



ENAM

**Sensex: 12,389**

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# India Strategy

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**What can surprise?**

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# Investment Summary...

- Leading indicators strong, consumption & business cycle on upswing. Robust capex driven by need, not only ambition. **Lower oil/ commodity prices and INR appreciation bode well**
- ST worries (eg markets priced for perfection, oil rebound, politics etc.) remain, but can't reverse LT India story
- Bottom-up exercise conducted for Enam-covered stocks to **scan major surprise potential (+/-) on P/E or EPS on a 3 year horizon**
- Additionally, database provides implied **EPS growth HURDLE rate** to get a 50% stock price appreciation in 3 years, at reasonably expected FY10 P/E
- Strategy Recommendation:
  - **Near term:** Near-Prospects priced-in. Avoid year-end Momentum trap
  - **Bottom-up:** Evaluate risk-return trade-off of long term surprise potential in each stock
  - **Long term:** India is now a 1 step back/ TWO steps forward story !

## Surprise potential for Sensex

P/E surprise

<ul style="list-style-type: none"> <li>▪ India safest haven in global slowdown</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>SEZs (&amp; Manufctg) take off</b></li> <li>▪ <b>Infra in ports, rail corridors, roads</b></li> <li>▪ Rural initiatives</li> <li>▪ Oil finds in KG Basin</li> <li>▪ Liquidity burgeons</li> </ul>
UP elections in Feb 07 could signal end of populist pressures, either way*	
<ul style="list-style-type: none"> <li>▪ Dom Cyclical over-heating &amp; <b>Interest rates rise</b></li> <li>▪ US/ Global slowdown</li> <li>▪ Oil prices rise again</li> <li>▪ Domestic paper supply ~USD5bn</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>INR appreciation</b></li> <li>▪ <b>Lower oil/ commodity prices</b> (if due to global demand slowdown, affecting global equity sentiments)</li> <li>▪ US takes off, cornering global equity funds</li> </ul>

-      **EPS surprise**      +

\* Main opp to Cong policies is WITHIN UPA Govt. If Cong does badly= atleast end of election pressure for current populist policy. If v well= bid for gen elections= ST worry, but chance of removal of opposition WITHIN Govt

## Sensex valuations at 12,389

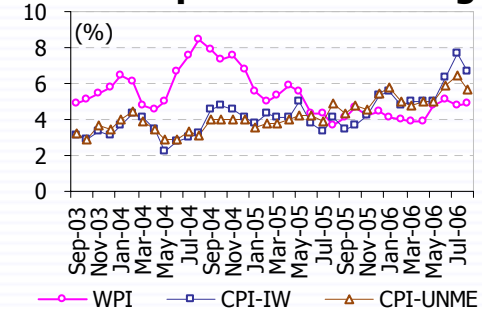
	EPS (Rs.)	PE (x)	EPS Gwth (%)
FY07E	685	18	33
FY08E	803	15	17

*All figures float adjusted ; RCOM replaced Tata Power in Sensex*

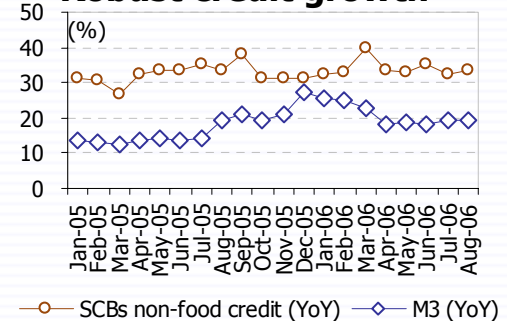
# Domestic interest rates: Main risk at this juncture

- ➔ WPI remains <5%, but CPI on the rise
- ➔ Money supply growth high at 19% and Bank credit at 30%+
- ➔ Private sector credit risen from 34% to 54% of GDP
- ➔ Corporate capex: Largely insensitive to interest rates up to 100 bps, as Capex driven by demand and healthy internal accruals
- ➔ **Interest rate sensitive sectors: (~29% of Sensex)**
  - **Auto (7% of Sensex):** EMI increase minimal and hence demand effect unlikely
  - **Banking (17%):** Could impact reported earnings, as banks still highly G-Sec-leveraged: **Valuations reflect this fear**
  - **Cement (5%):** Housing demand fall likely to be offset by non-interest rate sensitive commercial and infra segments

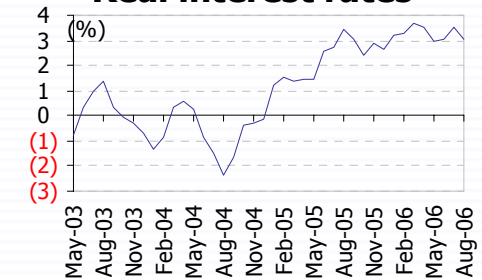
**Consumer prices remain high**



**Robust credit growth**



**Real interest rates**



Source: Bloomberg

**Upto 50 bps increase, interest rates not a big worry**

# Bottom up exercise: Methodology

## ➤ SURPRISE POTENTIAL:

- Bottom-up exercise conducted for Enam-covered stocks to scan **Surprise potential (+/-) on P/E or earnings on a 3 year horizon**: stocks where major surprise possible mentioned for each sector
- Since Surprise Potential could have indeterminate probability, this exercise is meant to gauge the stocks' **risk/ reward potential rather than Valuation calls**

## ➤ EPS GROWTH HURDLE RATE:

- Additionally, Database provides hurdle rate of **implied EPS growth FY 06/10**, to get a **50% stock price appreciation in 3 yrs**, at reasonably expected FY 10 P/E

# Summary of Bottom up exercise

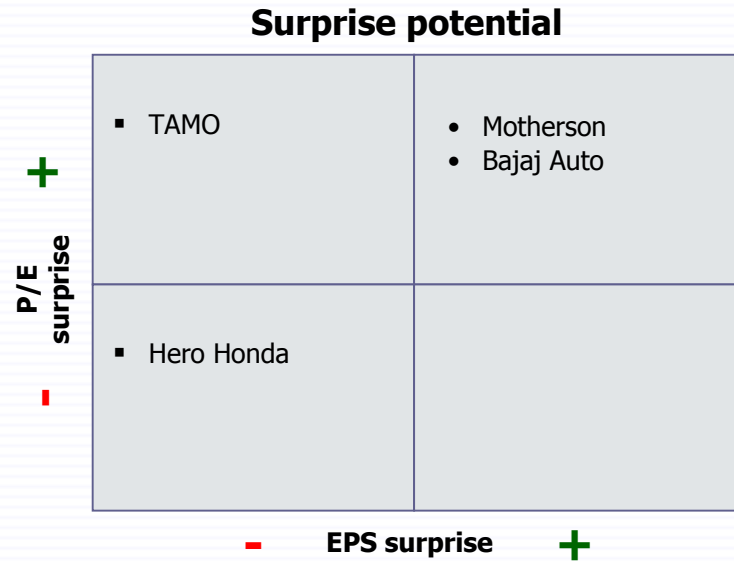
- ➔ **EPS CAGR=HURDLE Rate: implied EPS growth FY 06/10, required to get a 50% stock price appreciation in 3 yrs, at a reasonable expected P/E for FY10: Ref Database**
- ➔ **Surprise Potential= Possibility of +/- surprise in EPS or PE: stocks where major surprise possible**

Sector/ Company Name	EPS CAGR (%)	EPS (Rs.)	P/E (x)
<b>Automobile</b>			
Tata Motors	18	↓	↑
Bajaj Auto	27	↑	↑
Hero Honda	14	↓	↓
Motherson Sumi	22	↑	↑
<b>Banking</b>			
ICICI Bk	15	↔	↑
<b>Cement</b>			
Grasim	29	↑	↑
<b>Energy</b>			
Reliance Energy	15	↔	↑
PTC India	17	↑	↔
<b>Engineering</b>			
BHEL	30	↑	↓
Suzlon Energy	38	↑	↓
L&T	25	↑	↑
Siemens	24	↑	↑
BEL	10	↓	↑
GMR Infrastruture	46	↔	↑
Crompton	31	↔	↑
Cummins	19	↓	↓
Kirloskar Bros	33	↑	↓
Thermax	33	↓	↓
Kirloskar Oil Engines	20	↑	↑
AIA Engineering	26	↑	↑
KSB Pumps	26	↑	↑
<b>FMCG</b>			
HLL	25	↓	↓
Godrej Consumer	25	↑	↑

Sector / Company Name	EPS CAGR (%)	EPS (Rs.)	P/E (x)
<b>FMCG</b>			
Tata Tea	9	↓	↑
Marico	19	↑	↑
<b>IT Services</b>			
Infosys	26	↑	↑
TCS	21	↑	↔
Satyam	18	↑	↔
Tech Mahindra	34	↑	↔
Hexaware	22	↑	↔
Infotech Enterprises	20	↑	↔
<b>Metals</b>			
SAIL	15	↑	↔
Nalco	7	↑	↔
<b>Media &amp; Retail</b>			
Zee	45	↑	↑
Pantaloan	45	↑	↔
Adlabs Films	45	↑	↔
Entertainment Network India	41	↑	↔
INOX Leisure	43	↑	↔
<b>Telecom</b>			
Bharti Tele-venture	36	↔	↓
RCVL	25	↑	↑
VSNL	24	↑	↑
<b>Oil &amp; Gas</b>			
RIL	14	↑	↑
BPCL	44	↓	↓
HPCL	42	↓	↓
Maharashtra Seamless	22	↑	↔
Indraprastha Gas	7	↔	↑

Source: ENAM Research; Note: For Banking, P/BV taken as P/E

# Auto Sector - I



➔ **TAMO: (P/E re-rating possible, negative earnings surprise probable)**

- Reducing dependence on cyclical M&HCV business. Car portfolio (including small car) can potentially account for 40% of sales by FY10E
- Potential to emerge as a Global brand as exports progressively ramp up to 20% of sales, and brand TATA gains 'mindshare' in overseas markets

Tata Motors Ltd						CMP:	895
PE	16	18	20	22	24	26	
FY05	596	653	710	766	823	880	
FY06	640	702	764	826	888	951	
FY07E	756	832	909	986	1,062	1,139	
FY08E	895	989	1,083	1,177	1,272	1,366	
FY09E	1,056	1,170	1,284	1,398	1,513	1,627	
FY10E	1,284	1,426	1,569	1,712	1,854	1,997	
Upside %	43.5	59.4	75.4	91.3	107.2	123.2	

# Auto Sector - II

## ➤ Hero Honda: (P/E de-rating, negative earnings surprise likely)

- Historically traded at a premium to peers, underpinned by a dominant position in the largest segment (executive: 50% of m/cycle sales). Market-share loss in this segment will hit profitability and could dampen its premium valuation rating

Hero Honda Motors Ltd						CMP:	753
PE	12	13	14	15	16	17	
FY05	507	541	576	610	644	678	
FY06	595	637	679	720	762	803	
FY07E	637	682	727	772	817	863	
FY08E	716	767	819	871	922	974	
FY09E	785	842	899	957	1,014	1,071	
FY10E	903	970	1,037	1,105	1,172	1,239	
Upside %	19.9	28.8	37.7	46.7	55.6	64.5	

## ➤ Bajaj Auto: (P/E re-rating, positive earnings surprise possible)

- Has leveraged R&D to reduce technology gap with Hero Honda. Gaining market share in the executive segment as customers upgrade to 125cc where it has strong product offerings
- Exports can give a further fillip to growth and provide the requisite scale in domestic manufacturing

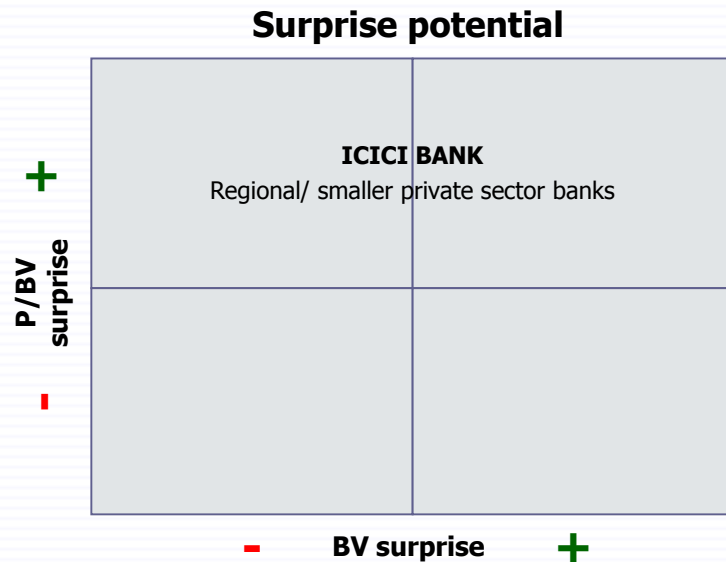
Bajaj Auto Ltd						CMP:	3,107
PE	16	18	20	22	24	26	
FY05	1,980	2,058	2,136	2,213	2,291	2,369	
FY06	2,377	2,505	2,632	2,760	2,887	3,015	
FY07E	2,545	2,693	2,841	2,990	3,138	3,287	
FY08E	2,948	3,147	3,346	3,545	3,743	3,942	
FY09E	3,447	3,708	3,969	4,230	4,491	4,753	
FY10E	4,078	4,418	4,758	5,098	5,438	5,778	
Upside %	31.2	42.2	53.1	64.1	75.0	86.0	

## ➤ Motherson Sumi: (P/E re-rating likely, earnings surprise probable)

- Production of Maruti and Hyundai to double in the next four years (more than the current industry sales of 1mn units)
- Nissan and Volkswagen to set up their facilities in India – MSSL's collaborator Sumitomo has strong relationships with these companies in Europe

Motherson Sumi Systems Ltd						CMP:	97
PE	16	17	18	19	20	21	
FY05	57	61	64	68	71	75	
FY06	63	67	70	74	78	82	
FY07E	79	84	89	94	99	104	
FY08E	99	105	111	118	124	130	
FY09E	124	132	139	147	155	162	
FY10E	161	171	181	191	201	211	
Upside %	65.5	75.9	86.2	96.6	106.9	117.3	

# Banking Sector - I



*Note: No earnings surprise only P/BV re-rating candidates*

## ➔ ICICI Bank – A potential re-rating candidate

- ▶ ICICI Bank – >USD1bn of net-worth as equity investments in subsidiaries and non-subsidiary businesses
- ▶ Insurance business trump card, premiums expected to grow at a CAGR of 30% till 2010
- ▶ Increased focus on margins, core margins to improve
- ▶ Rural strategy and international business to drive earnings in the long term

- ➔ **Sector – Growth trajectory remains strong**
  - 10 yr G-Sec yields have fallen from the peak of 8.4% in July-06 to 7.6% in Sept-06
  - Credit off take remains robust with a YoY growth of ~30%; deposits growth at 21%
  - No signs of deterioration in asset quality
- ➔ **Some private banks are re-rating candidates - two likely themes**
  - Likely re-rating for ICICI Bank as other businesses pay off in the long term
  - Regional banks - takeover targets as sector opens up for investment by foreigners in 2009

ICICI Bank Ltd						CMP:	705
P/B	2.0	2.1	2.2	2.3	2.4	2.5	
FY05	341	358	375	392	409	426	
FY06	499	524	549	574	599	624	
FY07E	546	574	601	628	656	683	
FY08E	606	636	666	697	727	757	
FY09E	690	725	759	794	829	863	
FY10E	801	841	881	921	961	1,001	
Upside %	13.5	19.2	24.9	30.6	36.2	41.9	



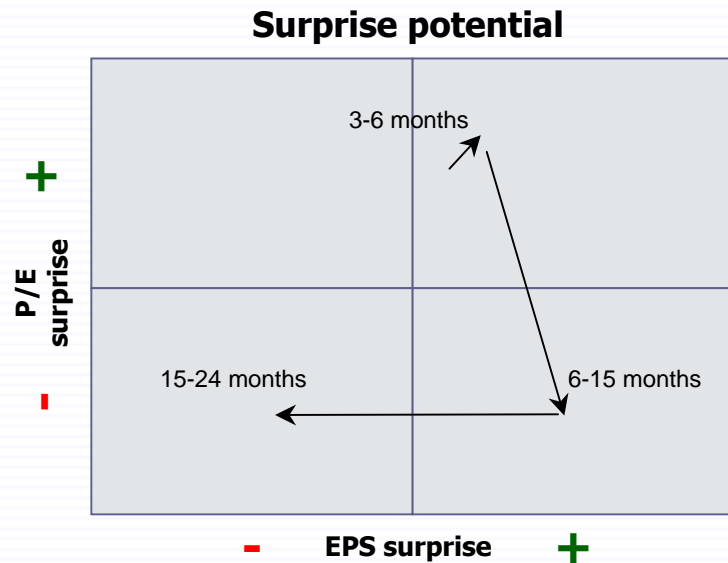
# Banking Sector - II

## Regional Private Banks – Likely M&A plays going forward

	No. of Branches	Promoter holding	Foreign Share holding	Asset Size (Rs.mn)	Comments
Federal Bank	472	0%	59%	214,374	Retail and SME focus in lending
Karnataka Bank	387	0%	22%	149,533	95% of the business on CBS. 66% of the branches in Karnataka
SIB	480	0%	20%	108,078	Concentration of branches in Southern India with increasing lending focus on Retail and Agriculture
BOR	373	44%	2%	98,297	70% of the branches in Rajasthan in FY05.
LVB	227	1%	1%	49,194	Per employee profit of Rs.0.12mn. Low CASA of 23% in FY06
City Union	146	0%	0.3%	41,270	Concentrated mainly in the South
Dhanlakshmi	180	37%	2%	28,487	Concentrated mainly in Southern and Western regions. 94% of the business on CBS

Source: Company, ENAM Research

# Cement sector



## Sector: Highlights

- **Sector valuations high, hence short term upside limited**
  - Record high cement prices during monsoon
  - Seasonal construction activity to be stronger in the next 6-9 months
- **Medium term (6-15 months): Earnings momentum on supply tightness, but valuations priced in**
- **Long term (15 months+): Large lumpy greenfield supply can result in negative earnings surprise with contraction in valuations**

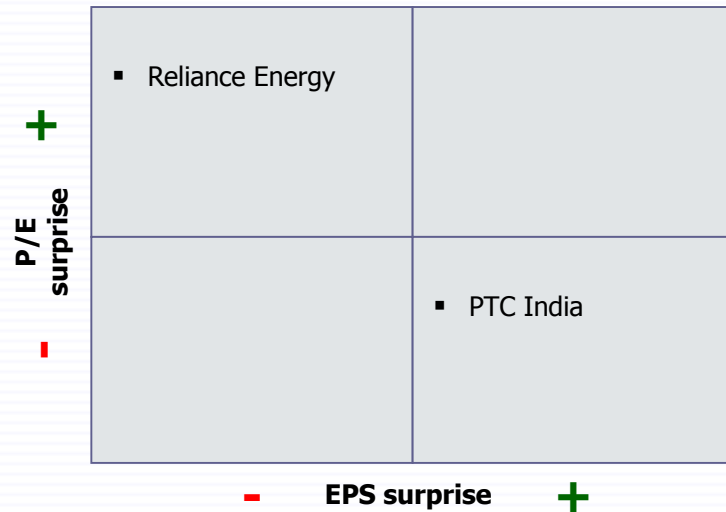
➤ **Grasim: (P/E re-rating, positive EPS surprise possible)**

- Cement share of profits to rise to ~78%
- Current sector discount may narrow
- Perception of diversified conglomerate to change

Grasim Industries Ltd				CMP: 2,547
PE	9	11	13	15
FY06	882	1,078	1,274	1,470
FY07E	1,587	1,940	2,292	2,645
FY08E	1,857	2,270	2,683	3,096
FY09E	2,139	2,615	3,090	3,566
FY10E	2,353	2,876	3,399	3,922
Upside %	(7.6)	12.9	33.4	54.0

# Energy Sector

## Surprise potential



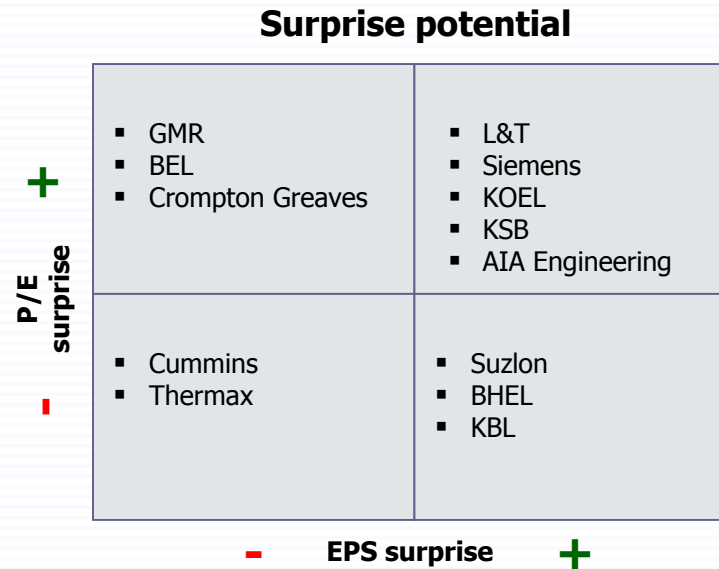
- **REL: P/E re-rating likely:**
  - Watch out for clarity/ visibility on the proposed expansion plans
- **PTC India: Positive EPS surprise**
  - On-going strengthening of the power grid would enable trading volumes to pick up and can lead to a positive EPS surprise

- **Valuations of pvt sector utilities build in significant "execution" risk**
- **Currently, only operational assets and surplus cash reflected in valuations**

Reliance Energy Ltd						CMP:	483
PE	15	17	19	21	23	25	
FY05	420	477	533	589	645	701	
FY06	516	585	654	723	792	860	
FY07E	537	608	680	751	823	894	
FY08E	556	630	705	779	853	927	
FY09E	584	662	740	818	896	973	
FY10E	642	728	814	899	985	1,071	
Upside %	33.1	50.9	68.7	86.4	104.2	121.9	

PTC India Ltd						CMP:	57
PE	15	17	19	21	23	25	
FY05	26	29	32	36	39	43	
FY06	42	48	54	59	65	71	
FY07E	48	55	61	67	74	80	
FY08E	67	76	84	93	102	111	
FY09E	83	94	106	117	128	139	
FY10E	104	118	132	146	160	174	
Upside %	83.8	108.3	132.8	157.3	181.8	206.3	

# Engineering - I



- ➔ **Favourable competitive dynamics and strong order intake momentum likely to result in positive earnings surprise and re-rating for L&T, Siemens, KOEL, KSB and AIA Engineering**
- ➔ **Valuations factoring in near term earnings surprise for Suzlon, BHEL and KBL**
- ➔ **Robust business model and long term earnings visibility likely to result in P/E re-rating for GMR , BEL and Crompton Greaves**
- ➔ **Cummins and Thermax: Could throw up negative margin surprises**

# Engineering - II

## ➔ L&T:

- Strong traction in L&T's areas of core competence i.e. Hydrocarbon and Metals
- Also, value unlocking expected from investments in the next 12-18 months

Larsen & Toubro Ltd						CMP: 1,262
PE	14	16	18	20	22	24
FY05	345	394	444	493	542	592
FY06	537	613	690	767	843	920
FY07E	668	763	858	954	1,049	1,144
FY08E	926	1,059	1,191	1,324	1,456	1,588
FY09E	1,232	1,408	1,584	1,760	1,936	2,112
FY10E	1,639	1,873	2,107	2,341	2,575	2,809
Upside %	29.8	48.4	66.9	85.5	104.0	122.6

## ➔ Siemens:

- Strong traction in Power and Industrial Business on the back of capacity addition and integration of newly acquired businesses
- IT business to sustain 30% growth

Siemens India Ltd						CMP: 1,066
PE	14	16	18	20	22	24
FY05	251	287	323	359	395	431
FY06	480	548	617	685	754	822
FY07E	726	830	934	1,038	1,142	1,245
FY08E	962	1,099	1,237	1,374	1,512	1,649
FY09E	1,202	1,374	1,546	1,718	1,889	2,061
FY10E	1,503	1,718	1,932	2,147	2,362	2,577
Upside %	41.0	61.2	81.3	101.4	121.6	141.7

## ➔ KOEL:

- Higher share of outsourcing/ OE contracts to result in strong earnings growth
- Low yielding investments to get channelized into productive assets and result in RoI expansion

Kirloskar Oil Engines						CMP: 232
PE	12	14	16	18	20	22
FY05	83	97	111	125	139	153
FY06	127	149	170	191	212	234
FY07E	159	186	213	239	266	292
FY08E	195	228	261	293	326	358
FY09E	244	285	326	367	407	448
FY10E	305	356	407	458	509	560
Upside %	31.7	53.6	75.5	97.5	119.4	141.4

# Engineering - III

## ➤ KSB Pumps:

- Significant capacity expansion and modernization
- We expect higher share of parent's outsourcing pie and strong traction in domestic demand from power and oil & gas segment

KSB Pumps Ltd						CMP:	550
PE	12	14	16	18	20	22	
FY05	207	242	277	311	346	380	
FY06	262	306	349	393	437	480	
FY07E	381	445	508	572	635	699	
FY08E	508	592	677	761	846	931	
FY09E	609	711	812	914	1,015	1,117	
FY10E	719	839	958	1,078	1,198	1,318	
Upside %	30.7	52.5	74.2	96.0	117.8	139.6	

## ➤ AIA Eng:

- 3x increase in capacity over the next 15 months; with the first phase commissioning in Dec-06
- Offers 30% earnings growth visibility for the next 3 years

AIA Engineering Ltd						CMP:	810
PE	12	14	16	18	20	22	
FY05	251	293	335	377	419	461	
FY06	359	419	479	539	599	659	
FY07E	521	608	695	782	868	955	
FY08E	870	1,015	1,160	1,305	1,450	1,596	
FY09E	957	1,117	1,276	1,436	1,596	1,755	
FY10E	1,053	1,229	1,404	1,580	1,755	1,931	
Upside %	29.9	51.6	73.2	94.9	116.6	138.2	

# Engineering - IV

## ⇒ GMR:

- Near term earnings not relevant as large projects are still under implementation
- Improved visibility on timely completion of project and higher earnings yield could result in **PE re-rating**

GMR Infrastructure						CMP:	232
PE	22	24	26	28	30	32	
FY05	67	73	79	85	91	97	
FY06	68	74	80	86	92	99	
FY07E	70	76	82	88	95	101	
FY08E	71	78	84	91	97	104	
FY09E	201	219	237	255	274	292	
FY10E	289	315	342	368	394	420	
Upside %	24.8	36.2	47.5	58.9	70.2	81.6	

## ⇒ BEL:

- We believe market has overplayed impact of potential private competition
- BEL has a robust business model with steady 18% earnings growth, superior return ratios of 35%+ and healthy free cash generation

Bharat Electronics Ltd						CMP:	1,149
PE	10	11	12	13	14	15	
FY05	595	655	714	774	833	893	
FY06	730	803	876	949	1,022	1,095	
FY07E	864	950	1,036	1,123	1,209	1,296	
FY08E	1,018	1,120	1,222	1,324	1,425	1,527	
FY09E	1,201	1,321	1,442	1,562	1,682	1,802	
FY10E	1,418	1,559	1,701	1,843	1,985	2,126	
Upside %	23.3	35.7	48.0	60.3	72.7	85.0	

## ⇒ CGL:

- It is transforming into an Indian MNC with exposure to America , Europe and Asian continents
- We expect **positive earnings surprise** with acquisitions turning around

Crompton Greaves Ltd						CMP:	256
PE	14	16	18	20	22	24	
FY05	56	64	72	81	89	97	
FY06	116	132	149	165	182	198	
FY07E	160	183	206	229	252	275	
FY08E	207	236	266	296	325	355	
FY09E	269	307	346	384	423	461	
FY10E	336	384	432	480	528	576	
Upside %	31.6	50.4	69.2	88.0	106.8	125.6	

# Engineering - V

## ➤ Suzlon:

- Near term order traction likely to be strong in view of PTC in US expiring in 2007. However, significant capacity addition in the industry could impact realizations beyond FY08

Suzlon Energy Ltd						CMP:	1,267
PE	16	18	20	22	24	26	
FY05	723	813	903	994	1,084	1,174	
FY06	423	476	529	582	635	688	
FY07E	747	840	933	1,027	1,120	1,213	
FY08E	942	1,060	1,177	1,295	1,413	1,530	
FY09E	1,083	1,218	1,354	1,489	1,625	1,760	
FY10E	1,246	1,401	1,557	1,713	1,868	2,024	
Upside %	(1.7)	10.6	22.8	35.1	47.4	59.7	

## ➤ BHEL:

- BHEL still to prove competence in Super Critical Technology
- Expect market share to decline and valuations to contract

Bharat Heavy Electricals						CMP:	2,312
PE	14	16	18	20	22	24	
FY05	581	664	747	830	913	996	
FY06	953	1,089	1,225	1,361	1,498	1,634	
FY07E	1,263	1,443	1,624	1,804	1,984	2,165	
FY08E	1,522	1,739	1,956	2,174	2,391	2,608	
FY09E	1,826	2,087	2,348	2,608	2,869	3,130	
FY10E	2,118	2,421	2,723	3,026	3,328	3,631	
Upside %	(8.4)	4.7	17.8	30.9	44.0	57.1	

## ➤ KBL:

- Increasing competitive intensity from construction companies in its project business could impact revenue growth and profitability

Kirloskar Brothers Ltd						CMP:	397
PE	12	14	16	18	20	22	
FY05	256	299	341	384	427	470	
FY06	144	168	192	216	240	264	
FY07E	209	244	279	314	349	384	
FY08E	254	296	338	380	423	465	
FY09E	299	349	399	449	499	549	
FY10E	347	405	463	521	578	636	
Upside %	(12.6)	2.0	16.5	31.1	45.6	60.2	



# Engineering - VI

## ➔ Cummins:

- Expect share of lower margin exports business to increase from H2FY07 onwards, impacting margins negatively
- Expect revenue and earnings CAGR of 16-18%

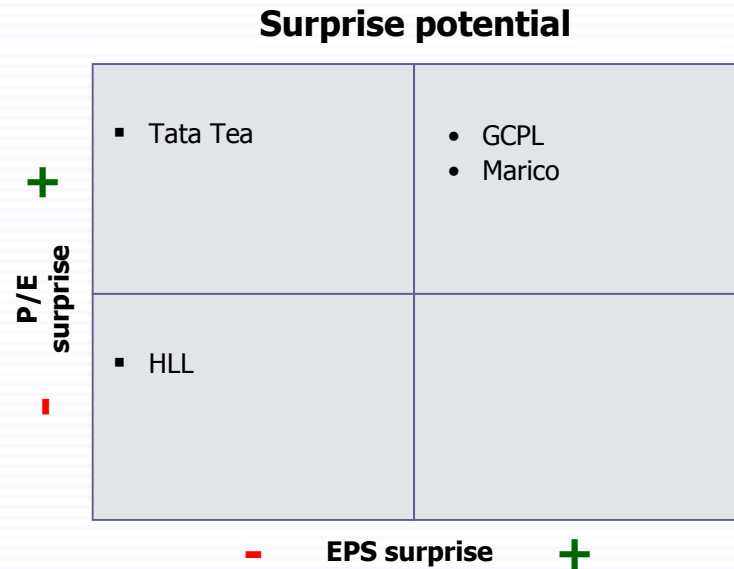
Cummins India Ltd						CMP:	243
PE	12	14	16	18	20	22	
FY05	78	91	104	117	130	143	
FY06	120	140	160	180	200	220	
FY07E	143	166	190	214	238	262	
FY08E	169	198	226	254	282	311	
FY09E	197	229	262	295	328	360	
FY10E	228	266	304	342	380	418	
Upside %	(6.1)	9.5	25.2	40.8	56.4	72.1	

## ➔ Thermax:

- We believe, timely execution of the backlog is a challenge and might result in negative earnings surprise

Thermax Ltd						CMP:	303
PE	12	14	16	18	20	22	
FY05	69	80	92	103	115	126	
FY06	110	128	147	165	183	202	
FY07E	171	199	228	256	285	313	
FY08E	230	268	306	345	383	421	
FY09E	253	295	337	379	421	463	
FY10E	273	318	364	409	455	500	
Upside %	(10.0)	5.0	20.0	35.0	50.0	65.0	

# FMCG Sector - I



⇒ **GCPL: (P/E re-rating likely)**

- Extending hair colour presence, widening product portfolio and improving dom/ Intl reach.
- Earnings momentum to outperform sector peers, resulting in long term P/E re-rating

Godrej Consumer Products Ltd						CMP:	177
PE	18	19	20	21	22	23	
FY05	68	72	76	80	83	87	
FY06	90	95	100	105	110	115	
FY07E	131	139	146	153	161	168	
FY08E	169	178	187	197	206	215	
FY09E	211	223	234	246	258	269	
FY10E	263	278	292	307	322	336	
Upside %	48.9	57.2	65.4	73.7	82.0	90.3	

# FMCG Sector - II

## ➔ HLL: (P/E de-rating likely)

- Decline in commodity prices, alongside judicious price increases may result in short term negative earning surprise
- Valuations exceed implied earnings growth in the long term, expect P/E de-rating in the case of HLL

Hindustan Lever Ltd						CMP:	250
PE	30	28	26	24	22	20	
CY04	163	153	142	131	120	109	
CY05	185	172	160	148	135	123	
CY06E	214	200	186	171	157	143	
CY07E	253	236	219	202	185	168	
CY08E	301	281	261	241	221	201	
CY09E	355	331	308	284	260	237	
Upside %	42.0	32.5	23.1	13.6	4.1	(5.3)	

## ➔ Marico: (P/E re-rating likely)

- Decoupling from commodity cycle and continued favorable RM prices to deliver earnings surprise
- Consolidated hair oil positioning and new category introductions warrant long term P/E re-rating

Marico Ltd						CMP:	514
PE	18	19	20	21	22	23	
FY05	212	223	235	247	259	270	
FY06	309	327	344	361	378	395	
FY07E	400	423	445	467	489	512	
FY08E	482	509	535	562	589	616	
FY09E	545	576	606	636	667	697	
FY10E	640	676	711	747	782	818	
Upside %	24.6	31.6	38.5	45.4	52.3	59.3	

## ➔ Tata Tea: (P/E re-rating likely)

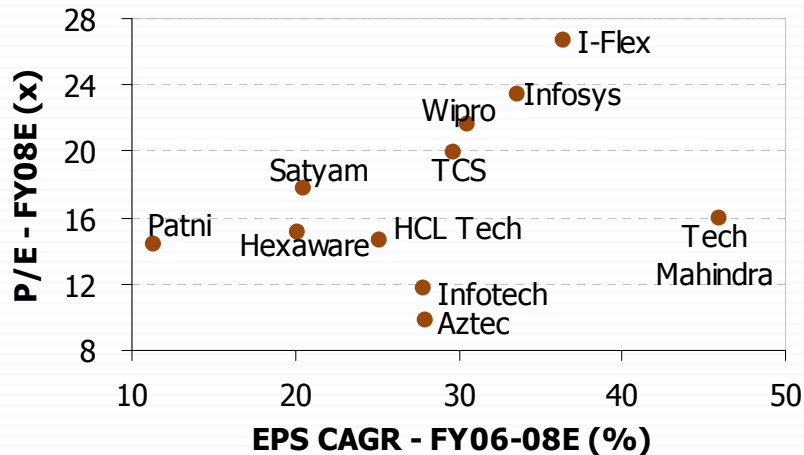
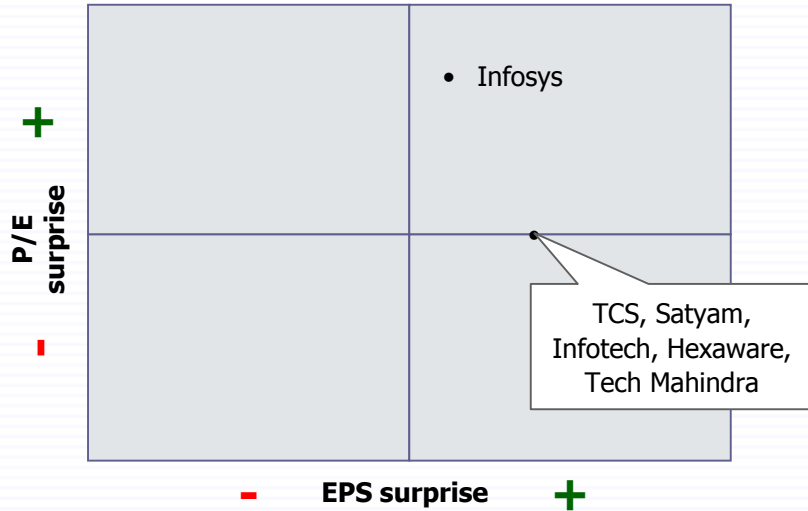
- Glacéau acquisition to increase debt burden and dampen earnings in the short term
- Entry into vibrant enhanced water market and scalable growth therein to yield a long term structural P/E re-rating

Tata Tea Ltd						CMP:	737
PE	10	11	12	13	14	15	
FY05	453	498	543	589	634	679	
FY06	527	580	633	685	738	791	
FY07E	409	450	491	532	573	614	
FY08E	591	650	709	768	828	887	
FY09E	761	837	913	989	1,065	1,141	
FY10E	895	985	1,074	1,164	1,253	1,343	
Upside %	21.5	33.6	45.7	57.9	70.0	82.2	

Note: Includes Glacéau acquisition impact (approx. fig.)

# IT Sector - I

**Surprise potential**



- ➔ **Sector Earnings:** P/E upgrade dependent on material pricing uptake, backed by higher growth in select horizontals like IMS, Testing, Package Implementation etc. Select companies to benefit
- ➔ **Sector P/E:** P/E would de-rate on following events : 1) If supply challenges impact earnings growth 2) US slowdown/ recession
- ➔ **Infosys:** P/E v/s peers to widen, backed by higher growth in consulting, higher blended price realizations and deployment of surplus cash for higher RoE
- ➔ **Satyam:** Improvement in Earnings, if supply issues settle, signs of which are visible and not discounted in earnings
- ➔ **Tech Mahindra:** Leadership in BSS, Business uptrend in non-BT business, BT growth to be higher than investor expectations
- ➔ **TCS/ Wipro:** Inorganic initiatives to impact RoE in the medium term

# IT Sector - II

## ➤ Infosys

### ■ P/E re-rating likely if :

- ▶ Pricing uptrend is higher than expectations
- ▶ Consulting share increases higher than present 3% and penetrates the incumbent's market share

Infosys Technologies Ltd						CMP:	1,866
PE	18	20	22	24	26	28	
FY05	615	684	752	820	889	957	
FY06	804	893	983	1,072	1,161	1,251	
FY07E	1,152	1,280	1,408	1,536	1,664	1,792	
FY08E	1,435	1,594	1,753	1,913	2,072	2,232	
FY09E	1,779	1,977	2,174	2,372	2,570	2,767	
FY10E	2,188	2,431	2,674	2,917	3,161	3,404	
Upside %	17.3	30.3	43.3	56.4	69.4	82.4	

## ➤ TCS

### ■ Earnings upgrade likely if :

- ▶ Progress on large deals is better than expectations and dent on margins subsides
- ▶ Higher productivity gains in fixed price contracts than historical average

Tata Consultancy Services Ltd						CMP:	999
PE	16	18	20	22	24	26	
FY05	354	398	443	487	531	575	
FY06	478	538	597	657	717	777	
FY07E	636	716	795	875	955	1,034	
FY08E	804	904	1,004	1,105	1,205	1,306	
FY09E	988	1,112	1,235	1,359	1,483	1,606	
FY10E	1,216	1,368	1,520	1,672	1,824	1,976	
Upside %	21.7	36.9	52.1	67.3	82.5	97.8	

## ➤ Wipro

### ■ Earnings upgrade realistic :

- ▶ Increase in utilization rates by 200-300 bps would take 3-4 quarters as the business model adjusts for higher fresher intake
- ▶ Salary hikes to impact sequential PAT growth rates in next 2-3 quarters

Wipro Ltd						CMP:	521
PE	17	19	21	23	25	27	
FY05	188	210	232	254	276	299	
FY06	241	269	297	326	354	382	
FY07E	329	368	407	445	484	523	
FY08E	410	458	507	555	603	651	
FY09E	509	568	628	688	748	808	
FY10E	631	705	779	853	927	1,002	
Upside %	21.1	35.3	49.6	63.8	78.0	92.3	

# IT Sector - III

## ⇒ Satyam

### ■ Earnings upside if :

- ▶ Supply side issues subside at a faster pace
- ▶ Attrition rates decline to 16-17%

Satyam Computer Services Ltd						CMP:	818
PE	14	16	18	20	22	24	
FY05	322	368	414	461	507	553	
FY06	444	507	571	634	698	761	
FY07E	547	625	704	782	860	938	
FY08E	645	737	829	921	1,013	1,105	
FY09E	761	869	978	1,087	1,195	1,304	
FY10E	898	1,026	1,154	1,282	1,411	1,539	
Upside %	9.7	25.4	41.1	56.8	72.5	88.1	

## ⇒ Tech Mahindra

### ■ Earnings upside if :

- ▶ BT revenues would be steady, backed by 21 CN initiatives of BT, likelihood of outsourcing work from BT Global
- ▶ BSS expertise hold immense promise as America has yet to outsource the same
- ▶ Other clients/ areas that have higher volume growth potential – ITO, Managed Services, AT&T

Tech Mahindra Ltd						CMP:	625
PE	14	16	18	20	22	24	
FY05	141	161	181	201	221	242	
FY06	256	293	330	366	403	440	
FY07E	452	517	581	646	710	775	
FY08E	547	625	703	781	859	938	
FY09E	656	750	844	938	1,031	1,125	
FY10E	788	900	1,013	1,125	1,238	1,350	
Upside %	26.0	44.0	62.0	80.0	98.0	116.0	

## ⇒ Infotech Enterprises

### ■ Earnings upside if :

- ▶ EMI grows at higher than expectations (35%+)
- ▶ IT Services segment in GIS records better growth, thereby improving blended pricing

Infotech Enterprises Ltd/India						CMP:	211
PE	8	10	12	14	16	18	
FY05	48	60	72	84	96	108	
FY06	88	110	132	154	176	198	
FY07E	124	155	186	217	248	279	
FY08E	144	180	216	252	288	324	
FY09E	170	213	255	298	340	383	
FY10E	201	251	301	351	401	451	
Upside %	(4.8)	19.0	42.8	66.6	90.4	114.2	

# IT Sector - IV

## ➤ Patni Computers

### ■ Earnings upside if :

- ▶ Utilization rates consistently sustain above 70%
- ▶ Efficiency gains from SG&A leverage

Patni Computer Systems Ltd						CMP:	389
PE	10	12	14	16	18	20	
FY05	208	250	291	333	374	416	
FY06	218	262	306	349	393	437	
FY07E	172	206	240	275	309	343	
FY08E	271	325	379	433	487	541	
FY09E	335	403	470	537	604	671	
FY10E	413	495	578	660	743	825	
Upside %	6.1	27.3	48.5	69.7	90.9	112.2	

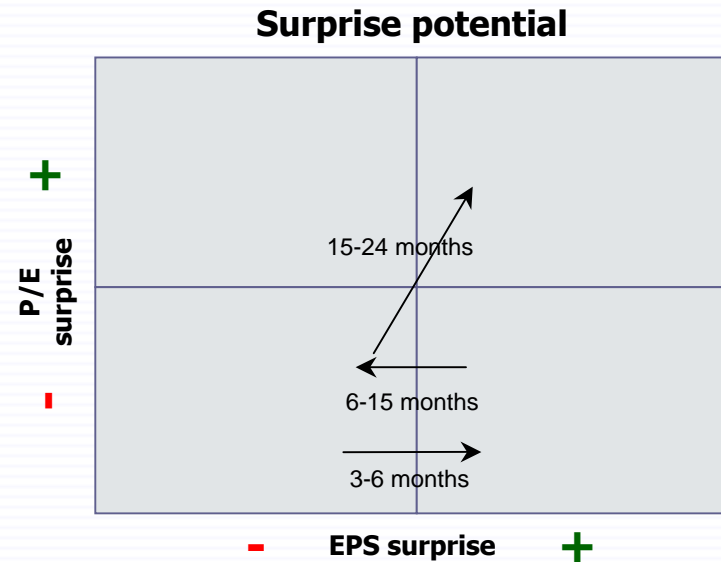
## ➤ Hexaware

### ■ Earnings upside if :

- ▶ Inorganic initiatives yield better profitability given higher cash balance (Yr end – Rs.3.6bn in CY06 and Rs.4.5bn in CY07)
- ▶ Improvement in operating profit from higher utilization rates at offshore locations

Hexaware Technologies Ltd						CMP:	163
PE	10	12	14	16	18	20	
FY05	48	58	67	77	86	96	
FY06	75	90	105	120	135	150	
FY07E	84	100	117	134	151	167	
FY08E	107	128	149	171	192	213	
FY09E	128	154	179	205	231	256	
FY10E	154	184	215	246	277	307	
Upside %	(6.0)	12.9	31.7	50.5	69.3	88.1	

# Metals Sector - I



## Sector Highlights

- While non-ferrous metal prices stabilized in Jul-Sep 06 Qtr after correcting from higher levels, ferrous metal prices remain steady
- Short term (3-6 months): Earnings surprise amidst prevailing perception of weak ferrous and non ferrous metal prices
- Medium term (6-15 months): Weak metal prices on global slowdown
- Long term (15-24 months): Strong volume growth (30% +), pricing recovery (following a correction) to drive earnings and valuations upward



# Metals Sector - II

## ➤ **Nalco (Positive earnings surprise likely)**

- Significant brownfield expansion (30%+)
- One of the lowest cost producers
- Cash on hand of ~ Rs.90/Sh by FY10, plus EPS range of Rs.30-40

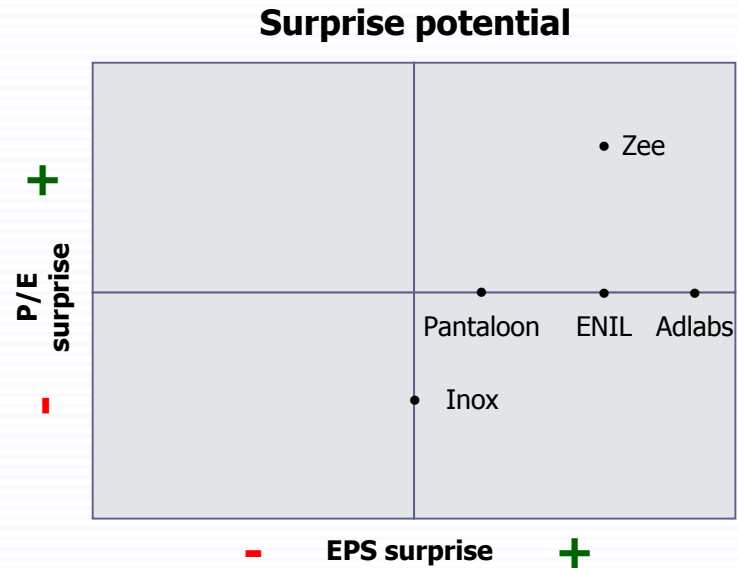
National Aluminium Co Ltd						CMP:	214
PE	6	7	8	9	10	11	
FY05	111	129	148	166	185	203	
FY06	146	170	194	219	243	267	
FY07E	197	230	263	296	329	362	
FY08E	171	200	228	257	285	314	
FY09E	180	210	240	269	299	329	
FY10E	207	241	275	310	344	379	
Upside %	(3.6)	12.5	28.6	44.6	60.7	76.8	

## ➤ **SAIL (Positive earnings surprise likely)**

- Cost of production likely to decline on captive coking coal mining
- Volume to rise 30% to 17 mn tonnes
- EV/ Tonne of USD400 vis-à-vis replacement cost of USD1,000

Steel Authority Of India						CMP:	80
PE	5	6	7	8	9	10	
FY05	81	97	113	130	146	162	
FY06	49	58	68	78	87	97	
FY07E	78	94	109	125	140	156	
FY08E	82	98	114	130	147	163	
FY09E	90	108	126	144	161	179	
FY10E	99	118	138	158	178	197	
Upside %	23.0	47.7	72.3	96.9	121.5	146.1	

# Media & Retail – I



## ➤ Zee:

- Listing of the DTH, Cable and News businesses to unlock value

## ➤ Pantaloon:

- We believe Pantaloon will manage profitable growth and value un-locking could happen from new businesses

Pantaloon Retail India Ltd						CMP:	1,855
PE	17	19	21	23	25	27	
FY05	267	298	329	361	392	424	
FY06	430	481	532	582	633	684	
FY07E	707	790	873	956	1,040	1,123	
FY08E	1,287	1,439	1,590	1,742	1,893	2,045	
FY09E	1,738	1,942	2,147	2,351	2,556	2,760	
FY10E	2,346	2,622	2,898	3,174	3,450	3,726	
Upside %	26.5	41.4	56.3	71.1	86.0	100.9	

# Media & Retail – II

## ➤ Adlabs: (Positive earnings surprise likely)

- Successful rollout of radio business and entry into television broadcasting to lead to earnings upside

Adlabs Films Ltd						CMP:	351
PE	18	20	22	24	26	28	
FY05	82	91	100	109	119	128	
FY06	106	118	129	141	153	165	
FY07E	185	206	226	247	267	288	
FY08E	223	248	272	297	322	347	
FY09E	312	347	381	416	451	485	
FY10E	421	468	515	562	608	655	
Upside %	20.1	33.4	46.8	60.1	73.4	86.8	

## ➤ ENIL: (Positive earnings surprise likely)

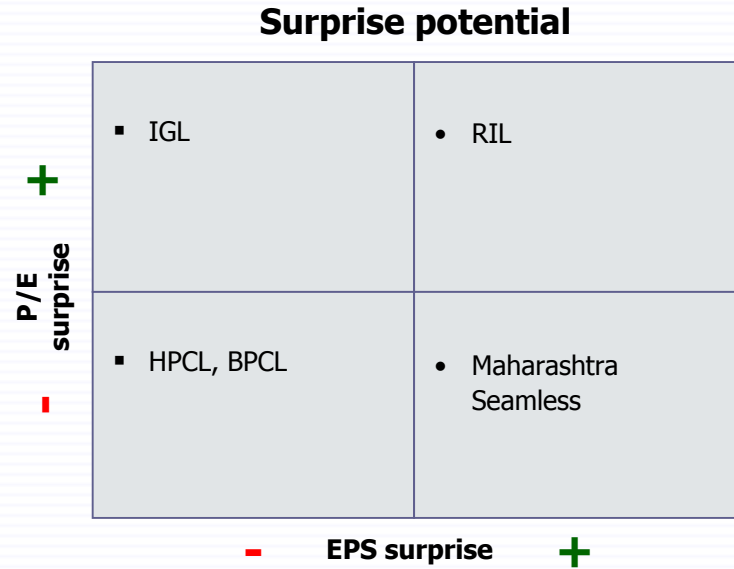
- High growth in outdoor media business could provide earnings upside

Entertainment Network India Ltd						CMP:	243
PE	20	22	24	26	28	30	
FY05	(73)	(80)	(87)	(94)	(102)	(109)	
FY06	93	102	111	121	130	139	
FY07E	134	147	161	174	188	201	
FY08E	149	164	178	193	208	223	
FY09E	201	221	241	261	281	301	
FY10E	251	276	301	326	351	376	
Upside %	3.2	13.6	23.9	34.2	44.5	54.8	

## ➤ Inox: (P/E de-rating likely)

- Delayed rollouts could dampen earnings. Valuations exceed earnings growth, expect PE de-rating

# Oil & Gas - I



- ➔ **RIL: (P/E re-rating and EPS surprise)**
  - Short term earnings surprise from “core” operating assets
  - P/E expansion from clarity over the E&P/ retail/ SEZ business initiatives

Reliance Industries Ltd						CMP: 1,155
PE	12	14	16	18	20	22
FY05	660	771	881	991	1,101	1,211
FY06	809	944	1,079	1,214	1,349	1,484
FY07E	981	1,145	1,308	1,472	1,635	1,799
FY08E	1,089	1,270	1,452	1,633	1,815	1,996
FY09E	1,361	1,588	1,815	2,042	2,269	2,495
FY10E	1,701	1,985	2,269	2,552	2,836	3,119
Upside %	47.3	71.9	96.4	121.0	145.5	170.1

# Oil & Gas - II

## ➔ IGL: (P/E re-rating likely)

- Increase in the FII limit could trigger the re-rating of the cheapest "oil and gas" stock

Indraprastha Gas Ltd						CMP:	121
PE	15	17	19	21	23	25	
FY05	94	107	119	132	144	157	
FY06	114	129	144	159	175	190	
FY07E	137	155	174	192	210	229	
FY08E	157	178	199	220	241	262	
FY09E	173	196	219	242	265	288	
FY10E	190	215	241	266	291	317	
Upside %	57.2	78.2	99.2	120.1	141.1	162.1	

## ➔ HPCL, BPCL: (P/E de-rating and negative EPS surprise)

- Valuations build in aggressive reduction in the subsidy; trade at par with regional peers
- Earnings highly leveraged to – (1) oil bonds issuance (2) regulatory framework

Hindustan Petroleum Corp Ltd						CMP:	291
PE	5	7	9	11	13	15	
FY05	189	265	340	416	492	567	
FY06	67	93	120	147	173	200	
FY07E	97	136	175	214	253	292	
FY08E	118	165	212	259	306	353	
FY09E	129	181	233	285	336	388	
FY10E	142	199	256	313	370	427	
Upside %	(51.1)	(31.5)	(12.0)	7.6	27.1	46.7	

Bharat Petroleum Corp Ltd						CMP:	377
PE	5	7	9	11	13	15	
FY05	243	340	438	535	632	729	
FY06	82	115	148	181	213	246	
FY07E	158	221	284	347	410	473	
FY08E	181	254	326	398	471	543	
FY09E	199	279	359	438	518	598	
FY10E	219	307	394	482	570	657	
Upside %	(41.8)	(18.5)	4.7	28.0	51.3	74.6	

# Oil & Gas - III

- ➔ **Maharashtra Seamless: (Positive EPS surprise likely)**
- Play on the heightened E&P activity in India - largest supplier of the “seamless” pipes used in the E&P
  - Thrust on low cost capacity build ups; significantly lower breakeven margins
  - Ramp up in the capacity utilization (FY06: 55% of expanded capacity) would lead to EPS surprise

Maharashtra Seamless Ltd					CMP:	390
PE	10	12	14	16	18	20
FY05	147	177	206	236	265	294
FY06	242	291	339	388	436	485
FY07E	376	452	527	602	677	753
FY08E	455	546	637	728	820	911
FY09E	502	602	702	803	903	1,003
FY10E	568	682	795	909	1,022	1,136
Upside %	45.5	74.6	103.8	132.9	162.0	191.1

# Pharma sector

## ☛ Sun Pharma

- Re-rating likely after de-merger of R&D arm
  - ▶ Demerger will raise EBITDA margins and reduce volatility, providing investors with a pure generics play
  - ▶ Entry into global niche area of controlled substances will help extend its growth story, post patent regime

Sun Pharmaceuticals Industries Ltd						CMP:	936
PE	20	21	22	23	24	25	
FY05	383	402	421	440	459	478	
FY06	553	581	609	636	664	692	
FY07E	701	736	771	806	842	877	
FY08E	838	880	922	964	1,006	1,048	
FY09E	1,048	1,100	1,152	1,205	1,257	1,310	
FY10E	1,310	1,375	1,441	1,506	1,572	1,637	
Upside %	39.9	46.9	53.9	60.9	67.9	74.9	

## ☛ Ranbaxy

- Upsides from atorvastatin launch in March 2010 are likely be capped by authorised generics; Pfizer will also promote torcetrapib to cannibalize Lipitor sales
- Entry into European markets through M&A at stiff valuations will impact re-rating

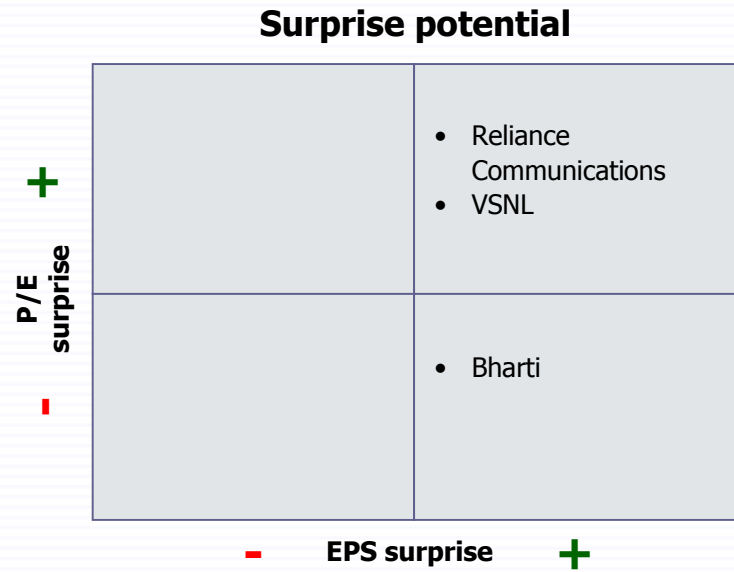
Ranbaxy Laboratories Ltd						CMP:	424
PE	17	18	19	20	21	22	
CY04	312	331	349	367	386	404	
CY05	97	103	108	114	120	125	
CY06E	212	225	237	250	262	275	
CY07E	325	344	363	382	401	420	
CY08E	406	430	454	478	501	525	
CY09E	507	537	567	597	627	657	
Upside %	19.7	26.8	33.8	40.8	47.9	54.9	

## ☛ GSK Pharma

- Current valuations factor in launch of patented products post CY07
- PE de-rating likely if patented products are launched through 100% subsidiary; re-rating and earnings upside if launched through listed entity

GlaxoSmithkline Pharmaceuticals Ltd						CMP:	1,242
PE	20	21	22	23	24	25	
CY04	639	671	703	735	767	799	
CY05	736	773	810	846	883	920	
CY06E	876	919	963	1,007	1,051	1,094	
CY07E	985	1,034	1,083	1,132	1,181	1,231	
CY08E	1,132	1,189	1,245	1,302	1,359	1,415	
CY09E	1,302	1,367	1,432	1,497	1,562	1,628	
Upside %	4.8	10.1	15.3	20.6	25.8	31.0	

# Telecom Sector: I



- ➔ **Bharti: (P/E de-rating possible, earnings surprise unlikely)**
  - As wireless growth slows down, valuation premium may decrease

Bharti Airtel Ltd						CMP:	459
PE	17	18	19	20	21	22	
FY05	137	145	154	162	170	178	
FY06	203	215	227	239	251	263	
FY07E	286	302	319	336	353	370	
FY08E	380	402	425	447	470	492	
FY09E	494	523	552	581	610	639	
FY10E	642	680	718	756	793	831	
Upside %	39.9	48.1	56.4	64.6	72.8	81.1	



# Telecom Sector: II

## ➔ Reliance Communications: (P/E re-rating, earnings surprise likely)

- Valuation gap with Bharti could reduce with better visibility in financials
- A successful foray into consumer broadband could change P/E

## ➔ VSNL: (P/E re-rating, positive earnings surprise possible)

- Improvement in business metrics and successful integration of the acquisitions could lead to a positive earnings surprise
- If VSNL manages to increase the share of value-added services in its revenue pie, it could lead to a re-rating
- The low valuations currently factor in an extremely competitive operating environment for VSNL and hence a continued pressure on margins

Reliance Communication Ltd					CMP:	348
PE	17	18	19	20	21	22
FY06	140	142	145	147	150	152
FY07E	283	294	304	315	326	337
FY08E	410	428	446	464	482	501
FY09E	518	542	567	592	616	641
FY10E	643	675	707	739	771	803
Upside %	84.7	93.9	103.0	112.2	121.4	130.6

Note: Value of consumer broadband assumed at Rs 100/share

Videsh Sanchar Nigam Ltd					CMP:	396
PE	14	15	16	17	18	19
FY05	384	396	407	419	431	443
FY06	456	473	489	506	523	540
FY07E	471	489	507	525	543	561
FY08E	480	499	517	536	554	573
FY09E	571	596	621	646	671	696
FY10E	641	671	701	731	761	791
Upside %	62.0	69.6	77.2	84.8	92.4	100.0

Note: Value of investments asumed at Rs 220/share

# Appendix: Database of Eco indicators

Sep-06	% chg				
	Current	1M	3M	6M	12M
<b>Industrial Production Index - Jul</b>					
General	234	0.4	3.9	(1.7)	12.4
Manufacturing	249	0.5	4.7	(1.3)	13.3
Mining	153	(1.3)	(2.4)	(9.0)	6.0
Electricity	200	1.1	1.2	0.5	8.6
<b>Inflation Index - Aug</b>					
WPI	205	0.5	1.8	4.3	4.9
CPI	124	0.0	2.5	4.2	6.0
<b>Balance of payments (USDm) - Aug</b>					
Exports	10,380	2.0	4.7	15.4	20.5
Imports	13,869	(1.9)	(3.9)	20.8	11.7
<b>Banking Trends (INRbn) - Aug</b>					
Bank Credit	15,861	1.9	6.2	12.9	32.0
Bank Deposits	22,347	1.3	4.6	12.9	21.2
Non-food credit	15,498	1.9	6.6	13.4	33.4
Money Supply(M3) % actuals	14.9	19.5	18.2	25.1	19.1

Sep-06	Actuals				
	Current	1M	3M	6M	12M
10Y Bond Yield (%)	7.6	7.9	8.1	7.5	7.1
Forex Reserves (USDbn)	166.5	165.3	162.9	151.6	143.1
Reverse REPO (%)	6.0	6.0	5.8	5.5	5.0

Sep-06	% chg				
	Current	1M	3M	6M	12M
<b>Auto ('000) - Aug</b>					
Passenger Car Sales	109	5.8	(1.4)	28.5	13.9
CV-Sales	17	3.3	8.2	5.7	15.7
2-W Sales	626	0.8	(13.4)	(3.0)	3.5
Tourist arrivals (nos) - Aug	299,211	(9.7)	13.8	(30.1)	2.9
Total comm traffic at ports ('000 tonnes) - A	35,598	(2.6)	9.9	(4.4)	8.2
Cellular subscribers (mn) - Aug	87	5.1	15.0	32.9	77.1
Cement Desp (m tonnes) - Aug	13	0.6	(9.7)	2.3	12.1
Diesel Prod (HSD) ('000 tonnes) (Jul)	4,516	5.0	15.0	2.0	11.0
<b>Crude Oil</b>					
Brent 38 Uk \$/bbl	63	(10.7)	(13.6)	(5.5)	(1.9)
Dubai Fateh 32 \$/bbl	57	(13.1)	(14.6)	(3.1)	1.8
<b>LME Spot Prices (\$/metric tonnes)</b>					
Zinc	3,360	0.9	3.1	24.9	138.1
Copper	7,601	(0.6)	1.3	37.5	92.5
Lead	1,425	16.7	49.2	17.8	46.2
Aluminium	2,572	5.5	0.8	2.4	38.5
Steel Imports Cold Rolled Coil	550	1.4	(3.5)	13.4	(9.8)
<b>Bullion</b>					
Gold (Rs/ 10gm)	8,905	(5.5)	(0.9)	4.9	31.6
Silver (Rs/ kg)	18,105	(6.0)	8.6	4.2	62.8

Source: Bloomberg, CMIE



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# Database

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# Enam covered stocks

Company Name	Price (Rs.)	Mkt. Cap (US\$ m)	ENAM estimates									FY10 P/E expected (x)	Implied FDEPS (Rs.) FY10E	Implied EPS CAGR* (%) FY06/ FY10	
			IBES EPS			FDEPS (Rs.)			P/E (x)						RoE (%)
			CY06E/ FY07E	CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E	CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E	CY06E/ FY07E					
<b>AUTO</b>															
Tata Motors	895	7,549	53	43	49	60	21	18	15	29	16	84	18%		
Bajaj Auto	3,107	6,887	133	111	128	159	28	24	20	24	16	291	27%		
Maruti Udyog	948	5,997	52	41	49	54	23	19	18	23	15	95	23%		
M&M#	476	2,586	48	28	32	38	17	15	13	26	16	45	12%		
Hero Honda	753	3,294	53	48	53	60	16	14	13	46	14	81	14%		
Mico	3,274	2,299	127	105	137	170	31	24	19	24	20	246	24%		
Bharat Forge	361	1,759	16	11	17	21	33	21	17	26	17	32	31%		
TVS Motors	125	652	6	5	5	7	25	24	19	17	16	12	24%		
Motherson Sumi	97	500	5	4	5	6	25	20	16	51	17	9	22%		
<b>BANKING</b>															
			Adj. BV (Rs.)			P/ABV (X)				P/ABV	Implied ABV	Implied ABV CAGR (%)			
ICICI Bk	705	13,792	35	240	258	280	2.5	2.3	2.1	13	2.5	423	15%		
SBI	1,039	11,979	103	627	694	776	1.7	1.5	1.3	14	1.5	1,039	13%		
HDFC	1,453	7,941	57	179	212	253	5.6	4.7	4.0	31	5.0	436	25%		
HDFC Bank	931	6,408	37	166	193	228	5.6	4.8	4.1	20	4.0	349	20%		
PNB	539	3,723	51	283	327	373	1.9	1.6	1.4	17	1.8	449	12%		
Canara Bank	290	2,600	33	155	180	211	1.9	1.6	1.4	19	1.5	290	17%		
UTI Bank	388	2,383	22	97	112	131	4.0	3.5	3.0	20	3.0	194	19%		
Bank of Baroda	289	2,309	27	206	231	264	1.4	1.3	1.1	13	1.5	289	9%		
BoI	167	1,779	18	84	104	124	2.0	1.6	1.3	17	1.5	167	19%		
OBC	273	1,498	30	163	190	222	1.7	1.4	1.2	19	1.5	273	14%		
Corporation Bank	413	1,299	35	227	253	282	1.8	1.6	1.5	15	1.5	413	16%		
Centurion Bank	25	811	0.9	6.1	7.4	8.4	4.1	3.4	3.0	13	3.0	13	20%		
Yes Bank	100	594	6	21	38	42	4.7	2.6	2.4	10	3.0	50	24%		
LIC Hsg.	173	321	25	135	138	159	1.3	1.2	1.1	15	1.3	199	10%		
<b>CEMENT</b>															
Grasim	2,547	5,115	168	98	176	206	26	14	12	27	14	273	29%		
ACC	983	4,025	57	20	45	53	48	22	19	29	14	105	51%		
Gujarat Ambuja	121	3,594	10	5	8	8	26	16	15	31	14	13	29%		
UltraTech Cement	879	2,397	52	18	59	63	48	15	14	42	14	94	51%		

# We have excluded value of investments per share ie Rs.213 from CMP of Rs.689 and Market cap to reflect the valuations and upside from core business. We expect value of investments to grow at a CAGR of 15% implying value of Rs.324 in FY10E. Translating into effective target price of Rs.1,038 from current CMP of Rs.689.

\* EPS CAGR=HURDLE Rate: implied EPS growth FY 06/10E, required to get a target 50% stock price appreciation in 3 yrs, at a reasonable expected P/E for FY10E

# Enam covered stocks

Company Name	Price (Rs.)	Mkt. Cap (US\$ m)	ENAM estimates										Implied FDEPS (Rs.) FY10E	Implied EPS CAGR* (%) FY06/ FY10
			IBES EPS	FDEPS (Rs.)			P/E (x)			RoE (%)	FY10 P/E expected (x)			
			CY06E/ FY07E	CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E	CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E	CY06E/ FY07E				
<b>ENERGY</b>														
NTPC	131	23,660	8	7	8	9	18	16	15	15	15	13	16%	
Tata Power	538	2,332	28	27	30	32	20	18	17	11	12	67	26%	
Reliance Energy	483	2,253	33	34	36	37	14	13	13	9	12	60	15%	
PTC India	57	186	3	3	3	4	20	18	13	18	16	5	17%	
<b>ENGINEERING</b>														
BHEL	2,312	12,393	94	68	90	109	34	26	21	30	18	193	30%	
Suzlon Energy	1,267	7,986	46	26	47	59	48	27	22	40	20	95	38%	
L&T	1,262	7,743	49	38	48	66	33	26	19	25	20	95	25%	
Siemens	1,066	3,936	42	34	52	69	31	21	16	48	20	80	24%	
ABB	2,943	2,732	79	52	81	113	57	37	26	33	20	221	44%	
BEL	1,149	2,014	86	73	86	102	16	13	11	30	16	108	10%	
Crompton	256	1,465	10	8	11	15	31	22	17	33	16	24	31%	
Cummins	243	1,054	11	10	12	14	24	20	17	25	18	20	19%	
Kirloskar Bros	397	920	21	12	17	21	33	23	19	29	16	37	33%	
Punj Lloyd	780	892	38	10	25	58	79	32	14	12	18	65	60%	
Thermax	303	792	14	9	14	19	33	21	16	32	16	28	33%	
BEML	967	778	62	56	63	69	17	15	14	25	15	97	15%	
Kirloskar Oil Engines	232	493	13	11	13	16	22	17	14	17	16	22	20%	
Patel Engineering	333	435	18	15	21	25	23	16	13	26	16	31	21%	
AIA Engineering	810	316	39	30	43	73	27	19	11	24	16	76	26%	
Kirloskar Pneumatics	310	87	-	9	23	32	34	13	10	54	15	31	36%	
<b>FMCG</b>														
HLL	250	12,080	7	6	7	8	41	35	30	66	25	15	25%	
Nestle	1,033	2,182	38	32	35	44	32	29	24	123	25	62	18%	
Dabur	142	1,783	5	4	5	6	36	29	24	54	22	10	25%	
Colgate-Palmolive	382	1,138	14	11	13	15	35	29	25	63	23	25	23%	
Tata Tea	737	908	56	53	59	65	14	12	11	19	15	74	9%	
Godrej Consumer	177	877	7	5	7	9	35	24	19	153	22	12	25%	
Marico	514	652	21	17	22	27	30	23	19	43	22	35	19%	

Note: Tata Tea does not include Glaceau acquisition impact

\* EPS CAGR=HURDLE Rate: implied EPS growth FY 06/10E, required to get a target 50% stock price appreciation in 3 yrs, at a reasonable expected P/E for FY10E

# Enam covered stocks

Company Name	Price (Rs.)	Mkt. Cap (US\$ m)	ENAM estimates									FY10 P/E expected (x)	Implied FDEPS (Rs.) FY10E	Implied EPS CAGR* (%) FY06/ FY10
			IBES EPS CY06E/ FY07E	FDEPS (Rs.)			P/E (x)			RoE (%) CY06E/ FY07E				
				CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E	CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E					
<b>IT SERVICES</b>														
Infosys	1,866	22,714	64	45	64	80	42	29	23	42	25	112	26%	
TCS	999	21,415	39	30	40	50	33	25	20	51	24	63	21%	
Wipro	521	16,351	19	14	19	24	37	27	22	31	24	33	23%	
Satyam	818	5,862	40	32	39	46	26	21	18	26	20	61	18%	
HCL Tech	550	3,906	37	24	31	38	23	18	15	23	18	46	18%	
I-flex	1,435	2,406	42	29	44	54	50	33	27	22	23	94	34%	
Tech Mahindra	625	1,586	-	18	32	39	34	19	16	40	16	59	34%	
Patni	389	1,175	20	22	17	27	18	23	14	11	18	32	10%	
Hexaware	163	472	9	7	8	11	22	20	15	23	15	16	22%	
Infotech Enterprises	211	212	15	11	15	18	19	14	12	28	14	23	20%	
<b>MEDIA</b>														
Zee	293	2,711	7								20	22	45%	
Adlabs Films	351	306	10	6	10	12	60	34	28	11	20	26	45%	
Entertainment Network India	243	253	7	5	7	8	52	36	32	11	20	18	41%	
INOX Leisure	152	200	5								18	13	43%	
<b>METALS</b>														
SAIL	80	7,256	14	10	16	16	8	5	5	42	7	17	15%	
Tata Steel	537	6,515	73	56	82	85	10	7	6	41	7	115	20%	
Hindustan Zinc	591	5,474	78	35	87	73	17	7	8	71	10	89	26%	
Sterlite Ind.	442	5,406	64	27	63	58	17	7	8	59	10	66	26%	
Hindalco	173	4,382	22	13	21	24	13	8	7	23	10	26	18%	
Nalco	214	3,024	32	24	33	29	9	7	8	31	10	32	7%	
Sesa Goa	1,024	883	196	142	196	216	7	5	5	53	7	220	11%	
<b>PETROCHEM</b>														
ONGC	1,144	35,719	132	103	136	127	11	8	9	25	12	143	8%	
RIL	1,155	35,257	72	67	82	91	17	14	13	30	15	116	14%	
IOC	539	13,780	44	42	43	46	13	12	12	12	8	101	24%	
Gail	258	4,782	28	27	27	26	9	9	10	19	10	39	9%	
BPCL	377	2,475	34	16	32	36	23	12	10	10	8	71	44%	
HPCL	291	2,163	25	13	19	24	22	15	12	6	8	55	42%	
IPCL	302	1,643	29	35	47	47	9	6	6	24	8	57	13%	
Petronet	58	951	3	3	3	3	22	19	17	21	12	7	29%	
Chennai Petro	208	679	38	32	40	48	7	5	4	20	8	39	5%	
Indraprastha Gas	121	371	9	8	9	10	16	13	12	28	18	10	7%	

\* EPS CAGR=HURDLE Rate: implied EPS growth FY 06/10E, required to get a target 50% stock price appreciation in 3 yrs, at a reasonable expected P/E for FY10E

# Enam covered stocks

Company Name	Price (Rs.)	Mkt. Cap (US\$ m)	ENAM estimates									FY10 P/E expected (x)	Implied FDEPS (Rs.) FY10E	Implied CAGR* (%) FY06/ FY10
			IBES EPS CY06E/ FY07E	FDEPS (Rs.)			P/E (x)			RoE (%) CY06E/ FY07E				
				CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E	CY05/ FY06	CY06E/ FY07E	CY07E/ FY08E					
<b>PAINTS</b>														
Asian Paints	683	1,435	27	22	26	29	31	26	23	34	20	51	23%	
Kansai Nerolac Paints	897	501	45	34	45	53	27	20	17	26	20	67	19%	
<b>PHARMACEUTICALS</b>														
Cipla	257	4,377	10	8	10	13	32	26	20	29	22	18	21%	
Sun Pharma	936	3,814	34	28	35	42	34	27	22	39	22	64	23%	
Ranbaxy	424	3,460	15	6	12	19	74	34	22	20	22	29	50%	
Dr Reddy's	712	2,392	34	8	29	27	88	25	27	18	22	49	56%	
Glaxo Pharma	1,242	2,305	42	37	44	49	34	28	25	35	22	85	23%	
Nicholas	235	1,076	10	6	8	11	40	29	22	16	20	18	32%	
Glenmark	297	773	20	6	15	21	46	20	14	44	18	25	40%	
Biocon	377	826	19	17	21	26	22	18	15	21	18	31	16%	
<b>RETAIL</b>														
Pantaloon	1,855	1,092	43	25	42	76	73	45	24	18	25	111	45%	
Shoppers' Stop	590	447	10								28	32	41%	
Trent	882	279	28	20	28	42	43	31	21	13	28	47	23%	
<b>TELECOM</b>														
Bharti Tele-venture	459	19,062	18	12	17	22	38	27	21	29	17	41	36%	
RCVL	348	15,288	12	2	11	18	148	32	19	17	20	26	35%	
VSNL	396	2,471	17	17	18	19	24	22	21	8	15	40	24%	
MTNL	158	2,176	10	13	13	14	12	12	11	7	10	24	16%	
<b>TEXTILES</b>														
Aditya Birla Nuvo	897	1,641									20	67	28%	
Lakshmi Machine Works Ltd	26,345	714	1,488	1,165	1,533	1,943	23	17	14	37	13	3,040	27%	
Arvind Mills	68	311	4	5	4	5	13	19	12	5	10	10	17%	
Gokaldas Exports	622	234	43	34	44	58	18	14	11	20	14	67	18%	
<b>TRANSPORTATION</b>														
Container Corp	1,682	2,394	98	80	97	120	21	17	14	27	15	168	20%	
Jet Airways	651	1,231	46	33	13	22	20	52	29	5	14	70	21%	

Source: Company, ENAM Research

Note: ICICI Bank, HDFC valuations are calculated after including the value of investments.

Note: M&M - Standalone FDEPS

Note: RCOM - CAGR is FY07/FY10

Note: Price as on October 5, 2006

\* EPS CAGR=HURDLE Rate: implied EPS growth FY 06/10E, required to get a target 50% stock price appreciation in 3 yrs, at a reasonable expected P/E for FY10E

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# Thank You

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