While deal flows have been strong over the last few months, including a contract by one of the largest Tier-1 telecom operators in North America for its Syndesis Net Provision fulfillment solution, the lower conversion rate would result in lower order book for FY08.

Cutting EPS estimates by 30% in FY08; downgrade to Neutral

Even though the Syndesis integration seems to be on track, and margins have improved for both Syndesis and the continuing businesses, we are disappointed by the steep cut in revenue and profit guidance for the year. We have downgraded our EPS estimates for FY08 and FY09 by 30.5% and 27% respectively to Rs29.1 and Rs41 respectively. The stock is trading at 17.5x FY08E and 12.4x FY09E EPS estimates. We believe that slow growth in FY08 and high cost pressures (Subex has high fixed costs, Syndesis integration would also impact margins) would keep earnings growth muted over the next few quarters.

STOCK PERFORMANCE (1 YEAR)



CMP: current market price

top picks

Sintex Industries: MBP: Rs.360 / Target: Rs.450

- Sintex Industries announced acquisition of automotive products business division of Bright Brothers Ltd. The acquisition would be done by Bright Autoplastic Pvt Ltd, a subsidiary of Sintex Holdings B.V. Netherland. Bright Brothers has a strong presence in automotive components which includes various body parts, automotive parts, instrument panels, consumer durable components which includes white good body parts like twin tube, agitators and styling parts to various reputed consumers goods manufacturers and branded products. Sintex has bought over only the auto manufacturing plants on a slump sale basis for Rs1.49b.
- Further, Sintex would also acquire 400 employees from the existing workforce of the automotive division. Also, the current promoters of Bright Brothers Ltd will lend strategic support to Sintex subsequent to the transaction.
- The acquisition of automotive business of Bright Brothers would provide Sintex with access to customers in automotive space such as Maruti Udyog, Hyundai, Tata Motors and Mahindra & Mahindra. Also, all its plants are located near the automotive manufacturing hubs at Chennai, Sohna, Pune, Pithampur and Nasik (covering the West, North and South).
- The management expects about Rs1.8b sales from this plant in FY08 and about Rs2.3b in FY09.
- Post this acquisition, we increase our earnings estimate by 6% in FY09. We now expect an EPS of Rs24 for FY09 on fully diluted basis. The stock trades at 13.7x FY09E EPS.

Nagarjuna Construction: MBP: Rs.265 / Target: Rs.300

- Nagarjuna Construction is moving up the value chain from a pure construction company to an EPC company.
- For Oil & Gas sector, it has already tied-up with Naftogaz India, a wholly owned subsidiary of Naftogaz Gas to cater to balance of plant work while the equipments would be procured by the JV partner. In a similar arrangement for Metal industry, it has tied up with POSCO of South Korea.
- The consortium recently won EPC contract valued at Rs15.6b from SAIL for IISCO Steel Plant at Burnpur, West Bengal.
- Recently, it has placed 20.2m equity shares (at Rs202.5/sh) and 9.1m warrants (at Rs225/sh) to Blackstone raising Rs6.2b, which will enable NCC to finance the growth initiatives in the BOT projects and Real estate. NCC consortium has recently bagged large projects.
- We expect the company to benefit from possible value unlocking opportunity in NCC Urban Infra (80% real estate subsidiary) and NCC Infrastructure Holdings (BOT arm), as it plans IPO of these companies over next 2 years.
- For FY08, the management has guided for a revenues of Rs40b, net profit of Rs2.1b and an order book position of Rs91b as at end March 2008. However, the company already has an order book position of Rs93b as at Sept 07, and this woulde mean a possible upward revision in the guidance and earnings upgrade.
- we expect Nagarjuna Constructions to report net profit of Rs1.9b during FY08 (up 26.2% YoY) and Rs2.8b in FY09 (up 46.2% YoY). At the CMP of Rs257, the stock quotes at reported PER of 31.8xFY08E and 21.8x FY09E. Adjusted for the value of BOT projects (Rs10.2sh), Real Estate (Rs27.3/sh) and Investments (Rs20.5), the stock quotes at PER of 24.6x FY08E and 16.8x FY09E.

Pantaloon Retail: MBP: Rs.550 / Target: Rs.624

- Pantaloon Retail has divested 25% stake in Future Bazaar (online shopping portal) for US$20m, which has resulted in a profit of Rs177m. We value 67% stake in Future Capital (post IPO) at Rs94 per share (post dilution of 10% stake).
- Adjusted PAT declined 56.2% to Rs69m, primarily due to 320bp QoQ decline in gross margin and higher interest burden. Staff cost and overheads declined 200bp and250bp, respectively, thus cushioning the decline in EBITDA margin at 90bp.
- The company posted net sales of Rs10.2b against our estimate of Rs10.8b. Gross margin took a beating due to realigning of store formats, lower markdowns and organizational changes.
- The company expects to end FY08 with 11m square feet of retail space as against 5.5m square feet in FY07.
- We expect it to increase to Rs1.3b in FY08 from Rs89.8m in FY07, although the pace of increase could decline.
- We expect gross margins to decline 150bp in FY08E and 60bp in FY09E, while EBITDA margins are likely to decline40bp in FY08E and 20bp in FY09E due to lower increase in overheads. We are reducing our adjusted PAT estimates from Rs1.28b to Rs1.1b for FY08E and from Rs1.96b to Rs1.9b for FY09E. We value the stock at Rs624 based on SOTP. The stock trades at 25x FY09E earnings (excluding the value of subsidiaries).

MBP: Maximum Buying Price

select the portfolio that best suits your risk profile

Scrip	MBP*	Wtg.*	%	First Reco. Date	Price
AGGRESSIVE - High Risk, High Returns					
Bharti Tele	940	H	7	Aug-03	48
EIH Associates	130	H	6	Jan-05	65
Subex	431	H	7	Jun-07	650
Great Offshore	817	H	8	Jun-07	711
Infosys	1893	H	10	Jun-07	1920
DLF	763	H	7	Jul-07	565
Dish TV	74	H	10	Aug-07	84
Goldiam Int.	78	M	5	Nov-06	120
SAIL	207	M	5	Feb-06	117
Kesoram	581	M	5	Jun-07	382
Nagarjuna Fertilizers	61	L	3	Dec-04	13
Mangalam Cement	231	L	3	Jun-07	131
BRFL	239	L	3	Sep-07	238
Investment %			**79**		

Our Aggressive Portfolio works on the principle of 'no pain no gain'. The target returns are high at 30%+. Portfolio includes commodity, cyclical and small-cap stocks.

Scrip	MBP*	Wtg.*	%	First Reco. Date	Price
MODERATE - MEDIUM Risk, MEDIUM Returns					
Bharti Tele	940	H	6	Aug-04	33
EIH Associates	130	H	9	Mar-03	11
Nagarjuna Fertilizers	61	H	6	May-06	13
SBI	1946	H	9	Jan-06	613
Raymond Limited	424	H	8	Dec-03	375
Pfizer Ltd	719	M	8	Feb-05	415
Maruti	1000	M	5	Sep-06	920
NIIT Tech	309	M	10	Feb-07	315
Satyam	446	M	5	Apr-07	445
Indian Oil	470	L	3	Dec-04	516
Sterlite Industries	748	L	3	Jul-07	650
Hindustan Zinc	811	L	3	Jul-07	752
Greaves Cotton	316	L	2	Aug-07	330
EKC	234	M	5	Sep-07	216
Investment %			**82**		

Some moderation is achieved in this portfolio by investing in large and growth stocks available at value. The aim is to generate 20%+ annualized returns with less risk.

Scrip	MBP*	Wtg.*	%	First Reco. Date	Price
DEFENSIVE - LOW Risk, LOW Returns					
ONGC	958	H	10	Jun-07	875
SBI	1946	H	10	Nov-02	375
United Phos	397	H	12	Jan-05	140
Biocon	473	H	8	Apr-06	453
Amtek Auto	361	M	5	Sep-05	235
Glaxo	1118	M	5	Mar-04	800
Hindusthan Lever	220	M	9	Dec-04	130
Indian Oil	470	M	5	Dec-03	375
BEL	1841	M	5	Sep-06	1,141
Nicolas Piramal	281	M	5	Jan-06	254
Tata Steel	851	M	5	Jan-06	512
Union Bank	163	M	5	Dec-04	90
RCOM	587	M	7	Mar-06	390
Ranbaxy	434	M	7	Aug-07	375
Investment %			**98**		

Some moderation is achieved in this portfolio by investing in large and growth stocks available at value. The aim is to generate 20%+ annualized returns with less risk.

MBP : Maximum Buying Price. One should not buy the stock if Price is above MBP.*
Wtg. : Weightage refers to the size of the position recommended. H-High, M-Medium, L-Low.*

We had two additions and seven deletions from the model portfolios during the month of September.

We added Bombay Rayon during the current month, as it is a fast growing exporter changing a few rules of the game. It has a big capacity of about 30m garments and 65m meters of fabric. It has premium clients in the form of DKNY, Guess, Next and Zaara.. The best thing about this company is that it would experience phenomenal growth in the next 3 to 5 years and valuations are quite comfortable Our estimated 5 year CAGR stands at 47% which implies that the company is available quite cheap based on forward earnings.

We also added Everest Kanto cylinders during the current month, as it is a dominant player in the high-pressure cylinder market and on course to become a large player in the international market as well. It is having a right strategy in place to expand capacity at the correct time. Volume expansion coupled with newer product would ensure a revenue and profit growth of 43% over the next years.

We booked profits in seven scrips viz Rallis, Maharashtra seamless, JP Associates, ITC, ICICI Bank, Navneet publications and Reliance energy.

Our aggressive, moderate and defensive portfolio gave a return of 8.7%, 14% and 11.4% vis-à-vis 12.8% and 12.4% on the sensex and nifty respectively.

Sector	Allocation (%) Agg.	Mod.	Def.
Agrichem & Fertilisers	6	7	12
Auto & Ancillaries	0	5	5
Banking	0	9	15
Cement	8	0	0
Engineering	0	0	5
FMCG	0	0	9
Hotels	6	9	0
Miscellaneous	17	12	0
Oil & Gas	0	3	15
Pharma	0	8	25
Power	0	0	0
Software	17	15	0
Steel	5	0	5
Construction	10	0	0
Pipes	0	0	0
Textiles	3	8	0
Telecommunication	7	6	7
Tyres	0	0	0
Total	**79**	**82**	**98**

Additions or deletions of stocks are being communicated through our morning conference calls, Most Market Action emails or on AWACS during market hours.

extracts

The festival of Diwali has arrived a month earlier in the Indian markets. The BSE Sensex has continued with its upward march to close the quarter at an all time high of 17,291 in 2QFY08. The markets have delivered returns of 18%, post a 12% returns in 1QFY08. From a state of a joyous ride in 1QFY08, we are now clearly in euphoric times. Continued upswing in global equities (almost most global markets at all-time highs), very high dose of liquidity by FIIs sustained (net FII flows were over $7bn in 2QFY08), easing of inflation and rate concerns have been the key drivers of this performance.

Post this strong performance, the valuations of BSE Sensex has crossed its historical averages on all parameters. The BSE Sensex now trades at FY08 PE of 20.2x (15 Year average is 18.3), P/B of 4.4x (15 year average is 2.1x) and earnings yield to bond yield of 0.63x (15 Year average is 0.73x). The positives exists in form of sustained liquidity in Indian equities, ease in domestic interest rates, opportunities from next trillion dollar GDP, and strong government finance. However, some of risks that this liquidity driven rally is ignoring are slower momentum in earnings, valuations at higher end of averages, fragile political scenario and technical positions.

We estimate 2QFY08 earnings growth of 16% for Sensex, as compared to 27% in 1QFY08 and an average growth of 26% recorded in the last nine quarters. The slowdown in the growth rate is largely due to the impact of rupee appreciation on export-oriented sectors and continued impact of higher interest rates on Autos. Our profit estimates could see upsides for the quarter, due to forex gains and other income (In 1QFY08, earnings grew of 26% vs our estimate of 18% led by higher other income). We are estimating a 19% growth in Sensex EPS in FY08 to Rs855 and a growth of 18% in FY09 to Rs1007.

Our target range for the Sensex, based on FY09E earnings is 15,500-18,500 (13-16x FY09E EPS plus 2,300 points of embedded value). In the near-term, excessive liquidity has potential to take markets beyond our target ranges. We would suggest to remain invested in sector where valuations are fair considering the earnings growth and sectors where we expect change in macro environment leading to positive surprises. Our top bets are Wireless and financials. We would also favor Cement and Metals, given the strong earnings growth ahead. Moreover, our view on Autos and Real estate is positive as lower interest rates in the next 12 months could lead to positive surprises and valuation re-rating.

Our top large-cap bets are Bharti, SBI, Axis Bank, Maruti, Unitech, Tata Steel, ITC, Ranbaxy and Grasim. Amongst the mid-caps, we prefer Sintex, Bombay Rayon, Nagarjuna, Indian Bank, United Phosphorus, Birla Corp, Puravankara, Dish TV.

For further details : Call your **Relationship Manager** or

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