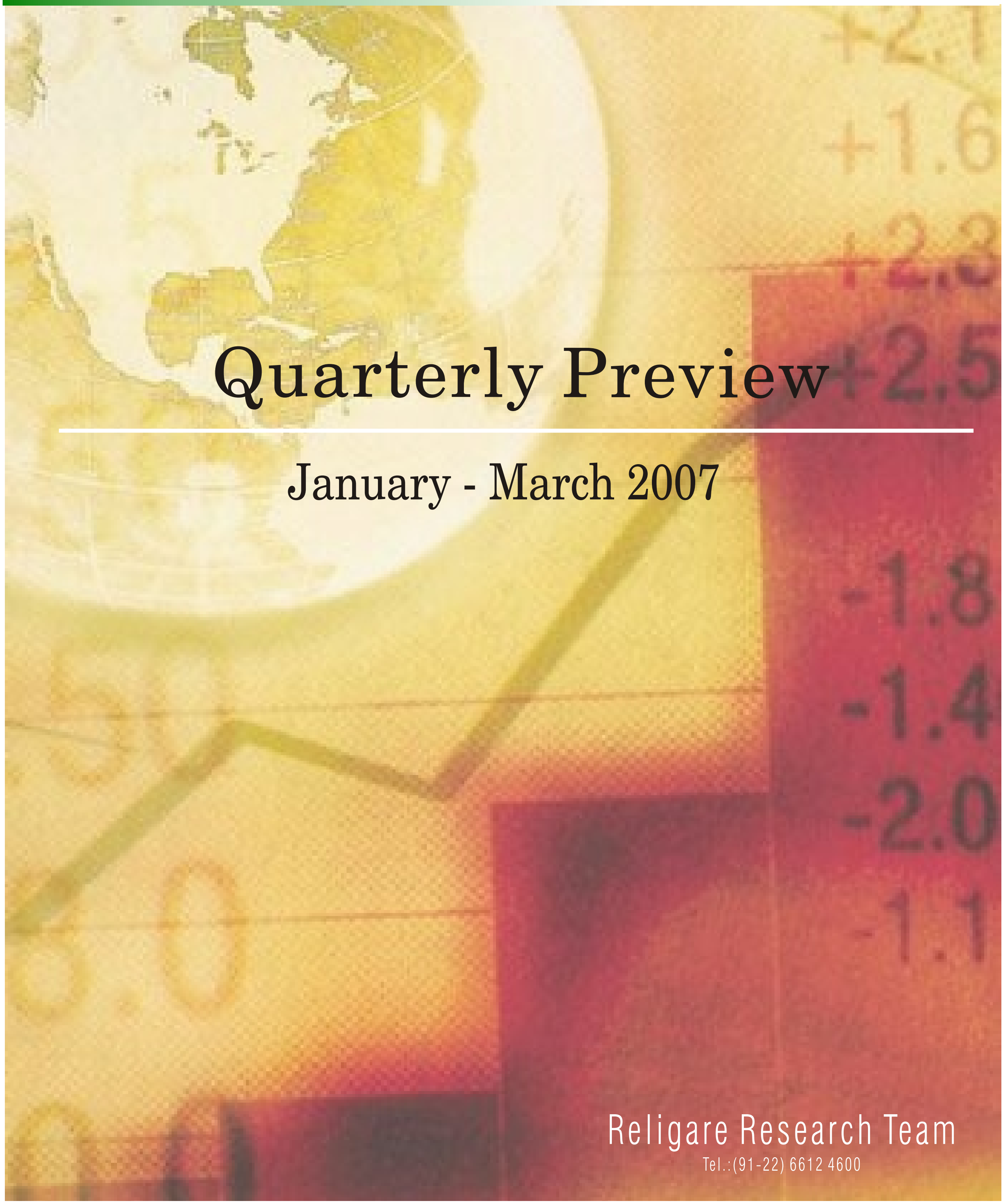
RELIGARE
Values that bind



Quarterly Preview

January - March 2007

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Contents

Soaring high!

Another strong quarter expected – Cement, telecom, pharma and auto ancillaries to shine

Top Buys

GAIL, IFCI, RIL, BHEL, L&T, CIPLA, ONGC, NTPC

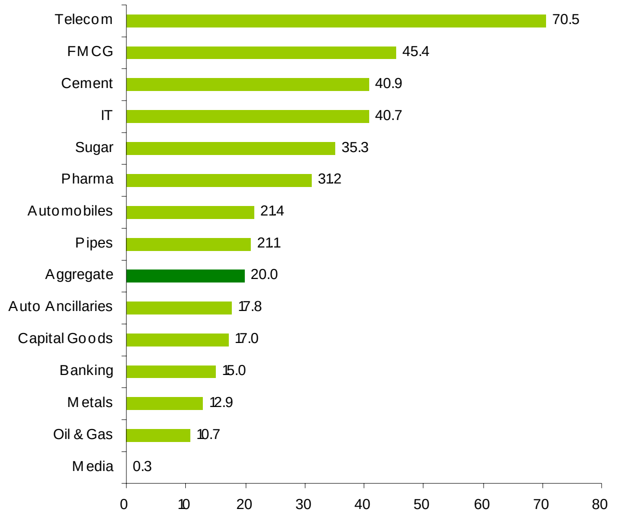
Buy at the dips

ACC, ICICI Bank, Tisco, Bharti Airtel

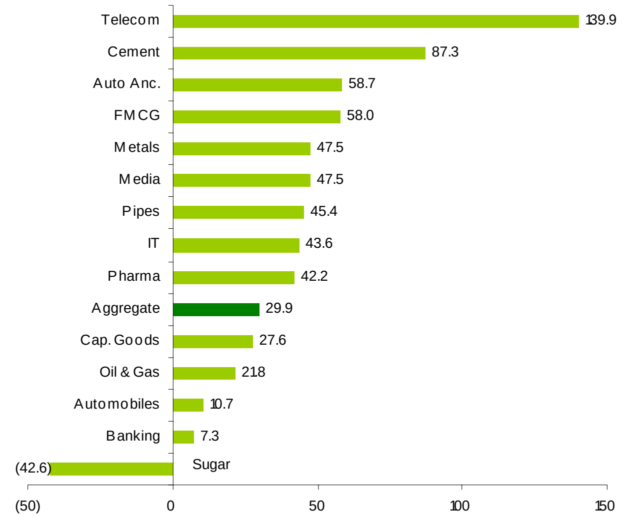
We expect India Inc to roll out a strong performance in Q4FY07 with aggregate earnings up 34% YoY, backed by a 20% YoY growth in sales. Cement, telecom, pharma and auto ancillaries will likely lead in terms of earnings growth, while the sugar sector is expected to post an earnings de-growth. We expect the UP election outcome together with Infosys's guidance for FY08 to be key triggers for market direction, until which time the bourses will remain volatile and range-bound. Given the jittery investor sentiment, we recommend raising the cash level of investment portfolios to 20-25%. Our top buys at present comprise IFCI, Cipla, GAIL, NTPC and ONGC. We maintain Sell on sugar stocks.

Sectoral growth projections for Q4FY07 (% chg YoY)

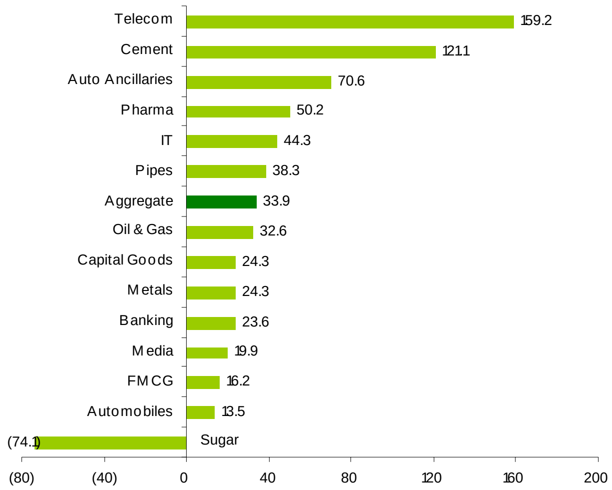
Revenue



EBITDA



Earnings



Source: Religare Research

Mid-cap Buys

Garware Offshore, KS Oils, Tulip IT, Sasken, Karnataka Bank, El Forge, Welspun Gujarat, Indoco Remedies, Opto Circuits, Birla Corp, Emco, Kirloskar Oil

Strong Sell

Bajaj Hindusthan, Balarampur Chini, Renuka Sugar, Dhampur Sugar

Expect strong earnings growth at 34% YoY...

We expect India Inc to report another strong performance in Q4FY07 with aggregate earnings up 34% YoY. Operating profit is projected to grow at a robust 30% YoY. We expect the cement, telecom, pharma and auto ancillary sectors to lead the way in terms of earnings growth, while the sugar sector will be a laggard, reporting a de-growth in aggregate earnings.

...backed by an impressive jump in sales

The expected strong earnings performance will be underpinned by an equally impressive 20% YoY growth in sales in Q4FY07. In our view, oil & gas will report the lowest revenue growth of 11% YoY, while the telecom sector will lead sales growth at 70% YoY.

EBITDA margin to improve

We estimate that the Religare Research universe of stocks will report a 29% operating margin, which is an improvement of 220 bps YoY. While commodity prices remained soft, we believe India Inc will continue to counter the cost pressures through productivity gains.

Market outlook

Funds flowing away from emerging markets

The latest emerging market fund flow tracker suggests a net outflow from emerging markets to the relative safety of the US market. Following the trend, Indian markets reported a 7.2% YTD fall since the end of January 2007.

Monetary tightening raises cost of borrowing for corporates

The RBI's recent monetary tightening measures to curb rising inflation have increased the cost of borrowing for corporates. Credit growth, which is 29% currently, has to reduce in order to cool off GDP growth. The RBI is targeting an 8.5% GDP growth and inflation in the range of 5-5.5% in FY08, implying a nominal GDP growth rate of 14%. The choice before the central bank today is between fighting inflation and a rising rupee. Monetary tightening to control inflation is more 'politically correct', as inflation hurts everyone, more so the economically deprived.

Key market triggers

Election outcome in UP: The ongoing UP elections will be keenly watched, as any potential weakening of the Congress within the current coalition UPA government might be perceived as negative for the market.

Infosys's FY08 guidance: We expect the market to remain volatile and range-bound until Infosys declares its results; the company's guidance for FY08 will be the key trigger for determining the direction of the market. The company usually guides conservatively and below consensus estimates, but the gap between guidance and consensus estimates tends to determine the impact on stocks. We expect Infosys to give a 28-30% revenue guidance in dollar terms.

Top picks

Recommend Buy on Cipla, GAIL, NTPC, ONGC and IFCI

Given the nervousness in the market, we recommend raising the cash level of investment portfolios to 20-25%. In a volatile environment investors need to adopt a defensive strategy for buying blue-chips. We recommend buying Cipla in the pharmaceutical sector, and GAIL and NTPC in the utility sector. We like ONGC, as oil prices remain strong, and strongly recommend IFCI, as we see huge restructuring potential. We also recommend buying Reliance Industries, ICICI Bank, Tisco and ACC, if the market corrects.

Maintain Sell on sugar

We continue to have a Sell rating on sugar stocks as fundamentally the sector will, in our opinion, end up adding to last year's closing inventory.

Industry aggregates

Rs bn	Revenue		YoY Growth (%)	Operating profit		YoY Growth (%)	Earnings		YoY Growth (%)
	JFM '07	JFM '06		JFM '07	JFM '06		JFM '07	JFM '06	
Telecom	55.8	32.7	70.5	24.7	10.3	139.9	13.3	5.1	159.2
Sugar	13.9	10.3	35.3	1.6	2.8	(42.6)	0.5	1.8	(74.1)
Pipes	32.9	27.2	21.1	4.2	2.9	45.4	1.9	1.4	38.3
Media	2.2	2.2	0.3	0.6	0.4	47.5	0.3	0.3	19.9
FMCG	5.8	4.0	45.4	0.7	0.4	58.0	0.4	0.3	16.2
Oil & Gas	403.2	364.4	10.7	139.9	114.9	21.8	74.1	55.9	32.6
IT	155.9	110.8	40.7	40.9	28.5	43.6	34.6	23.9	44.3
Cement	23.5	16.7	40.9	6.7	3.6	87.3	3.9	1.8	121.1
Metals	227.3	201.3	12.9	75.5	51.2	47.5	43.9	35.3	24.3
Capital Goods	15.8	13.5	17.0	2.1	1.6	27.6	1.4	1.1	24.3
Auto Ancillaries	10.7	9.1	17.8	1.1	0.7	58.7	0.4	0.2	70.6
Automobiles	236.0	194.4	21.4	29.3	26.5	10.7	20.1	17.7	13.5
Pharma	26.7	20.4	31.2	5.8	4.1	42.2	3.9	2.6	50.2
	Net Interest Income		YoY Growth (%)	Pre-Provisioning Profit		YoY Growth (%)	Earnings		YoY Growth (%)
	JFM '07	JFM '06		JFM '07	JFM '06		JFM '07	JFM '06	
Banking	47.5	41.3	15.0	29.8	31.7	(5.8)	13.8	11.1	23.6
Industry Aggregate	1,255.4	1,046.3	20.0	362.9	279.5	29.9	212.2	158.5	33.9

Source: Religare Research

Recommendation synopsis

Company	CMP(Rs)	Reco	P/E (x)		EV/EBIDTA(x)		Target (Rs)
			FY07	FY08	FY07	FY08	
Automobiles							
Ashok Leyland	36	Buy	11.1	10.0	7.4	6.3	50
Bajaj Auto	2297	Hold	18.8	17.5	17.5	14.7	2389
Hero Honda	639	Sell	14.8	13.5	10.7	9.8	612
M&M	734	Buy	17.5	15.0	15.1	13.4	869
Maruti Udyog	791	Buy	14.6	12.4	10.4	8.9	895
Tata Motors	702	Buy	13.7	12.5	12.7	10.9	951
TVS Motors	57	Buy	20.8	17.3	5.7	4.5	45
Auto Ancilliaries							
Apollo Tyres	276	Buy	12.3	8.9	5.6	4.3	411
El Forge	63	Buy	6.8	4.5	5.8	3.9	119
Omax Auto	91	Buy	8.2	7.2	4.9	4.4	126
Capital Goods							
Cummins India	272	Buy	22.5	18.5	14.9	12.2	309
Kirloskar Oil Engine	232	Buy	14.2	11.9	9.5	7.9	273
Havells india	443	Buy	23.7	16.1	16.6	14.6	549
EMCO	790	Buy	26.6	17.1	11.7	9.9	926
Cement							
Birla Corp	193	Buy	4.3	-	2.7	-	344
J K Cement	152	Buy	6.9	-	4.6	-	168
Kesoram Ind	322	Buy	5.7	-	4.3	-	430
Madras Cement	2602	Sell	10.0	-	12.0	-	2550
Prism Cement	33	Buy	4.3	-	2.6	-	56
Rain Commodity	110	Buy	4.0	-	2.3	-	224
FMCG							
Lakshmi Energy	159	Buy	10.5	5.2	7.5	3.7	260
KS Oils	284	Buy	10.7	6.0	7.7	4.4	330
Crew BOS	196	Buy	11.0	8.2	9.4	7.1	238
IT							
Infosys	2044	Buy	30.1	23.5	25.4	19.3	2675
TCS	1217	Buy	31.2	24.6	25.5	20.1	1586
Wipro	562	Buy	28.4	23	271	21.8	717
Satyam	462	Buy	22.0	18.0	19.4	15.5	578
Tulip IT	626	Buy	18.5	12.4	14.4	10.7	705
Infotech Enterprise	352	Buy	19.6	14.0	13.5	8.5	403
Sasken Commnication	510	Buy	29.3	16.1	18.7	11.8	642
Media							
Balaji	128	Buy	10.6	9.5	6.4	5.8	165
UTV	287	Sell	19.4	17.6	37.6	11.6	250
PVR	179	Buy	39.0	14.1	17.7	7.2	228
Inox	111	Buy	28.0	15.1	17.7	10.3	125
Shringar	51	Buy	19.5	13.3	11.7	6.1	61
Metals							
Hindalco	132	Sell	6.1	6.9	3.5	4.5	145
Nalco	234	Sell	6.4	7.8	3.1	4.3	225
Tata steel	465	Buy	6.5	6.6	4.3	3.8	535
SAIL	114	Buy	7.8	7.3	3.7	3.1	132
JSW Steel	497	Buy	7.0	6.1	4.0	3.7	615
Oil & Gas							
ONGC	868	Buy	10.5	10.2	5.0	5.0	1050
Reliance Industries	1384	Buy	17.9	16.6	9.6	9.1	1557

Company	CMP(Rs)	Reco	P/E (x)		EV/EBIDTA(x)		Target (Rs)
			FY07	FY08	FY07	FY08	
Pharma							
Cadila Healthcare	348	Buy	19.6	15.7	13.2	10.4	417
Dishman Pharma	204	Buy	18.5	12.8	12.0	7.3	270
Divi's Labs	3169	Hold	35.5	25.4	24.2	17.1	3076
Jubilant Organosys	260	Hold	20.0	16.3	11.1	8.3	275
Nicholas Piramal	252	Buy	25.5	17.0	13.5	10.1	285
Indoco Remedies	282	Buy	7.6	5.5	5.4	4.1	391
Opto Circuits	300	Buy	26.6	16.8	7.0	4.5	356
Aventis Pharma	1229	Buy	14.8	12.6	8.9	7.6	1414
Pfizer	830	Sell	20.5	16.1	12.0	10.4	690
Biocon	489	Hold	25.5	22.1	17.9	14.5	487
Pipes							
JSAW	476	Buy	11.6	9.3	6.4	5.3	550
PSL	200	Buy	11.4	8.0	6.3	5.2	250
MIL	201	Buy	9.0	6.5	4.8	3.4	280
WGSRL	104	Buy	13.0	9.5	5.4	4.2	125
MSL	507	Buy	15.2	12.8	8.6	7.4	585
Shipping							
Great Offshore	629	Buy	19.1	10.2	12.5	7.3	845
Garware Offshore	202	Buy	13.3	8.5	3.7	2.0	239
Sugar							
Bajaj Hindustan	208	Sell	22.9	-	11.5	-	170
Balrampur Chini	75	Sell	20.7	-	11.9	-	60
Triveni Engg. & Industries	53	Sell	14.9	16.8	10.7	5.4	54
Telecom							
Bharti Airtel	761	Buy	34.1	20.8	19.8	12.2	970
Reliance Communication	416	Buy	25.8	17.0	14.5	9.7	590

Banking	CMP (Rs)	Reco	P/E (x)		P/ABV (x)		Target (Rs)
			FY07	FY08	FY07	FY08	
Andhra Bank	73	Buy	6.6	6.3	1.1	1.0	103
Bank of Baroda	226	Hold	7.6	6.4	1.2	1.0	227
Bank of India	165	Buy	8.3	7.6	1.5	1.3	193
Corporation Bank	274	Hold	7.7	7.3	1.1	1.0	282
Union Bank of India	105	Buy	6.8	6.1	1.3	1.1	122
Punjab National Bank	457	Buy	8.8	7.9	1.4	1.2	548

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Automobiles

Strong quarter, but bumpy road ahead

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	236.0	194.4	21.4	211.6	11.6
EBITDA	29.3	26.5	10.7	26.2	11.9
EBITDA margin (%)	12.4	13.6		12.4	
Net profit	20.1	17.7	13.5	18.0	11.3

Source: Religare Research

Strong quarter as volumes expand smartly

We expect Q4FY07 to be a strong quarter for automobile companies. Except two-wheeler players, all auto makers have reported a strong volume growth during the quarter. We forecast a 21% YoY revenue growth, led by 9% growth in volumes and an 11% growth in realisations.

Two-wheeler industry under pressure

The two-wheeler industry has witnessed a slowdown in growth this quarter, with revenues dipping 15% QoQ (but rising slightly by 6% YoY). We expect earnings to further suffer due to serious pressure on EBITDA margins stemming from - a) intense pricing competition, and b) a significant increase in depreciation cost on account of capacity expansion programmes. We believe these pressures will continue into the medium term, resulting in muted earnings growth.

Interest rate hikes to slow growth

Recent hikes in interest rates will impede the demand growth for automobiles, as a major portion of auto sales are routed through financing rather than direct cash sales. We believe the CV industry will be the hardest hit by the rate hikes followed by the car and two-wheeler segments. As per CRIS INFAC, around 98% of CV vehicles are sold through the financing route as compared to 86% of passenger cars and 67% of two-wheelers. However, automobile manufacturers are in talks with banks and other financing companies to increase the tenure of loans so that demand remains intact. This step, if taken, will partially stave off a demand slowdown.

Growth to decelerate in all segments, especially two-wheelers

We expect the CV industry to slow down going forward. However, strong macro-economic growth will keep the demand for CVs at around 10-12% in the next couple of years vis-à-vis 32% growth in the last two years. Passenger cars will continue to grow in a similar fashion but at the expense of margins - at the moment, car manufacturers are making relatively higher EBIDTA margins. Two-wheeler manufacturers are likely to be the biggest losers as they will witness a demand slowdown as well as considerable margin pressure.

Ashok Leyland

Buy

CMP: Rs 36 ⌘ Target: Rs 50

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	23.2	17.3	33.8	17.8	30.6
EBITDA	2.5	2.2	14.8	1.8	35.1
EBITDA margin (%)	10.7	12.5		10.4	
Net profit	1.5	1.3	13.1	1.1	45.0
EPS	1.2	1.1	4.4	0.8	45.0

Source: Company, Religare Research

- We forecast a strong fourth quarter for ASL, backed by an impressive 28% YoY growth in volumes and a 4% growth in realisations. We expect higher realisations on the strength of a better product mix.
- The operating profit margin is likely to improve moderately on a sequential basis. However, we expect a decline YoY due to an increase in raw material prices.
- We project an EPS of Rs 1.2 for Q4FY07 and a net profit margin of 6.6%, signifying a 70-bp improvement QoQ.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	53.3	72.0	81.0
Growth (%)	25.5	35.1	12.5
Net Profit	3.0	4.3	4.8
Growth (%)	20.7	41.7	11.5
EPS (Rs)	2.5	3.2	3.6
Growth (%)	17.6	30.8	11.5
PER (x)	14.5	11.1	10.0
RoE (%)	23.7	28.0	26.5
EV/EBITDA (x)	8.4	7.4	6.3

Source: Company, Religare Research

Bajaj Auto

Hold

CMP: Rs 2,297 ⌘ Target: Rs 2,389

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	21.5	21.7	1.0	25.7	(15.3)
EBITDA	2.9	4.3	(31.7)	3.6	(20.2)
EBITDA margin (%)	13.5	19.6		14.2	
Net profit	3.1	3.2	(5.2)	3.5	(11.5)
EPS	30.2	31.8	(5.2)	34.1	(11.5)

Source: Company, Religare Research

- We expect Q4FY07 to be a bad quarter for BAL due to a dip in volume sales and continued pressure on operating profit.
- We expect revenues to remain flat YoY, while dropping 15% QoQ, due to production constraints and a slowdown in growth.
- The operating profit margin in Q4FY06 was 19.6% (the highest in the last few quarters) vis-à-vis 13.5% recorded in Q4FY07. The lower margin is likely to push down operating profit growth by 32% YoY.
- BAL's earnings are expected to remain muted in the medium term due to the slower growth and intensifying competition, which have put a squeeze on the EBIDTA margin.
- The stock's valuations are stretched at 17.6x P/E and 14.8x EV/EBIDTA on FY08. However, there could be value unlocking through the de-merger of the finance business.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	75.7	93.6	113.2
Growth (%)	29.4	23.6	20.9
Net Profit	11.0	12.7	13.2
Growth (%)	43.7	15.3	3.9
EPS (Rs)	108.9	125.5	130.4
Growth (%)	43.7	15.3	3.9
PER (x)	20.0	18.8	17.5
RoE (%)	26.0	23.6	21.3
EV/EBITDA (x)	19.9	17.5	14.7

Source: Company, Religare Research

Hero Honda — Sell

CMP: Rs 639 ⌘ Target: Rs 612

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	25.7	22.6	14.0	26.7	(3.5)
EBITDA	2.9	3.6	(19.5)	3.0	(3.2)
EBITDA margin (%)	11.4	16.1		11.3	
Net profit	2.0	2.7	(25.3)	2.1	(4.6)
EPS	10.0	13.4	(25.3)	10.5	(4.6)

Source: Company, Religare Research

- We expect a 25% YoY decline in net earnings during the quarter, owing to a sharp decline in the EBITDA margin.
- We expect Hero Honda's earnings to remain muted in the medium term, primarily due to margin pressure.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	87.1	98.3	109.1
Growth (%)	17.4	12.9	11.0
Net Profit	9.0	8.6	9.1
Growth (%)	20.2	(3.8)	6.0
EPS (Rs)	44.9	43.2	45.8
Growth (%)	20.2	(3.8)	6.0
PER (x)	14.2	14.8	13.5
RoE (%)	52.2	43.4	42.4
EV/EBITDA (x)	9.4	10.7	9.8

Source: Company, Religare Research

Mahindra & Mahindra — Buy

CMP: Rs 734 ⌘ Target: Rs 869

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	27.5	22.9	20.0	25.8	6.6
EBITDA	3.3	2.7	23.9	3.1	7.6
EBITDA margin (%)	12.1	11.7		12.0	
Net profit	2.5	2.0	26.2	2.4	2.0
EPS	10.4	8.4	24.3	10.2	2.0

Source: Company, Religare Research

- We expect M&M's net sales to increase by 20% YoY, driven by 19% growth in volumes and a 2% improvement in overall realisations.
- The company's enhanced product mix is likely to support a 40-bp expansion in operating profit.
- M&M's subsidiaries are likely to do well. Our sum-of-parts valuation model puts M&M's fair value at Rs 869.

Financial summary (Standalone)

Rs bn	FY06	FY07E	FY08E
Revenue	82.2	1005	112.6
Growth (%)	23.5	22.2	12.0
Net Profit	7.0	10.0	11.6
Growth (%)	39.5	41.9	16.7
EPS (Rs)	30.1	42.0	49.0
Growth (%)	(20.0)	39.7	16.7
PER (x)	24.4	17.5	15.0
RoE (%)	23.3	23.5	23.8
EV/EBITDA (x)	18.2	15.1	13.4

Source: Company, Religare Research

Maruti Udyog

Buy

CMP: Rs 791 ⌘ Target: Rs 895

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	44.1	32.8	34.4	36.8	19.7
EBITDA	6.3	4.9	29.0	5.1	23.7
EBITDA margin (%)	14.2	14.8		13.8	
Net profit	4.6	3.6	26.2	3.8	21.0
EPS	15.8	12.5	26.2	13.0	21.0

Source: Company, Religare Research

- We forecast a strong Q4FY07 for MUL, backed by an impressive 30% growth in volumes and a 4% improvement in realisations. We expect higher realisations due to a better product mix, mainly comprising sales of Swift.
- The EBITDA margin is anticipated to expand significantly by 40-bps YoY due to the enhanced product mix.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	120.1	146.3	168.2
Growth (%)	9.9	21.7	15.0
Net Profit	12.0	15.7	18.5
Growth (%)	40.2	31.1	17.9
EPS (Rs)	41.4	54.3	64.0
Growth (%)	40.2	31.1	17.9
PER (x)	19.1	14.6	12.4
RoE (%)	24.4	23.6	22.4
EV/EBITDA (x)	13.2	10.4	8.9

Source: Company, Religare Research

Tata Motors

Buy

CMP: Rs 702 ⌘ Target: Rs 951

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	84.5	68.8	22.7	69.6	21.4
EBITDA	11.1	8.4	31.9	9.2	20.0
EBITDA margin (%)	13.1	12.2		13.3	
Net profit	6.4	4.6	39.5	5.1	24.5
EPS	16.6	12.0	38.6	13.3	24.5

Source: Company, Religare Research

- TAMO's net sales are projected to rise by 23% YoY during the quarter, led by 16% volume growth and 6% improvement in overall realisations.
- A better product mix will likely boost the EBITDA margin by 90 bps YoY.
- We expect the robust performance of subsidiaries to further drive growth in Q4FY07. Our consolidated EPS estimates stand at Rs 62 for FY07 and Rs 73 for FY08.

Financial summary (Standalone)

Rs bn	FY06	FY07E	FY08E
Revenue	206.0	277.6	319.2
Growth (%)	18.3	34.7	15.0
Net Profit	15.3	19.8	21.4
Growth (%)	22.0	29.6	8.5
EPS (Rs)	39.9	51.3	56.0
Growth (%)	16.8	28.4	9.2
PER (x)	17.6	13.7	12.5
RoE (%)	27.8	28.1	27.9
EV/EBITDA (x)	18.0	12.7	10.9

Source: Company, Religare Research

TVS Motor

Sell

CMP: Rs 57 ⌘ Target: Rs 45

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	9,598.0	8,392.7	14.4	9,354.1	2.6
EBITDA	319.2	482.0	(33.8)	296.3	7.7
EBITDA margin (%)	3.3	5.7		3.2	
Net profit	75.6	290.9	(74.0)	114.6	(34.0)
EPS	0.3	1.2	(74.0)	0.5	(34.0)

Source: Company, Religare Research

- We expect yet another disappointing quarter for TVSM. Despite a 14% YoY growth in sales, earnings are likely to post a decline of 74%, due to pressure on the EBITDA margin.
- The stock is trading at a P/E of 17.3x on FY08 EPS, which we believe is stretched.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	32,349.6	38,948.8	43,622.7
Growth (%)	12.5	20.4	12.0
Net Profit	1,170.0	651.1	781.3
Growth (%)	(15.0)	(44.4)	20.0
EPS (Rs)	4.9	2.7	3.3
Growth (%)	(15.0)	(44.4)	20.0
PER (x)	11.6	20.8	17.3
RoE (%)	16.5	24.0	28.7
EV/EBITDA (x)	6.7	5.7	4.5

Source: Company, Religare Research

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Auto ancillaries

Forging ahead robustly

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	10,705.1	9,088.5	17.8	10,612.5	0.9
EBITDA	1,104.5	696.2	58.7	1,151.3	(4.1)
EBITDA margin (%)	10.3	7.7		10.8	
Net profit	420.4	246.5	70.6	437.5	(3.9)

Source: Religare Research

Impressive revenue growth expected...

We expect the auto ancillary industry to deliver strong revenue growth in Q4FY07 backed by robust automobile volumes, an increasing proportion of exports and improving realisations.

...but EBIDTA margin to decline

We expect the EBIDTA margin to drop in Q4FY07 due to the rise in raw material prices.

Apollo Tyres — Buy

CMP: Rs 276 ⌘ Target: Rs 411

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	8,517.9	7,458.5	14.2	8,575.2	(0.7)
EBITDA	861.5	563.9	52.8	924.4	(6.8)
EBITDA margin (%)	10.1	7.6		10.8	
Net profit	335.3	195.5	71.5	350.7	(4.4)
EPS	7.2	5.1	41.7	7.6	(4.4)

Source: Company, Religare Research

- We expect a strong 14% YoY topline growth in Q4FY07, backed by a 2% increase in volumes and a strong 10% improvement in realisations.
- The EBITDA margin is likely to fall on a sequential basis due to a substantial spurt in rubber prices during the quarter. The company had also initiated price cuts of around 3-5% in September 2006. We do not expect any further price cuts in the medium term on the back of buoyant demand.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	26,135.8	32,339.1	37,332.3
Growth (%)	16.9	23.7	15.4
Net Profit	752.0	1,042.3	1,434.3
Growth (%)	5.6	38.6	37.6
EPS (Rs)	19.6	22.5	30.9
Growth (%)	5.6	14.5	37.6
PER (x)	14.1	12.3	8.9
RoE (%)	12.4	13.0	14.0
EV/EBITDA (x)	7.3	5.6	4.3

Source: Company, Religare Research

El Forge — Buy

CMP: Rs 63 ⌘ Target: Rs 119

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	267.6	209.5	27.8	243.3	10.0
EBITDA	46.3	29.7	56.1	42.3	9.5
EBITDA margin (%)	17.3	14.2		17.4	
Net profit	20.0	13.5	48.7	20.2	(1.0)
EPS	2.3	1.9	26.6	2.4	(1.0)

Source: Company, Religare Research

- EFL is likely to deliver strong revenue growth in Q4FY07 on account of increased sales to existing clients as well as the transfer of clients from its UK-based subsidiary, Shakespeare Forging.
- The EBITDA margin is projected to improve YoY due to higher sales of machined products, which offer a better margin as compared to forged products.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	831.5	1,225.2	1,661.4
Growth (%)	2.8	47.4	35.6
Net Profit	66.3	78.9	123.8
Growth (%)	51.4	19.0	56.9
EPS (Rs)	9.1	9.3	14.0
Growth (%)	37.1	1.3	51.5
PER (x)	6.9	6.8	4.5
RoE (%)	37.1	24.0	24.2
EV/EBITDA (x)	7.9	5.8	3.9

Source: Company, Religare Research

Omax Auto

Buy

CMP: Rs 91 ⌘ Target: Rs 126

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1,919.6	1,420.5	35.1	1,794.0	7.0
EBITDA	196.7	102.6	91.7	184.6	6.5
EBITDA margin (%)	10.2	7.2		10.3	
Net profit	65.1	37.5	73.7	66.6	(2.2)
EPS	3.0	1.8	73.7	3.1	(2.2)

Source: Company, Religare Research

- We anticipate a strong performance from Omax Auto in Q4FY07. We expect the company to improve its profitability over the medium term on account of better operational efficiencies.
- Omax has taken various measures to improve its operational performance like setting up a mini steel plant for backward integration, merging its Automax unit to reduce operational costs and using furnace oil power generation to cut power and fuel costs.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	5,780.0	6,724.5	7,669.6
Growth (%)	14.4	16.3	14.1
Net Profit	192.8	237.4	270.1
Growth (%)	(5.9)	23.1	13.8
EPS (Rs)	9.0	11.1	12.6
Growth (%)	0.1	23.1	13.8
PER (x)	10.1	8.2	7.2
RoE (%)	18.1	19.4	18.9
EV/EBITDA (x)	6.4	4.9	4.4

Source: Company, Religare Research

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Banks

Near-term blues but skies to brighten

Sector snapshot

Rs bn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Net Interest Income	47.5	41.3	15.0	46.5	2.2
Total Income	61.7	57.5	7.3	61.2	0.8
PPP	29.8	31.7	(5.8)	32.3	(7.5)
PAT	13.8	11.1	23.6	15.5	(11.4)

Source: Religare Research

Sharp rise in interest rates during the quarter

The quarter under preview has witnessed a sharp rise in interest rates, partly due to a tightening of monetary controls driven by higher inflation and excessive money supply, and partly due to deposit competition as banks run out of excess SLR. While loan growth was expected to slow down, the sudden and significant increase in interest rates has taken the industry by surprise.

CRR hikes to impact margins and profitability

With three CRR hikes initiated by the RBI during FY07 along with a cut in interest on CRR balances, the net interest margins (NIM) of banks will be impacted. Although banks have raised their lending rates in response to the CRR hikes and rising deposit rates, the continuous strengthening of deposit rates would impact profitability.

Players with high CASA base are relatively better off

Banks with a strong current and savings account (CASA) base would be comparatively better placed in the rising interest rate scenario. CASA deposits are largely insensitive to interest rate fluctuations as compared to term deposits - this enables banks to curb the cost of funding. We do expect the higher term deposit rates to induce a shift from funds in savings or current accounts to term deposits. However, this is unlikely to cause a significant change in the liability mix in the near term. Therefore, it is mainly banks with a dependence on wholesale deposits who will suffer in the short term.

Spike in lending rates has put the brakes on retail loans...

Over the past 15 months, lending rates have swung up sharply by as much as 300-500 bps. Such extreme hikes are negative from the perspective of both, long-term growth and asset quality. The increase in rates has led to a slowdown in lending, especially towards the retail segment. ICICI Bank, the leading retail lender, expects loans to this segment to decelerate considerably.

...and will likely result in higher NPLs

We believe that the increase in lending rates will also lead to higher NPLs and therefore increase provisioning compared to the last two years. However, with the economy still set to grow at around 7-8% the deterioration in asset quality may not be very substantial.

RBI clarification on provisions, higher G-sec rate to depress earnings

A recent clarification from the RBI requires banks to enhance the general provisions on unsecured retail loans by end-March 2007. This notification is likely to depress Q4FY07 earnings for most players, especially large private banks. Even though the provisions would be general in nature and not towards bad assets, the implication for reported earnings would be significant. Further, the increase in the benchmark G-sec rate could result in mark-to market losses for banks that have a higher proportion of AFS investments.

Neutral sector view in short-term, but maintain long-term positive stance

Our estimates build in lower loan growth, stable to declining margins and a higher provisioning requirement going forward. We believe that current valuations more than discount the near-term earnings pressures. However, amidst the fear of another CRR hike in the short term, investors should remain Neutral at best towards banking stocks. However, from a long-term perspective we maintain our Positive view on the sector.

Andhra Bank

Buy

CMP: Rs 73* ⌘ Target: Rs 103

Rs mn	Q4FY07E	Q4FY06	Var (YoY)	Q3FY07	Var (QoQ)
Net Interest Income	3,908.7	3,352.3	16.6	3,635.0	7.5
Total Income	5,061.1	4,370.7	15.8	4,963.6	2.0
PPP	2,700.9	2,065.0	30.8	2,607.3	3.6
PAT	1,478.3	1,164.1	27.0	1,362.8	8.5
EPS (Rs)	3.0	2.4		2.8	

Source: Company, Religare Research

- Andhra Bank's asset quality is amongst the best in the industry. Following a decline in net NPAs and incremental slippage ratio, the provisioning requirement has reduced, thereby keeping the growth in profits intact.
- Net interest income is expected to improve during the quarter, but future sustainability would be the key.

Financial summary

Rs bn	FY06	FY07E	FY08E
NII	11.7	13.9	14.7
PPP	7.7	9.4	9.9
PAT	4.9	5.4	5.7
EPS (Rs)	10.0	11.1	11.7
ABV (Rs)	58.6	65.8	72.5
P/E (x)	7.3	6.6	6.3
P/ABV (x)	1.3	1.1	1.0
ROE (%)	20.5	17.7	16.8

Source: Company, Religare Research

Bank of Baroda

Hold

CMP: Rs 226* ⌘ Target: Rs 227

Rs bn	Q4FY07E	Q4FY06	Var (YoY)	Q3FY07	Var (QoQ)
Net Interest Income	9,643.1	8,690.0	11.0	9,607.7	0.4
Total Income	12,662.9	12,701.2	(0.3)	12,944.4	(2.2)
PPP	5,316.4	6,034.6	(11.9)	6,569.1	(19.1)
PAT	3,067.2	2,088.0	46.9	3,291.3	(6.8)
EPS (Rs)	8.4	5.7		9.0	

Source: Company, Religare Research

- We expect BOB to post a strong set of numbers. Profit is likely to expand substantially on the back of robust growth in core operating income and lower provisioning requirements compared to Q4FY06.
- An area of concern for BOB is its lower return on equity compared to cost of equity. At the current price, the stock is trading below its FY08E adjusted book value.
- We do believe that the stock appears attractively valued at present. However, if profit growth is not sustained, the stock would continue to trade at lower valuations compared to peers.

Financial summary

Rs bn	FY06	FY07E	FY08E
NII	32.2	36.5	40.6
PPP	20.3	23.6	25.0
PAT	8.3	10.9	12.9
EPS (Rs)	22.6	29.8	35.2
ABV (Rs)	194.3	222.1	250.0
P/E (x)	10.0	7.6	6.4
P/ABV (x)	1.2	1.0	0.9
ROE (%)	12.3	12.5	14.1

Source: Company, Religare Research

* Stock prices as on 5th April 2007

Bank of India — Buy

CMP: Rs 165* ⌘ Target: Rs 193

Rs mn	Q4FY07E	Q4FY06	Var (YoY)	Q3FY07	Var (QoQ)
Net Interest Income	10,012.1	8,378.1	19.5	8,587.6	16.6
Total Income	13,529.4	11,622.1	16.4	11,810.7	14.6
PPP	6,753.1	6,298.2	7.2	5,531.6	22.1
PAT	2,887.1	2,544.2	13.5	2,548.7	13.3
EPS (Rs)	5.9	5.2		5.2	

Source: Company, Religare Research

- A greater proportion of loans towards high-yield segments like SME and retail coupled with an increased base of CASA deposits would boost BOI's net interest income (NII) growth during the quarter.
- Growth in non-interest (ex-treasury) income, which was subdued in Q3FY07, could present an upside to our estimates for the fourth quarter.
- CAR at the end of Q3FY07 had dropped to 11.76% with Tier I capital at 6.22%. We believe that BOI may soon come out with an equity offering to enhance its Tier I capital. The government holding in the bank currently stands at around 69.5%.

Financial summary

Rs bn	FY06	FY07E	FY08E
NII	26.3	34.7	40.0
PPP	17.0	21.8	22.8
PAT	7.0	9.6	10.5
EPS (Rs)	14.4	19.8	21.6
ABV (Rs)	79.0	107.6	125.5
P/E (x)	11.5	8.3	7.6
P/ABV (x)	2.1	1.5	1.3
ROE (%)	14.8	18.0	17.2

Source: Company, Religare Research

Corporation Bank — Hold

CMP: Rs 274* ⌘ Target: Rs 282

Rs mn	Q4FY07E	Q4FY06	Var (YoY)	Q3FY07	Var (QoQ)
Net Interest Income	3,583.4	3,109.2	15.3	3,332.9	7.5
Total Income	5,045.7	4,683.4	7.7	4,925.6	2.4
PPP	2,915.2	2,691.6	8.3	2,930.5	(0.5)
PAT	1,210.0	1,002.7	20.7	1,464.2	(17.4)
EPS (Rs)	8.4	7.0		10.2	

Source: Company, Religare Research

- Corporation Bank is expected to see a substantial improvement in NII on the back of improved yields. Further, the lower provisioning requirement would bolster profitability. Non-interest income is expected to remain subdued in Q4FY07.
- The bank is over-capitalised compared to the business it is generating. Low returns on equity would continue to dent the bank's valuations.

Financial summary

Rs bn	FY06	FY07E	FY08E
NII	12.3	13.9	15.5
PPP	10.5	11.5	12.3
PAT	4.5	5.1	5.4
EPS (Rs)	31.0	35.5	37.5
ABV (Rs)	229.8	250.6	279.7
P/E (x)	8.8	7.7	7.3
P/ABV (x)	1.2	1.1	1.0
ROE (%)	13.5	14.0	13.3

Source: Company, Religare Research

* Stock prices as on 5th April 2007

Union Bank of India — Buy

CMP: Rs 105* ⌘ Target: Rs 122

Rs mn	Q4FY07E	Q4FY06	Var (YoY)	Q3FY07	Var (QoQ)
NII	6,546.4	5,978.7	9.5	6,858.5	(4.6)
Total Income	8,600.2	8,100.2	6.2	8,910.9	(3.5)
PPP	4,370.6	4,585.0	(4.7)	5,050.7	(13.5)
PAT	1,677.1	1,446.1	16.0	2,558.2	(34.4)
EPS	3.3	2.9		5.1	

Source: Company, Religare Research

- As part of a conscious business strategy to improve profit margins and manage capital adequacy, UBI had moderated its business growth during Q3FY07. We expect this trend to continue into the fourth quarter as well.
- NIM improved 23 bps during Q3FY07 and while we expected further improvement, the rising interest rates could keep margins flattish in Q4.
- The recent amendments requiring 2% provisions on standard advances in four specific categories translate into additional provisions of Rs 530mn for UBI during Q4FY07.

Financial summary

Rs bn	FY06	FY07E	FY08E
NII	23.7	26.0	28.6
PPP	16.0	18.0	19.7
PAT	6.8	7.9	8.7
EPS (Rs)	13.4	15.5	17.3
ABV (Rs)	64.5	79.1	92.7
P/E (x)	7.8	6.8	6.1
P/ABV (x)	1.6	1.3	1.1
ROE (%)	16.5	16.2	16.1

Source: Company, Religare Research

Punjab National Bank — Buy

CMP: Rs 457* ⌘ Target: Rs 548

Rs mn	Q4FY07E	Q4FY06	Var (YoY)	Q3FY07	Var (QoQ)
NII	13,810.4	11,801.9	17.0	14,458.6	(4.5)
Total Income	16,815.9	16,016.9	5.0	17,689.3	(4.9)
PPP	7,776.1	9,982.7	(22.1)	9,566.6	(18.7)
PAT	3,438.5	2,886.7	19.1	4,298.7	(20.0)
EPS	10.9	9.2		13.6	

Source: Company, Religare Research

- NII is expected to post good growth on last year's low base. NII growth for Q4FY06 was lower on account of substantial fund deployment in the latter part of that quarter.
- PNB's CASA deposit base of 50% of total deposits would enable the bank to curtail its cost of funding.
- The absence of major treasury gains during the quarter would result in negative growth in non-interest income. However, profitability would not be impacted as the burden of mark-to-market losses accounted for in Q4FY06 would not be present in Q4FY07.

Financial summary

Rs bn	FY06	FY07E	FY08E
NII	46.7	54.7	61.6
PPP	28.8	35.1	39.2
PAT	14.4	16.5	18.2
EPS (Rs)	45.6	52.2	57.7
ABV (Rs)	290.7	327.2	367.7
P/E (x)	10.0	8.8	7.9
P/ABV (x)	1.6	1.4	1.2
ROE (%)	16.4	16.4	15.8

Source: Company, Religare Research

* Stock prices as on 5th April 2007

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Capital Goods

Generating capital gains

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	15,789.5	13,489.8	17.0	14,874.6	6.2
EBITDA	2,073.7	1,625.2	27.6	1,716.9	20.8
EBITDA margin (%)	13.1	12.0		11.5	
Net profit	1,401.7	1,127.9	24.3	1,339.7	4.6

Source: Religare Research

Rising industrial capex fuels growth

The capital goods industry registered a strong set of growth numbers in a traditionally weak first half of the fiscal. The growth momentum has been sustained in H2FY07 as well with a robust order book position on the back of increasing capacity additions and technology upgrades by industry players. The Engine and Electrical Equipment segments within the capital goods space appear particularly attractive.

Engines - demand on the upswing

Given the unreliable power supply, diesel engines (DGs) are mostly used as captive power sources. The emerging services sector which includes IT & ITES applications and telecom has now become the new user segment for alternative back-up power. Demand from this rapidly growing sector is dwarfing the traditional user segments of agriculture, manufacturing and shipping.

Higher infrastructure spend is also driving domestic DG demand. Further, deterioration of the unorganised segment due to non-compliance with stringent emission norms has accelerated the growth of organised players. Meanwhile, the spurt in oil prices has boosted exports to Gulf countries.

Diversification strategies employed to ward of key risks

On the downside, bad monsoons could play spoilsport . However, diversification strategies employed by players should hold them in good stead. Other risks include increase in steel prices, delays in infrastructure spending (eg. SEZ delays), and entry of foreign players. Margins need to be watched closely as it might become difficult to pass on the incremental input costs due to stiff competition.

Electrical equipment to run on heavy investment in power

Electric machinery consists of electric motors, generators, generating sets, transformers, circuit breakers, switchgears, power capacitors, and motor starters, among others. The sector continues to run high on the back of heavy spending in the power sector, with more projects in the pipeline. Already, the Indian government has initiated the set up of seven ultra mega power projects of 4,000 MW each to be commissioned by 2012.

With India in the midst of solid and sustained acceleration in economic growth, the demand for power is bound to increase, which makes it imperative for continued investment in the power sector. The benefits of this would accrue largely to companies producing electrical equipment.

Cummins India — Buy

CMP: Rs 272 ⌘ Target: Rs 309

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	4987	3877	28.6%	4769.8	4.6%
EBITDA	724	583	24.1%	718.5	0.8%
EBITDA margin (%)	14.5%	15.0%	-3.5%	15%	-3.6%
Net profit	631	541	16.6%	629	0.3%
EPS	3.18	2.73	16.6%	3.18	0.3%

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	18,069	22,246	26,695
Growth (%)	21%	23%	20%
Net Profit	1,828	2,394	2,913
Growth (%)	39.4	31.0	21.7
EPS (Rs)	9.2	12.1	14.7
Growth (%)	38.8	31.0	21.7
PER (x)	29.5	22.5	18.5
RoE (%)	22.6	26.0	28.3
EV/EBITDA (x)	21.4	15.0	12.2

Source: Company, Religare Research

- CIL is in the process of expanding its capacities and is also planning to develop engines running on biomass for rural areas. These engines are later proposed to be taken to global markets such as China, Africa and Latin America. The planned capex spend for FY08 amounts to about Rs 200mn.
- The company has acquired High Pressure Common Rail Technology from Cummins Inc, USA for US$ 3.6mn. This will help it to make engines emission compliant as the country migrates to BS III and BS IV emission levels.
- We expect turnover to rise 23% YoY to Rs 22.2bn for FY07. The Net margin is likely to be flattish and improve marginally by 60 bps for FY07 to 10.8%. Margins need to be watched in the medium term as the benefits of cost optimisation would be offset by the changing product mix. The mix will shift as CIL pursues growth more aggressively in the low-margin small engine segment. We like CIL's strong growth story vis-à-vis the capex cycle.

EMCO — Buy

CMP: Rs 790 ⌘ Target: Rs 926

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1800.03	1698.4	5.98	1631.6	10.32
EBITDA	247.84	152.3	62.73	221.6	11.84
EBITDA margin (%)	13.77	8.97	-	13.58	-
Net profit	118.96	44.5	167.33	99	20.16
EPS	11.65	5.83	99.83	10.37	12.34

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	4,053.7	5,842	8,295.64
Growth (%)	71.8	44.12	42.00
Net Profit	190.7	303.8	472.9
Growth (%)	98.44	59.30	55.65
EPS (Rs)	24.53	29.75	46.31
Growth (%)	59.49	21.29	55.65
PER (x)	32.2	26.6	17.1
RoE (%)	18.49	19.94	28.21
EV/EBITDA (x)	19.8	11.7	9.9

Source: Company, Religare Research

- Emco's order book currently stands at over Rs 10bn. The company's projects division, which focuses on the power transmission and distribution segment, enjoys better margins. This division is now in the process of executing a contract worth Rs 380mn for setting up a 400kV substation from Power Grid Corporation of India.
- We expect Emco's continued focus on improving operating efficiency to result in a 480-bp YoY increase in EBITDA margin for Q4FY07.
- The topline is expected to grow at 6% YoY to Rs 1.8bn and bottomline by 167% to Rs 119mn, with a 100% YoY increase in EPS to Rs 11.7.

Havell's India — Buy

CMP: Rs 443 ⌘ Target: Rs 549

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	3999.9	3564.8	12.21	3909	2.33
EBITDA	467.1	296.8	57.38	366.6	27.41
EBITDA margin (%)	11.68	8.33		9.37	
Net profit	297.02	203.1	46.24	258	15.12
EPS	5.52	3.78	46.16	4.8	15.10

Source: Company, Religare Research

- Havell's EBITDA margin is projected to increase by 335 bps YoY for Q4FY07. The topline is expected to rise by 12% YoY to Rs 4bn and bottomline by 46% to Rs 297mn.
- Havell's India has joined a growing tribe of Indian companies whose international business will dwarf their domestic operations. It has acquired SLI Sylvania's lighting business for US$ 300mn in cash (Rs 12.5bn).The acquisition would add around US$ 75mn-100mn to the topline within three years. The turnover from lighting from its Indian operations is expected to grow to around Rs 3.5bn during FY08 from around Rs 2.3-2.5bn during the current fiscal.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	9,968.0	15,069.0	21,096.6
Growth (%)	71.3	51.2	40.0
Net Profit	632.1	1,023.9	1,476.8
Growth (%)	107.0	62.0	44.2
EPS (Rs)	25.0	19.1	27.5
Growth (%)	(0.0)	(23.8)	44.2
PER (x)	17.7	23.3	16.1
RoE (%)	48.4	72.4	65.9
EV/EBITDA (x)	25.6	16.6	14.6

Source: Company, Religare Research

Kirloskar Oil Engine — Buy

CMP: Rs 232 ⌘ Target: Rs 273

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	5003	4350	15.0	4564	9.6
EBITDA	635	593	7.1	410	54.8
EBITDA margin (%)	12.7	13.6	-6.9	9.0	41.2
Net profit	355	339	4.7	354	0.4
EPS	3.66	3.49	4.8	3.64	0.5

Source: Company, Religare Research

- We expect KOEL's topline to increase by 15% YoY to Rs 5bn for Q4FY07. An improving product mix and indigenisation will result in a 300-bp EBITDA margin expansion YoY to 10.9% for FY07E.
- The business mix has been changing in favour of the engine segment (~80% of sales), driven by robust demand for generators and diesel engines with increased focus on the mid-HP segment (250-600 KVA market).
- KOEL is aggressively scaling up capacity to capitalise on the increasing demand - the company is investing in a greenfield EOU plant in Maharashtra to manufacture silent generating sets for global customers. This plant will have a capacity of 100,000 engines per year. KOEL is further investing Rs 5.5bn in a 100% EOU facility at Kagal which is expected to double the company's exports within five years. The inability of some of its competitors to meet emission and noise norms set by the government also augurs well for the company.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	13,941.0	18,844.1	22,432.3
Growth (%)	22.0	35.0	19.0
Net Profit	1,171.8	1,592.0	1,891.0
Growth (%)	55.0	36.0	19.0
EPS (Rs)	12.1	16.4	19.5
Growth (%)	55.0	36.0	19.0
PER (x)	19.2	14.2	11.9
RoE (%)	18.3	20.0	21.3
EV/EBITDA (x)	20.9	9.5	7.9

Source: Company, Religare Research

Notes
1. *FY'06 Net Profit/EPS/ROE is adjusted i.e. after removing extraordinary gain of Rs. 831.4 mn relating to profit on sale of investments*
2. *Cash and bank is excluding market value of quoted investments*

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Cement

Performance up, but sentiments down

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	23,546.0	16,707.0	40.9	19,776.0	19.1
EBITDA	6,669.0	3,560.0	87.3	5,813.0	14.7
EBITDA margin (%)	28.3	21.3		29.4	
Net profit	3,881.0	1,755.0	121.1	3,528.0	10.0

Source: Religare Research

Excellent performance likely in Q4FY07

We expect the cement sector to report an excellent performance for the quarter ending March 2007 as demand remains robust and realisations continued to head north. During April-December 2007, the cement industry clocked sales growth of more than 50% YoY whereas the net profits almost tripled. This was largely due to a 36% spurt in the average price realisation to over Rs 3,000/MT as against Rs 2,200/MT in 9mFY06 when volume sales growth stood at ~10%.

Expect Q4 topline growth of 30-40% YoY, earnings to double

For Q4FY07 we expect the trend to continue with topline growth of 30-40% YoY, and a doubling of profits. This growth will be the combined result of 10-12% volume expansion and 25-35% improvement in sales realisation. Further, major operating costs such as power and freight are expected to increase only marginally, leading to a significant 800-1,000-bp margin improvement to 32-35%. This will translate into net profit of around Rs 800-1,000/MT for cement players.

Government price control measures sour investor sentiment

Despite expectations of a robust quarterly performance, stock prices of cement companies have been on a downslide since January this year, correcting 25-35% from their peaks. In our view, the continued fall in cement scrips has been induced by two factors -

a) The government intervention to control prices, which will slow growth momentum. So far, the finance ministry has been churning out measures to bring down cement prices but has met with little success. Now, with the recent removal of customs duty on imports, as well as CVD and SAD, doubts as regards sustained industry performance have crept in and big investors have started to book profit in cement counters.

b) Duty-free imports coupled with planned capacity expansion of 80-100mn tonnes by 2009, which will create excess supply.

Demand to stay firm

Our view is that the growing economy and planned housing and infrastructure projects will buoy demand growth to around 10-12% annually. However, the ongoing capacity expansion by cement players is unlikely to come on-stream before end-FY09. Hence, in the intervening two-year period, the industry is likely to do well.

Imports unviable at prices above US$ 70

Cement imports to compete with domestic suppliers will be uneconomical if priced at or above US$ 70/MT since India is one of the lowest-cost producers of cement. In addition, imports require adequate port facilities, warehousing, proper handling to protect the cement from moisture, and a logistics channel for distribution to the interiors of the country. Thus, with demand remaining firm, and imports facing certain hurdles, the government and industry will ultimately have to reach a compromise which could even see the dual excise structure being removed.

Growth could dip slightly in FY08

We believe that growth could slow down slightly from the next quarter as a 5-10% price erosion sets in, putting some pressure on margins. But the operating results will be sustained on account of cost cutting measures and enhanced captive power utilisation. We also expect some pressure on price realisations to be countered through an increase in volumes.

Stock price correction to be used as a buying opportunity

We estimate that Q4FY07 could be one of the best quarters for the cement industry. Going ahead, performance may not continue at such an exceptional pace but will moderate to satisfactory levels. The recent correction in major cement stock prices has brought down the P/E multiple for large companies to below 10 and to below 5 for other companies. We see this as a good buying opportunity, and recommend investments in mid-sized companies like Birla Corp, J K Cement, Kesoram Industries and Rain Commodities.

Birla Corp

Buy

CMP: Rs 193 ⌘ Target Rs 344

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	5525	3941	40.2	4093	35
EBIDTA	1768	844	109.5	1460	21.1
EBIDTA(%)	32	21.4		35.7	-10.4
PAT	1064	671	58.6	951	11.9
EPS	13.8	8.7	58.6	12.4	11.3

Source: Company, Religare Research

- We expect the company to report a robust growth of 40% YoY in revenues and 59% YoY in net profit during the quarter, led by strong demand for cement. With BCL strengthening its performance for the fourth consecutive year, we expect an EPS of Rs 43 for FY07.
- The company is raising its installed capacity from 5.8mn tonnes to 7mn tonnes during the quarter.
- For the 11-month period till February 2007 BCL achieved cement production of 4.79mn tonnes and sales of 4.78mn tonnes. Capacity utilisation stood at 90%.

Financial summary

Rs mn	FY05	FY06	FY07E
Revenue	13426	12155	16753
Growth(%)	8	6.7	37.8
Net Profit	869	1258	3314
Growth(%)	109	44.8	163.4
EPS	11.3	16.3	43
Growth(%)	109	44.8	163.4
PER(X)	17.1	11.8	4.5
RoE(%)	22.4	27.8	44.5
EV/EBIDTA	11.9	9.2	2.8

Source: Company, Religare Research

J K Cement

Buy

CMP: Rs 152 ⌘ Target Rs 168

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	3833	2459	55.8	3190	20
EBIDTA	917	489	87.5	898	2.1
EBIDTA(%)	23.9	19.9		28.2	
PAT	293	164	78.6	502	-41.6
EPS	4.2	2.35	78.6	7.2	

Source: Company, Religare Research

- Revenues and earnings for Q4FY07 are projected to increase substantially by 56% and 79% YoY respectively. We forecast an EPS of Rs 21 for FY07.
- In January the company acquired Nihon Nirman Ltd in Rajasthan with a capacity of 80,000 tpa for Rs 420mn.
- JKC plans to expand its production capacity from 4.4mn tonnes to 10mn tonnes by 2010. To this end, it has announced a 3.5mn-tonne greenfield expansion plan through a subsidiary company in Karnataka with a 50-MW captive power project. This greenfield project is being set up at a cost of Rs 10.7bn.
- For the 11-month period till February 2007 JKC achieved production of 3.3mn tonnes and sales of 3.29mn tonnes, with 82% capacity utilisation.

Financial summary

Rs mn	FY05	FY06	FY07E
Revenue	3294	8737	12500
Growth(%)	NA	165	43
Net Profit	63	326	1465
Growth(%)	NA	417	349
EPS	1.26	4.7	21
Growth(%)	NA	270	349
PER(X)	120.8	32.4	7.2
RoE(%)	1.4	3.3	15.7
EV/EBIDTA	35.8	11.6	4.8

Source: Company, Religare Research

Kesoram Industries

Buy

CMP: Rs 322 ⌘ Target Rs 430

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	6110	4530	34.9	5558	9.9
EBIDTA	1100	828	32.8	960	14.6
EBIDTA(%)	18	18.3		17.3	
PAT	602	278	116.5	654	-7.9
EPS	13.2	6.07	116.5	14.3	-7.9

Source: Company, Religare Research

- KIL is expected to witness revenue growth of 35% YoY with a 117% YoY jump in earnings during Q4FY07. We expect the company to report an EPS of Rs 53.7 for FY07.
- Commercial production at Unit-III in Vasavadatta Cement, Karnataka has started from March 1, 2007 and the optimum capacity at this plant is expected to be attained shortly.
- KIL has produced 3.16mn tonnes of cement from April 2006-February 2007 with sales of 3.14mn tonnes. Capacity utilisation was at 118%.

Financial summary

Rs mn	FY05	FY06	FY07E
Revenue	14220	16132	21562
Growth(%)	9.74	13.4	33.6
Net Profit	335	457	2458
Growth(%)	36.4	36.4	438
EPS	7.3	9.6	53.7
Growth(%)	36.4	36.4	438
PER(X)	44.1	33.5	6.0
RoE(%)	5.9	6.9	35.8
EV/EBIDTA	15.9	12.7	4.4

Source: Company, Religare Research

Madras Cement

Sell

CMP: Rs 2,602 ⌘ Target Rs 2,550

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	4300	2998	43.4	3910	10
EBIDTA	1290	688	87	1295	-0.4
EBIDTA(%)	30	22.9		33.1	
PAT	707	333	112	681	3.8
EPS	58.5	27.5	112	56.4	3.8

Source: Company, Religare Research

- Robust demand and stronger realisations are expected to propel MCL's foruth-quarter revenues and net profit up 43% and 112% YoY respectively. EPS for the full fiscal is estimated at Rs 255.
- MCL has the lowest equity base compared to installed capacity. For the 11-month period till February 2007 MCL's production touched 4.21mn tonnes with sales of 4.20mn tonnes. Capacity utilisation touched 100%.

Financial summary

Rs mn	FY05	FY06	FY07E
Revenue	7390	10085	16590
Growth(%)	6.3	36.3	55.6
Net Profit	559	797	3077
Growth(%)	67.4	38	286
EPS	46.3	66	255
Growth(%)	67.4	38	286
PER(X)	56.2	39.4	10.2
RoE(%)	13.4	15.6	41.9
EV/EBIDTA	23.9	17.3	6.2

Source: Company, Religare Research

Prism Cement

Buy

CMP: Rs 33 ⌘Target Rs 56

Rs mn	Q3FY07E	Q3FY06	YoY Growth (%)	Q2FY07	QoQ Growth (%)
Revenue	2100	1671	25.7	1900	11
EBIDTA	945	519	82	862	10
EBIDTA(%)	45	31		45.4	
PAT	700	244	187	501	40
EPS	2.4	0.82	187	1.7	40

Source: Company, Religare Research

- We expect PCL's Q3FY07 revenues to rise 48% YoY with net profit surging 332% YoY due to better price realisation and improved financial leverage. We project an EPS of Rs 7 for FY07.
- PCL has produced 1.98mn tonnes of cement and sold 1.99mn tonnes for the fiscal up to February. The company attained 98% capacity utilisation over this period.

Financial summary (Y/E June)

Rs mn	FY05	FY06	FY07E
Revenue	4399	5716	8203
Growth(%)	15.55	29.9	43.5
Net Profit	258	621	2086
Growth(%)	-	141	236
EPS	0.9	2.1	7
Growth(%)	-	141	236
PER(X)	38.7	15.9	4.8
RoE(%)	13.5	24.6	41.4
EV/EBIDTA	13.5	7.9	2.9

Source: Company, Religare Research

Rain Commodities

Buy

CMP: Rs 110 ⌘ Target Rs 224

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1300	1108	17.3	1125	15.6
EBIDTA	429	192	123	338	26.9
EBIDTA(%)	33	17.3		30	
PAT	160	65	146	239	-33
EPS	4.96	2.94	146	7.4	-33

Source: Company, Religare Research

- With robust demand in Andhra Pradesh and stronger pricing, RCL is likely to post a 17% growth in revenues accompanied by a 146% jump in earnings. EPS for the full fiscal is estimated to touch Rs 28.
- For the 11-month period till February 2007 RCL achieved production of 1.45mn tonnes and sales of 1.44mn tonnes of cement. Capacity utilisation was 113%.
- The company is restructuring its business and merging with Rain Calcining, which will provide better synergy in group business activities. With the improved asset base the company fundamentals are expected to improve substantially.

Financial summary

Rs mn	FY05	FY06	FY07E
Revenue	3113	3203	4830
Growth(%)	32	2.9	50.8
Net Profit	(347)	(119)	902
Growth(%)	-	-	-
EPS	(15.7)	(5.4)	28
Growth(%)	-	-	-
PER(X)	-	-	3.9
RoE(%)	NA	NA	6.7
EV/EBIDTA	28.6	13.2	2.3

Source: Company, Religare Research

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FMCG

Set to flourish

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	5,791.4	3,982.2	45.4	5,377.2	7.7
EBITDA	697.3	441.4	58.0	736.8	(5.4)
EBITDA margin (%)	12.0	11.1		13.7	
Net profit	355.5	306.0	16.2	553.1	(35.7)

Source: Religare Research

Promising long-term potential

The growth potential of the FMCG sector looks promising over the longer term as India has one of the world's lowest levels of per-capita consumption for almost all FMCG products. The rising income levels, burgeoning under-25 age group with increasingly higher aspirations, and rural and urban growth would fuel demand for FMCG products, thus leading to long-term growth in the sector.

Price-led competition has abated...

We believe that there is ample scope for positive surprises from Indian consumer companies. Sales growth has picked up during the quarter though margins have been strained mainly due to high raw material costs. While the competitive landscape remains challenging, price-led competition has abated given that demand growth remains strong and input costs are high.

...though pricing power remains low

While price hikes have been effected in certain segments, we believe these have been mainly been to counter the rising raw material costs; pricing power in the real sense is still not back, but that does not rule out more aggressive price increases going forward.

Budgetary fillip to agriculture and rural sectors to drive FMCG growth

The budget has given a special fillip to the agricultural and rural sectors. Both are strongly linked with growth of the FMCG sector as a whole. The food processing segment has also been given mileage in this budget. We expect this segment to contribute significantly going forward.

Lakshmi Energy & Foods — Buy

CMP: Rs 159 ⌘ Target: Rs 260

Rs mn	Q4FY07E	Q4FY06	YoY growth(%)	Q3FY07	QoQ growth(%)
Sales	2138.2	1478.7	44.6	1820.0	17.5
EBIDTA	317.1	302.0	5.0	334.6	(5.3)
EBIDTA margin(%)	14.8	20.4	-	18.4	0.0
PAT	95.2	210.6	(54.8)	282.2	(66.3)
PAT margin(%)	4.5	14.2	-	15.5	0.0
EPS	6.7	15.5	(56.9)	19.8	(66.3)

Source: Company, Religare Research

- Lakshmi recently increased its rice processing capacity by 80 TPH. Also, price realisations of some of its byproducts have moved up. These developments are expected to have significant positive effects on the revenue and operating profit YoY during the quarter.
- Wheat processing would be another feather in the company's cap, going forward, with capacity being added progressively.
- Power generated from rice husk which would be available in bulk due to higher rice processing would be the other significant contributor to revenues.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	5583.9	7050.8	11180.1
Growth(%)	37.0	26.3	58.6
Net Profit	420.0	795.6	1841.6
Growth(%)	132.7	89.4	131.5
EPS(Rs)	7.7	13.9	30.7
Growth(%)	122.0	80.4	120.4
PER(x)	20.6	10.5	5.2
ROE(%)	31.9	37.2	49.7
EV/EBITDA(x)	13.0	7.5	3.7

Source: Company, Religare Research

K S Oils — Buy

CMP: Rs 284 ⌘ Target: Rs 330

Rs mn	Q4FY07E	Q4FY06	YoY growth(%)	Q3FY07	QoQ growth(%)
Sales	3073.4	2138.3	43.7	3051.5	0.7
EBIDTA	279.3	87.8	218.1	306.1	(8.8)
EBIDTA margin(%)	9.1	4.1		10.0	
PAT	186.0	54.2	243.2	202.1	(8.0)
PAT margin(%)	6.1	2.5		6.6	
EPS	33.7	9.8	243.2	36.6	(8.0)

Source: Company, Religare Research

- We expect KSO's operating margin to jump substantially YoY during the quarter driven by its initiatives to acquire new plants, elevate capacity utilisation, and focus on retail products. The margin expansion will also be led by savings on power and other costs.
- By tapping oilseed cultivating belts via the acquisition route, KSO is expected to enhance its revenue base and also garner tremendous savings on raw material procurement, and logistical and carriage costs.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	6042.6	10543.9	19178.3
Growth(%)	33.5	74.5	81.9
Net Profit	160.3	584.1	1096.6
Growth(%)	377.1	264.4	87.7
EPS(Rs)	9.0	26.4	47.2
Growth(%)	164.5	194.6	78.4
PER(x)	31.6	10.7	6.0
ROE(%)	32.4	31.3	36.8
EV/EBITDA(x)	19.5	7.7	4.4

Source: Company, Religare Research

Crew BOS

Buy

CMP: Rs 196 ⌘ Target: Rs 238

Rs mn	Q4FY07E	Q4FY06	YoY growth (%)	Q3FY07	QoQ growth (%)
Sales	579.7	365.2	58.7	505.7	14.6
EBIDTA	101.0	51.6	95.8	96.1	5.1
EBIDTA margin(%)	17.4	14.1	0.0	19.0	0.0
PAT	74.3	41.2	80.2	68.8	8.0
PAT margin(%)	12.8	11.3	0.0	13.6	0.0
EPS	23.2	12.9	80.2	21.5	8.0

Source: Company, Religare Research

- Crew BOS is expected to witness significant revenue growth on the back of increased sales in fashion accessories, footwear and leather. The company has also expanded its ladies footwear, watchstrap and belt capacities.
- The company has posted EBITDA margins in excess of 16.5% in the last three quarters and we expect this momentum to continue into the fourth quarter as well.
- Crew's Hong Kong subsidiary is expected to significantly contribute to the topline and bottomline going forward.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	1336.7	1938.2	2616.6
Growth(%)	64.9	45.0	35.0
Net Profit	152.0	250.8	334.7
Growth(%)	85.5	64.9	33.5
EPS(Rs)	11.9	17.8	23.8
Growth(%)	59.2	50.3	33.5
PER(x)	16.5	11.0	8.2
ROE(%)	29.0	27.1	25.7
EV/EBITDA(x)	14.6	9.4	7.1

Source: Company, Religare Research

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Information Technology

Lost in translation

Sector snapshot

Rs bn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	155.9	110.8	40.7	146.4	6.5
EBITDA	40.9	28.5	43.6	38.4	6.5
EBITDA margin (%)	26.2	25.7		26.3	
Net profit	34.6	24.0	44.3	32.3	7.0

Source: Religare Research

Rupee appreciation plays spoilsport yet again

The rupee continued to strengthen against the dollar in Q4FY07. This is bound to hamper the growth of Indian IT companies which typically have 60-80% of their revenues denominated in US dollars. The average rupee-dollar exchange rate for the quarter was Rs 44.17/US$ as compared to Rs 44.97/US$ in Q3FY07, an appreciation of 1.8%.

Margins to dip across the board but TCS could buck the trend

We expect the top four Indian IT companies (TCS, Infosys, Wipro, Satyam) to report a revenue growth of 6-7% QoQ in Q4FY07 accompanied by a 2-9% increase in net profit. Operating profit margins are likely to be under pressure due to the rupee appreciation. We expect a contraction of 50 bps in operating profit margins across the board with the exception of TCS. The company's continued efforts to achieve cost efficiencies will likely result in margin expansion during the quarter. In our view, besides the margin performance, the EPS of IT majors will also be hit by dilution arising out of ESOP conversion and RSU charges.

Manpower crunch and attendant wage inflation remain primary concerns

On the operations front, availability of suitable resources remains a major concern for the sector. Though the leading players have been able to attract the necessary quantum of entry-level employees on the strength of their brand equity and compensation packages, all IT companies are facing a shortage of experienced and appropriately skilled personnel. Strong demand for offshored services along with a human resource crunch has triggered wage inflation in the sector. The salary offered to fresh graduates joining in FY08 has already been raised by 10% and we expect wages for experienced employees to be hiked by 15-20% depending on the company size and positioning.

Expect Infosys guidance of milestone US$4bn revenues in FY08

Infosys will announce its Q4FY07 results on April 13 and also provide its guidance for FY08. We expect the company to announce an FY08 revenue guidance of US$4bn, a growth of 28-30% YoY in dollar terms. However, the rupee guidance would probably point to a subdued 23-25% revenue growth due to the strengthening of the rupee during the latter half of FY07. We further expect a muted EPS growth guidance of 22-23% - one of the lowest in the past two years. Nevertheless, we reckon that a dollar revenue growth guidance of 28-30% is a positive sign as it will suggest that Infosys is confident of a strong demand environment.

Trend of conservative guidance goalposts to continue

A comparison of Infosys's guided versus actual performance in the last three years indicates that the management typically maintains a conservative approach towards its guidance policy. We expect the trend to continue in FY08, implying that the actual growth potential would be higher than guided.

Rupee exchange rate to govern stock price

Infosys's stock has been a significant under-performer in Q4FY07 as compared to the Sensex, IT index as well as peers like TCS. We believe the pessimism that is reining in the stock price primarily stems from concerns over rupee appreciation twinned with uncertainty regarding the company's guidance. While any further strengthening of the rupee would negatively impact the sector in FY08, we expect Infosys's guidance to set the mood for sector performance in the near term. If the company's guidance falls short of expectations, the stock performance of companies across the sector would likely take a hit. However, going further into FY08, individual performance and rupee movement would be the main determinants of stock prices.

Infosys

Buy

CMP : Rs 2,044 ⌘ Target : Rs 2,675

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	38.9	26.2	48.4	36.6	6.5
EBITDA	12.7	8.3	52.6	12.0	6.3
EBITDA margin (%)	32.6	31.7		32.7	
Net profit	10.5	6.7	56.5	9.8	7.2
EPS	18.8	12.2	53.8	17.6	6.6

Source: Company, Religare Research

- We expect Infosys to be only marginally affected by the rupee appreciation since the average rupee-dollar rate for the quarter, at Rs 44.17/$, was only slightly higher than the company's guidance of Rs 44.11/$.
- With approximately 4,100 gross employee additions, we estimate that volume sales will grow by 7% QoQ with a stable pricing environment. Revenues in dollar and rupee terms are projected to rise 7.3% and 6.5% respectively.
- We expect the Infosys management to give a guidance of 28-30% revenue growth in dollar terms for FY08, which would suggest a healthy demand scenario. However, considering the recent rupee appreciation the revenue guidance in rupee terms could be muted at 23-25%, with EPS growing at 22-23%.

Financial summary

Rs bn	FY06	FY07E	FY08E
Sales	95.2	140.1	183.3
Growth(%)	33.5	47.2	30.8
Net Profit	24.6	37.7	49.1
Growth(%)	30.0	53.4	30.1
EPS(Rs)	45.0	67.9	86.8
Growth(%)	27.8	50.9	27.8
PER(x)	45.4	30.1	23.5
ROE(%)	30.2	35.0	31.3
EV/EBITDA(x)	36.7	25.4	19.3

Source: Company, Religare Research

TCS

Buy

CMP : Rs 1,217 ⌘ Target : Rs 1,586

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	51.8	37.2	39.2	48.6	6.6
EBITDA	14.9	9.8	51.6	13.8	8.4
EBITDA margin (%)	28.8	26.4		28.3	
Net profit	12.0	8.0	51.0	11.1	8.8
EPS	12.3	8.1	50.9	11.3	8.8

Source: Company, Religare Research

- In our view, TCS would be hardest hit by the stronger rupee as the company uses the quarter-ending exchange rate for translation of its financial statements. The rupee has appreciated by approximately 2.5% when compared with last quarter's conversion rate.
- The company's dollar revenues are expected to grow by 8.3% over Q3FY07 aided by an ~8% expansion in volumes. However, when converted to rupees, revenue growth would come down to 5.7%.
- Despite this, we expect TCS to be the only IT major to record margin growth during the quarter at around 50 bps QoQ. This will come from the streamlining of costs in some of its low-margin businesses.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	132.6	186.7	240.7
Growth(%)	36.3	40.9	28.9
Net Profit	29.0	41.6	52.8
Growth(%)	41.2	43.6	26.8
EPS(Rs)	29.6	42.5	53.9
Growth(%)	33.4	43.6	26.8
PER(x)	44.9	31.2	24.6
ROE(%)	49.6	45.9	39.3
EV/EBITDA(x)	35.1	25.5	20.1

Source: Company, Religare Research

Wipro

Buy

CMP : Rs 562 ⌘ Target : Rs 717

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	42.2	30.5	38.3	39.6	6.5
Op. profit	7.9	6.4	23.2	7.7	2.7
EBITDA margin (%)	18.7	21.0		19.4	
Net profit	7.6	6.0	27.3	7.5	2.1
EPS	5.3	4.2	26.1	5.2	2.1

Source: Company, Religare Research

- In view of the strong performance of Wipro's Asia-Pacific IT business in the fourth quarter (expected growth of 11.4% QoQ), we estimate that Wipro's consolidated revenues will grow by 6.5% over Q3FY07. The Global IT business is likely to witness slower QoQ growth of 5.8% as we see a flattish growth trend in key verticals like telecom and BFSI.
- We expect a 70-bp QoQ fall in Wipro's operating profit margins as forex losses could be higher than anticipated due to reduced hedging positions. The company had trimmed its hedges from US$375mn at the end of Q2FY07 to US$188mn at the beginning of Q4FY07.
- We expect the management to give a relatively low guidance of 5% QoQ revenue growth in Q1FY08.

Financial summary

Rs bn	FY06	FY07E	FY08E
Sales	106.1	148.3	187.9
Growth(%)	30.4	39.8	26.7
Net Profit	20.3	28.1	35.1
Growth(%)	28.0	38.7	24.7
EPS(Rs)	14.4	19.8	24.4
Growth(%)	26.6	37.3	23.5
PER(x)	39.0	28.4	23.0
ROE(%)	25.7	27.6	26.7
EV/Op. Profit(x)	36.5	27.1	21.8

Source: Company, Religare Research

Satyam

Buy

CMP : Rs 462 ⌘ Target : Rs 578

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	17.7	13.1	34.6	16.6	6.4
EBITDA	4.3	3.3	29.6	4.1	5.7
EBITDA margin (%)	24.5	25.5		24.7	
Net profit	3.6	2.9	27.6	3.4	7.7
EPS	5.5	4.2	30.7	5.1	7.1

Source: Company, Religare Research

- We reckon that Satyam's revenues for the quarter will increase at a healthy rate of 6.4% QoQ, aided by 8% revenue growth of the standalone entity in dollar terms.
- However, margins are expected to come under pressure due to rupee appreciation and the impact of RSU charges. We anticipate a dip in gross and EBITDA margins by 60 bps and 20 bps QoQ respectively.
- The company's forthcoming guidance is keenly awaited - we expect the management to project revenue and EPS growth of 26% and 23-24% respectively for FY08 with a stable outlook on margins.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	47.9	64.7	81.8
Growth(%)	36.1	35.1	26.4
Net Profit	11.4	13.7	17.2
Growth(%)	60.4	20.4	24.8
EPS(Rs)	17.8	21.0	25.7
Growth(%)	50.8	17.8	22.5
PER(x)	26.2	22.0	18.0
ROE(%)	25.3	25.8	26.7
EV/EBITDA(x)	26.0	19.4	15.5

Source: Company, Religare Research

Tulip IT

Buy

CMP : Rs 626 ⌘ Target : Rs 705

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	2,318	1,778	30.3	2,222	4.3
EBITDA	454	263	72.7	393	15.6
EBITDA margin (%)	19.6	14.8		17.7	
Net profit	367	209	75.3	275	33.4
EPS	12.6	7.2	74.5	9.5	32.9

Source: Company, Religare Research

- In our view, the steady growth momentum in Tulip's corporate data connectivity (IP/VPN) business will continue. Our estimates place the number of connects added in the quarter by Tulip at about 11,500, taking the total number of connects to approximately 45,000.
- With the IP/VPN business growing at 14% QoQ, the EBITDA margin would expand by 190 bps. The margin growth would come from an increase in the segment's share in total revenue to 41% as compared to 37.4% in Q3FY07 and 21.9% in Q4FY06.
- Tulip witnessed a fall of 18% in average revenue per connect in Q3FY07 as compared to Q2FY07. We expect the trend to continue and anticipate a fall of 10-15% in average revenue per connect in Q4FY07 over the previous quarter.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	5,084	7,694	9,275
Growth(%)	48.6	51.3	20.5
Net Profit	485	982	1,467
Growth(%)	248.4	102.7	49.3
EPS(Rs)	16.7	33.9	50.6
Growth(%)	44.2	102.7	49.3
PER(x)	37.5	18.5	12.4
ROE(%)	25.9	35.9	36.0
EV/EBITDA(x)	28.5	14.4	10.7

Source: Company, Religare Research

Infotech Enterprises

Buy

CMP : Rs 352 ⌘ Target : Rs 403

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1,531	1,078	42.0	1,430	7.0
EBITDA	341	199	71.8	323	5.8
EBITDA margin (%)	22.3	18.4		22.6	
Net profit	233	166	40.5	188	24.2
EPS	5.1	3.7	39.8	4.1	24.2

Source: Company, Religare Research

- Driven by a strong ramp-up in business from top clients, we expect Infotech Enterprises to record a QoQ revenue growth of 7% in Q4FY07. However, due to the dual pressures of rupee appreciation and investments made in selling and marketing, we anticipate a 30-bp contraction in the EBITDA margin.
- Net profit growth, excluding associate company contribution, is expected to be at 6.6% QoQ. The consolidated net profit is projected to grow by 24.2% over Q3FY07 as associate company, IASI, which recorded a loss in Q3FY07 returns to profitability in the quarter.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	3,625	5,444	7,545
Growth(%)	41.0	50.2	38.6
Net Profit	503	821	1,148
Growth(%)	83.8	63.2	39.8
EPS(Rs)	11.2	18.0	25.2
Growth(%)	78.4	60.7	39.8
PER(x)	31.4	19.6	14.0
ROE(%)	20.46	20.8	20.7
EV/EBITDA(x)	23.5	13.5	8.5

Source: Company, Religare Research

Sasken Communications

Buy

CMP : Rs 510 ⌘ Target : Rs 642

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1,409	781	80.6	1,310	7.6
EBITDA	258	105	145.5	194	32.9
EBITDA margin (%)	18.3	13.5		14.8	
Net profit	167	63	165.2	119	40.4
EPS	5.9	2.2	162.6	4.2	40.4

Source: Company, Religare Research

- We expect Sasken to get back on track in Q4FY07 following slower growth in the third quarter. Rupee and dollar revenue growth for the quarter are estimated at 7.6% and 8.7% QoQ respectively. The stronger performance would be aided by increased contribution from Botnia and higher product revenues as compared to Q3FY07.
- In Q3FY07, the utilisation rates of Botnia had dropped due to the December holiday season. We now expect the EBITDA margin to expand by 350 bps QoQ to 18.3% in Q4FY07.
- Royalty revenues from the mobile phones of a Japanese client that commenced shipment in Q3FY07 would start coming in from Q4FY07 onwards. We expect royalty revenues to be around US$1.3mn in Q4FY07, further bolstering the profit margins.
- In our opinion, FY08 will be a high growth year for the company as a) Botnia would be contributing to revenues for the full year, and b) product revenues will rise significantly as more phone models carrying Sasken's software are shipped during the year.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	3,081	4,806	7,055
Growth(%)	27.4	56.0	46.8
Net Profit	229	491	899
Growth(%)	0.6	114.2	83.1
EPS(Rs)	9.1	17.4	31.6
Growth(%)	(34.9)	92.1	81.2
PER(x)	56.0	29.3	16.1
ROE(%)	6.0	12.8	18.0
EV/EBITDA(x)	30.2	18.7	11.8

Source: Company, Religare Research

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Media

Shooting for the stars

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	2,186.1	2,179.0	0.3	2,279.0	(4.1)
EBITDA	625.8	429.1	45.8	577.0	8.4
EBITDA margin (%)	28.6	19.7		25.3	
Net profit	313.4	261.4	19.9	335.2	(6.5)

Source: Religare Research

Revenues to touch Rs 1 trillion by 2011

Revenues of India's media and entertainment industry are forecast to more than double from Rs 437bn at present to Rs 1 trillion by 2011 as rising incomes drive recreation demand.

Tremendous scope for raising advertising spend

In 2006, the advertising spend in the country grew 23% over FY05 to Rs 163bn and is expected to double by 2011. We believe there is tremendous scope for growth considering India's ad spend position vis-à-vis other countries.

CAS and DTH to propel TV industry earnings

The television industry is expected to grow at an 18% CAGR over the next five years. The emergence of new delivery platforms such as CAS and DTH would bring in transparency in business and also improve the profitability of broadcasters.

Film digitalisation to benefit producers

Film industry revenues are projected to grow at a 12.6% CAGR during this period. With the advent of digitalisation, we expect producers and exhibitors to gain while the distribution segment could witness volatility.

Radio gets a shot in the arm from favourable licensing policy

The radio segment would grow significantly going forward on the back of a favourable second-phase licensing policy. Growth would also be driven by the increasing use of FM radio-enabled mobile phones.

Multiplex boom continues

The mushrooming of multiplexes in the last two years has established their strong presence as well as future growth potential. Over 60 additional multiplexes with more than 220 screens were slated to commence operations by the end of FY06, reflecting a growth rate of 80% YoY from 73 multiplexes in FY04. This increase would be aided by a tremendous growth phase of the organised retail sector from a mere 2% in FY04 to around 10-12% by FY10.

Balaji Telefilms — Buy

CMP: Rs 128 ⌘ Target: Rs 165

Rs mn	Q4FY07E	Q4FY06	YoY growth(%)	Q3FY07	QoQ growth(%)
Sales	889.5	769.1	15.7	850.3	4.6
EBIDTA	326.0	247.6	31.6	341.0	(4.4)
EBIDTA margin(%)	36.6	32.2	-	40.1	-
PAT	207.0	155.0	33.6	214.8	(3.6)
PAT margin(%)	23.3	20.2	-	25.3	-
EPS	12.7	9.5	33.6	13.2	(3.6)

Source: Company, Religare Research

- Higher commissioned programming realisations as well as increased programming hours would drive revenue growth. Programmes introduced at the beginning of the year are expected to garner higher TRPs and would contribute substantially to revenues during the quarter.
- We expect the company's operating margin to expand YoY due to the above reasons, which would drive bottomline growth significantly.
- Balaji's move to form a separate 100% subsidiary to handle the film business would help the company focus on its television software business and do justice to the film segment through its subsidiary.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	2803.7	3290.3	3984.2
Growth(%)	42.5	17.4	21.1
Net Profit	596.4	788.5	875.8
Growth(%)	44.4	32.2	11.1
EPS(Rs)	9.1	12.1	13.4
Growth(%)	14.1	32.2	11.1
PER(x)	14.0	10.6	9.5
ROE(%)	24.5	27.3	25.8
EV/EBITDA(x)	8.2	6.4	5.8

Source: Company, Religare Research

UTV Software — Sell

CMP: Rs 287 ⌘ Target: Rs 250

Rs mn	Q4FY07E	Q4FY06	YoY growth (%)	Q3FY07	QoQ growth (%)
Sales	322.0	836.4	(61.5)	435.8	(26.1)
EBIDTA	59.1	84.6	(30.2)	34.7	70.4
EBIDTA margin(%)	18.3	10.1	-	8.0	-
PAT	10.2	66.4	(84.6)	19.2	(46.5)
PAT margin(%)	3.2	7.9	-	4.4	-
EPS	1.8	13.6	-	3.3	(46.5)

Source: Company, Religare Research

- UTV is expected to register negative topline and bottomline growth due to the near absence of film revenues in the quarter. Although movies like the Namesake and Hatrick were released during the quarter, the revenue flow would start only from the next quarter.
- The company is foraying into the lucrative segments of Gaming and Animation in a big way. Going forward, these two segments are expected to contribute significantly to revenues.
- UTV has recently announced a world cinema channel to be launched during April 2007. This too will enhance profitability.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	1767.9	1667.3	4251.7
Growth(%)	57.2	(20.0)	155.0
Net Profit	162.4	367.5	406.1
Growth(%)	248.9	158.4	10.5
EPS(Rs)	8.3	14.8	16.3
Growth(%)	421.3	102.8	10.5
PER(x)	39.3	19.4	17.6
ROE(%)	15.9	18.0	13.8
EV/EBITDA(x)	57.0	37.6	11.6

Source: Company, Religare Research

PVR Cinema

Buy

CMP: Rs 179 ⌘ Target: Rs 228

Rs mn	Q4FY07E	Q4FY06	YoY growth (%)	Q3FY07	QoQ growth(%)
Sales	356.0	246.2	44.6	395.4	(10.0)
EBIDTA	66.5	22.7	192.9	53.2	25.0
EBIDTA margin(%)	18.7	9.2	-	13.5	-
PAT	21.4	8.9	140.4	16.6	28.9
PAT margin(%)	6.0	3.6	-	4.2	-
EPS	3.7	1.6	140.4	2.9	28.9

Source: Company, Religare Research

- During the quarter PVR began operating three new screens at its 5-screen multiplex in Juhu, Mumbai (two screens were already in operation).
- Entertainment tax exemptions for some properties in Mumbai, Indore and Lucknow as well as higher ticket prices would drive revenue growth.
- We estimate that operating as well as net profit would expand during the quarter due to the spreading of overheads over a larger number of properties and the improvement in revenues.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	703.4	1590.6	2926.8
Growth(%)	0.0	51.6	84.0
Net Profit	36.5	105.0	289.8
Growth(%)	-	98.5	176.0
EPS(Rs)	2.1	4.6	12.7
Growth(%)	-	98.5	176.0
PER(x)	77.4	39.0	14.1
ROE(%)	6.9	5.7	13.7
EV/EBITDA(x)	29.7	17.7	7.2

Source: Company, Religare Research

Inox Leisure

Buy

CMP: Rs 111 ⌘ Target: Rs 125

Rs mn	Q4FY07E	Q4FY06	YoY growth(%)	Q3FY07	QoQ growth(%)
Sales	396.3	256.9	54.2	422.6	(6.2)
EBIDTA	115.3	78.2	47.4	95.6	20.6
EBIDTA margin(%)	29.1	30.4	-	22.6	-
PAT	36.2	43.8	(17.3)	48.3	(25.0)
PAT margin(%)	9.1	17.1	-	11.4	-
EPS	2.4	2.9	(17.3)	3.2	(25.0)

Source: Company, Religare Research

- Inox has started operations of a 5-screen multiplex in Chennai and a 3-screen multiplex in Jaipur during the quarter. We expect a significant jump in year-on-year revenues given the larger operational base.
- We, however, believe that the operating margin will come under pressure YoY as the company would be moving to the leased business model.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	1071.1	1542.0	2351.7
Growth(%)	74.2	44.0	52.5
Net Profit	175.4	237.8	441.9
Growth(%)	113.5	35.6	85.8
EPS(Rs)	2.9	4.0	7.4
Growth(%)	60.1	35.6	85.8
PER(x)	38.0	28.0	15.1
ROE(%)	12.7	9.3	14.0
EV/EBITDA(x)	21.5	17.7	10.3

Source: Company, Religare Research

Shringar Cinema — Buy

CMP: Rs 51 ⌘ Target: Rs 61

Rs mn	Q4FY07E	Q4FY07E	YoY growth(%)	Q3FY07	QoQ growth(%)
Sales	222.3	70.3	216.2	174.9	27.1
EBIDTA	58.9	(4.0)	1572.9	52.6	12.1
EBIDTA margin(%)	26.5	(5.7)	-	30.1	-
PAT	38.5	(12.8)	400.5	36.4	5.8
PAT margin(%)	17.3	(18.2)	-	-	-
EPS	4.9	(1.6)	400.5	4.6	5.8

Source: Company, Religare Research

- Entertainment tax benefit on multiplexes at Kolkata, Aurangabad and Mumbai (recently opened at Kandivali) would add considerably to revenue during the quarter.
- Shringar has been registering higher operating margins for the last three quarters on the back of - a) a higher number of multiplexes, b) entertainment tax exemptions, c) higher average ticket prices and d) overhead costs being distributed over a larger base. We expect the growth momentum to continue into the fourth quarter as well.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	580.1	758.8	1384.6
Growth(%)	53.2	30.8	82.5
Net Profit	(29.0)	106.8	156.4
Growth(%)	44.2	468.4	46.4
EPS(Rs)	(0.9)	2.6	3.8
Growth(%)	58.6	384.1	46.4
PER(x)	-	15.1	10.3
ROE(%)	-	17.4	21.5
EV/EBITDA(x)	37.6	11.7	6.1

Source: Company, Religare Research

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Metals

Buoyant demand steels prices

Sector snapshot

Rs bn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	227.3	201.3	12.9	214.2	6.1
EBITDA	75.5	51.2	47.5	67.8	11.4
EBITDA margin (%)	33.2	25.4		31.6	
Net profit	43.9	35.3	24.3	40.9	7.4

Source: Religare Research

Ferrous metals

Steel prices have risen in Q1CY07...

Steel prices have firmed up globally during Q1CY07, after a drop in late CY06, due to a pick-up in demand in both developed as well as developing countries. During the quarter, hot rolled coil prices moved up by 32.6% YoY from about US$ 400/MT in Q1CY06 to US$ 530/MT. Steel prices have also increased by 5.3% QoQ.

...with steady global demand set to keep prices firm

With modest inventories in the US and Europe and steady demand from Japan, we expect steel prices to remain firm. Prices will be further strengthened by higher-than-anticipated demand in China (likely 10% rise in 2007 and 2008) coupled with the ~10% export duty levied on most steel products in November 2006.

In addition, strong demand growth at over 10% from developing regions witnessing a construction boom such as Brazil, India, the Middle East and Russia is expected to keep steel prices firm. However, China's capacity addition at a rate of over 20% and recent shift to net exporter status in 2006, remain threats to the steel industry.

Non-ferrous metals

Aluminium - Strong demand while inventories dip

A fall in inventory levels coupled with strong demand has resulted in firm aluminium prices during Q1CY07. Prices have increased by 15.7% YoY during Q1CY07 to about US$ 2,800/MT.

Alumina - Price recovery after three quarters of de-growth

The average alumina price has fallen by nearly 50% YoY to US$ 317 during Q1CY07. However, prices have increased by 32% QoQ after declining in the last three quarters.

Copper - Volatility seen during the quarter

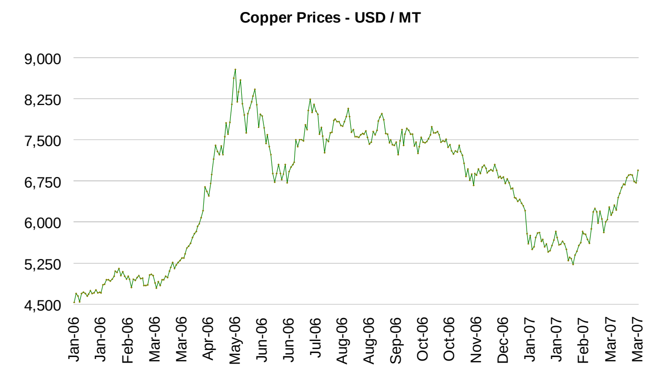
Strong demand and low inventories are expected to keep prices firm in the near term. However, prices have been volatile during the quarter. The price of copper decreased to US$ 5,226/MT in February and has recovered to US$ 7,464/MT at present. We expect tightness in the Tc/Rc margins owing to a shortage of concentrates.

Zinc - Prices on the decline as supply moves up

During Q1CY07, the average price of zinc has decreased by about 17.5% QoQ to US$ 3,460/MT mainly due to rising supply from China and India. ILZSG expects the global refined zinc metal output to increase by 4.9% in 2007, primarily driven by expansion in China where an increase of 10% is forecast. A significant supply increase is also anticipated in India, Kazakhstan and South Korea. However, ILZSG expects the global demand to increase by only 2.6% to about 11.4 mn MT in 2007. In view of the above, we expect zinc prices to fall during CY07.

Bullish on SAIL, Tata Steel and JSW Steel

We remain positive on steel companies like SAIL, Tata Steel and JSW Steel which have clocked better operating profit margins as a result of higher realisations and an increasing share of value added products.



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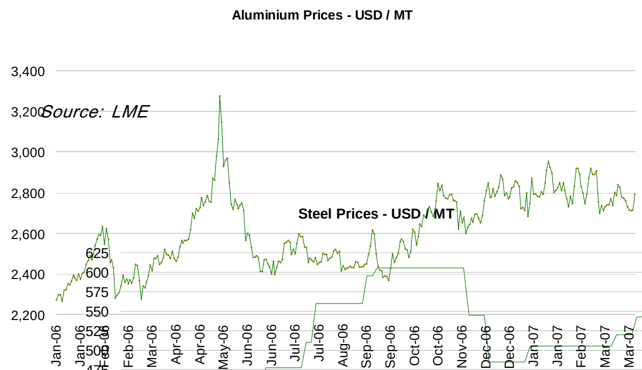

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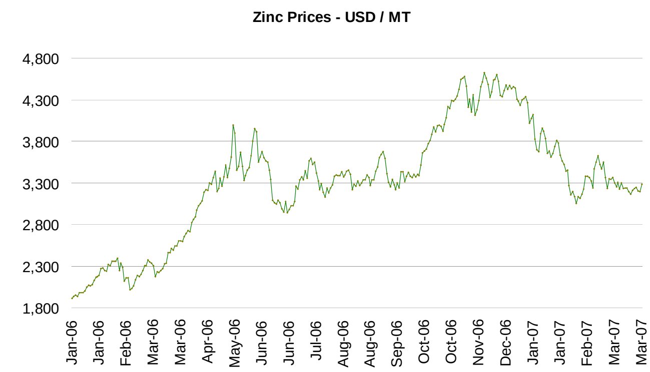

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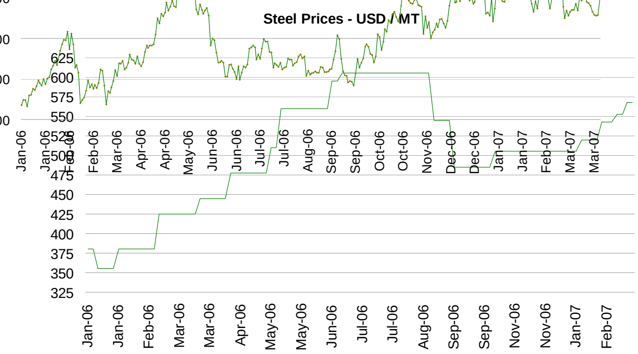

Source: Bloomberg

Hindalco

Sell

CMP: Rs 132* ⌘ Target: Rs 145

Rs bn	Q2FY07	Q2FY06	YoY Growth (%)	Q1FY07	QoQ Growth (%)
Revenue	42.3	36.6	15.6	46.6	(9.2)
EBITDA	10.2	9.3	10.0	10.5	(2.1)
EBITDA margin (%)	24.2	25.4	-	22.4	-
Net profit	6.2	6.3	(0.8)	6.4	(3.5)
EPS	5.4	6.4	-	6.2	-

Source: Company, Religare Research

- Despite higher aluminium prices during the quarter, we expect tightness in the Tc/Rc margins to pull down QoQ growth in net sales. We, however, expect the topline to register YoY growth of 15.6%.
- A higher contribution from the aluminium business at operational levels is likely to decrease the impact of margin contraction.
- We expect Hindalco's debt burden to increase substantially after the Novelis acquisition.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	114.0	177.9	19.1
Growth (%)	19.7	56.1	7.5
Net Profit	16.6	24.7	22.0
Growth (%)	24.5	48.9	(10.8)
EPS (Rs)	16.8	21.7	19.0
Growth (%)	17.5	29.2	(12.4)
PER (x)	7.9	6.1	6.9
RoE (%)	17.1	20.0	13.2
EV/EBITDA (x)	4.6	3.5	4.5

Source: Company, Religare Research

Nalco

Sell

CMP: Rs 234* ⌘ Target: Rs 225

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	15.3	15.4	(0.4)	14.5	5.8
EBITDA	8.9	9.7	(8.7)	8.5	4.8
EBITDA margin (%)	57.8	63.1	-	58.3	-
Net profit	5.6	6.1	(8.8)	5.7	(3.1)
EPS	8.6	9.4	-	8.9	-

Source: Company, Religare Research

- We expect net sales in Q4FY07 to remain at the same levels as in Q4FY06 on account of a subdued performance from the alumina division.
- Higher contribution of alumina (more then 65% of EBIT) is expected to cause operating profits to dip during the quarter. Subsequently, the EBITDA margin is expected to decline by 530 bps YoY.
- The company has planned a capex of Rs 40.9bn to increase the capacities of its mines to 6.3mn MTPA, alumina to 2.1mn MTPA and aluminium to 0.46mn MTPA. In addition, Nalco plans to increase its CPP capacity to 1,200 MW.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	48.9	59.1	53.1
Growth (%)	18.6	20.9	(10.2)
Net Profit	16.0	23.5	19.4
Growth (%)	30.4	47.0	(17.4)
EPS (Rs)	24.7	36.4	30.1
Growth (%)	30.4	47.0	(17.4)
PER (x)	9.5	6.4	7.8
RoE (%)	29	34	19
EV/EBITDA (x)	4.8	3.1	4.3

Source: Company, Religare Research

* Stock prices as on 5th April 2007

Tata Steel

Buy

CMP: Rs 465* ⌘ Target: Rs 535

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	47.4	41.9	14.8	44.7	6.1
EBITDA	19.1	13.0	46.5	17.8	6.9
EBITDA margin (%)	40.2	31.5	-	39.9	-
Net profit	11.2	7.8	43.3	10.6	5.5
EPS	18.4	14.1	-	18.3	-

Source: Company, Religare Research

- During Q4FY07, net sales are expected to grow by about 14.8% YoY mainly driven by an 11% increase in realisation.
- The EBITDA margin is expected to expand by 869 bps YoY on account of a rise in share of value-added products, higher realisations and better operational efficiency.
- Stock performance has been subdued due to the higher acquisition cost of Corus.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	151.4	173.1	180.0
Growth (%)	4.4	14.4	4.0
Net Profit	35.1	43.5	43.2
Growth (%)	0.9	24.1	(0.7)
EPS (Rs)	63.3	71.4	70.9
Growth (%)	0.8	12.8	(0.7)
PER (x)	7.3	6.5	6.6
RoE (%)	40.5	37.2	27.5
EV/EBITDA (x)	4.8	4.3	3.8

Source: Company, Religare Research

SAIL

Buy

CMP: Rs 114* ⌘ Target: Rs 132

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	99.0	92.2	7.4	85.4	15.9
EBITDA	28.9	15.2	90.7	23.3	23.9
EBITDA margin (%)	29.2	16.4	-	27.3	-
Net profit	17.5	11.0	58.8	14.4	21.4
EPS	4.2	2.7	-	3.6	-

Source: Company, Religare Research

- We expect SAIL to post a robust 15.9% QoQ increase in revenues during the quarter primarily on account of higher realisations.
- EBITDA margin is expected to expand by 1,275 bps YoY led by a better product mix, higher realisations, operational efficiency, higher capacity utilisation and lower input (coking coal) costs.
- SAIL plans to expand its crude steel capacity to 23mn MTPA by 2010.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	287.8	343.9	352.4
Growth (%)	(1.1)	19.5	2.5
Net Profit	40.1	60.5	64.5
Growth (%)	(41.1)	50.8	6.6
EPS (Rs)	9.7	14.7	15.6
Growth (%)	(41.1)	50.8	6.6
PER (x)	11.7	7.8	7.3
RoE (%)	31	35	29
EV/EBITDA (x)	4.2	3.7	3.1

Source: Company, Religare Research

* Stock prices as on 5th April 2007

JSW Steel

Buy

CMP: Rs 497* ⌘ Target: Rs 615

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	23.3	15.8	47.2	23.0	1.3
EBITDA	8.5	4.0	110.6	7.7	9.8
EBITDA margin (%)	36.3	25.3	-	33.4	-
Net profit	3.4	4.1	(17.7)	3.6	(6.7)
EPS	14.5	25.9	-	15.7	-

Source: Company, Religare Research

- During Q4FY07, we expect net sales to increase by 47.2% YoY on the strength of robust 24% volume growth. The higher volumes are a result of capacity expansion from 2.5mn MTPA to 3.8mn MTPA.
- We forecast an 1,100-bp YoY rise in EBITDA margin on account of higher realisations and a larger contribution from value-added products.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	61.8	84.0	99.5
Growth (%)	(7.5)	35.9	18.5
Net Profit	8.6	12.2	14.0
Growth (%)	(0.6)	40.8	15.3
EPS (Rs)	55.1	70.7	81.5
Growth (%)	(15.3)	28.5	15.3
PER (x)	9.0	7.0	6.1
RoE (%)	23.8	24.2	24.1
EV/EBITDA (x)	5.8	4.0	3.7

Source: Company, Religare Research

* Stock prices as on 5th April 2007

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Oil and Gas

Spate of acquisitions

Sector snapshot

Rs bn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	403.2	364.4	10.7	420.4	(4.1)
EBITDA	140.0	114.9	21.8	144.4	(3.1)
EBITDA margin (%)	34.7	31.5		34.3	
Net profit	74.1	55.9	32.6	74.7	(0.8)

Source: Religare Research

Continuing demand-supply mismatch

Oil and natural gas account for almost 60% of the world's primary energy consumption. Over the last decade, world oil consumption increased at a CAGR of 1.7%, primarily driven by emerging economies like China and India (CAGR of 7.4% and 4.4% respectively). Natural gas consumption increased at a CAGR of 2.5%, where China and India registered a CAGR of 10.4% and 6.6% respectively. However, the US, the world's largest gas consumer, witnessed a decline over the same period.

On the supply side, companies across the world witnessed significant exploration success in the Middle-East, Russia, North Sea and the US Gulf of Mexico region - however, the growing demand continues to outstrip supply.

Stable demand to keep crude prices at US$ 60-65/bbl

Recently, a slowdown in the US economy coupled with oversupply by OPEC countries has brought down hydrocarbon prices to US$ 55 per barrel (bbl) after they touched an all-time high of US$ 74/bbl in mid-2006. However, OPEC cut the oil production at regular intervals in order to keep the oil prices firm. Going forward, we expect the oil product demand to remain stable given the higher growth expected from energy-dependant countries like China and India in the medium to long term. This should keep prices in the range of US$ 60-65/bbl.

Declining reserve replacement ratio

With the recent spike in oil prices, rig counts have started increasing, reflecting the strong growth in upstream investments. However, the capital expenditure is more in the nature of development of wells rather than new exploration activities.

Lack of attractive drilling opportunities in the areas open to industries has forced companies to increase their production level by developing existing oil wells and through acquisitions. This, in turn, resulted in poor reserve replacement ratios of the oil majors. Except Exxon Mobil, the ratios of all oil majors including British Petroleum, Chevron and Royal Dutch declined in 2004 as compared to 2003. Also, the percentage of oil replaced is on a downtrend, which is a matter of concern for long-term growth.

India - Oil import dependency to continue

India's demand for crude oil is expected to increase at a CAGR of 9.6% to reach 204 mtpa by 2010-11 from 129 mtpa in 2005-06, while production has stagnated at around 33-34 mtpa since 1989. Currently, India imports about 76% of its oil requirement which is expected to increase to almost 80% in 2010-11. ONGC's production is likely to decline during the period as the Mumbai High Field is expected to move into a declining phase; however, production from new fields is expected to partially offset this decline.

Indian oil companies embark on acquisition spree

An encouraging sign for the sector is the acquisitions made by Indian oil companies in the recent past. ONGC Videsh (OVL), a 100% subsidiary of ONGC, has acquired stakes in almost 20 oil assets worldwide. In addition, Gail and China Gas plan to form a new venture for the distribution of natural gas and related technology in China. Private companies like Reliance, Videocon and Essar Oil have also acquired oil equity abroad. International oil stakes provide a cushion to Indian oil firms in the rising oil price scenario.

Reliance Industries — Buy

CMP: Rs 1,384 ⌘ Target: Rs 1,557

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	246.6	245.4	0.5	264.7	(6.8)
EBITDA	42.7	41.3	3.3	47.5	(10.2)
EBITDA margin (%)	17.3	16.8		17.9	
Net profit	26.9	25.0	7.6	28.0	(3.8)
EPS	19.3	18.0	7.4	20.1	(3.9)

Source: Company, Religare Research

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	812.1	1,041.3	1,090.1
Growth (%)	23.0	28.2	4.7
Net Profit	90.7	107.5	116.1
Growth (%)	19.8	18.5	8.0
EPS (Rs)	65.1	77.1	83.3
Growth (%)	20.2	18.5	8.0
PER (x)	21.3	17.9	16.6
RoE (%)	18.2	19.1	20.6
EV/EBITDA (x)	11.4	9.6	9.1

Source: Company, Religare Research

- RIL had reported healthy refining margins of US$ 11.7/bbl in Q3FY07 against benchmark margins of US$ 3.9. We do not expect this strong premium over the benchmark to continue and project a 64-bp QoQ drop in EBITDA margin for Q4FY07 to 17.3%. However, we expect RIL to maintain its steady growth path considering its huge gas reserves, hydrocarbon production plans, acquisition of IPCL and new pipeline plans.
- RIL is all set to start its oil and gas production from FY09 with oil production to reach 50,000 bpd and gas production to ramp up to 80 mmscmd within 24 months.
- The company is also expected to benefit from its plan of building 1,400-km-long pipeline infrastructure, scheduled for completion by mid-2008. This pipeline will extend from Andhra Pradesh to Gujarat with a gas transmission capacity of 80 mmscmd.

ONGC — Buy

CMP: Rs 867 ⌘ Target: Rs 1,050

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	156.6	119.0	31.7	155.7	0.6
EBITDA	97.3	73.6	32.2	96.8	0.4
EBITDA margin (%)	62.1	61.8		62.2	
Net profit	47.2	30.9	52.8	46.7	1.0
EPS	22.0	12.4	77.2	21.8	0.9

Source: Company, Religare Research

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	479.3	599.0	606.4
Growth (%)	3.4	25.0	1.2
Net Profit	144.3	176.8	182.5
Growth (%)	11.1	22.5	3.3
EPS (Rs)	65.5	82.6	85.3
Growth (%)	7.9	26.2	3.2
PER (x)	13.2	10.5	10.2
RoE (%)	26.7	32.8	33.8
EV/EBITDA (x)	6.1	5.0	5.0

Source: Company, Religare Research

- ONGC will continue to benefit from soft crude oil prices and witness higher volume growth during the quarter. Furthermore, ongoing developments at Rajasthan block and the recent exploration success off India's east coast will fuel growth. ONGC's recent large 21 tcf gas discovery in the KG basin and robust capex plan of Rs 827bn for the next five years will sustain future growth.
- ONGC, through its subsidiary company MRPL, is also planning to strengthen its presence in the refining business. In addition, it is planning to enter into the direct marketing of oil products by establishing about 1,600 retail outlets across the country.
- ONGC Videsh (OVL) is likely to remain a key growth driver for the company in the near term. OVL's total proved reserves account for almost 22% of the company's total proved reserves. Furthermore, unlike ONGC's India production, OVL's production will fetch international crude prices without deduction of the subsidy burden. OVL acquired 12 oil assets in CY06 and finalised six acquisitions in CY07 till date.

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Pharmaceuticals

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In good health

Sector snapshot

Rs bn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	26.7	20.4	31.2	26.8	(0.4)
EBITDA	5.8	4.1	42.2	5.6	4.5
EBITDA margin (%)	21.8	20.1		20.8	
Net profit	3.9	2.6	50.2	3.9	(1.4)

Source: Religare Research

Robust performance expected in Q4FY07

We expect our pharma universe to report a Q4FY07 sales growth of 31.2% YoY driven by strong growth in the international market and stable growth in the domestic market. Our pharma universe is expected to witness an EBIDTA margin expansion of 170 bps for Q4FY07 led by increasing contribution from regulated markets. This margin expansion is likely to trickle down to the bottomline where we forecast a growth of 50.2% YoY to Rs 3.8bn.

Industry consolidation to continue

The pharma industry has witnessed a series of M&A activity over the last few years. We expect this wave of consolidation to continue. We further believe that companies with a strong product pipeline, lean cost structure, geographical diversification, healthy balance sheet and investments in R&D activity will survive in the longer run.

Generics - Pricing pressure here to stay

The generic industry has witnessed intense pricing pressure over the last few years. With drugs worth US$ 40bn-45bn going off patent in the US market over 2007-09 and the third wave of generic companies making an entry, we believe pricing pressure is here to stay. In our view, companies with a strong product pipeline who can take advantage of '180 day exclusivities' or 'Authorised Generic' opportunities will be the key beneficiaries of drugs going off patent. We further believe that companies with a lean cost structure will survive intense competition in these markets.

Non-US market a huge opportunity for generics

While the US remains the single largest generic market, the non-US market estimated to be worth US$ 77bn by 2010 cannot be ignored by generic companies. We expect many Indian companies to take advantage of this lucrative opportunity and reduce their dependence on the key regulated markets which are witnessing intense competition.

CRAMS - India scores over China on several fronts...

The global outsourcing industry is estimated to grow at a 14% CAGR to US$ 25bn over 2005-09. Intense pricing pressure, rising R&D cost, and declining R&D productivity is forcing innovator pharma companies to outsource a part of their operations to low-cost countries like India and China. Although the cost of manufacturing is 25-30% lower in China than in India, India scores over China in terms of IPR adherence, cracking complex chemistry and language proficiency.

...and companies working on 'on-patent' drugs to benefit significantly

We believe that while the CRAMS opportunity is large enough for many Indian companies, it is players working on 'on-patent' drugs with their partners who will be the prime beneficiaries. We further believe that companies which are strongly integrated and who have built strong relations with the innovators will capture a major slice of the pie. Our top pick in the sector is Dishman Pharma who is leveraging strongly on its relationship with innovator pharma companies.

Domestic market - Growth momentum to continue

While Indian companies have been focusing on the international market for growth, the domestic market itself recorded a healthy growth of 14% in 2006. We believe this growth momentum will continue and expect the domestic market to witness a revenue CAGR of 10-12% over 2006-10. We expect MNC pharma companies to start launching patented products from their parent's portfolio somewhere in 2008 and expect it to gain critical mass by 2010-11. Although the growth story looks intact, any adverse announcement in the impending National Pharma Policy can impede the growth of the industry.

Discovery - The key to future growth

While growth in the medium term would be driven by generics, investments in R&D will determine the next phase of growth for the industry. Consequently, leading Indian companies have started investing in NCE/NDDS for long-term growth. We believe Indian companies have the capability to discover new molecules and expect continuous positive news flow from the industry.

Cadila Healthcare

Buy

CMP: Rs 348 ⌘ Target: Rs 417

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	4,068.0	3,460.0	17.6	4,724.0	(13.9)
EBITDA	813.6	656.0	24.0	823.0	(1.1)
EBITDA margin (%)	20.0	19.0		17.4	
Net profit	447.5	306.0	46.2	659.0	(32.1)
EPS	14.3	9.7	46.2	21.0	(32.1)

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	14,453.0	17,999.0	21,186.0
Growth(%)	16.3	24.5	17.7
Net Profit	1,524.0	2,239.0	2,778.0
Growth(%)	25.4	46.9	24.1
EPS(Rs)	12.2	17.8	22.1
Growth(%)	25.9	46.5	24.2
PER(x)	28.6	19.6	15.7
ROE(%)	23.6	30.5	33.4
EV/EBITDA(x)	20.8	13.2	10.4

Source: Company, Religare Research

- Cadila Healthcare is expected to record sales growth of 17.6% YoY to Rs 4bn for Q4FY07. Revenue growth would be driven by a 20% increase in exports and 13% rise in domestic formulations. Domestic formulation growth has lagged behind overall industry growth due to restructuring of the field force during the first half of the year.
- EBIDTA margin is likely to improve by 100 bps YoY to 20% driven by higher contribution from export formulations and the consumer division business. We expect higher depreciation and interest costs to restrict earnings growth to 46% YoY to Rs 447mn.
- After a muted FY07, we expect domestic formulation growth to outperform the average industry growth in FY08. Export formulation growth would be driven by key markets like the US, France and Brazil.

Dishman Pharma

Buy

CMP: Rs 204 ⌘ Target: Rs 270

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1,853.0	619.0	199.4	1,737.0	6.7
EBITDA	481.8	181.0	166.2	489.0	(1.5)
EBITDA margin (%)	26.0	29.2		28.2	
Net profit	294.0	194.0	51.5	244.0	20.5
EPS	14.5	11.3	50.9	14.2	2.3

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	2,774.0	5,581.0	8,727.0
Growth(%)	47.1	101.2	56.4
Net Profit	508.0	892.0	1,288.0
Growth(%)	58.2	75.6	44.4
EPS(Rs)	7.4	11.0	15.9
Growth(%)	57.8	48.5	44.4
PER(x)	27.5	18.5	12.8
ROE(%)	30.3	38.7	38.8
EV/EBITDA(x)	23.3	12.0	7.3

Source: Company, Religare Research

- We expect Dishman Pharma to record sales growth of 199% YoY to Rs 1.8bn for Q4FY07. The growth would be driven by a) sales of Eposartan Mesylate to Solvay, which is estimated to touch the Rs 1bn-mark for FY07, and b) contribution from Carbogen-Amcis (CA), which was acquired last year.
- Contracts with clients other than Solvay are gaining traction which is reducing dependence on Solvay revenue. Contract research has also scaled up over the year. Further, the Marketable Molecule segment has witnessed increasing momentum.
- We estimate that there will be a 300-bps YoY decline in EBIDTA margin to 26% on account of lower margins of CA as compared to the company's core business. Higher depreciation cost is likely to restrict PAT growth to 52% to Rs 294mn.
- We believe Dishman is well placed to benefit significantly from the huge outsourcing opportunity for Indian companies. Increasing activity at CA where customers are willing to shift operations to India augurs well for Dishman and the industry in the long term.

Divi's Laboratories Hold

CMP: Rs 3,169 ⌘ Target: Rs 3,076

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1,652.3	1,271.0	30.0	1,496.0	10.4
EBITDA	470.9	388.0	21.4	425.0	10.8
EBITDA margin (%)	28.5	30.5		28.4	
Net profit	363.5	229.0	58.7	327.0	11.2
EPS	113.6	71.6	58.7	102.2	11.2

Source: Company, Religare Research

- Divi's Q4FY07 revenues are expected to grow by 30% YoY to Rs 1.7bn, led by continued momentum in both the generics and custom chemical synthesis (CCS) business.
- The EBITDA margin is expected to remain flat at 28.5% on account of commissioning of new facilities which are yet to realise full potential. ESOP charges of Rs 60mn would also keep margins in check.
- Over the last few years Divi's has demonstrated its ability to crack complex chemistry, which has seen its CCS business gain traction. The ability to manufacture difficult products like carotenoids (likely to be launched in August 2007), is a key strength. We expect increasing momentum in CCS in FY08 along with volume growth in key generic APIs. Although the growth story looks intact, current valuations factor in all the positives.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	3,811.0	6,062.0	8,168.0
Growth(%)	9.7	59.1	34.7
Net Profit	705.0	1,143.0	1,597.0
Growth(%)	6.8	62.1	39.7
EPS(Rs)	55.1	89.3	124.8
Growth(%)	6.7	62.1	39.7
PER(x)	57.5	35.5	25.4
ROE(%)	22.6	29.3	31.2
EV/EBITDA(x)	35.3	24.2	17.1

Source: Company, Religare Research

Jubilant Organosys Hold

CMP: Rs 260 ⌘ Target: Rs 275

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	5,146.0	4,238.0	21.4	4,693.0	9.7
Op. profit	916.0	693.0	32.2	898.0	2.0
EBITDA margin (%)	17.8	16.4		19.1	
Net profit	617.5	482.0	28.1	637.0	(3.1)
EPS	13.6	10.7	28.1	14.1	(3.1)

Source: Company, Religare Research

- Jubilant's Q4FY07 sales are expected to grow by 21.4% YoY to Rs 5.1bn, driven by a 57% increase in the Pharma and Life Sciences business (PLSC). CRAMS would continue to be the contributor for the PLSC business, while the quarter should also witness a minor contribution from Oxcarbazepine sales to the US.
- The EBITDA margin is expected to improve by 140 bps YoY to 17.8% on account of higher contribution from CRAMS and favourable raw material prices.
- Jubilant has emerged as a one-stop shop, which provides services across the entire pharma value chain. We expect the growth momentum achieved in PLSC over the last two years to sustain in FY08. Industrial Chemicals and Performance Chemicals remain cash cows for the company.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	15,053.0	18,610.0	22,751.0
Growth(%)	28.6	23.6	22.3
Net Profit	1,297.0	2,350.0	2,903.0
Growth(%)	8.8	81.2	23.5
EPS(Rs)	7.2	13.0	16.0
Growth(%)	9.1	80.6	23.1
PER(x)	36.1	20.0	16.3
ROE(%)	19.5	25.2	25.0
EV/Op. Profit(x)	17.1	11.1	8.3

Source: Company, Religare Research

Nicholas Piramal India — Buy

CMP: Rs 252 ⌘ Target: Rs 285

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	5,599.0	4,056.0	38.0	6,495.0	(13.8)
EBITDA	867.8	477.0	81.9	971.0	(10.6)
EBITDA margin (%)	15.5	11.8	3.7	14.9	
Net profit	434.0	97.0	347.4	556.0	(21.9)
EPS	8.3	1.9	347.4	10.6	(21.6)

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	15,825.0	23,866.0	28,830.0
Growth(%)	21.0	50.8	20.8
Net Profit	1,207.0	2,068.0	3,093.0
Growth(%)	(26.4)	71.3	49.6
EPS(Rs)	5.8	9.9	14.8
Growth(%)	(32.6)	70.7	49.5
PER(x)	43.4	25.5	17.0
ROE(%)	15.4	18.4	22.9
EV/EBITDA(x)	25.9	13.5	10.1

Source: Company, Religare Research

- NPIL is expected to report revenue growth of 38% to Rs 5.6bn in Q4FY07, driven by continued momentum in its CRAMS business and consolidation of Pfizer's Morepeth facility which was acquired in June 2006. The domestic formulations business is likely to grow at 14% YoY.
- We expect a 370-bp YoY expansion in EBITDA margin to 15.5% driven by contribution from the domestic market and Morepeth, as well as declining losses at Avecia.

  FY08 is likely to witness increasing momentum in CRAMS, a turnaround at Avecia and industry-beating growth in domestic formulations.

Biocon — Hold

CMP: Rs 489 ⌘ Target: Rs 487

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	2,839.5	2,143.0	32.5	2,470.0	15.0
EBITDA	851.8	605.0	40.8	777.0	9.6
EBITDA margin (%)	30.0	28.2		31.5	
Net profit	624.7	478.0	30.7	560.0	11.6
EPS	25.0	19.1	30.7	22.4	11.6

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	7,881.0	9,638.0	11,547.0
Growth(%)	10.6	22.3	19.8
Net Profit	1,740.0	1,921.0	2,213.0
Growth(%)	(11.9)	10.4	15.2
EPS(Rs)	17.4	19.2	22.1
Growth(%)	(12.1)	10.4	15.2
PER(x)	28.1	25.5	22.1
ROE(%)	21.4	19.8	19.4
EV/EBITDA(x)	21.7	17.9	14.5

Source: Company, Religare Research

- Biocon's Q4FY07 sales are expected to grow by 32.5% YoY to Rs 2.8bn. The growth will be led by statins supplies to the US, traction in the enzymes business after overcoming capacity constraints last year, and continued momentum in contract research services.
- The EBITDA margin is likely to expand by 180 bps YoY to 30% driven by statins sales to the US and stronger growth in contract research services. However, higher depreciation cost on account of commissioning of the new facility is likely to restrict PAT growth to 31% YoY at Rs 625mn.
- We believe Biocon is going through a transition phase from a generic driven pharma company to a research driven player. While statins is the growth driver in the medium term, insulin, immunosuppresants and BioMAB are drivers for the long term. Contract services are witnessing increasing traction and are expected to witness a revenue CAGR of 30% over the next two years.

Aventis Pharma

Buy

CMP: Rs 1,229 ⌘ Target: Rs 1,414

Rs mn	Q1CY07	Q1CY06	YoY Growth (%)	Q4CY06	QoQ Growth (%)
Revenue	2,325.8	2,005.0	16.0	2,176.0	6.9
EBITDA	616.3	502.0	22.8	427.0	44.3
EBITDA margin (%)	26.5	25.0		19.6	
Net profit	453.5	369.0	22.9	347.0	30.7
EPS	78.9	64.2	22.9	60.3	30.7

Source: Company, Religare Research

- Aventis is expected to record sales growth of 16% YoY to Rs 2.3bn for Q1CY07 aided by stable growth in key brands and contribution from exports.
- We expect the EBITDA margin to improve by 150 bps YoY to 26.5% based on higher contribution from mature brands and export sales.
- We believe Aventis's parent has a strong pipeline of products which could be introduced in the Indian markets post the product patent regime. Focus on key brands, strong support from the parent and no risk of 100% subsidiary makes the business attractive from a long-term perspective.

Financial summary

Rs mn	CY06	CY07E	CY08E
Sales	8,840.0	9,813.0	11,231.0
Growth(%)	9.4	11.0	14.5
Net Profit	1,693.0	1,913.5	2,246.2
Growth(%)	16.7	13.0	17.4
EPS(Rs)	73.6	83.2	97.7
Growth(%)	16.7	13.0	17.4
PER(x)	16.7	14.8	12.6
ROE(%)	30.7	28.9	28.0
EV/EBITDA(x)	10.3	8.9	7.6

Source: Company, Religare Research

Pfizer

Sell

CMP: Rs 830 ⌘ Target: Rs 690

Rs mn	Q2FY07	Q2FY06	YoY Growth (%)	Q1FY07	QoQ Growth (%)
Revenue	1,884.6	1,729.0	9.0	1,603.0	17.6
EBITDA	480.6	426.0	12.8	427.0	12.5
EBITDA margin (%)	25.5	24.6		26.6	
Net profit	329.8	291.0	13.3	299.0	10.3
EPS	44.3	39.1	13.3	40.1	10.3

Source: Company, Religare Research

- Pfizer's Q2CY07 sales are expected to increase by 9% YoY to Rs 1.9bn driven by key brands and strong performance of the consumer healthcare division. The EBIDTA margin is likely to improve by 100 bps YoY to 25.5%.
- Pfizer (USA) has decided to divest its consumer healthcare business to Johnson & Johnson, which is likely to result in divestment of the domestic consumer healthcare business as well. The management is still in the process of identifying key brands that are likely to be divested. The consumer business accounts for around 25% of sales and 22% of profitability.
- Lack of clarity on divestment, and the risk of 100% subsidiary for patented products are two key factors which make Pfizer less attractive as compared to its peers.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	6,885.0	7,794.0	8,823.0
Growth(%)	10.1	13.2	13.2
Net Profit	1,210.0	1,209.0	1,535.0
Growth(%)	77.6	(0.1)	27.0
EPS(Rs)	40.6	40.6	51.5
Growth(%)	77.6	(0.1)	27.0
PER(x)	20.4	20.5	16.1
ROE(%)	24.8	25.8	28.1
EV/EBITDA(x)	14.2	12.0	10.4

Indoco Remedies Buy

CMP: Rs 629 ⌘ Target: Rs 845

Rs mn	Q3FY07	Q3FY06	YoY Growth (%)	Q2FY07	QoQ Growth (%)
Revenue	682.0	481.0	41.8	794.0	(14.1)
EBITDA	116.0	33.0	251.5	139.0	(16.5)
EBITDA margin (%)	17.0	6.9		17.5	
Net profit	93.0	14.0	564.3	96.0	(3.1)
EPS	30.5	4.7	542.5	32.5	(6.2)

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	2,435.0	3,145.0	3,908.0
Growth(%)	25.4	29.2	24.3
Net Profit	316.0	453.0	633.0
Growth(%)	25.6	43.4	39.7
EPS(Rs)	26.7	36.9	51.5
Growth(%)	25.4	38.2	39.6
PER(x)	10.6	7.6	5.5
ROE(%)	16.9	21.0	24.4
EV/EBITDA(x)	7.4	5.4	4.1

Source: Company, Religare Research

- Indoco Remedies is expected to witness revenue growth of 42% YoY over Q3FY06 propelled by continuous momentum in the domestic market and contract manufacturing revenues from the UK, German and Far East regions. The quarter will also witness some revenue contribution from ciprofloxacin ophthalmic supplies to the US market.
- The EBIDTA margin is likely to expand to 17% from 7% in Q3FY06 due to higher contribution from contracts in the regulated markets and tax breaks from the Baddi plant.
- We believe Indoco's growth drivers will continue to be the domestic formulations business, contract manufacturing opportunities in the regulated markets and its ophthalmic venture into the US market. The company has already filed three ANDAs and is likely to file another six over the next three years. We estimate that margin expansion will come from higher contribution from regulated markets, benefits from Baddi and backward integration initiatives.

Opto Circuits (India) Buy

CMP: Rs 300 ⌘ Target: Rs 356

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	648.0	354.0	83.1	628.0	3.2
EBITDA	215.8	138.0	56.4	204.0	5.8
EBITDA margin (%)	33.3	39.0		32.5	
Net profit	213.8	118.0	81.2	200.0	6.9
EPS	13.9	7.7	81.2	13.0	6.9

Source: Company, Religare Research

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	1,398.0	2,542.0	3,714.0
Growth(%)	13.8	81.8	46.1
Net Profit	387.0	695.0	1,098.0
Growth(%)	95.7	79.6	58.0
EPS(Rs)	6.3	11.3	17.8
Growth(%)	96.3	79.6	58.0
PER(x)	47.8	26.6	16.8
ROE(%)	53.5	54.8	53.7
EV/EBITDA(x)	13.1	7.0	4.5

Source: Company, Religare Research

- We estimate that OCIL will record a growth of 83% YoY to Rs 648mn for Q4FY07. Sales would be led by continuous momentum in the core business and increasing acceptance of EuroCor's (100% subsidiary) stents by cardiologists. The company currently sells around 1,500 stents a month.
- The EBIDTA margin is projected to expand by 80 bps QoQ to 33.3% driven by strong growth in the core business and higher penetration of stents. A year-on-year comparison is not possible as EuroCor was acquired in April 2006.
- We believe OCIL represents one of the best business models in the healthcare space. We estimate that core business will witness a revenue CAGR of 30% over FY06-FY08 while stents sales are likely to cross the 25mn Euro mark in FY08. We see increasing visibility in OCIL's operations and are confident of the company witnessing an earnings CAGR of 68% over FY06-FY08.

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Pipes

Piping hot

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	32,909.0	27,184.0	21.1	31,053.0	6.0
EBITDA	4,170.0	2,867.0	45.4	3,987.0	4.6
EBITDA margin (%)	12.7	10.5		12.8	
Net profit	1,887.0	1,364.0	38.3	1,986.0	(5.0)

Source: Religare Research

Huge investments planned in pipelines to benefit pipe manufacturers

Burgeoning demand for gas coupled with recent discoveries by oil and gas majors is expected to propel demand for pipeline infrastructure in the country. Pipeline projects worth over Rs 500bn envisaged by GAIL and Reliance Industries are expected to be the key demand drivers for the domestic pipe manufacturing industry. Globally, oil and gas majors are expected to invest over US$ 50bn in pipelines over the next 3-5 years.

Expect sustained order inflows; We reiterate our positive sectoral view

Due to the strong growth in demand for oil and gas both in the domestic and international markets, and the need to build a support infrastructure, we expect sustained momentum in order inflows. Companies in our universe have an order book-to-sales ratio of 1.2x over FY07 and are expected to post 24.1% sales growth in FY08E, thus reinforcing our strong outlook for the sector. We anticipate a strong quarter from Welspun Gujarat, Jindal Saw and Man Industries on the back of order booking during the quarter.

Jindal Saw

Buy

CMP: Rs 476 ⌘ Target: Rs 550

Rs mn (Y/E Sept.)	Q2FY07	Q2FY06	YoY Growth (%)	Q1FY07	QoQ Growth (%)
Revenue	12,133	9,532	27.3	11,928	1.7
EBITDA	1,425	1,080	32.0	1,366	4.3
EBITDA margin (%)	11.7	11.3	-	11.4	-
Net profit	608	471	29.1	601	1.2
EPS	12.6	9.7	-	12.4	-

Source: Company, Religare Research

- JSL has a strong order book of US$ 1.5bn which is the highest among peers. The order book has increased by over 25% during the quarter, enhancing the company's earnings visibility.
- With an average execution period of about 12 months, the sales momentum will be sustained in the forthcoming quarters.
- JSL's operating profit margin is projected to expand 40 bps YoY to 11.7%.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	38,731	48,391	57,317
Growth (%)	67.4	24.9	18.4
Net Profit	1,555	2,395	2,965
Growth (%)	58	54.0	23.8
FDEPS (Rs)	26.2	41.1	51.3
Growth (%)	49.5	57.2	24.7
PER (x)	18.2	11.6	9.3
RoE (%)	18.5	21.9	21.4
EV/EBITDA (x)	8.6	6.4	5.3

Source: Company, Religare Research

PSL

Buy

CMP: Rs 200 ⌘ Target: Rs 250

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	5,468	4,688	16.6	4,988	9.6
EBITDA	544	254	114.3	479	13.4
EBITDA margin (%)	9.9	5.4	-	9.6	-
Net profit	201	158	27.5	208	(3.4)
EPS	6.3	4.9	-	6.5	-

Source: Company, Religare Research

- During Q4FY07 PSL is expected to register 16.6% YoY revenue growth, as a bulk of the order booking is set to take place during the quarter.
- We expect the company to maintain its EBITDA margin at 9.9%, which is about the same level as in Q3FY07.
- PSL is the largest manufacturer of HSAW pipes with a capacity of 1.1mn MTPA. The company is also in the process of setting up a 75,000-MTPA HSAW mill in the Middle East which is expected to be commissioned by FY08. With the shift in demand from LSAW to HSAW for onshore pipelines, PSL is best placed to manufacture HSAW pipes utilised to transport oil & gas and water in a cost-effective manner.
- PSL has bagged the last three pipeline orders awarded by GAIL. Going ahead, we expect the company to be a key beneficiary of the huge investment planned by GAIL to augment the country's pipeline infrastructure.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	14,503	17,270	20,588
Growth (%)	2.9	19.1	19.2
Net Profit	519	699	977
Growth (%)	55.9	34.7	39.7
EPS (Rs)	13.2	17.8	24.8
Growth (%)	55.9	34.7	39.7
PER (x)	15.2	11.4	8.0
RoE (%)	22.2	18.0	18.5
EV/EBITDA (x)	7.8	6.3	5.2

Source: Company, Religare Research

Man Industries

Buy

CMP: Rs 201 ⌘ Target: Rs 280

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	3,797	3,603	5.4	3,271	16.1
EBITDA	391	355	10.2	326	19.9
EBITDA margin (%)	10.3	9.8	-	10.0	-
Net profit	175	120	45.4	165	6.0
EPS	6.6	4.7	-	6.2	-

Source: Company, Religare Research

- At 1.9x FY07E sales, MIL has the highest order book-to-sales ratio among peers.
- During the quarter, the company received a huge order of Rs 10bn which has swelled its order book to Rs 22bn. Of this, the share of export projects stands at around 70%. The company aims to execute these orders by September 2008.
- The company plans to raise US$ 50mn through the issue of FCCBs to fund organic and inorganic growth opportunities.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	8,356	11,917	16,176
Growth (%)	71	42.6	35.7
Net Profit	350	592	829
Growth (%)	91.3	68.9	40.1
FDEPS (Rs)	13.2	22.2	31.1
Growth (%)	91.3	68.9	40.1
PER (x)	15.3	9.0	6.5
RoE (%)	16.9	17.7	20.5
EV/EBITDA (x)	6.5	4.8	3.4

Source: Company, Religare Research

Welspun Gujarat

Buy

CMP: Rs 104 ⌘ Target: Rs 125

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	7,959	6,440	23.6	7,440	7.5
EBITDA	972	553	75.7	953	2.0
EBITDA margin (%)	12.2	8.6		12.9	
Net profit	374	195	91.7	412	(9.3)
EPS	2.8	1.5		3.1	

Source: Company, Religare Research

- WGSRL's order book has increased significantly by 50% in the last six months to Rs 30bn.
- The EBITDA margin has shown a positive trend during Q3FY07 which is likely to be maintained in Q4FY07.
- In order to improve control over its value chain, WGSRL is integrating backwards into steel plate manufacturing. This unit is due to start commercial production in Q4FY08 and will likely improve the EBITDA margin to 18% from 12.4% in FY07E.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	18,298	27,463	35,301
Growth (%)	76.2	50.1	28.5
Net Profit	614	1384	1894
Growth (%)	81.4	125.5	36.9
FDEPS (Rs)	3.4	8.0	11.0
Growth (%)	78.4	133.2	36.8
PER (x)	30.3	13.0	9.5
RoE (%)	14.0	19.6	19.1
EV/EBITDA (x)	11.0	5.4	4.2

Source: Company, Religare Research

Maharashtra Seamless — Buy

CMP: Rs 507 ⌘ Target: Rs 585

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	3,552	2,921	20.6	3,426	2.8
EBITDA	838	625	34.0	863	(2.9)
EBITDA margin (%)	23.8	21.4	-	25.2	-
Net profit	529	420	25.9	600	(11.9)
EPS	7.9	14.6	-	9.0	-

Source: Company, Religare Research

- We expect MSL to record a 20.6% YoY increase in revenues during the quarter on account of capacity expansion and sustained order inflows from oil and gas majors.
- We estimate that the EBITDA margin will drop 140-bp QoQ on account of higher raw material prices as a percentage of net sales.
- In view of the rising demand for oil and gas, MSL's strategy is to increase its market share by expanding capacity in a phased manner. Accordingly, ancillary equipment that would involve minimal capex is being put into place. The company plans to expand its capacity to 500,000 MTPA by FY09 from about 350,000 MTPA during Q3FY07.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	9,662	13,801	18,096
Growth (%)	25.6	42.8	31.1
Net Profit	1,396	2,351	2,867
Growth (%)	64.5	68.4	21.9
FDEPS (Rs)	19.8	33.3	40.6
Growth (%)	64.4	68.4	21.9
PER (x)	25.6	15.2	12.8
RoE (%)	34.9	33.5	27.4
EV/EBITDA (x)	14.4	8.6	7.4

Source: Company, Religare Research

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Shipping

In full flow

Strong freight rate environment

We believe that the shipping sector will deliver robust results in Q4FY07 fuelled by the stronger-than-expected freight rate environment. The freight rates for crude tankers in the current year have seen a rising trend since April 2006 due to the increase in cargo from higher oil production activities. The companies under our coverage have a strong order book of vessels and would be in a position to capitalise on the higher freight rates.

High vessel prices - a time to cash in

The prices of new as well as second hand vessels have been on the rise due to the improving freight rates as well as limited free capacities at ship building yards.

Sector outlook positive in the near term

We have a favourable view on the sector in the near term and believe that the companies under our coverage will do well in Q4FY07. We, however, see the falling oil prices as a potential risk to our estimates.

Great Offshore

Buy

CMP: Rs 629 ⌘ Target: Rs 845

Rs mn	Q4FY07E	Q4FY06*	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	1,527.2	-	-	1,482.7	3.0
EBITDA	733.0	-	-	721.8	1.6
EBITDA margin (%)	48.0	-	-	48.7	
Net profit	390.8	-	-	375.4	4.1
EPS	10.3	-	-	9.8	4.1

Source: Company, Religare Research **De-merged from GE Shipping on Dec. 2006*

- We expect Great Offshore to maintain its profitability in Q4FY07.
- Going forward, we believe the company will register strong revenue growth in FY08, backed by a strong charter rate environment and higher capacity due to new vessel additions.
- We expect net profit to grow at a CAGR of 58% from Rs 918mn in FY06 to about Rs 2.3bn in FY08.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	3,468.5	4,847.3	6,831.7
Growth (%)	-	39.8	40.9
Net Profit	918.0	1,221.6	2,301.3
Growth (%)	-	33.1	88.4
EPS (Rs)	24.1	32.0	60.4
Growth (%)	-	33.1	88.4
PER (x)	25.5	19.1	10.2
RoE (%)	-	22.2	34.1
EV/EBITDA (x)	17.0	12.5	7.3

Source: Company, Religare Research

Garware Offshore

Buy

CMP: Rs 202 ⌘ Target: Rs 239

Y/E Dec. Rs mn	Q1CY07	Q1CY06	YoY Growth (%)	Q4CY06	QoQ Growth (%)
Revenue	142.6	118.6	20.2	139.8	2.0
EBITDA	85.6	63.5	34.7	84.5	1.3
EBITDA margin (%)	61.0	53.5		60.4	
Net profit	27.9	37.6	(25.9)	32.7	(14.7)
EPS	1.5	2.3	(34.6)	1.7	(14.7)

Source: Company, Religare Research

- Garware Offshore currently operates two platform supply vessels (PSV) and four anchor handling tug supply vessels (AHTSV). We expect operating income in Q1CY07 to be in line with that in the previous quarter.
- The EBITDA margin too, at 61%, is projected to remain in line with the preceding quarter.

Financial summary

Rs mn	FY06	FY07E	FY08E
Revenue	534.1	1,031.7	1,739.6
Growth (%)	73.0	93.2	68.6
Net Profit	134.4	358.6	557.3
Growth (%)	27.0	166.9	55.4
EPS (Rs)	5.7	15.2	23.7
Growth (%)	(14.9)	166.9	55.4
PER (x)	35.4	13.3	8.5
RoE (%)	13.1	21.8	24.7
EV/EBITDA (x)	8.4	3.7	2.0

Source: Company, Religare Research

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Sugar

Leaving a sour taste

Sector snapshot

Rs mn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	13,912.4	10,285.4	35.3	9,307.6	49.5
EBITDA	1,598.9	2,783.1	(42.6)	1,247.8	28.1
EBITDA margin (%)	11.5	27.1		13.4	
Net profit	475.2	1,833.5	(74.1)	583.5	(18.6)

Source: Religare Research

Earnings outlook remains bleak - maintain Sell on sugar sector

We maintain Sell on stocks in the sugar sector considering that sugar prices in both domestic and international markets are unlikely to improve significantly in the coming year. Industry estimates point to a bumper domestic production and surplus availability in the world market. India's bumper sugarcane production will also lead to a higher inventory build-up due to the extension of the crushing season till May.

Higher production to nullify benefit of export incentives...

While the government's export incentives could lead to sugar exports of 1.5-2mn tonnes, the impact would be nullified by increases in domestic sugar production from initial estimates of 23.5mn tonnes to 25-26mn tonnes in the current sugar season (Oct 2006 - Sept 2007).

...and keep prices subdued

Sugar prices currently range from Rs 14,750-15,250 per tonne - higher than current international prices of Rs 13,800-14,700 per tonne (US$310-330) for India-made sugar. The export incentives announced by the Indian government would further depress global prices. Already, white sugar realisation is down from last month's level of US$345 per tonne to US$325 at present. Expectations of even higher production in the next sugar season would keep prices subdued.

Realisation barely covers costs of sugar players

The realisation of approximately Rs 15/kg during the quarter for companies under our coverage would barely cover the cost of production. Some companies like Balrampur Chini Mills and Triveni Engineering would, however, be cushioned to some extent by a higher proportion of revenues from the co-generation and engineering divisions. However, we would recommend sell on all sugar stocks at the current level.

Bajaj Hindusthan — Sell

CMP : Rs 208 ⌘ Target : Rs 170

Rs mn	Q2FY07	Q2FY06	YoY Growth (%)	Q1FY07	QoQ Growth (%)
Revenue	5,679.8	3,549.9	60.0	2,866.4	98.2
EBITDA	539.6	1,025.2	(47.4)	296.8	81.8
EBITDA margin (%)	9.5	28.9		10.4	
Net profit	299.6	641.5	(53.3)	172.8	73.4
EPS	2.1	5.5		1.2	

Source: Company, Religare Research

- We expect BHL to record a relatively poor performance in Q4FY07 as the company's dependence on the sugar segment remains high. The new distillery plant will have become operational only during the quarter.
- We project substantially higher sales QoQ as installed capacity has nearly doubled from 53,000 MT to 100,000 MT. With higher cane availability, production would be higher.
- BHL's operating margin is expected to descend into single digits, though the booking of subsidies under the state incentive policy may provide some upside.

Financial summary

Rs mn	FY05	FY06	FY07E
Sales	8,461.2	14,472.4	26,836.2
Growth(%)	70.1	71.0	85.4
Net Profit	1,403.9	1,908.3	1,461.9
Growth(%)	130.1	35.9	(23.4)
EPS(Rs)	12.1	13.5	9.1
Growth(%)	72.7	11.8	(32.7)
PER(x)	17.2	15.4	22.9
ROE(%)	37.3	14.5	8.3
EV/EBDITA	13.9	14.3	11.5

Source: Company, Religare Research

Balrampur Chini Mills — Sell

CMP : Rs 75 ⌘ Target : Rs 60

Rs mn	Q2FY07	Q2FY06	YoY Growth (%)	Q1FY07	QoQ Growth (%)
Revenue	3,388.1	3,316.3	2.2	3,371.1	0.5
EBITDA	493.6	1,189.6	(58.5)	515.1	(4.2)
EBITDA margin (%)	14.6	35.9		15.3	
Net profit	110.4	794.0	(86.1)	191.8	(42.4)
EPS	0.4	3.2		0.8	

Source: Company, Religare Research

- BCML's opening inventory of 0.12mn tonnes was valued at Rs 16/kg. Higher inventory carryover costs during the quarter would cause BCML's operating margin to contract. However, a relatively greater revenue contribution from the power and distillery divisions would prop up the company's operating margin vis-à-vis peers.
- Uncertainty continues to prevail as regards the commissioning of operations at the new units in Kumbhi and Rudrapur-Gularia (Lakhimpur Kheri district) in Western Uttar Pradesh. The total amount invested towards these two sites till the end of December 2006 amounted to Rs 3bn.

Financial summary

Rs mn	FY05	FY06E (18m)	FY07E
Sales	8,127.2	18,984.2	15,117.9
Growth(%)	16.2	55.7	19.5
Net Profit	1,250.6	2,915.8	895.8
Growth(%)	107.0	55.4	(53.9)
EPS(Rs)	5.4	7.8	3.6
Growth(%)	69.4	45.2	(53.9)
PER(x)	13.9	9.5	20.7
ROE(%)	32.6	41.7	9.6
EV/EBITDA(x)	8.6	7.8	11.9

Source: Company, Religare Research

Triveni Engineering and Industries Sell

CMP : Rs 53 ⌘ Target : Rs 54

Rs mn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	4,844.5	3,419.2	41.7	3,070.1	57.8
EBITDA	565.7	568.3	(0.5)	435.9	29.8
EBITDA margin (%)	11.7	16.6		14.2	
Net profit	65.2	398.0	(83.6)	218.9	(70.2)
EPS	0.3	1.5		0.8	

Source: Company, Religare Research

- TEIL's engineering division plays a prominent role in overall performance. We expect the division's large order book and higher operating margins to cushion the drop in profits from the sugar division.
- Two new sugar units with a total installed capacity of 12,000 TCD have been commissioned during the quarter, which will boost sales.
- We expect the engineering division to post an operating margin in excess of 20% during the quarter. Operating profit contribution from this division is likely to rise to more than 50% as profitability from the sugar business dips.

Financial summary

Rs mn	FY06	FY07E	FY08E
Sales	11,920.4	13,797.5	18,173.5
Growth(%)	24.0	15.7	31.7
Net Profit	1,315.0	915.2	815.7
Growth(%)	32.1	(30.4)	(10.9)
EPS(Rs)	5.1	3.5	3.2
Growth(%)	(57.4)	(30.4)	(10.9)
PER(x)	10.4	14.9	16.8
ROE(%)	36.4	16.3	13.2
EV/ EBDITA	8.3	10.7	5.4

Source: Company, Religare Research

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Telecom

Good times come a-calling

Sector snapshot

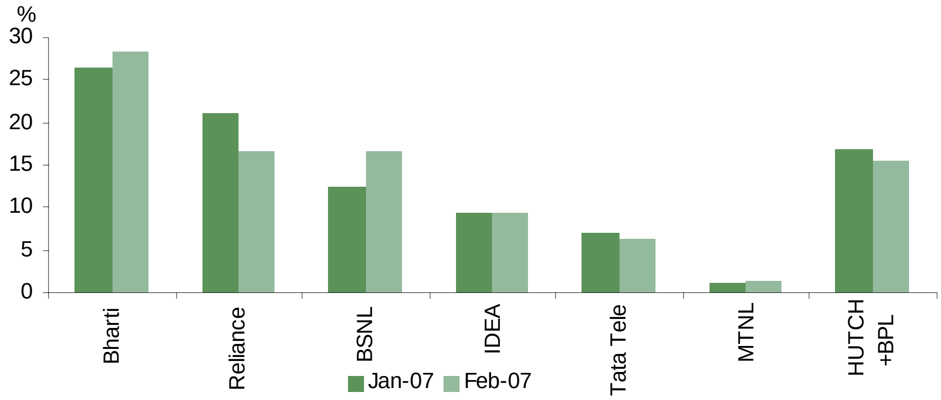
Rs bn	JFM' 07	JFM' 06	YoY Growth (%)	OND' 06	QoQ Growth (%)
Revenue	55.8	32.7	70.5	49.1	12.8
EBITDA	24.7	10.3	139.9	20.1	17.8
EBITDA margin (%)	40.8	31.5		40.8	4.4
Net profit	13.3	5.1	159.2	12.2	30.1

Source: Religare Research

Bharti a frontrunner in February net adds

The total telecom subscriber base touched 202.9mn in February 2007. Net additions in the GSM segment stood at 6.2mn in February as compared to 6.8mn in the previous month. Bharti has been the frontrunner in the GSM segment with net subscriber additions of 1.7mn during the month.

Share in net additions



Source: TRAI

38% reduction in ADC for FY08...

The Telecom Regulatory Authority of India (TRAI) has indicated that it gradually intends to reduce the access deficit charge (ADC) to nil by FY09. To this end, it has cut the ADC for the industry by around 38%, from Rs 32bn to Rs 20bn, effective from April 1, 2007.

Reduction in ADC

Segment	ADC per minute (Rs)		%Change
	From April '07	Previously	
Outgoing ILD	Nil	0.80	-
Incoming ILD	1.00	1.60	38
STD (% of adjusted gross revenues)	0.75	1.50	50

Source: TRAI

...a positive for the sector especially Bharti

The steps taken by TRAI towards reduction of ADC are positive for the sector. Bharti in particular will benefit from the increased leverage to reduce the cost of ILD calls. The company has stated that it will pass on the benefits of the ADC cost reduction to the consumer. This will boost volume growth for the company in terms of minutes of usage (MoUs). The cost of national long distance (NLD) calls is also expected to fall.

Declining mobile subscription cost a key growth driver

The decline in the monthly subscription cost of mobile services has been the primary driver of growth in this segment. The minimum subscription cost for mobile services has declined at a CAGR of 32 % in the last five years, mainly due to a fall in mobile handset prices and mobile tariffs.

We are bullish on Bharti and RCOM

We are bullish on Bharti and Reliance Communications on the back of strong subscriber growth numbers. Margins of both companies are likely to improve going ahead, thereby bolstering earnings.

Bharti Airtel — Buy

CMP : Rs 761 ⌘ Target : Rs 970

Rs bn	Q4FY07E	Q4FY06	YoY Growth (%)	Q3FY07	QoQ Growth (%)
Revenue	55.8	49.1	13.5	49..1	12.8
EBITDA	24.7	20.1	23.1	20.1	17.8
EBITDA margin (%)	40.8	40.8	0.0	40.8	4.4
Net profit	13.3	12.2	9.1	12.2	30.1
EPS	7.0	6.4	9.0	6.4	36.7

Source: Company, Religare Research

- Bharti has maintained its leadership position with a share of 28.3% in total net additions for February. The company has made net additions of 1.71mn subscribers compared with 1.76m added in January, taking its total subscriber base to 35.4mn.
- Bharti is planning to invest US$8bn by 2010 in the telecom business. It is looking to expand its market share in the mobile subscriber base to 25% by 2010 from ~20% at present.
- We believe that Bharti will be able to sustain its premium over other operators because of its de-risked business model and the management's ability to tap new areas of revenues and hone efficiencies.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	116.2	187.0	289.4
Growth (%)	45.2	60.9	54.7
Net Profit	22.6	42.3	69.4
Growth (%)	50.7	87.4	64.2
EPS (Rs)	12.0	22.3	36.6
Growth (%)	83.8	85.8	64.1
PER (x)	63.4	34.1	20.8
RoE (%)	29.5	37.2	40.9
EV/EBITDA (x)	34.5	19.8	12.2

Source: Company, Religare Research

Reliance Communication — Buy

CMP : Rs 416 ⌘ Target : Rs 590

Rs bn	Q4FY07E	Q3FY07	QoQ Growth (%)
Revenue	40.6	37.6	33.0
EBITDA	16.6	15.3	42.1
EBITDA margin (%)	40.8	40.7	6.8
Net profit	9.8	9.3	81.3
EPS	4.8	4.5	86.8

Source: Company, Religare Research

- RCOM has maintained its number two position in the Indian wireless market, with a share of 16.7% in total net additions during the month of February. RCOM has clocked net additions of 1mn compared with 0.8mn added in January. The company's total subscriber base now stands at 32.3mn.
- The company's CDMA business has been on a steady decline. However, it is planning to launch GSM services in all 23 circles in FY08 which should compensate for the fall in the CDMA market share. We expect RCOM to witness strong growth in subscribers and revenues with its pan-India presence.
- We believe that RCOM's stock will move positively in the next 12 months led by strong mobile subscriber growth and significant margin expansion. The stock is attractive at current levels as it is trading at a discount to its peer Bharti. Value unlocking through de-merger of the tower business and listing of FLAG Telecom would provide a further boost to the stock price.

Financial summary

Rs bn	FY06	FY07E	FY08E
Revenue	107.7	145.9	204.7
Growth (%)	-	35.5	40.3
Net Profit	4.8	31.5	47.7
Growth (%)	-	552.8	51.6
EPS (Rs)	2.4	15.4	23.4
Growth (%)	-	552.5	51.6
PER (x)	168.7	25.8	17.0
RoE (%)	4.1	19.2	20.3
EV/EBITDA (x)	33.8	14.5	9.7

Source: Company, Religare Research

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