Strategy | INDIA

Prabhat Awasthi +91 22 4037 4180 prabhat.awasthi@nomura.com
Nipun Prem +91 22 4037 5030 nipun.prem@nomura.com

NOMURA
NOMURA FINANCIAL ADVISORY AND SECURITIES (INDIA) PRIVATE LIMITED

TOP DOWN

Action

Focus in the upcoming budget on 26 February should be mainly on macro. Our base case assumption is of an earnest move towards fiscal normalisation. A positive shift on fiscal could benefit banks and infra stocks. A larger-than-expected hike in excise duties could bring manufacturing stocks under pressure, albeit temporarily.

Anchor themes

Rising inflation and ensuing monetary tightening should lead to a market correction and underperformance by rate cyclicals in the short term. We recommend that investors use this opportunity to buy into the Indian market.

Key themes that we expect to play out this year are the return of growth and risk-taking, renewal of the capex cycle, strong capital flows, appreciating rupee, exit of loose monetary policy and consolidation of the fiscal deficit.

Stocks for action

Our top BUYs for 2010, among the stocks in our coverage, are Tata Steel, SBI, M&M, NJCC and Unitech. Our top REDUCE calls are Tata Motors and Ranbaxy.

Stock	Rating	Price as on 22 Feb (INR)	Price Target (INR)
Tata Steel (TATA IN)	BUY	572.75	920
SBI (SBIN IN)	BUY	1916.35	2590
M&M (MM IN)	BUY	992.4	1244
NJCC (NJCC IN)	BUY	151.65	185
Unitech (UT IN)	BUY	68.5	112
Tata Motors (TTMT IN)	REDUCE	705.05	526
Ranbaxy (RBXY IN)	REDUCE	441.3	261

A macro budget

① We expect fiscal consolidation to be back on track

Our base case assumption is that macro imperatives are now pressing enough to force the government into starting the process of fiscal consolidation in earnest. We expect to see a positive move on fiscal, which would be a longer-term positive for markets.

② The impact on manufacturing sector will depend on quantum of excise cut rollback

A partial rollback of 2% or less should be passed through by most companies without much erosion of demand and little impact on margins. A higher rollback could bring manufacturing margins under pressure. However, strong domestic demand and improving labour market would impart high pricing power to corporates and boost volumes of sectors with high operating leverage.

③ Overall market reaction should be positive

Our base case assumption is of an earnest move towards fiscal normalisation. A positive shift on fiscal could benefit banks, capital goods and infra stocks. A larger-than-expected hike in excise duties could bring manufacturing stocks under pressure, albeit temporarily.

④ Risk to our view

In an overall sense, we are calling for a significant change in the policy that the UPA government has followed in the run-up to elections in May last year and in the wake of the credit crisis. Given the evidence over the past five years, ours is a call for a significant policy shift. The key risk to our view would arise if the government were to continue to expand its social spends through populist handouts.

Analysts

Prabhat Awasthi
+91 22 4037 4180
prabhat.awasthi@nomura.com

Nipun Prem
+91 22 4037 5030
nipun.prem@nomura.com

Sanjay Kadam
+91 22 4037 4187
sanjay.kadam@nomura.com

Any authors named on this report are strategists unless otherwise indicated.
See the important disclosures and analyst certifications on pages 8 to 11.

Drilling down

One of the most important budgets in recent times

As far as the market is concerned, the relevance of the budget is back to the fore. The improvement in government finances between FY02 and FY08 (please see Exhibit 5 below) has been a key positive for the economy because it has created space for expansion in the private investment cycle, which, in turn, has been the primary driver of economic growth in this period. Further, the rationalisation and reduction in import tariffs over successive budgets has reduced the relevance of the budget in terms of differential impact on sectors (please see Exhibit 7 below to see the reduction in peak custom duties over the years).

The improvement in government finances between FY02 and FY08 boosted the investment cycle

However, all fiscal gains achieved up until FY08 were lost in just one year because of a host of populist measures starting 2008 following the credit crisis. It can be argued that this response was required in light of the global credit crisis. By indebting itself and transferring money to the private and household sectors, the government sustained aggregate demand through tax cuts and income transfers. This is what countercyclical fiscal policy is designed to achieve. However, it is time to normalise now.

But fiscal gains were lost because of expansionary fiscal policy post crisis

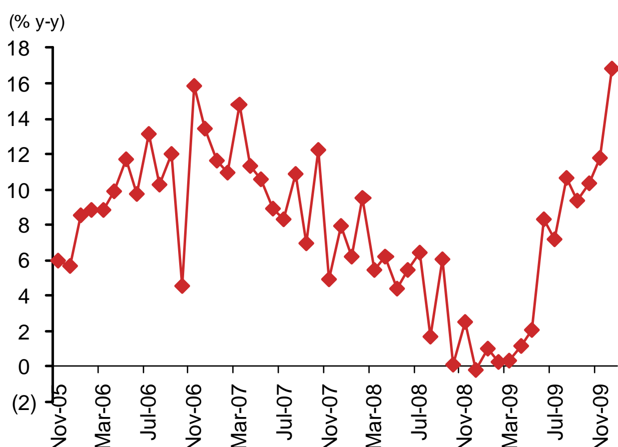
The present issue is whether the government can embark upon a correction course now that the economy is back on its feet.

We believe that the FY11 (1 April 2010 to 31 March 2011) budget is important from three perspectives:

1. The expansion in the fiscal deficit in FY09 and FY10 did not cost the economy significantly in the form of higher interest costs, on balance, as the incremental rise in yields on account of higher market borrowings was offset by anaemic demand for money from corporates and households. However, this is changing fast. The strength of industrial production and the significant expansion in the trade deficit — without oil prices rallying back to their previous highs — tell a tale of an economy stretched in terms of capacity utilisation. Industrial capex is bound to pick up from here. Additionally, several infrastructure projects that were delayed on account of the collapse in capital markets post crisis have attained financial closure since mid-2009 and would start being physically implemented in 2010. The inability of the government to lower the fiscal deficit and rein in market borrowings amidst a pick up in the capex cycle would serve to increase pressure on domestic resources and rates.

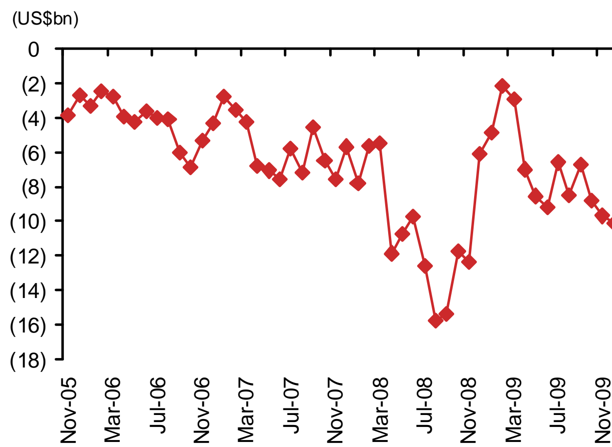
Pick up in capex cycle and physical implementation of financially closed projects would put pressure on rates

Exhibit 1. Industrial production



Source: Business Beacon, Nomura research

Exhibit 2. Trade balance



Source: Business Beacon, Nomura research

2. India already has twin deficits on the fiscal and current account. A pick up in the capex cycle will further expand the current account deficit because of higher imports. If the government does not bring down the fiscal deficit then this twin deficit problem would exacerbate, crowding out domestic investment and bring into question the sustainability of growth. Global monetary policy is loose presently and the large pool of global savings and liquidity has helped finance the current account deficit. However, this cannot be taken as a given as an improvement in the global economic situation will ultimately be followed by a tightening of the global monetary cycle and more expensive financing.

Twin deficits problem could worsen

3. The rapid expansion in India's fiscal deficit was partly driven by pre-election populist measures such as rising food subsidy — by increasing the difference between the cost of grains procured from farmers and the selling price through the public distribution system — rising wage bills, higher social spends (rural employment schemes and so on) and oil subsidy (reluctance to pass on rising oil prices), etc. The benevolent endowment effects of transfer payments to agricultural workers and government employees encouraged consumption at the cost of reducing the pool of domestic savings available for creating productive assets through investment (more on this later). While most of these measures are not reversible, in our view, the government needs to provide clear signals that it is moving away from this populism, if not in absolute terms, then at least in terms of further increases.

Need to move away from populism

In conclusion, our base case assumption — which is in line with our economics team's forecast — is that macro imperatives are now pressing enough to force the government into starting the process of fiscal consolidation in earnest. We do not expect the possibility of a budget which continues to run a large fiscal deficit

Our base case is of an earnest move towards fiscal consolidation

Macro impact of budget would likely be positive

Consumption, interest and transfer payments have dominated government expenditure at the expense of investment

Despite the structural rigidities in expenditure, the government will have to present in the budget an earnest roadmap for normalising its financial position and controlling its market borrowings. As can be seen in Exhibits 3 and 4 below, the quality of government expenditure has been deteriorating since FY06 with "consumption" accounting for 46% of total expenditure in the FY10 budget. Interest payments and subsidies, which add nothing to GDP, account for an additional 33%. With defence expenditure at 14% of total, one is left with only 7% as investment-related expenditure. This trend in expenditure is worrying and is a significant drain on domestic savings with the potential to become a headwind for interest rates, especially when the current account deficit rises amidst strong domestic growth and a pick up in the capex cycle.

The government has a limited capacity to reduce spending (and subsidies) outright, especially on social sectors, and we do not expect this to happen in this budget. So the only way for it to improve its expenditure profile, raise the share of investment and lower its deficit would be through higher revenues.

Our economics team is estimating the budgeted FY11 fiscal deficit to be 5.5% of GDP (vs 6.8% budgeted for FY10), in line with government guidance, and gross/net market borrowing of INR4,883bn/INR3,740bn vs INR4,511bn/INR3,980bn budgeted for FY10. In our view, a positive delta on revenues could come from: 1) revenue buoyancy due to a pick up in growth, which should boost receipts (Exhibit 6 below shows the tight relationship between receipts and industrial production); 2) any rollback in excise duty cuts; 3) 3G spectrum revenues and 4) disinvestment proceeds. Expenditures are downward sticky, but a combination of rolling off of Sixth Pay Commission arrears and a possible reduction in fertilizer subsidy would reduce spending, ceteris paribus.

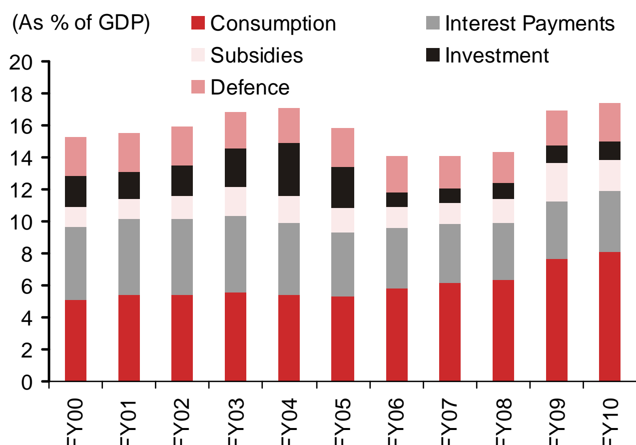
Our base case scenario is for the budget to be positive from a macro perspective

We believe that it is also important for the government to signal its longer term intentions on fiscal reforms; for example, the reintroduction of Fiscal Responsibility and Budget Management Act (FRBM) would go a long way in providing confidence to the markets. Our base case scenario is for this to happen in the budget, which we expect would be positive from a longer-term perspective.

Banking, capital goods and infra stocks stand to benefit most from a constructive shift in fiscal stance

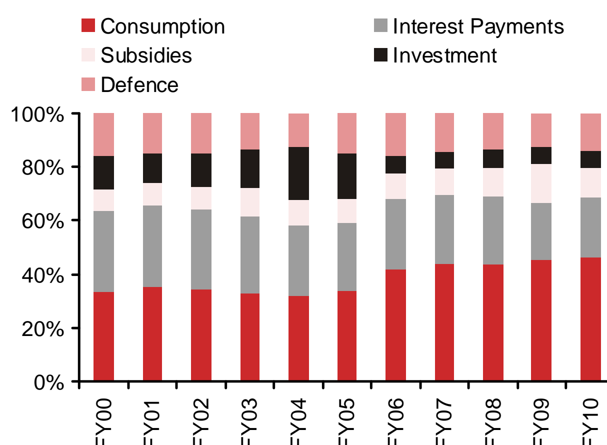
More specifically, banking stocks followed by capex plays (capital goods and infra stocks) should be best positioned for this shift in the fiscal stance.

Exhibit 3. Central government expenditure as percentage of GDP



Note: Expenditure covers both non-plan and plan; Consumption and investment exclude defence; Defence includes both revenue and capital accounts
Source: Nomura research, RBI

Exhibit 4. Central government expenditure components as percentage of total



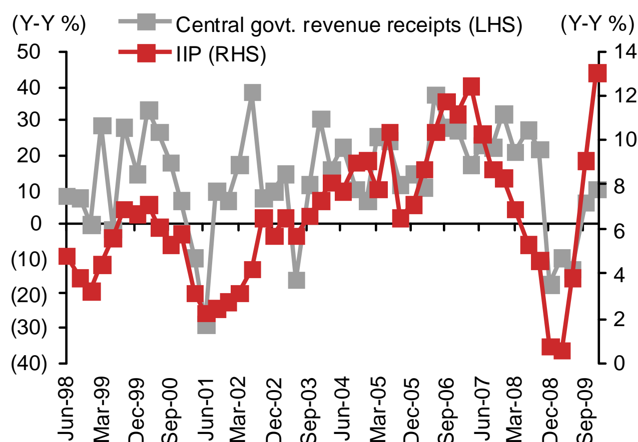
Note: Expenditure covers both non-plan and plan; Consumption and investment exclude defence; Defence includes both revenue and capital accounts
Source: Nomura research, RBI

Exhibit 5. Government combined fiscal deficit

as % of GDP	Centre	State	Consolidated	Oil, Fertilizer, Food and other bonds	Total liability
FY01	5.65	4.18	9.51	0.04	9.55
FY02	6.19	4.14	9.94	0.46	10.40
FY03	5.91	4.06	9.57	0.09	9.67
FY04	4.48	4.38	8.51	0.09	8.61
FY05	3.99	3.42	7.45	0.01	7.46
FY06	4.08	2.51	6.68	0.50	7.17
FY07	3.40	1.90	5.58	0.98	6.56
FY08	2.70	1.45	4.17	0.81	4.98
FY09 (RE)	6.00	2.64	8.66	1.76	10.43
FY10 (BE)	6.80	3.34	10.09	0.17	10.27

Note: RE: Revised estimates; BE: Budget estimates
Source: Nomura research, RBI

Exhibit 6. Govt receipts vs industrial production



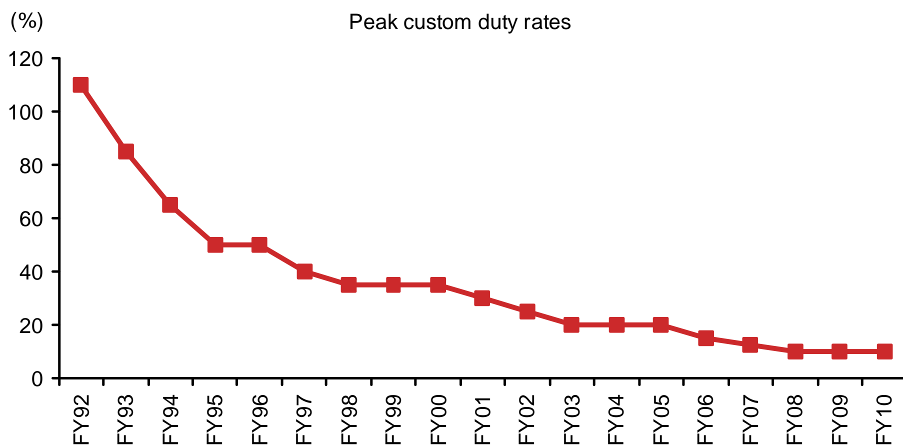
Source: Nomura research, Business Beacon

Differential impact of tweaking tariff rates on sector profits has reduced

Peak custom duty rate has declined sharply over the years

Sector-wise impact of the budget based on relative changes in duty rates has declined in importance recently and the impact of changes in tariff structures on sector profits is not significant enough to play sectors against one another going into the budget. As can be seen in Exhibit 7 below, the peak customs duty rate has declined sharply over the years and its rate of change has also reduced, dulling its differential impact on sectors.

Exhibit 7. Custom duties rates have declined sharply



Source: Nomura research, Budget documents

The impact on manufacturing is contingent on the quantum of rollback

A hike of 2% in excise duties should be passed through

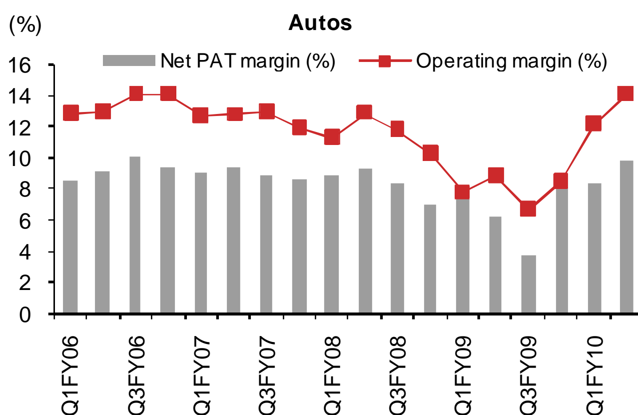
Given the irreversible nature of social spending, a normalisation of the fiscal stimulus would have to necessarily come from a rollback of concessions doled out to the corporate sector in the form of cuts in excise duties/customs.

In an attempt to analyse the differential sector impact of an excise duty hike, it is useful to divide sectors into two broad categories: 1) tradable sectors with globally-pegged pricing determined by import parity pricing and 2) non-tradables and domestic-focused sectors where pricing is determined domestically.

An increase in excise duties would be profit-neutral for the globally-linked price-takers (metals, especially steel) because any such hike would be completely passed through. Steel makers have complete pricing power because any hike in excise duty would be accompanied by an equivalent increase in CVD (countervailing duty), which would not make it any more attractive to import rather than purchase domestically.

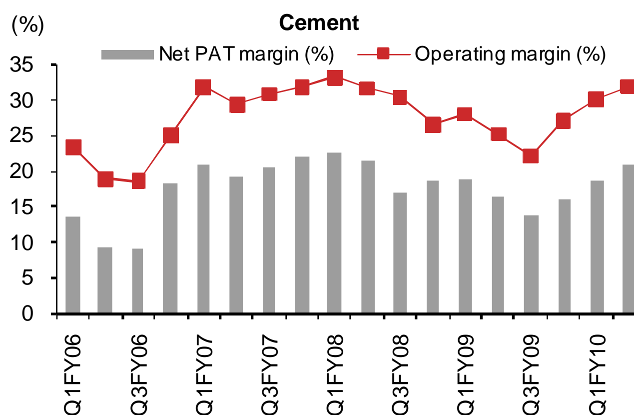
Among the non-tradable sectors, autos and cement are notable for having been the biggest beneficiaries of excise duty cuts post crisis, as can be seen from the expansion in operating margins through the Dec-quarter 2008 to Sep-quarter 2009 in Exhibits 8 and 9 below. In addition, auto margins were also boosted by the wealth effects of the Sixth Pay Commission wage payments and cement margins rose on account of the fiscal stimulus.

Exhibit 8. BSE100 auto margins



Source: Business Beacon, Nomura research

Exhibit 9. BSE100 cement margins



Source: Business Beacon, Nomura research

How this will play out for non-tradable sectors when excise cuts are rolled back will depend on two main factors: 1) differential pricing power (extent to which the company can pass along the hike to its end customers relative to its suppliers) and 2) strength in demand (this is especially important for sectors with high operating leverage).

A larger hike could lead to a short-lived negative market reaction towards manufacturing sectors

In our view, a partial rollback of 2% or less should be passed through by most companies without much erosion of demand and little impact on margins.

Ceteris paribus, we would expect margins to come under pressure in case of a higher rollback of excise duty cuts. But we would still not be overly concerned about impact on profits because there is now clear evidence of strong domestic demand and improving labour market which will impart high pricing power to corporates and boost volumes. After all, corporates have lived happily with a 16% excise duties in the past — as opposed to 8% now after a 6% cut over 2008 and 2009 — and yet seen strong growth in profits.

Valuation methodology and risks

Tata Motors Ltd

Valuation Methodology: For the purpose of valuation we have used normalised EV/EBITDA (for comparison with other OEMs) assuming 2% of sales as normalised R&D expense. We have used an EV/EBITDA multiple of 8x which is close to upper end of trading band (as we estimate a strong recovery). We have given a multiple of 4x FY12 EV/EBITDA to JLR. We have also added the value of stake in Tata Sons and Tata Steel.

Risks: We have assumed that JLR's volumes will not recover close to peak levels and it may not be able to generate free cash flow till FY12E. In case the company is able to generate free cash flow, there may be significant upside risks to our estimates. We have assumed no sharp increase in raw material prices. In case the prices of raw materials go up sharply, there may be downside risks to our margin estimates. We have assumed that Tata Motors will not receive any interest-free bailout package from the UK government. However, if it receives one there may be a positive impact on the stock price.

Mahindra & Mahindra

Valuation Methodology: To reach our target price of INR1244 we have valued the core business at a multiple of 12x FY12E EPS of INR74.6 . We value the listed subsidiaries at a discount of 20% to their market cap except Tech Mahindra which is valued at INR990/share by Nomura's IT Analyst Harmendra Gandhi. He values Tech Mahindra at 8x one year fwd EV/EBITDA, and its 42.7% stake in Mahindra Satyam based on 13x one-year forward EPS.

Risks: Slower-than-estimated volume growth in utility vehicles - In case volume growth in UVs is lower than our estimates, MM could see its earnings fall as the company is in high capex mode. Below normal rainfall - Indian agricultural growth is highly dependent on rainfall. In case rainfall is below normal, or if there is a drought, Mahindra's tractor volumes could be much lower than our estimates. In case Mahindra Forging's European subsidiaries make very high losses, it could impact cash flows for MM. Losses in investments - In case some of the new ventures of MM make significant losses, it could destroy value for MM.

TATA Steel

Valuation Methodology: We have valued Tata Steel on a sum-of-the-parts basis at INR920/share. Tata Steel India business is valued at 9x FY12E EPS of INR91.5. We have discounted it back by a year to arrive at our valuation of INR728/share. We have valued Corus at 5x FY11 EV/EBITDA at US$8.3b Corus contributes INR172 to our

target price. We have valued South East Asia business at 5x FY11 EV/EBITDA at US$364mn, contributing INR19 to the target price.

Risks: Weak steel prices 2) Delay in economic recovery 3) Raw material prices rise significantly

NJCC

Valuation Methodology: We value NJCC using a sum-of-the-parts methodology. The core construction business is valued at 12x FY12 earnings to arrive at the value of INR130/sh. We value NJCC's construction business in line with other mid-tier construction companies and at 40% discount to L&T. We have valued the BOT at 1.5x equity invested plus 0.5x equity to be invested. We value NJCC Urban at its current book value. We have separately valued the current order book in its international operations. Our 12-month target price is INR185.

Risks: The key risks to our call are a deterioration in the macro environment; execution delays and a fall in subsidiary valuations. Higher cash outflows for subsidiaries would reduce earnings. There are real estate related risks also.

SBI

Valuation Methodology: We value SBI using a sum-of-the-parts (SOTP) valuation, valuing the banking and non-banking businesses separately. Our 12-month price target of INR2,590 for SBI comprises INR2,356 for the banking business and INR231 for subsidiaries. Our price target for the core bank is derived using a target RoE of 17.1% and CoE of 12.0% arriving at a multiple of 1.8x P/BV. Our fair value of INR231 for the subsidiaries comprises insurance and asset management business. We have valued life insurance at 18x one year forward NBAP (New business achieved profit). We have valued SBI's asset management business at 3% of debt funds and 7% of equity funds.

Risks: A faster than expected rise in rates or slower than expected loan growth are key risks to our ratings and price targets for Indian banks

Unitech

Valuation Methodology: Our 12-month price target is INR112. We value the company in two parts: 1) net asset value of current land bank at INR103 per share and 2) telecom stake valued at INR9 per share.

Risks: 1) a reduction in liquidity and capital availability for developers, 2) stalled economic growth recovery, 3) an inability to successfully sell projects or construct them and 4) rising interest rates.

Ranbaxy

Valuation Methodology: Our 12-month price target of INR261/share is based on a sum-of-the-parts valuation: a) base business valuation at INR141/share, using DCF valuation; and b) one-off product specific upsides at INR120/share.

Risks: Realisation of product specific opportunities, above our expectation.

ANALYST CERTIFICATIONS

Each of the research analysts referenced on page 1 hereof with regard to the section of this research report for which he or she is responsible certifies that all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers discussed herein. In addition, each of the research analysts referenced on page 1 hereof hereby certifies that no part of his or her compensation was, is, or will be, directly or indirectly related to the specific recommendations or views that he or she has expressed in this research report, nor is it tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or by any other Nomura Group company or affiliates thereof.

ISSUER SPECIFIC REGULATORY DISCLOSURES

Conflict-of-interest disclosures

Important disclosures may be accessed through the following website: http://www.nomura.com/research/Disclosures/public/main.asp. If you have difficulty with this site or you do not have a password, please contact your Nomura Securities International, Inc. salesperson (1-877-865-5752) or email researchchannelsupport@uk.nomura.com for assistance.

Online availability of research and additional conflict-of-interest disclosures:

Nomura Japanese Equity Research is available electronically for clients in the US on NOMURA.COM, REUTERS, BLOOMBERG and THOMSON ONE ANALYTICS. For clients in Europe, Japan and elsewhere in Asia it is available on NOMURA.COM, REUTERS and BLOOMBERG.

Important disclosures may be accessed through the left hand side of the Nomura Disclosure web page http://www.nomura.com/research or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email researchchannelsupport@uk.nomura.com for technical assistance.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities.

Distribution of Ratings:

Nomura Global Equity Research has 1,818 companies under coverage.
44% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 31% of companies with this rating are investment banking clients of the Nomura Group*.
39% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 44% of companies with this rating are investment banking clients of the Nomura Group*.
15% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 11% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 December 2009.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America for ratings published from 27 October 2008:

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to price target defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

Stocks:

• A rating of "1", or **"Buy"**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
• A rating of "2", or **"Neutral"**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
• A rating of "3", or **"Reduce"**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
• A rating of **"RS-Rating Suspended"**, " indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://www.nomura.com/research); **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

Sectors:

A "**Bullish**" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.
A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX® 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009:

Stocks:

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Price Target – Current Price) / Current Price, subject to limited management discretion. In most cases, the Price Target will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
• A "**Buy**" recommendation indicates that potential upside is 15% or more.
• A "**Neutral**" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
• A "**Reduce**" recommendation indicates that potential downside is 5% or more.
• A rating of "**RS**" or "**Rating Suspended**" indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
• Stocks labelled as "**Not rated**" or shown as "**No rating**" are not in Nomura's regular research coverage.

Sectors:

A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A "**Neutral**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008):

Stocks:

• A rating of "1", or **"Strong buy"**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
• A rating of "2", or **"Buy"**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
• A rating of "3", or **"Neutral"**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
• A rating of "4", or **"Reduce"**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
• A rating of "5", or **"Sell"**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
• Stocks labeled **"Not rated"** or shown as **"No rating"** are not in Nomura's regular research coverage. Nomura might not publish additional research reports concerning this company, and it undertakes no obligation to update the analysis, estimates, projections, conclusions or other information contained herein.

Sectors:

A **"Bullish"** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.
A **"Neutral"** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.
A **"Bearish"** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector — *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus:** Bloomberg World Energy Alternate Sources; **Global Emerging Markets:** MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008:

Stocks:

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

• A "**Strong buy**" recommendation indicates that upside is more than 20%.
• A "**Buy**" recommendation indicates that upside is between 10% and 20%.
• A "**Neutral**" recommendation indicates that upside or downside is less than 10%.
• A "**Reduce**" recommendation indicates that downside is between 10% and 20%.
• A "**Sell**" recommendation indicates that downside is more than 20%.

Sectors:

A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A "**Neutral**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Price targets

Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

DISCLAIMERS

This publication contains material that has been prepared by the Nomura entity identified on the banner at the top or the bottom of page 1 herein and, if applicable, with the contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or elsewhere identified in the publication. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the "Nomura Group"), include: Nomura Securities Co., Ltd. ("NSC") Tokyo, Japan; Nomura International plc, United Kingdom; Nomura Securities International, Inc. ("NSI"), New York, NY; Nomura International (Hong Kong) Ltd., Hong Kong; Nomura Singapore Ltd., Singapore; Nomura Australia Ltd., Australia; P.T. Nomura Indonesia, Indonesia; Nomura Securities Malaysia Sdn. Bhd., Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch, Taiwan; Nomura International (Hong Kong) Ltd., Seoul Branch, Korea; Nomura Financial Advisory and Securities (India) Private Limited, Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034).

This material is: (i) for your private information, and we are not soliciting any action based upon it; (ii) not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal; and (iii) based upon information that we consider reliable. NOMURA GROUP DOES NOT WARRANT OR REPRESENT THAT THE PUBLICATION IS ACCURATE, COMPLETE, RELIABLE, FIT FOR ANY PARTICULAR PURPOSE OR MERCHANTABLE AND DOES NOT ACCEPT LIABILITY FOR ANY ACT (OR DECISION NOT TO ACT) RESULTING FROM USE OF THIS PUBLICATION AND RELATED DATA. TO THE MAXIMUM EXTENT PERMISSIBLE ALL WARRANTIES AND OTHER ASSURANCES BY NOMURA GROUP ARE HEREBY EXCLUDED AND NOMURA GROUP SHALL HAVE NO LIABILITY FOR THE USE, MISUSE, OR DISTRIBUTION OF THIS INFORMATION.

Opinions expressed are current opinions as of the original publication date appearing on this material only and the information, including the opinions contained herein, are subject to change without notice. Nomura is under no duty to update this publication. If and as applicable, NSI's investment banking relationships, investment banking and non-investment banking compensation and securities ownership (identified in this report as "Disclosures Required in the United States"), if any, are specified in disclaimers and related disclosures in this report. In addition, other members of the Nomura Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from, companies mentioned herein. Further, the Nomura Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by applicable law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by NSI, referenced above), or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives. In addition, the Nomura Group, excluding NSI, may act as a market maker and principal, willing to buy and sell certain of the securities of companies mentioned herein. Further, the Nomura Group may buy and sell certain of the securities of companies mentioned herein, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Please see the further disclaimers in the disclosure information on companies covered by Nomura analysts available at www.nomura.com/research under the "Disclosure" tab. Nomura Group produces a number of different types of research product including, amongst others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise; it is possible that individual employees of Nomura may have different perspectives to this publication.

NSC and other non-US members of the Nomura Group (i.e., excluding NSI), their officers, directors and employees may, to the extent it relates to non-US issuers and is permitted by applicable law, have acted upon or used this material prior to, or immediately following, its publication.

Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk.

The securities described herein may not have been registered under the U.S. Securities Act of 1933, and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements of such Act. Unless governing law permits otherwise, you must contact a Nomura entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material.

This publication has been approved for distribution in the United Kingdom and European Union as investment research by Nomura International plc ("NIPlc"), which is authorised and regulated by the U.K. Financial Services Authority ("FSA") and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are "eligible counterparties" or "professional clients" as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This publication may be distributed in Germany via Nomura Bank (Deutschland) GmbH, which is authorised and regulated in Germany by the Federal Financial Supervisory Authority ("BaFin"). This publication has been approved by Nomura International (Hong Kong) Ltd. ("NIHK"), which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. Neither NIPlc nor NIHK hold an Australian financial services licence as both are exempt from the requirement to hold this license in respect of the financial services either provides. This publication has also been approved for distribution in Malaysia by Nomura Securities Malaysia Sdn. Bhd. In Singapore, this publication has been distributed by Nomura Singapore Limited ("NSL"). NSL accepts legal responsibility for the content of this publication, where it concerns securities, futures and foreign exchange, issued by its foreign affiliate in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this publication may contact NSL in respect of matters arising from, or in connection with, this publication. NSI accepts responsibility for the contents of this material when distributed in the United States.

No part of this material may be (i) copied, photocopied, or duplicated in any form, by any means, or (ii) redistributed without the prior written consent of the Nomura Group member identified in the banner on page 1 of this report. Further information on any of the securities mentioned herein may be obtained upon request. If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information available upon request.

NIPlc and other Nomura Group entities manage conflicts identified through the following: their Chinese Wall, confidentiality and independence policies, maintenance of a Stop List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from the allocation and pricing of securities and impartial investment research and disclosure to clients via client documentation.

Disclosure information is available at the Nomura Disclosure web page: http://www.nomura.com/research

Nomura Financial Advisory and Securities (India) Private Limited Tel: +91 22 4037 4037
Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road,
Worli, Mumbai- 400 018, India Fax: +91 22 4037 4111

Caring for the environment: to receive only the electronic versions of our research, please contact your sales representative.