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July 2007

The moment of truth is nigh

Q1 results to decide if markets will stay on a high

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STOCK IDEAS STANDING (AS ON JULY 02, 2007)														
COMPANY	RECO PRICE	PRICE TARGET	RECO DATE	CURRENT RECO	PRICE AS ON 02-JUL-07	GAIN-LOSS (%)	ABSOLUTE PERFORMANCE				RELATIVE TO SENSEX			
							1M	3M	6M	12M	1M	3M	6M	12M
Evergreen														
HDFC Bank	358.0	1,355.0	23-Dec-03	Buy	1,146.1	220.1	-0.1	23.4	7.7	54.2	-1.5	8.9	0.6	5.4
Infosys Technologies	689.1	2,440.0	30-Dec-03	Buy	1,942.7	181.9	-0.8	-2.8	-13.6	29.7	-2.2	-14.3	-19.3	-11.4
Reliance Ind	567.0	**	5-Feb-04	Buy	1,684.5	197.1	-3.1	25.4	34.9	69.9	-4.4	10.6	26.1	16.1
Tata Consultancy Services	852.5	1,465.0	6-Mar-06	Buy	1,134.6	33.1	-6.4	-7.5	-5.2	38.2	-7.6	-18.5	-11.4	-5.5
Apple Green														
ACC	260.0	**	10-Aug-04	Buy	936.2	260.1	7.3	27.1	-12.3	28.7	5.8	12.0	-18.0	-12.0
Aditya Birla Nuvo	714.0	1,600.0	6-Dec-05	Buy	1,367.9	91.6	-2.2	28.1	8.0	103.3	-3.5	13.0	0.9	38.9
Apollo Tyres	344.0	425.0	28-Nov-06	Buy	319.4	-7.2	-10.0	18.7	-8.0	38.7	-11.2	4.7	-14.1	-5.2
Bajaj Auto	1,873.0	2,271.0	15-Nov-05	Buy	2,129.2	13.7	-1.0	-10.4	-17.2	-17.4	-2.4	-21.0	-22.6	-43.6
Bank of Baroda	239.0	310.0	25-Aug-06	Buy	266.4	11.5	-0.6	28.1	15.4	42.1	-2.0	13.0	7.8	-2.9
Bank of India	135.0	**	25-Aug-06	Buy	227.6	68.6	10.1	40.5	12.7	151.1	8.6	23.9	5.3	71.6
Bharat Bijlee	192.3	2,425.0	29-Nov-04	Buy	2,139.8	1,012.7	29.8	78.4	83.9	128.7	28.1	57.4	71.8	56.3
Bharat Electronics	1,108.0	2,020.0	25-Sep-06	Buy	1,904.9	71.9	5.3	23.8	36.6	79.3	3.9	9.2	27.7	22.6
Bharat Heavy Electricals	602.0	1,562.5	11-Nov-05	Buy	1,533.0	154.7	7.7	35.0	34.6	68.3	6.3	19.1	25.7	15.0
Bharti Airtel	625.0	900.0	8-Jan-07	Buy	837.4	34.0	0.1	9.8	32.9	132.6	-1.2	-3.1	24.2	59.0
Canara Bank	213.0	**	25-Aug-06	Buy	272.6	28.0	6.6	44.2	0.3	41.8	5.1	27.2	-6.3	-3.1
Corp Bank	218.0	374.0	19-Dec-03	Buy	331.1	51.9	-2.3	14.5	-3.4	51.6	-3.6	1.0	-9.8	3.6
Crompton Greaves	88.1	280.0	19-Aug-05	Buy	261.7	196.9	0.8	30.4	21.9	111.3	-0.6	15.0	13.9	44.4
Elder Pharma	298.0	508.0	26-Apr-06	Buy	416.6	39.8	10.4	5.2	17.4	45.6	8.9	-7.2	9.7	-0.5
Grasim	1,119.0	2,975.0	30-Aug-04	Buy	2,618.5	134.0	5.2	28.4	-4.1	47.1	3.7	13.2	-10.4	0.5
Hindustan Unilever	172.0	280.0	24-Nov-05	Buy	189.1	9.9	-6.8	-6.3	-11.5	-7.9	-8.0	-17.4	-17.3	-37.0
HCL Technologies	103.0	395.0	30-Dec-03	Buy	336.3	226.5	0.3	16.0	7.4	43.0	-1.1	2.3	0.3	-2.3
ICICI Bank	284.0	1,173.0	23-Dec-03	Buy	950.7	234.8	4.9	12.9	8.5	104.9	3.5	-0.4	1.3	40.0
Indian Hotel Company	76.6	180.0	17-Nov-05	Buy	150.4	96.3	2.6	4.1	-2.4	41.1	1.2	-8.2	-8.8	-3.6
ITC	69.5	200.0	12-Aug-04	Buy	154.0	121.6	-6.2	5.4	-12.1	-11.2	-7.5	-7.0	-17.9	-39.3
Lupin	403.5	840.0	6-Jan-06	Buy	724.8	79.6	1.7	26.8	19.7	66.7	0.3	11.8	11.8	13.9
M&M	232.0	913.0	1-Apr-04	Buy	733.8	216.3	-5.5	-4.8	-19.5	21.9	-6.8	-16.0	-24.8	-16.7
Marico	7.7	63.4	22-Aug-02	Buy	55.6	621.4	-7.2	-10.5	2.9	28.7	-8.5	-21.0	-3.8	-12.0
Maruti Udyog	360.0	921.0	23-Dec-03	Buy	771.4	114.3	-9.4	-8.3	-19.9	1.7	-10.6	-19.2	-25.1	-30.5
Nicholas Piramal	146.0	393.0	16-Mar-04	Buy	315.3	116.0	10.8	23.4	14.8	65.7	9.3	8.8	7.2	13.2
Omax Auto	128.0	134.0	19-Jul-05	Buy	82.1	-35.9	-8.2	-10.3	-7.5	17.5	-9.4	-20.9	-13.6	-19.7
Ranbaxy	533.5	558.0	24-Dec-03	Buy	364.7	-31.6	-9.1	4.6	-7.8	1.0	-10.3	-7.8	-13.9	-31.0
Satyam Computers	181.5	538.0	30-Dec-03	Buy	466.5	157.0	-1.0	1.3	-3.4	38.2	-2.3	-10.7	-9.8	-5.5
SKF India	141.0	**	23-Dec-04	Buy	427.9	203.5	-5.5	41.5	62.3	67.2	-6.8	24.8	51.6	14.3
SBI	476.0	1,780.0	19-Dec-03	Buy	1,530.8	221.6	16.6	56.3	23.8	117.5	15.1	37.8	15.6	48.6
Sundaram Clayton	1,178.0	1,350.0	15-May-06	Buy	856.4	-27.3	-10.3	-11.3	-37.3	2.0	-11.5	-21.8	-41.5	-30.3
Tata Motors	473.0	792.0	29-Mar-04	Buy	684.1	44.6	-7.8	-4.5	-24.1	-10.3	-9.1	-15.7	-29.1	-38.7
Tata Tea	789.0	**	12-Aug-05	Buy	858.4	8.8	-6.3	41.3	18.4	16.7	-7.6	24.6	10.6	-20.2
Unichem Laboratories	248.0	360.0	12-Dec-05	Buy	258.3	4.1	-0.8	2.3	-2.9	21.1	-2.2	-9.7	-9.3	-17.2
Wipro	418.0	675.0	9-Jun-06	Buy	512.8	22.7	-3.7	-8.1	-13.3	5.6	-5.0	-19.0	-19.0	-27.8
Emerging Star														
3i Infotech	132.0	400.0	6-Oct-05	Buy	313.9	137.8	-2.0	29.0	62.2	107.6	-3.3	13.8	51.5	41.9
Aban Offshore	330.4	3,110.0	3-Mar-05	Buy	3,081.2	832.6	17.8	48.2	117.9	221.2	16.2	30.7	103.5	119.5
Alphageo India	150.0	**	29-Nov-06	Buy	442.6	195.1	43.6	79.0	170.8	264.0	41.7	57.9	153.0	148.8
Cadila Healthcare	297.5	425.0	21-Mar-06	Buy	369.0	24.0	13.7	14.3	7.1	41.4	12.1	0.8	0.0	-3.4
Federal-Mogul Goetze	385.0	559.0	18-Jan-07	Buy	199.3	-48.2	-21.8	-25.1	-54.2	-33.2	-22.9	-34.0	-57.2	-54.4
KSB Pumps	399.0	625.0	3-Oct-05	Buy	615.2	54.2	13.0	15.9	-14.9	48.3	11.4	2.2	-20.5	1.4
Marksans Pharma	236.0	360.0	7-Mar-06	Buy	46.8	-80.2	-12.0	-7.6	-57.3	-58.8	-13.2	-18.5	-60.1	-71.8
Navneet Publications	56.8	67.0	22-Aug-05	Buy	61.9	8.9	-2.8	13.4	4.7	8.6	-4.1	0.0	-2.2	-25.8
NDTV	180.9	**	10-Feb-05	Buy	425.0	135.0	5.4	38.4	81.3	148.4	4.0	22.0	69.4	69.8
Network 18 Fincap	476.0	651.0	20-Jun-07	Buy	508.4	6.8	-0.2	54.4	-	-	-1.5	36.1	-	-
Nucleus Software Exports	497.0	1,020.0	12-Dec-06	Hold	1,014.7	104.2	2.1	7.3	49.7	241.3	0.8	-5.3	39.9	133.3
Orchid Chemicals	254.0	390.0	16-Jan-06	Buy	250.0	-1.6	-8.0	0.5	27.7	41.4	-9.2	-11.4	19.3	-3.4

REPORT CARD

STOCK IDEAS STANDING (AS ON JULY 02, 2007)														
COMPANY	RECO PRICE	PRICE TARGET	RECO DATE	CURRENT RECO	PRICE AS ON 02-JUL-07	GAIN/ LOSS (%)	ABSOLUTE PERFORMANCE				RELATIVE TO SENSEX			
							1M	3M	6M	12M	1M	3M	6M	12M
ORG Infomatics	130.0	184.0	16-Dec-05	Buy	101.2	-22.2	-5.0	-24.5	-38.4	9.8	-6.3	-33.5	-42.4	-25.0
Tata Elxsi	232.0	385.0	14-Dec-06	Buy	345.0	48.7	-6.7	18.2	28.4	99.1	-8.0	4.2	20.0	36.1
Television Eighteen India	219.0	967.0	23-May-05	Buy	893.6	308.0	7.7	47.2	56.0	156.1	6.2	29.8	45.7	75.0
Thermax	124.2	585.0	14-Jun-05	Buy	518.9	317.8	7.6	36.3	31.6	104.3	6.2	20.2	22.9	39.6
UTI Bank	229.4	638.0	24-Feb-05	Buy	607.1	164.7	7.6	27.1	30.1	135.0	6.1	12.1	21.5	60.6
Ugly Duckling														
Ahmednagar Forgings	250.0	380.0	10-Oct-06	Buy	231.7	-7.3	-1.8	-4.8	-16.8	33.7	-3.2	-16.1	-22.2	-8.6
Ashok Leyland	38.0	42.0	23-May-06	Buy	37.8	-0.7	1.3	1.1	-13.6	17.8	0.0	-10.9	-19.3	-19.5
Aurobindo Pharma	684.0	914.0	28-May-07	Buy	787.2	15.1	16.3	24.7	14.7	48.7	14.7	10.0	7.2	1.7
BASF	220.0	300.0	18-Sep-06	Buy	261.1	18.7	-1.7	40.0	15.2	48.5	-3.1	23.5	7.6	1.5
Ceat	122.0	190.0	28-Nov-06	Buy	159.5	30.7	-11.1	46.9	26.1	101.5	-12.3	29.5	17.8	37.7
Deepak Fert	50.6	126.0	17-Mar-05	Buy	92.9	83.6	5.5	13.8	6.8	30.4	4.0	0.4	-0.2	-10.8
Genus Power Infra	101.0	380.0	6-Jul-05	Buy	335.0	231.6	22.4	25.1	58.0	94.0	20.8	10.3	47.6	32.6
Hexaware Technologies	159.0	220.0	30-Mar-07	Buy	162.5	2.2	1.6	2.5	-18.4	24.3	0.2	-9.7	-23.8	-15.0
ICI India	250.0	581.0	26-May-05	Buy	523.0	109.2	4.1	21.3	29.6	97.2	2.7	7.0	21.0	34.8
India Cements	220.0	231.0	28-Sep-06	Buy	209.4	-4.8	10.9	29.6	-11.8	42.7	9.4	14.3	-17.6	-2.5
Indo Tech Transformer	199.0	**	28-Nov-06	Buy	406.5	104.3	12.2	54.6	62.3	177.0	10.6	36.4	51.6	89.3
JM Financial	214.0	**	29-Aug-05	Buy	1,038.1	385.1	-5.3	4.2	29.8	97.3	-6.5	-8.1	21.3	34.9
Jaiprakash Associates	125.0	850.0	30-Dec-03	Buy	758.2	506.5	7.4	40.3	2.3	108.8	5.9	23.7	-4.5	42.7
KEI Industries	39.4	140.0	30-Aug-05	Buy	84.5	114.5	-16.6	30.1	-2.7	57.7	-17.7	14.7	-9.1	7.8
NIIT Technologies	204.0	720.0	31-Mar-06	Buy	510.2	150.1	-15.0	19.2	69.7	209.9	-16.2	5.1	58.5	111.8
Punjab National Bank	180.0	578.0	19-Dec-03	Buy	528.4	193.5	3.1	15.5	8.7	74.8	1.7	1.9	1.5	19.5
Ratnamani Metals	270.0	1,215.0	8-Dec-05	Buy	922.2	241.6	7.1	42.8	115.6	192.3	5.7	25.9	101.4	99.8
Sanghvi Movers	265.0	1,050.0	5-Aug-05	Buy	804.7	203.6	-0.8	24.3	-0.2	18.3	-2.1	9.7	-6.8	-19.1
Saregama India	149.0	375.0	4-Jul-05	Buy	317.2	112.9	12.3	72.4	58.1	104.9	10.8	52.0	47.7	40.0
Selan Exploration	58.0	101.0	20-Mar-06	Buy	98.8	70.3	7.4	29.7	9.0	49.6	6.0	14.4	1.8	2.3
South East Asia Marine	190.0	300.0	12-Oct-06	Buy	198.9	4.7	5.4	12.1	2.5	57.5	3.9	-1.1	-4.2	7.6
Subros	206.0	340.0	26-Apr-06	Buy	218.2	5.9	-5.2	-6.5	-9.0	20.5	-6.5	-17.5	-15.0	-17.7
Sun Pharmaceutical	302.0	1,297.0	24-Dec-03	Buy	1,036.5	243.2	-7.6	0.5	5.1	31.9	-8.9	-11.4	-1.8	-9.9
Surya Pharma	139.0	205.0	2-Dec-05	Buy	75.1	-46.0	5.6	16.9	-16.9	-9.8	4.1	3.1	-22.4	-38.3
UltraTech Cement	384.0	935.0	10-Aug-05	Buy	884.2	130.2	9.4	18.7	-17.5	26.6	8.0	4.7	-22.9	-13.4
Union Bank of India	46.0	141.0	19-Dec-03	Buy	131.3	185.3	11.2	28.8	11.1	58.2	9.7	13.6	3.8	8.1
Universal Cables	123.0	179.0	30-Aug-05	Buy	121.3	-1.4	-1.0	29.8	9.7	39.8	-2.3	14.5	2.5	-4.5
Wockhardt	248.0	552.0	24-Dec-03	Buy	394.2	58.9	-9.2	-0.7	11.0	7.9	-10.4	-12.4	3.7	-26.3
Zensar Technologies	342.0	484.0	18-Jun-07	Buy	340.4	-0.5	-10.4	38.8	45.0	75.6	-11.6	22.4	35.4	20.0
Vulture's Pick														
Esab India	60.0	575.0	21-May-04	Buy	450.5	650.8	11.0	47.0	22.0	37.2	9.5	29.6	14.0	-6.2
Orient Paper	214.0	680.0	30-Aug-05	Buy	421.6	97.0	3.1	9.3	-17.8	33.5	1.7	-3.6	-23.2	-8.8
WS Industries	51.0	87.0	2-Dec-05	Buy	51.1	0.2	2.9	20.9	8.4	9.3	1.5	6.6	1.3	-25.3
Cannonball														
Allahabad Bank	73.0	101.0	25-Aug-06	Buy	82.5	13.0	-4.2	18.1	-4.3	31.4	-5.5	4.2	-10.6	-10.2
Andhra Bank	85.0	101.0	25-Aug-06	Buy	85.8	0.9	-2.0	16.0	3.9	47.2	-3.4	2.3	-2.9	0.6
Cipla	101.2	256.0	24-Dec-03	Buy	210.1	107.6	-4.6	-11.6	-16.9	0.2	-5.9	-22.1	-22.3	-31.5
Gateway Distriparks	190.0	250.0	11-Aug-05	Buy	192.7	1.4	1.1	16.6	-8.4	-1.4	-0.2	2.8	-14.4	-32.6
International Combustion	350.0	519.0	20-Sep-05	Buy	395.2	12.9	20.0	36.6	17.3	36.0	18.4	20.4	9.6	-7.1
J K Cement	149.0	200.0	17-Nov-05	Buy	153.4	3.0	1.2	9.6	-11.4	12.8	-0.2	-3.4	-17.2	-22.9
Madras Cement	1,498.0	3,500.0	17-Nov-05	Buy	3,025.2	101.9	5.7	12.1	-11.3	41.2	4.2	-1.1	-17.1	-3.5
Shree Cement	445.0	1,500.0	17-Nov-05	Buy	1,311.3	194.7	7.5	37.5	-12.1	72.2	6.0	21.3	-17.8	17.7
Tourism Finance Corporation	17.1	30.0	25-Jun-07	Buy	22.7	32.7	19.6	62.2	94.5	101.8	18.0	43.0	81.7	37.9
Transport Corporation	52.2	100.0	9-Dec-05	Buy	99.8	91.1	33.3	76.7	12.2	66.8	31.5	55.9	4.9	14.0

** Price under review

REPORT CARD: STOCK IDEAS BOOKED					
COMPANY	**RECOMMENDED AT (Rs)**	**RECOMMENDED ON**	**BOOKED AT (Rs)**	**BOOKED ON**	**APPRECIATION (%)**
Fem Care Pharma	**358**	**December 13, 2006**	**505**	**July 06, 2007**	**41.0**

The moment of truth is nigh
Q1 results to decide if markets will stay on a high

The recent spate of monsoon showers may have brought down temperatures across the country but the climate in the country's stock market remains hot. After having visited the peak of 15k for a brief period once, the benchmark index is perched on 14,900 levels and investors' mood is upbeat. Besides the fact that the south-west monsoon, so critical for the agricultural sector of the economy, has been above normal so far and covered most parts of the country, the market has several other reasons to rejoice.

The declining inflation rate has much to do with its enthusiasm no doubt. After keeping everybody on tenterhooks for several months by staying above 6% levels, inflation has been steadily declining for the past few weeks. For the week ended June 23, 2007 the inflation rate stood at 4.13%. Deputy chairman of the Planning Commission Montek Singh Ahluwalia feels that inflation has now entered a "comfort zone", thereby allaying fears of overheating of the economy. In fact, he expects the economy to grow at 8.5% in FY2008.

Compared to the above 9% growth seen last year an 8.5% growth might not sound very encouraging but we believe even that would be commendable, given that the same would come on the high base of last year—revised estimates show that the gross domestic product (GDP) grew by a strong 9.4% in FY2007 against the advance estimate of 9.2%. The finance minister is convinced that our economy has "shifted to a higher growth trajectory" and believes that "high growth generates its own momentum", as with "high growth comes investment, which, in turn reinforces growth itself."

The finance minister may well be right. The country's investment rate climbed up from 31.5% of the GDP in FY2005 to 33.8% in FY2006, indicating that the prevailing high growth is indeed attracting higher investments. The surge in the country's imports also confirms the uptrend in the investment cycle. Imports of oil, machinery and other goods grew by 40.7% in April 2007, recording the fastest growth in five months. The growth was powered by higher non-oil imports, which grew by 54.3% to $13.2 billion in April 2007. The rise in non-oil imports reflects the continual growth in investments and the surge in industrial activity.

Indian industry is at its busiest in two decades. Industrial output saw a healthy growth of 13.6% in April this year, beating estimates of an 11.3% growth. The strong growth was powered by an impressive 15.1% increase in the production of manufactured goods, which grew at the fastest pace since November 2006. The electricity sector, whose good performance is essential for sustaining the growth momentum in the economy, also saw a growth of 8.7% in the same month vs a growth of 5.9% in April last.

The continued buoyancy in the industrial and service sectors that has been driving the economic growth has also resulted in higher tax pay-outs. The corporates paid 28.6% higher advance taxes of Rs13,796 crore till June 18 in FY2008, thereby adding Rs37,444 crore net of refunds to the government's direct tax collection. The government's tax revenues are up 44% in the first two months of the current fiscal and the fiscal deficit is down 14% compared to the same period last year.

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It is to ensure their future growth that Indian companies are making huge investments in setting up new capacities and upgrading the existing ones. India Inc raised over $16 billion through the external commercial borrowing (ECB) route alone in FY2007. On the other hand, compared with total equity issuance of $12 billion seen in 2006, the country has seen equity issuances of about $10 billion so far in 2007. More importantly, over Rs36,000 crore was mobilised by Indian companies from the primary market in June 2007 alone through initial public offerings (IPOs), follow-on public offers (FPOs), rights issues, American depository receipts etc.

Among the public offerings that hit the markets last month notable are those of DLF and ICICI Bank due to their enormous size. The country's biggest ever IPO—the DLF IPO—lived up to expectations by getting oversubscribed 3.47 times despite its colossal size (Rs9,625 crore).

The Rs8,750-crore domestic portion of the FPO of ICICI Bank was also oversubscribed 11.5 times. Even as foreign institutional investors showed huge appetite for these issues, domestic institutions State Bank of India and Life Insurance Corporation of India were not lagging behind and made bids worth Rs6,000 crore and Rs8,700 crore respectively. Initially, many were skeptical whether such huge issues would be absorbed by the market and whether the offerings would be a drag on the share prices. But the phenomenal interest shown by the international and domestic investors has proved all wrong. The success of these two mega public offerings reveals the huge underlying demand for Indian paper among foreign investors and indicates that the primary market has the capacity to absorb more such offerings without hurting the secondary market much in future.

On the back of a strong growth in the invisibles and a lower trade deficit (due to lower oil imports) India's current account balance turned positive in Q4FY2007 and stood at $2.6 billion. The capital account flows also remained strong on account of higher foreign direct investment and ECB flows. Despite the steep appreciation in the rupee, merchandise exports grew by 17% in May 2007 and by about 20.4% in the first two months of FY2008. However, the current export growth rates are not yet reflecting the impact of the rising rupee, which will be felt with a lag. Thus we need to keep a close watch on the export numbers going forward.

Even as the economy remains on a strong footing, there are some major concerns on the horizon that have the power to unsettle the market in the near to medium term. Although interest rates after rising have stabilised--HDFC Chairman Deepak Parekh believes that interest rates would remain stable in the next six months—yet the high interest rates have taken their toll on the corporate sector, as is evident from the slowdown in the automobile sales. Besides the tightening liquidity, the inauspicious period of Adhik Maas in the May-June period and the monsoon have also affected automobile sales and we need to watch whether or not the sales pick up in the coming months, as liquidity situation eases, the monsoon season gets over and the festive season begins. There are also signs of cooling down in real estate prices. Mr Parekh of HDFC says property prices could drop by up to 20% in the next three to four months and this could pose a serious risk to the banking sector, the equities market and consumer confidence.

The local currency has appreciated by almost 10% in the fiscal so far. Steady inflow of foreign capital, the Reserve Bank of India's abstinence form the foreign exchange market and recent inflows from the mega public offerings of DLF and ICICI Bank have been responsible for the sharp rise in the rupee, which remains close to its nine-year high of 40.28 against the dollar.

contd....

On the international front, the benchmark Brent crude oil prices have hardened again and are expected to remain above $70 in the near term. As a result the margins of oil marketing companies have taken a beating but relief does not seem to be in sight with Petroleum Minister Murli Deora ruling out any hike in petrol and diesel prices in the near future.

In the USA, higher growth and inflation expectations had pushed up the 10-year bond yields to around 5.3% levels. This had made the equity markets jittery, as there were concerns that high bond yields could result in an outflow of money from the emerging markets. But lower core inflation at 0.1% for May 2007 (down from 0.2% in the previous month) has helped the bond yields to come down to 5% levels. Things seem to have settled down after the readjustment in market expectations over interest rates and inflation in the USA. But going forward, we need to watch for the economic data coming out of the USA, as the same affects equity markets across the world.

Back home, the result season is here again and market expectations for Q1FY2008 earnings are at 18-20%, which is lower than the average 30% plus growth rates seen in the last few quarters. Earnings of the automobile sector are expected to slow down due to a lower demand while the rising rupee is expected to hit information technology (IT), pharmaceuticals, hotels, textiles and the other export-oriented sectors hard. We therefore expect India Inc's earnings growth to slow down moving forward. Earnings of the Sensex companies are expected to grow at 17-18% in FY2008 compared to over a 25% growth achieved in FY2007. Almost 27% of Sensex' FY2008 earnings excluding oil is expected to come from the automobile and IT sectors. Hence any downgrade in the earnings estimates of the companies from these sectors could pose a threat to the Sensex' valuations, which are at the high levels of 17x FY2008E earnings (the historical valuation band is between 12x and 16x). The extent of the damage caused by the appreciating rupee and higher rates will become apparent after the first quarter results. We therefore think the first quarter results are very crucial, as the same will determine whether or not the markets can continue to scale new heights in the days to come.

Not only the Indian market but many other markets across the world have also been hitting new highs due to easy global liquidity. However, several instances in the last few years have taught us that liquidity and investor perceptions can change quickly. The Indian market no longer has the support of cheap valuations and the suspense on earnings will also end over the next few weeks. While the recent highs in the Sensex are no doubt a cause for celebration, investors need to also be mindful of the risks ahead and look to raise some cash and improve the quality of the portfolio. We remain bullish on domestic-demand driven stories like capital goods stocks and banking stocks. Stock-specific buying in mid-cap counters is also advisable. We have been stressing on the fact that mid-caps were likely to outperform the large-caps as the valuation gap had increased significantly while earnings growth had remained much higher in case of quality mid-caps compared with their larger counterparts. Our expectations were proven right as the CNX Mid-cap Index gained 5.9% while the Sensex was up only 0.7% in the last one month. Sharekhan has several banking, capital goods and mid-cap stocks with strong fundamentals under its coverage. Take your pick from them if you are looking for meaningful returns. ■

Sharekhan Top Picks

Sharekhan top picks

In the June 2007 issue, we had recommended the best 12 of our Stock Ideas as Sharekhan Top Picks. As on July 2, 2007, the basket of stocks has given an absolute return of 2.1% as compared with a 0.6% appreciation in the Sensex and a 0.4% rise in the S&P CNX Nifty in the same period.

In this month, we have made four changes in the portfolio. We have taken HCL Technologies, Mahindra & Mahindra, Sun Pharmaceuticals and Indo Tech Transformer out of the portfolio and brought in Jaiprakash Associates, Grasim Industries, Maruti Udyog and Bharat Bijlee.

The changes reflect the renewed confidence of the market in the cement stocks owing to the recent price hikes effected by the cement players. On the other hand, we have reduced the weightage on the pharma sector and exited the tech stocks due to the expectations of a weak performance from these two sectors in Q1. The inclusion of Maruti Udyog and Bharat Bijlee is a result of shuffling within the sectors.

NAME	CMP* (RS)	PER FY06	PER FY07	PER FY08E	ROE (%) FY06	ROE (%) FY07	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
Aurobindo Pharma	787.2	91.5	20.7	17.2	7.4	11.2	13.4	914.0	16.0
Bharti Airtel	837.4	70.4	37.2	26.2	20.7	29.1	32.3	900.0	7.0
Bharat Bijlee	2,139.8	35.5	21.9	15.8	42.1	48.8	42.9	2,425.0	13.0
Bharat Electronics	1,904.9	26.1	21.4	18.1	29.7	26.7	24.1	2,020.0	6.0
Bharat Heavy Electricals	1,533.0	44.7	31.0	24.4	23.0	26.2	26.4	1,563.0	2.0
Grasim	2,618.5	25.8	12.2	10.7	16.6	27.5	27.2	2,975.0	14.0
HDFC Bank	1,146.1	41.2	32.0	27.5	17.7	19.3	15.8	1,355.0	18.0
Hindustan Unilever**	189.1	31.5	27.0	22.0	56.8	56.5	57.3	280.0	48.0
ICICI Bank	950.7	33.4	27.5	26.6	13.6	13.3	10.4	1,173.0	23.0
Jaiprakash Associates	758.2	38.9	37.0	25.7	24.4	22.8	26.0	850.0	12.0
Maruti Udyog	771.4	18.8	14.3	13.0	24.7	23.5	23.2	921.0	19.0
Thermax	518.9	61.0	31.1	22.2	22.3	31.4	32.4	585.0	13.0

* CMP as on July 02, 2007

**December ending company

NAME	CMP (RS)	PER FY06	PER FY07	PER FY08E	ROE (%) FY06	ROE (%) FY07	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
AUROBINDO PHARMA	**787.2**	91.5	20.7	17.2	7.4	11.2	13.4	**914.0**	16.0

Remarks:

- With strong process chemistry skills, Aurobindo has graduated from being a mere API player to a strong formulation player in the global markets.
- Aurobindo boasts of a product pipeline of 110 DMFs and 82 ANDA filings for the US market. With major approvals having come through in FY2007, we expect incremental revenue of Rs100 crore from the US generic business.
- Being a strong player in the anti-HIV market, Aurobindo has secured several new product approvals for its ARV products. We expect Aurobindo's ARV formulation revenues to reach $99 million and $128.7 million in FY08 and FY09 respectively.
- The above initiatives are expected to translate into revenue and earnings CAGR of 24.3% and 70% respectively over FY2007-09E, yielding EPS of Rs57.1 in FY2009E. At the CMP the stock trades attractively at 17.2x FY2008E and 13.8x FY2009E earning estimates.

NAME	CMP (RS)	PER FY06	PER FY07	PER FY08E	ROE (%) FY06	ROE (%) FY07	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
BHARTI AIRTEL	**837.4**	70.4	37.2	26.2	20.7	29.1	32.3	**900.0**	7.0

Remarks:

- Bharti Airtel, the largest wireless telephony service operator, is one of the key beneficiaries of the consumption boom in the country. It has reportedly added subscribers at a healthy CAGR of over 75% in the past three years and is expected to increase its subscriber base at a CAGR of over 35% over the next two years.
- The company's focus on introducing innovative services, cost control measures and growing economies of scale is resulting in an improvement in its margins, despite the continued pressure on the average revenue per unit (ARPU). Consequently, the earnings are estimated to grow at CAGR of over 46% over the three-year period FY2006-09.
- At the current market price the stock trades attractively at 26.2x FY2008 and 20.5x FY2009 earning estimates.

NAME	CMP (RS)	PER FY06	PER FY07	PER FY08E	ROE (%) FY06	ROE (%) FY07	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
BHARAT BIJLEE	**2,139.8**	35.5	21.9	15.8	42.1	48.8	42.9	**2,425.0**	13.0

Remarks:

- Bharat Bijlee, a leading transformer manufacturing company, shall benefit from huge investments in the T&D sector.
- The company has increased its transformer manufacturing capacity from 5000MVA to 8000MVA and considering the robust demand for power generation, transmission and distribution, the company plans to further increase the transformer manufacturing capacity to 11,000MVA.
- The order inflows for motors, transformers and projects increased by 77% from Rs325.3 crore in FY2006 to Rs574.8 crore in FY2007.
- The stock trades at a PER of 11.7x its FY2009E and we expect its revenues to grow at a CAGR of 26.8% over FY2007-09E.

BHARAT ELECTRONICS	**1,904.9**	26.1	21.4	18.1	29.7	26.7	24.1	**2,020.0**	6.0

Remarks:

- Given its wide range of products, research & development capabilities and proven track record, Bharat Electronics is well poised to effectively tap the huge opportunity in the defence sector.
- It has announced a pending order backlog of Rs9,100 crore as on March end 2007 and would benefit from the over 64% increase in the capital outlay for security and other equipment used by defence forces. Moreover, the recent alliances/tie-ups with leading defence contractors such as Northrop Grumman would further boost the overall growth in the long term.
- At the current market price the stock trades attractively at 18.1x FY2008 and 16.0x FY2009 earning estimates.

BHARAT HEAVY ELECTRICALS	**1,533.0**	44.7	31.0	24.4	23.0	26.2	26.4	**1,563.0**	2.0

Remarks:

- Bharat Heavy Electricals Ltd (BHEL), a leading supplier of power equipment, will be the prime beneficiary of a four-fold increase in the investments (Rs500,000 crore in the 11th Five-Year Plan as against Rs112,000 crore in the 9th Five-Year Plan) being made in the power sector.
- BHEL's current order book of Rs55,000 crore, ie 3x its FY2007 revenue, provides high earnings visibility.
- The power ministry has proposed around five ultra mega power projects entailing a capacity addition of 20,000MW (4,000MWx5) with the combined turnkey value of at least Rs80,000 crore.
- BHEL's recent technology transfer agreement with Alstom for design and manufacture of large-sized (500MW+) super-critical boilers will enable it to bid for the ultra mega power projects. We expect BHEL to bag a fair share out of this huge Rs80,000-crore potential investment, which in turn will maintain the growth momentum in the company's order book.
- The stock trades at a PER of 24.4x its FY2008E earnings. BHEL's valuation looks attractive as compared with that of its peers, such as Siemens, ABB and Larsen and Toubro.

GRASIM	**2,618.5**	25.8	12.2	10.7	16.6	27.5	27.2	**2,975.0**	14.0

Remarks:

- Grasim Industries will be augmenting its capacity by 9.5MMT comprising two greenfield units of 4MMT each at Kotputli and Shambhupura, and a brownfield expansion of 1.5MMT. With the tight demand-supply situation expected to persist in FY09, the incremental volumes will augur well for the company.
- With the outlook for the VSF business remaining positive, the incremental volumes coupled with a firm pricing scenario will provide stability for the company's business.
- These two factors coupled with the incremental profits from the UltraTech's business will boost the consolidated earnings of the company.

HDFC BANK	**1,146.1**	41.2	32.0	27.5	17.7	19.3	15.8	**1,355.0**	18.0

Remarks:

- HDFC Bank is the best private sector bank, it delivers a consistent 31% earnings growth under most market situations.
- The bank has shown a significant improvement in net interest margins to 4.4% when the entire banking system is coping with pressure on margins. This has been possible due to the bank's excellent asset liability management, and a high and stable low-cost deposit base of 55%, which helps to keep the costs down under a rising interest rate scenario.
- The bank's management has an excellent track record and the latest capital raising plan of Rs4,200 crore would be book value accretive and help the bank to grow at a robust pace.
- At the current market price the stock is quoting at 21.1x FY2009E earnings per share, 8.1x FY2009E pre-provision profits and 3.1x FY2009E book value. We maintain our Buy recommendation on the stock with a price target of Rs1,355.

NAME	CMP (RS)	PER FY06	PER FY07	PER FY08E	ROE (%) FY06	ROE (%) FY07	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
HINDUSTAN UNILEVER**	**189.1**	31.5	27.0	22.0	56.8	56.5	57.3	**280.0**	48.0

Remarks:

- HUL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HUL is likely to be a key beneficiary.
- The company has regained the pricing power in all the product segments. We believe better pricing power and improved product mix will be the revenue drivers. The turn-around of loss-making businesses, cost-cutting initiatives and increased focus on its food business should help it to improve its profitability.
- At the current market price the stock is quoting at 22.0x its CY2007E earnings per share (EPS) of Rs8.5. We maintain our Buy recommendation on the stock with a price target of Rs280.

ICICI BANK	**950.7**	33.4	27.5	26.6	13.6	13.3	10.4	**1,173.0**	23.0

Remarks:

- ICICI Bank is India's second-largest bank. Its strong positioning in the retail advance segment gives it dual advantages of a healthy growth in both loans and fee income.
- Various subsidiaries (life insurance, general insurance, ICICI Securities) add Rs382 to the overall valuation. Listing of the holding company (insurance and asset management businesses) could unlock significant value going forward.
- The bank plans to raise Rs20,000 crore of equity, which should help it maintain its current high growth rates for the next three years. In the past, the management has improved the return on equity post-dilution.
- Its international operations are also gaining momentum, the only challenge would be to manage the uptick in non-performing assets.
- The stock trades at a PER of 20.8x its FY2009E earnings and 2.1x its FY2009E book value.

JAIPRAKASH ASSOCIATES	**758.2**	38.9	37.0	25.7	24.4	22.8	26.0	**850.0**	12.0

Remarks:

- Jaiprakash is expanding its capacity by 15MMT over the next three years at the end of which it will emerge as one of the largest cement players in the north with a capacity of 22MMT.
- The company is the largest private sector hydropower player and is currently sitting on a huge construction order book of Rs7,200 crore. Taking cognisance of the government's target of achieving 50,000MW in hydropower electricity by 2012, we expect the order book to maintain its current momentum.
- The Taj Expressway project coupled with the company's real estate business (Taj Greens) will add value to the company's shareholders.
- Thus the company's diversified businesses will provide the much-needed stability to the overall business in the wake of a downturn in the cement cycle.

MARUTI UDYOG	**771.4**	18.8	14.3	13.0	24.7	23.5	23.2	**921.0**	19.0

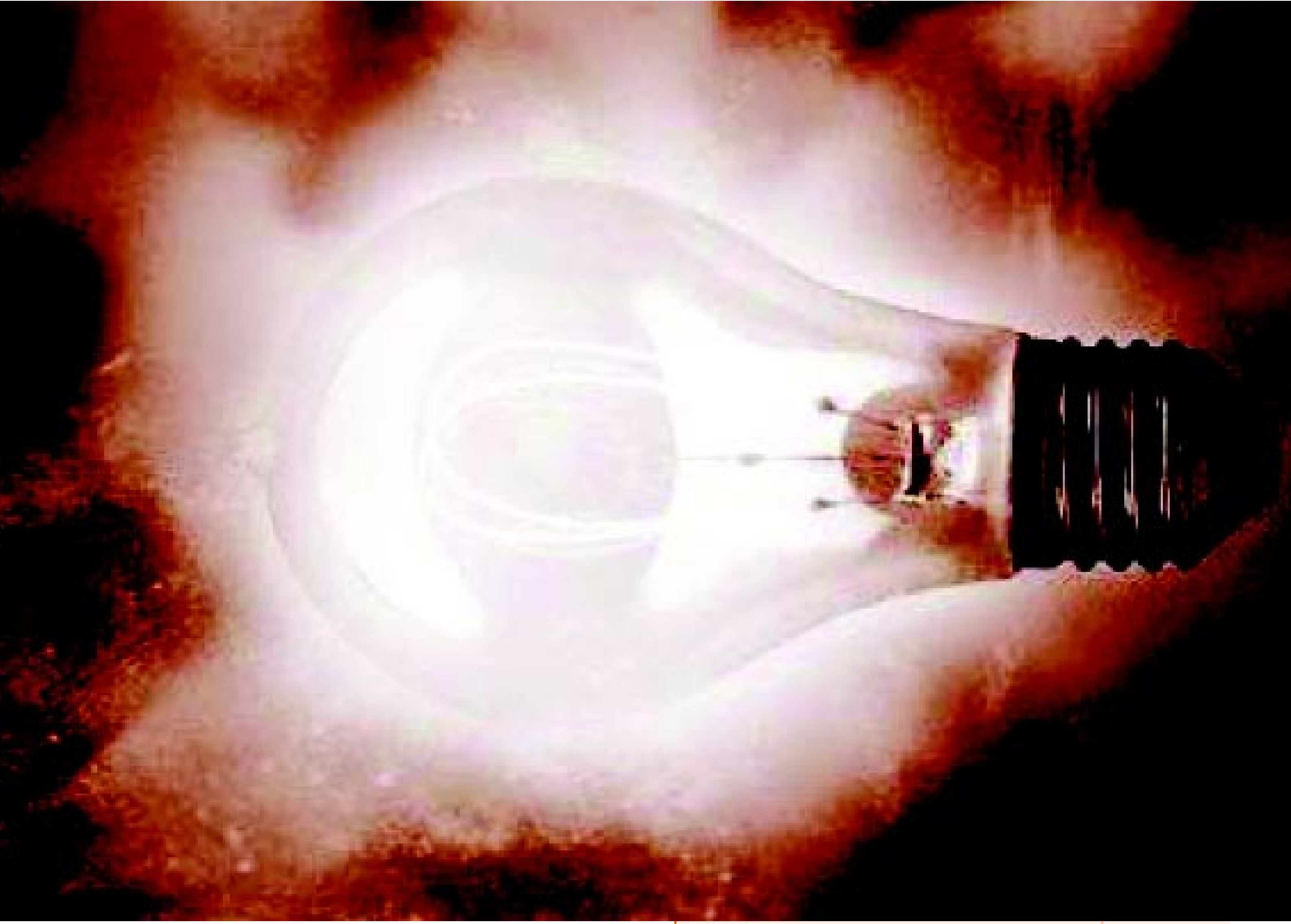
Remarks:

- Maruti Udyog, the market leader in the passenger car market in India, is set to benefit from the number of new launches made by it in the recent times.
- Most of its new launches, namely *WagonR Duo*, *Zen Estilo*, *Diesel Swift* and *SX4*, have been well received by the market and are clocking strong volumes. Also, with the addition of the diesel vehicle and a sedan, the company has expanded its product basket, making it a full-fledged play on the country's booming passenger car market.
- With the expansion of its Manesar plant, its exports are also set to go on a top gear. Suzuki has identified India as a hub for manufacture of small cars for its worldwide markets and the company would be exporting about 100,000 units of the new vehicle to its parent, while another 50,000 units would be supplied to Nissan.
- At current levels, the stock is trading at 11.2x its FY2009E and is available at an EV/EBIDTA of 6.8x. We maintain our Buy recommendation with a price target of Rs921.

THERMAX	**518.9**	61.0	31.1	22.2	22.3	31.4	32.4	**585.0**	13.0

Remarks:

- Thermax, with its diversified product and application range, is riding on a sustainable capital expenditure (capex) boom in the industrial and infrastructure sectors.
- The capacity expansion and related projects in the core sectors are leading to higher order intake for Thermax. Thermax' current order book of Rs3,024 crore, ie 1.9x its FY2006 revenue, provides high earnings visibility.
- The robust traction across divisions and a burgeoning order book would drive a 28.9% CAGR in Thermax' consolidated revenues over FY2006-08.
- The improving operating leverage from cost rationalisation measures and economies of scale will lead to a 260-basis-point margin expansion over FY2006-08.
- At the current market price, the stock trades at a PER of 22.2x its FY2008E earnings. Rs43 per share of cash and cash equivalent on the company's books as on December31, 2006 provides a margin of safety.



Stock Idea

Network 18 Fincap

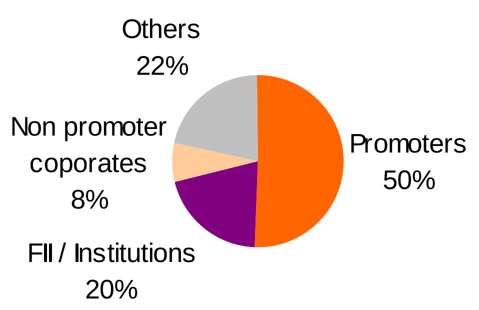
Emerging Star	Buy; CMP: Rs476	June 20, 2007

Striking the right(s) note

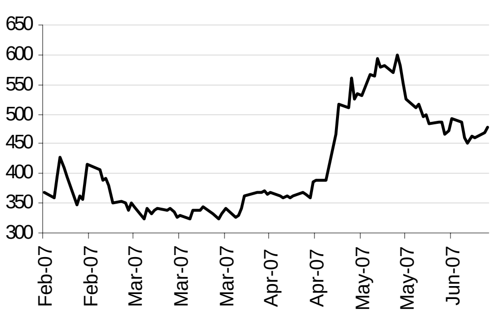
COMPANY DETAILS

Price target:	Rs651
Market cap:	Rs2,419 cr
52 week high/low:	Rs630/300
NSE volume (No of shares):	3.0 lakh
BSE code:	532798
NSE code:	NETWORK18
Sharekhan code:	NETWORK18
Free float (No of shares):	2.5 cr

SHAREHOLDING PATTERN



PRICE CHART



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-17.8	47.0	-	-
Relative to Sensex	-18.0	29.3	-	-

KEY POINTS

- **News businesses to flourish:** Network 18 Fincap (Network 18) controls the front-line business channels *CNBC-TV18* and *Awaaz*, and the fast growing general news channels *CNN-IBN* and *IBN 7*. With the digitalisation of cable and advent of DTH platform, the subscription revenues would substantially boost the profitability of the group. Also, *Awaaz*, *CNN-IBN* and *IBN 7* have shown good viewership gains and should drive the growth as they mature over the coming years.

- **Web properties to add tremendous value:** Network 18 through its associate companies Television Eighteen India (TV18) and Global Broadcast News (GBN; together the two hold 100% in Web18) owns several web properties like *moneycontrol.com*, *poweryourtrade.com* and *yatra.com* among others, covering the news, e-transaction, travel, recruitment, shopping and e-ticketing genres. It has added many new web properties over the last year and started spending heavily on enhancing these sites and popularising them.

- **Taking big steps in entertainment:** Through GBN it has entered into an alliance with Viacom Inc to launch a Hindi general entertainment channel. The alliance also gives it part ownership of *MTV India*, *VH1* and *Nickelodeon*. The group's movie business would derive synergies from Viacom Inc's world-famous studios.

- **Group builds war chest for growth:** Sensing the opportunities provided by the booming Indian media & entertainment industry and allied sectors, the TV18 group is building a war chest for exponential growth. While TV18 has raised Rs200 crore through a QIP, Network 18 proposes to raise a similar amount through a rights issue of partly convertible preferential shares. GBN aims to raise $200 million through an overseas offering while its board members have approved a plan to raise a debt of Rs1,500 crore. We believe with all these funds the TV18 group aims to become one of the big wigs of the Indian media and entertainment business.

- **Rights issue adds Rs133.6 per share to value:** The company proposes to raise Rs200 crore via a rights issue of 5% partly convertible cumulative preference shares (PCCPS). It will offer one PCCPS for every five equity shares held. Our calculations suggest that the rights add Rs133.6 to the value of each existing equity share and make the Network 18 stock even more attractive.

- **Valuations suggest a 37% upside:** Our valuation of the Network 18 scrip based on its holdings gives us a value of Rs517.8 per share before the rights issue. The rights issue adds Rs133.6 to the price of the existing float, giving us a fair value of Rs651 for the scrip and indicating a good 37% upside from the current market price of Rs475.5. We initiate a Buy recommendation on the stock with price target of Rs651.

COMPANY BACKGROUND

Network 18 is the holding company of the media conglomerate, the Television Eighteen India (TV18) group. The TV18 group that started as a business news broadcaster endeavours to be a full-fledged media and entertainment giant in the coming years. Network18 through its holdings controls some of the most lucrative media properties in the Indian news genre.

These media properties include *CNBC-TV18*, *Awaaz*, *CNN-IBN* and *IBN-7*. Network 18 has been associated with the well-known global brand *CNBC* and recently tied up with Cable News Network (CNN) for its English news and current affairs foray, *CNN-IBN*. Moving ahead with its ambitious plans in the entertainment space it formed an alliance with Viacom Inc, the global entertainment major, to form Viacom-18 in which GBN holds a 50% stake. Apart from television the group has taken aggressive steps in the Internet space and is expanding its presence through an array of web offerings. We believe the TV18 group is in the process of becoming a media and entertainment giant with dominance across key genres in the industry.

INVESTMENT ARGUMENTS

Owns the best of media

TV18

- ***News***: Network 18 holds a 49.18% stake in TV18. TV18 is one of the country's premier business news broadcasters. It owns *CNBC-TV18*, undoubtedly the best in the English business news space, and *Awaaz*, the Hindi business news and consumer affairs channel. While CNBC continues its dominance in the English business news genre with a market share of ~55%, *Awaaz* though not a very old channel has a ~70% share of the Hindi business news genre, far ahead of the only other competitor, *Zee Business*. We remain satisfied with TV18's progress with regard to *Awaaz*, which is expected to see tremendous growth over the coming years. Also the digitalisation of cable with the advent and expansion of the conditional access system and the fast pace of growth seen in alternative platforms like direct-to-home (DTH) lend a great opportunity to TV18 to garner substantial pay revenues going forward. We expect TV18 to enter the print media (with a business newspaper), preferably through the inorganic route, as such an entry would complete the entire bouquet of business news and would be synergistic with its existing broadcast operations.

- ***Web18—much more beyond news***: TV18 holds an 85% stake in Web18, the Internet arm of the group (15% owned by GBN). We view TV18's Internet business as one of the prominent growth drivers. The company has been continuously enhancing its web offerings in terms of their content and adding new innovative web properties frequently to its portfolio. *moneycontrol.com* is one of the premier financial web portals. *commoditiescontrol.com* is the undisputed leader in the commodities information space. Within one year of its launch *poweryourtrade.com* has already crossed 50,000 subscribers. Apart from these, Web18 offers *ibnlive.com*, *easymf.com*, *yatra.com*, *cricketnext.com*, *jobstreet.com*, *compareindia.com*, *homeshop18.com* etc. The new businesses of real-time news and data products (CRISIL MarketWire renamed as NewsWire18), e-ticketing (Bigtree Entertainment acquired in H2FY007) and broking (in joint venture with Ambit Capital and Centurion Bank of Punjab) will enhance the shareholder value. The addition of these new properties has opened up the avenue for garnering subscription and transaction revenues for Web18. We see great value in Web18 and expect it to be a very high-margin business as and when it stabilises.

GBN

- ***General news***: GBN is the group's relatively new but fast growing news and entertainment venture. It owns and operates *CNN-IBN*, a leading 24-hour national English news and current affairs channel headed by prominent journalist Rajdeep Sardesai. Since its launch in December 2005 *CNN-IBN* has garnered a good market share and stands close to the leader in the English news genre with a market share of ~31%. Its Hindi general news foray, *IBN-7*, has a reasonably good audience with a 12% share of viewership vs ~20% share of the eyeballs enjoyed by the leader *Aaj Tak* in this competitive space. GBN owns a 44.1% stake in *IBN-7*. Moving ahead in the news space GBN announced its foray in regional news. The company has set up a 50:50 joint venture with Lokmat, a leading newspaper brand (publishes Marathi, Hindi and English dailies across Maharashtra) in Maharashtra, for a Marathi news channel. Zee News is the only other private player in the Marathi news genre through its recently launched (in February 2007) channel, *24-Taas*.

- ***Viacom-18—a big bang entry into Indian entertainment***: The TV18 group recently announced its foray into the Indian general entertainment space through a joint venture with global media conglomerate, Viacom Inc. The TV18 group would make the investment through GBN to form a 50:50 joint venture, Viacom-18. The first offering of the joint venture will be a Hindi general entertainment channel within a year. This distinguishes GBN as the TV18 group's general broadcast company.

  As a part of the arrangement, Viacom Inc will transfer its three operational channels—*MTV*, *VH1* and *Nickelodeon India*—to the joint venture while the TV18 group will transfer its motion picture business to the venture. Currently, the motion picture division is under Studio 18, which would transfer its production, acquisition and distribution of Hindi language films in favour of the alliance. Viacom-18 will also launch its other channels (already successful abroad) in India through the joint venture in future. We see great synergies flowing to the motion pictures business from Viacom Inc's Paramount Pictures and Dreamworks Studios.

GBN has already approved the plans to raise $200 million through an overseas offering and also has the approval to raise up to Rs1,500 crore of debt. We believe the funds would be utilised to finance its ambitious plans in the Indian entertainment space. We foresee GBN as one of the dominant players in the fast growing Indian entertainment genre.

HomeShop18 and E18

Network 18 forayed into the Indian retail space with HomeShop18, a home shopping network. The company entered into a 75:25 arrangement with Saif Partners, a private equity player, for the venture. HomeShop18 aims at providing an integrated platform for home shoppers through the already operating portal *homeshop18.com* and a yet to be launched fully dedicated home shopping channel. Saif Partners has already tasted success in the home shop arena with its investment in the leading Chinese home shop company, Acom International. We believe with the Indian retail space going the organised way, increasing consumerism and greater awareness towards newer shopping platforms, HomeShop18 offers a good value proposition, though we believe the gestation period may be longer for the venture.

Network 18 has formed a new division, E18, to tap the entertainment and news events space. E18 will cover large format events such as concerts by international artists, Bollywood shows, award nights in India and also large format business conferences, conclaves and seminars. We see good potential in the heavily unorganised event management market and expect the company to leverage and establish its brands in the event management space.

Rights issue of PCCPS

Network 18 has announced a rights issue (the draft offer document has been filed with the Securities and Exchange Board of India) of PCCPS. As per the terms of this issue every holder of five equity shares in the company will be entitled to one PCCPS. A shareholder entitled to a right on payment of Rs200 for the PCCPS will be allotted: (a) one PCCPS of Rs150; (b) one equity share (*pari passu* to the existing equity shares) for the remaining Rs50; and (c) a detachable warrant convertible into one equity share within 24-

48 months of the allotment of the warrant. This warrant will be convertible at a price determined at 50% discount (to the average of the weekly high and low of the closing prices during the 90 days immediately preceding the week in which the board informs the exchanges about fixing the record date for the warrant exercise period) to the then prevailing price.

The company is raising Rs200 crore through the issue for funding its movie production, rights acquisition, distribution venture, Studio 18; the home shopping foray with Saif Partners, HomeShop18 (it is going to launch a full-fledged home shop channel); repayment of debt; and organic and inorganic expansions in the media and allied space.

Rights issue value accretive for existing equity holders

We have evaluated the above rights issue for an existing holder of Network 18 shares and believe that the same is value accretive. We have considered the cash flows accruing to a rights holder who may subscribe to the rights. As shown in the table below, the rights holder would get cash of Rs517.8 on selling the first equity share allotted simultaneously with the preference share on payment of Rs200. He would get 5% dividend annually for the next five years and at the end of the five years he would get Rs150 redemption proceeds of the preference share. Within 24-48 months of the allotment of the preference share his warrant would become convertible at 50% of the stipulated price. Had the warrants been exercisable now we would have got Rs443.8 as the fair value of the Network 18 stock. However these are convertible at least two years after the allotment of the warrants. Hence we have assumed a 20% price appreciation to this fair value for each of the next two years, considering the growth we are going to see in Network 18's constituents, TV18 and GBN, as well as its other businesses. This gives us a fair value of Rs639 for the share to be issued on warrant conversion and this will be issued at 50% of this price, implying a cash profit of Rs319.5. On discounting the net cash flows at 11% (since it is a preference share) we get the present value of the rights at Rs317.8. This reflects the value of one preference share issued for five equity shares currently held. Thus for one existing share we get a fair value of rights at Rs133.6.

SOME-OF-THE-PARTS VALUATION OF NETWORK 18

Particulars	Value (Rs cr)
49.18% in TV18 (based on our price target of Rs967)	2,690
Stake in GBN #	1,041
Value of 75% in HomeShop 18, Studio 18 and stake in Indian film company	220
Total value	3951
20% discount-holding company	790
Estimated market cap	3160
Nos of shares (post-rights issue)	6.1
Core value of the share	517.8
Add: value of rights	133.6
Fair value per share	**651.4**

#Post estimated dilution on raising $200 mn

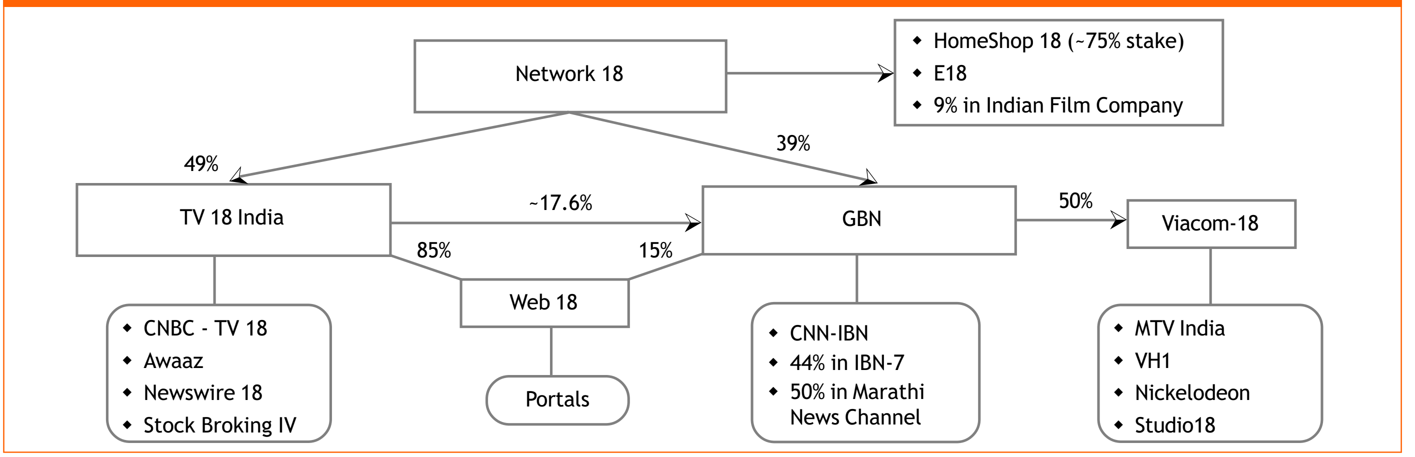
Valuation and view

We like the way the TV18 group has shaped up over the years and its timely aggression to become prominent in most of the value propositions in the Indian media and entertainment space. While GBN is expected to further add to its tally of new ventures, we believe it will continue to be in the investment mode for the next couple of years. TV18 would have Web18 and pay revenues as its prominent growth drivers. Network 18 provides an opportunity to own the best in the India media and the ensuing rights issue adds to the flavour for equity investors. We initiate coverage on Network 18 with a Buy recommendation and a price target of Rs651 per share, giving an upside potential of 37%.

CALCULATION OF VALUE OF RIGHTS

Particulars	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
5% Dividend on PCCPS		7.5	7.5	7.5	7.5	7.5
Redemption proceeds of preference share						150
Net cash inflow on selling the shares acquired on warrant conversion				319.5		
Proceeds on selling equity share acquired on part conversion of PCCPS	517.8					
Outflow on subscribing to the PCCPS	200.0					
Net cash flow	317.8	7.5	7.5	327.0	7.5	157.5
Discount factor (at 11% required rate of return, it being a preference share)	1.00	0.90	0.81	0.73	0.66	0.59
PV	317.8	6.8	6.1	239.1	4.9	93.5
NPV	668.2					
Per share value of rights	133.6					

TV18 GROUP STRUCTURE



STOCK IDEA

Tourism Finance Corporation of India

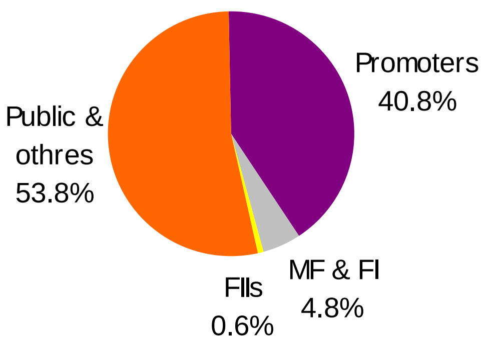
Cannonball	Buy; CMP: Rs17.1	June 25, 2007

Riding on improved prospects for tourism sector

COMPANY DETAILS

Price target:	Rs30
Market cap:	Rs115 cr
52 week high/low:	Rs24.2/8.9
NSE volume (No of shares):	4.8 lakh
BSE code:	526650
NSE code:	TFCILTD
Sharekhan code:	TFCI
Free float (No of shares):	4.0 cr

SHAREHOLDING PATTERN



PRICE CHART

PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-0.9	21.7	53.4	50.9
Relative to Sensex	-1.0	13.0	46.0	10.1

KEY POINTS

- **To benefit from the positive outlook on tourism sector:** Tourism Finance Corporation of India's (TFCI) deteriorating financial performance and increasing NPAs were a direct consequence of the downturn in the tourism sector in the late 1990s. However, the positive outlook for the tourism sector going forward would significantly benefit TFCI in terms of higher loan growth.
- **Substantial improvement in asset quality:** TFCI has significantly improved its asset quality. Its net NPAs, which were high at 11% in FY2004, were at 2.6% in FY2006 and are expected to fall further in FY2007. Higher recoveries and lower incremental NPAs have helped reduce the level of its NPAs.
- **Possible foray into private equity space to boost future earnings:** TFCI is also reported to be in talks with major private hotel chains, real estate funds and private equity players to raise private equity to finance large hotel projects. This will enable TFCI to generate a fee income, and increase its ability to co-invest and lend.
- **Dividend payment now possible:** Due to its high NPAs, TFCI was not permitted by the RBI to pay dividends in FY2005 and FY2006. TFCI had paid a dividend of Rs0.7 per share in FY2004. If it resumes dividend payment at the earlier historical rate, the dividend yield would work out to 4%, which could provide a margin of safety for the stock.
- **Stock could trade at Rs30:** TFCI had a reported book value of Rs27 per share in FY2006. The stock is trading at 0.6x trailing book and is cheaper than most other financial stocks. At our target price/book value of 0.8x for FY2009, the price target for the stock works out to Rs30 per share. We believe that the valuation at 0.8x is reasonable given that the company has never made losses, its NPAs have turned around and its loan growth is expected to be strong with the improving prospects of the hotel and tourism industry. We therefore recommend a Buy on TFCI with a price target of Rs30.

COMPANY BACKGROUND

TFCI was incorporated in 1989 by various financial institutions and banks to provide financial assistance to projects related to the development of tourism in the country. Currently, financial institutions and banks hold around 46% of the equity of TFCI, with the public holding the balance 54%.

KEY FINANCIALS

Particulars	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Net profit (Rs cr)	14.2	11.9	13.3	18.0	24.1
Shares in issue (cr)	6.7	6.7	6.7	6.7	6.7
EPS (Rs)	2.1	1.8	2.0	2.7	3.6
% y-o-y change	*12.0*	*-17.0*	*13.0*	*35.0*	*34.0*
PE (x)	8.1	9.7	8.6	6.4	4.8
Book value (Rs/share)	25.6	27.4	29.3	32.0	35.6
P/BV (x)	0.7	0.6	0.6	0.5	0.5
Adj book value (Rs/share)	15.4	25.2	28.3	31.3	35.2
P/ABV (x)	1.1	0.7	0.6	0.5	0.5
RoNW (%)	8.4	6.6	7.0	8.7	10.6

TFCI provides loans for greenfield hotel projects as well as for expansion, upgradation and renovation of the existing hotels, resorts, restaurants and related businesses.

The company provides financial assistance to enterprises for setting up and developing tourism-related projects, facilities and services, such as:

- hotels and resorts;
- restaurants and convention halls;
- amusement and safari parks;
- multiplexes and entertainment centres;
- transport and rope-ways;
- cultural centres;
- travel and tour operating agencies; and
- tourism emporia.

LOAN EXPOSURE TO THE HOTEL AND TOURISM SECTOR Rs (cr)

Project exposure	Cumulative (YTD)	%	FY06	%
5-star	712.7	28	29.6	22
4-star	264.9	10	30.9	23
3-star	1,066.4	41	30.8	23
2-star	37.1	1	0.0	0
Heritage	43.8	2	2.0	2
Unclassified	12.9	1	0.0	0
Theme (amusement, shopping malls)	127.5	5	6.9	5
Restaurant	45.0	2	0.0	0
Tourist vehicles	21.7	1	0.0	0
Palace on wheels	21.5	1	0.0	0
Others	223.1	9	32.8	25
Total	**2,576.5**	**100**	**133.0**	**100**

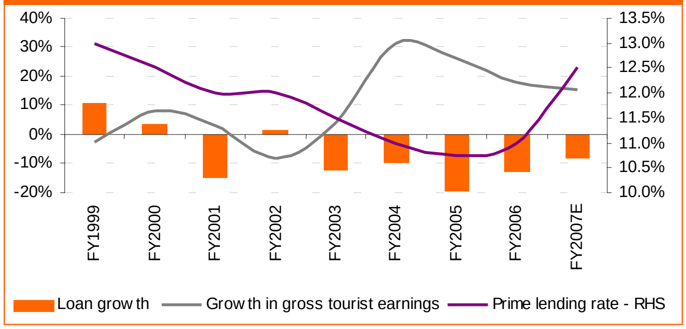
Given its loan exposure to the hotel and tourism sector, TFCI's performance is inextricably linked to the prospects of the tourism sector. This was largely responsible for TFCI's earlier financial problems when the tourism sector took a downturn in the late 1990s and had an adverse impact on the growth and asset quality of the company.

Reasons for downturn in tourism sector and TFCI in past

The tourism industry, especially the hotel segment, was adversely affected in the late 1990s due to the general slowdown in the tourism sector and particularly after the 9/11 incident in the USA, the mounting tensions at the country's borders and the escalation of war in Iraq.

The Indian tourism industry was not spared and the downturn led to lower occupancy rates and a drop in average room tariffs. This led to a slowdown in capacity expansion and deterioration in the ability of the players in the sector to service their debts which resulted in the build-up of non-performing assets (NPAs). As a result of the slowdown in the tourism sector, TFCI's asset size and disbursements fell over the period 2000-06 and the bulk of the business done in that period comprised restructuring assistance. Apart from lower disbursements, the falling interest rate scenario during 2001-06 also led to pressure on TFCI to re-fix the interest rates on old loans or negotiate prepayments with clients. As a result of the pre-payments and lower disbursements, the company's total loan outstanding reduced from Rs859 crore in March 2000 to Rs411 crore in March 2006.

TREND IN LOAN GROWTH, TOURIST EARNINGS AND PRIME LENDING RATES



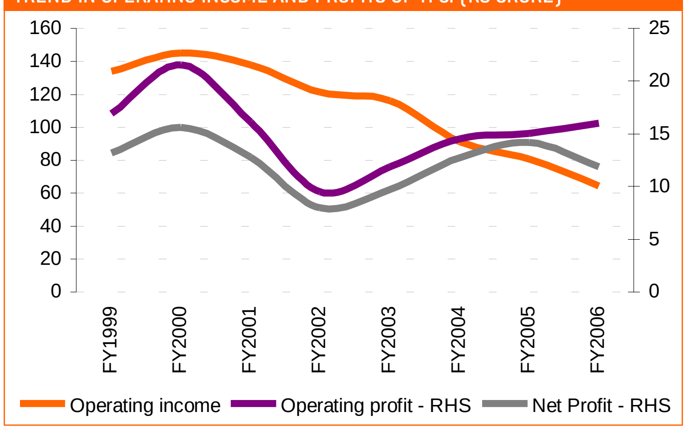
Source: Sharekhan Research

Consequences of the downturn in past

Sharp increase in NPAs: The downturn in the tourism industry, besides lowering the disbursement levels resulted in higher NPAs as the ability of the players in the sector to service their debts reduced drastically.

Pressure on profitability: The shrinking asset base of TFCI on account of pre-payments, along with an increase in its NPAs, reduced the interest income of the company in the period 2000-06. Although the non-interest income rose on account of the fees received for the pre-payments, yet TFCI was unable to re-price its liabilities fast enough to maintain its net interest margin. This resulted in a decline in the operating profit. Higher provisions for doubtful debts also added to the pressure on the profitability.

TREND IN OPERATING INCOME AND PROFITS OF TFCI (RS CRORE)



Source: Company, Sharekhan Research

INVESTMENT ARGUMENTS

Tourism and related sectors poised for a turn-around

A buoyant domestic economy, improved air connectivity, initiatives taken to attract foreign investment in the industry, improved infrastructure and most importantly, efforts to promote the brand "India" have contributed to the strong demand for hotel accommodation in most cities across the country. The result is that the country is one of the fastest-growing markets for the global hotel industry. The rate of growth of the Indian hotel industry is expected to increase in the near future, given the estimated increase of 8.8% in the demand for rooms during 2006-2015 and the development of new tourism destinations. The World Travel and Tourism Council (WTTC) has named our country along with China as one of the fastest-growing tourism destinations for the next ten to 15 years. As per WTTC, our country has the potential of earning US$24 billion annually in foreign exchange through tourism by 2015.

Loan growth will pick up

With the above developments, the hotel industry is poised for significant growth in the next five years. It is expected that from a seven-to-eight brand hotel market a few years ago, the country would be a 40-brand hotel market by 2010. Owing to the influx of international brands and global funds, the country's hospitality sector will witness the revamping of its organisation and management. The expected creation of additional room capacity involving a substantial investment offers great opportunities to TFCI to play a major role in the creation of tourism infrastructure. It would have a positive impact on the operations of the company by resulting in increased sanctions and disbursements, and improved profitability.

Potential demand for finance

Our estimates suggest that the demand for loans from the hotel and tourism sector in the coming years from the expansion plans announced by the leading players is in the range of Rs6,000 to Rs7,200 crore. We have arrived at this figure by assuming an average construction and set-up cost of Rs50-60 lakh per room for the 12,000 plus room additions that are expected between 2007 and 2010. Even a 3-5% share of this potential demand could translate into a robust loan growth of 20% for TFCI in the coming years. A higher loan growth would contribute to higher interest income and profits going forward.

Repayment of high cost liabilities

During FY2006 TFCI had also redeemed high-cost borrowings of almost Rs55 crore at an average interest rate in the range of 12-16.5% with borrowings at 8% for a five-year tenure. The savings in the interest cost would help in improving the margins and profitability at the operating level.

EXPECTED EXPANSION PLANS IN TERMS OF ROOM ADDITIONS

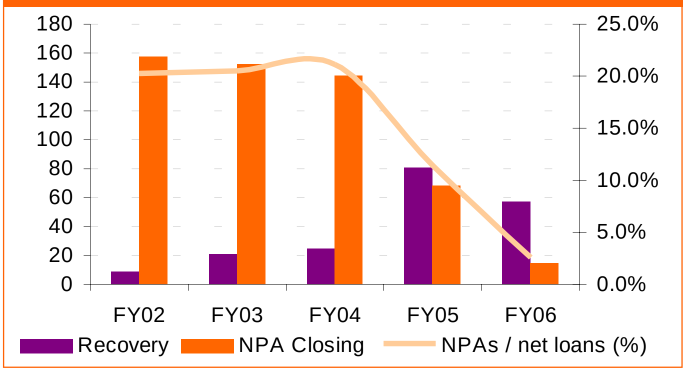
Prospective locations	2007	2008	2009	2010	Additional rooms
North Mumbai	4,613	4,649	5,858	6,282	1,669
South Mumbai	2,134	2,369	2,369	2,369	235
NCR	7,307	7,467	8,176	9,081	1,774
Chennai	1,541	1,801	2,439	3,294	1,753
Kolkata	1,248	1,311	1,498	2,331	1,083
Bangalore	1,815	2,085	2,960	4,330	2,515
Hyderabad	1,365	1,709	2,488	2,683	1,318
Pune	508	538	756	1,538	1,030
Jaipur	1,168	1,208	1,208	1,208	40
Goa	2,565	2,565	2,665	2,665	100
Ahmedabad	264	264	300	461	197
Agra	1,354	1,384	1,384	1,384	30
Kerala	1,160	1,375	1,475	1,495	335
Total expected additions in room capacity between 2007 and 2010					12,079
Potential demand for finance @ Rs 50 lakh C&St* per room					6039.5
Potential demand for finance @ Rs 60 lakh C&St* per room					7247.4

*C&St: Construction & set-up cost Source: Industry and Sharekhan Research

Substantial improvement in asset quality

More importantly, TFCI has managed to show a substantial improvement in its asset quality. Its net NPAs, which were high at 11% in FY2004, were at 2.6% in FY2006 and are expected to fall further in FY2007. Higher recoveries and lower incremental NPAs have helped reduce the level of its NPAs.

NPA TREND FOR TFCI

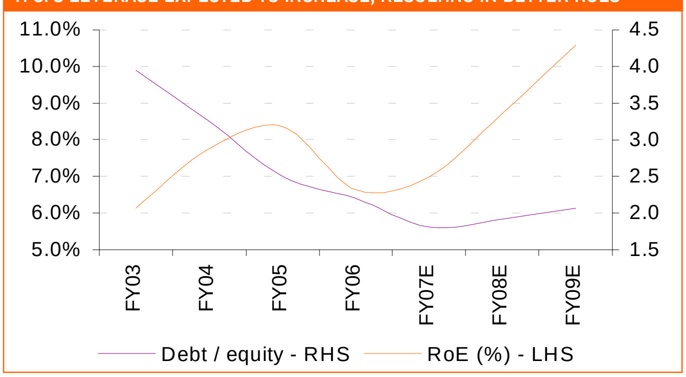


Source: Company, Sharekhan Research

Financials will improve leading to better valuations

TFCI had a reported book value of Rs27 per share in FY2006. We expect a book value of Rs29 per share in FY2007. The stock is trading at 0.6x trailing book and is cheaper than most other financial stocks. While the company has never been loss-making, the key reason for its cheap valuation is the weak loan and income growth. Over FY2003-06, TFCI saw negative growth rates in loans and income due to weak demand. With the prospects of the hotel industry improving we expect the loan growth to revive. The return on equity (RoE) is low at 6% mainly due to low leverage, and weak loan and income growth. This should improve going forward as the leverage improves and the income growth revives on the back of a strong demand from the hotel and tourism sector.

TFCI'S LEVERAGE EXPECTED TO INCREASE, RESULTING IN BETTER ROES



Source: Company, Sharekhan Research

Dividend payment now possible

Due to high NPAs, TFCI was not permitted by the Reserve Bank of India (RBI) to pay dividends in FY2005 and FY2006. Given that TFCI is not expected to have high NPAs in FY2007, the company is likely to announce a dividend along with its FY2007 results in June 2007. In FY2004, TFCI had paid a dividend of Rs0.7 per share. Assuming that the company resumes dividend payment at the earlier historical rate, the dividend yield would work out to 4%, which would be a margin of safety for the stock.

TFCI could get into the private equity space

TFCI is also reported to be in talks with major private hotel chains, real estate funds and private equity players to raise private equity funds to finance large hotel projects. The company's current balance sheet size does not permit such activities. We expect the private equity funds to be in place in the next three to four months. This will enable TFCI to generate a fee income as well as increase its ability to co-invest and lend.

OTHER POSSIBLE DEVELOPMENTS

TFCI could raise fresh equity capital in FY2008

Given the huge demand for funds from the hotel sector, TFCI will need fresh capital. It can either raise fresh equity through a public offering or make a private placement either to the existing stakeholders (mainly Life Insurance Corporation of India) or to new strategic partners.

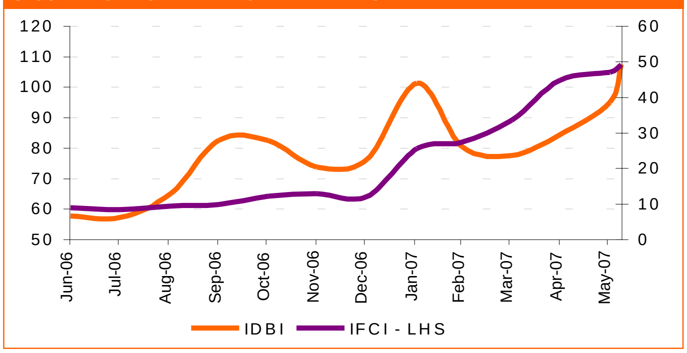
Possible change in shareholding pattern

TFCI had been promoted by IFCI along with other nationalised banks and financial institutions. IFCI currently holds a 19% stake in the company. IFCI has been exiting its strategic investments of late and could exit TFCI too.

Re-rating in other public financial institutions

Other leading public financial institutions like Industrial Development Bank of India (IDBI) and IFCI in the past also had to grapple with very high NPAs and deteriorating operating performance. However, in the last twelve months we have seen a significant improvement in the price performance of IFCI and IDBI stocks. The improvement in their stock prices is a direct reflection of the improvement in their fundamentals. However, IFCI continues to have a negative book value as on March 2007 and IDBI continues to earn a very low to negative spread in the banking business. Still the market is ready to give value for the potential improvement in their fundamentals that could happen in the next couple of years. We believe the same story could hold good for TFCI also, as it starts reporting a higher loan growth and increased profitability from the next fiscal.

STOCK PRICE MOVEMENT FOR IDBI AND IFCI



Source: Bloomberg, Sharekhan Research

INVESTMENT CONCERNS

The likely delay in the execution of the expansion plans of the hotel sector could be a major investment concern as in that case the demand for loans would get postponed. This would translate into stagnant to lower loan growth and lower than expected earnings for TFCI.

Our estimates don't capture the potential earnings upside from the company's foray into the private equity space. Hence the delay in its plans to enter this arena would not be a major concern at this juncture.

VALUATIONS AND VIEW

At our target price/book value of 0.8x for FY2009E, the price target for the stock works out to Rs30 per share. We believe that the valuation at 0.8x is reasonable given that the company has never made losses, its NPAs have turned around and its loan growth is expected to be strong with improving prospects of the hotel and tourism industry. We recommend a Buy on TFCI with a price target of Rs30.

FINANCIALS

PROFIT & LOSS ACCOUNT					Rs (cr)
Particulars	**FY05**	**FY06**	**FY07E**	**FY08E**	**FY09E**
Interest earned	80.9	64.4	67.4	79.5	95.4
Interest expended	52.7	35.8	37.0	43.0	50.7
NII	28.2	28.6	30.4	36.6	44.7
Other income	0.3	0.7	1.0	1.0	1.0
Net total income	28.5	29.4	31.4	37.6	45.7
Operating expenses	3.1	3.7	4.2	4.8	5.5
Operating profit	25.4	25.7	27.2	32.8	40.2
Depreciation	0.6	0.7	0.8	0.8	0.8
Provisions and contingencies	10.3	9.7	8.6	7.9	7.3
Profit before tax	14.5	15.4	17.8	24.1	32.2
Tax	0.3	3.5	4.4	6.0	8.0
Profit after tax	14.2	11.9	13.3	18.0	24.1
BALANCE SHEET					Rs (cr)
Liabilities					
Equity capital	67.4	67.4	67.4	67.4	67.4
Reserves & surplus	105.1	117.0	130.3	148.4	172.5
Net worth	172.5	184.4	197.7	215.8	239.9
Loan funds	431.4	406.2	358.5	414.6	496.1
Total liabilities	603.9	590.6	556.2	630.4	736.0
Assets					
Net block	12.35	11.45	11.12	12.61	14.72
Loans	472.6	411.11	378.2	453.9	544.6
Investments	115.15	143.61	143.2	136.8	148.7
Deferred tax asset	2.49	0.86	1.37	1.86	2.21
Net current assets	1.35	23.52	22.2	25.2	25.8
Total assets	603.9	590.6	556.2	630.4	736.0
KEY RATIOS (%)					
RoA (%)	2.4	2.0	2.4	2.9	3.3
RoE (%)	8.4	6.6	7.0	8.7	10.6
Net NPA (%)	11.4	2.6	1.8	1.0	0.5
VALUATIONS					
EPS (Rs)	2.1	1.8	2.0	2.7	3.6
PE (x)	8.1	9.7	8.6	6.4	4.8
Book value (Rs/share)	25.6	27.4	29.3	32.0	35.6
P/BV (x)	0.7	0.6	0.6	0.5	0.5
Adj book value	15.4	25.2	28.3	31.3	35.2
P/ABV (x)	1.1	0.7	0.6	0.5	0.5

The author doesn't hold any investment in any of the companies mentioned in the article.

Zensar Technologies

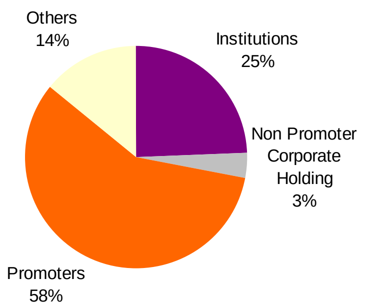
Ugly Duckling | **Buy; CMP: Rs342** | **June 18, 2007**

Zen(sar) and the art of growing

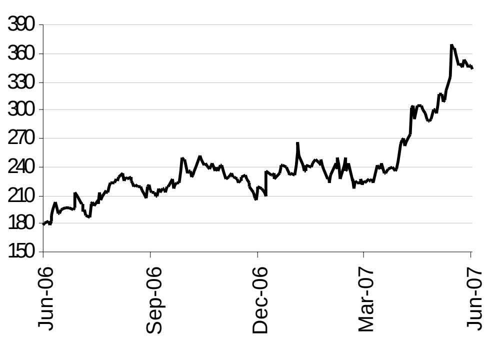
COMPANY DETAILS

Price target:	Rs484
Market cap:	Rs818 cr
52 week high/low:	Rs380/176
NSE volume (No of shares):	47,688
BSE code:	504067
NSE code:	ZENSARTECH
Sharekhan code:	FUJICIM
Free float (No of shares):	1.0 cr

SHAREHOLDING PATTERN



PRICE CHART



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	13.9	52.5	55.9	91.5
Relative to Sensex	12.3	39.6	51.9	43.1

KEY POINTS

- **Strengthening its portfolio of service offerings:** Zensar Technologies (Zensar) has effectively utilised the inorganic route to gain the required critical mass in the fast growing enterprise solutions segment (through the acquisition of OBT Global and ThoughtDigital), to strengthen its footprint in under-penetrated geographies such as Japan (through joint venture with Eza, Japan), and to gain access to marquee clients.
- **Maintaining the growth momentum:** Zensar is well poised to report a healthy growth of over 40% in FY2008. It is witnessing a strong traction in its organic business and the incremental revenues of Rs110 crore from the recent inorganic initiatives would only add to the overall growth momentum in its revenues. Consequently, even after factoring in the adverse impact of the rupee appreciation, the company is expected to achieve its stated revenue guidance of Rs850 crore in FY2008.
- **Margins are sustainable:** Zensar is also expected to buck the general declining trend in margins in FY2008. That's because some of its relatively new businesses of ITS and BPO that have been in the investment mode are expected to show a substantial improvement in their margins. It also has other margin levers like a favourable revenue mix and lower overhead costs to cushion against the adverse impact of wage hikes, the appreciation in the rupee and the consolidation of the relatively lower-margin revenues of ThoughtDigital.
- **Key concern of stake sale by Fujitsu has been dispelled:** The acquisition of the entire stake of Fujitsu in Zensar by the RPG group has eliminated a key concern that was a drag on the stock's valuations.
- **Attractive valuations:** At the current market price the stock trades at 10.6x FY2008 and 8.2x FY2009 estimated earnings; the valuations are extremely attractive considering the estimated earnings growth of 33% CAGR over FY2007-09. We recommend Buy on the stock with a price target of Rs484.

COMPANY BACKGROUND

Pune-based Zensar, promoted by the RPG group, is a mid-sized software service company. It has employee strength of over 3,700 professionals and a base of 236 active clients.

KEY FINANCIALS

Particulars	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net sales (Rs cr)	344.9	428.8	605.9	853.6	1041.4
Net profit (Rs cr)	19.9	35.7	58.8	79.1	103.4
No of shares (crore)	2.3	2.3	2.4	2.4	2.4
EPS (Rs)	8.7	15.5	24.4	32.6	42.1
% y-o-y change	-	*78.0*	*57.8*	*33.6*	*29.2*
PER (x)	39.4	22.1	14.0	10.5	8.1
Price/BV (x)	5.2	4.4	3.5	2.7	2.1
EV/EBIDTA(x)	23.9	14.0	10.0	7.0	5.2
RoCE (%)	13.2	21.2	23.7	27.3	28.7
RoNW (%)	15.6	22.9	27.8	28.1	27.5

The clients include reputed names like Cisco, National Rid, Marks and Spencers, Logitech, Danaher Corporation and Electronic Arts. It has continuously invested in expanding the range of its service offerings over the past few years. The company's business is divided into four key service lines.

- The application portfolio management (APM) line largely compromises the traditional application development and maintenance services, and the newly introduced infrastructure management and testing services. It contributed 53.8% of the total revenues in FY2007.
- The enterprise application service (EAS) line is one of the fastest growing service lines and encompasses the implementation of enterprise wise products (ERP, CRM, data warehousing, business intelligence and other packaged products) from Oracle and SAP. It grew by 82.8% and contributed 28.1% of the total turnover in FY2007.
- The innovative technology solution (ITS) line includes services such as product engineering, embedded software and application modernisation services based on the in-house developed solution blueprint framework. The business reported a decline in FY2007 and contributed 6.6% to the total turnover.
- The business process outsourcing (BPO) division is focused on non-voice based services like knowledge process outsourcing and human resource shared services. It reported a growth of 176.4% on a relatively small base and contributed around 4% of the total revenues in FY2007.

INVESTMENT ARGUMENTS

Focus on scaling up capabilities in fast-growing service offerings

Zensar has invested in broadening its portfolio of service offerings in the past couple of years. It has focused on developing and deepening its capabilities in the fast-growing enterprise solutions space through a mix of organic and inorganic initiatives. The company has built a base of around 1,000 employees in the EAS practice and is among the leading offshore vendors in the Oracle consulting practice.

The other relatively new business lines that have been developed by the company are: ITS and BPO services. Moreover, the company has introduced infrastructure management and testing services to boost its traditional business of application management and has emerged as an end-to-end integrated service provider.

Apart from the organic efforts, the company has effectively utilised the inorganic route to ramp up its capabilities and expand its geographical reach. In the EAS segment, the company has made two acquisitions in the past six quarters. The acquisition of OBT Global in December 2005 enabled the company to establish itself in the SAP consulting space. On the other hand, the acquisition of ThoughtDigital in February 2007 boosted its presence in the east coast of America in the Oracle consulting space. ThoughtDigital has a base of 40 active clients including reputed top-tier companies such as Merrill Lynch, Gartner, Cingular, Swiss Re and Swatch, and is a profitable company. Both the acquired entities have been acquired at a reasonably attractive valuation of 0.9x their trailing annual sales. The acquisition of ThoughtDigital was funded through a debt of $15 million and internal accrual of $10 million, totaling to $25 million.

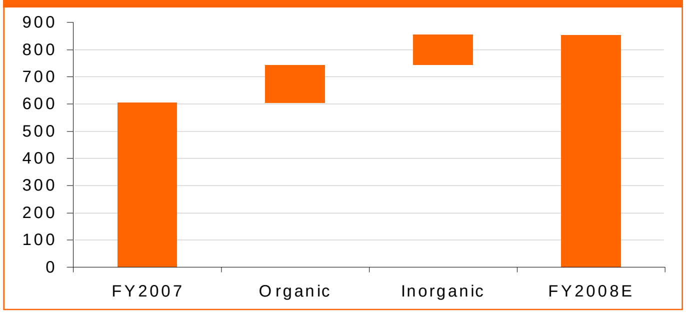
In addition to the two acquisitions, Zensar has formed a joint venture with the Tokyo-based Eza in March 2007. As part of the deal, Eza would transfer its entire existing order book, employee base (a 30-member team), technology and intellectual property to the joint venture. Eza has a strong presence in Japan and has relationship with marquee clients like NEC, Unisys and Japan Railways. Zensar would have the controlling stake of 60% in the joint venture company.

Poised to outperform the industry

In spite of the adverse impact of the steep appreciation in the rupee, the company is expected to meet the stated guidance of Rs850 crore of revenues in FY2008. The incremental revenues of around Rs110 crore from the recent inorganic initiatives (including the acquisition of a 100% stake in ThoughtDigital and the joint venture with Eza in the latter half of Q4FY2007) would account for around 18% of the growth in the revenue base in FY2007.

The organic revenues are estimated to grow by 24% (in rupee terms) in FY2008, after factoring in a 10% appreciation in the rupee against all the other major currencies. We have also not factored any increase in the billing rates in our estimates. In terms of service offerings, we expect a healthy growth in most of the new service lines, like EAS, BPO and ITS, in FY2009 whereas the traditional business of APM is expected to grow at a compounded annual growth rate (CAGR) of 22% over the next two years.

THE INORGANIC PUSH

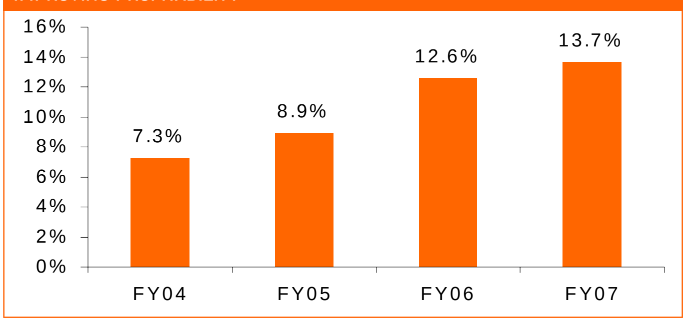


Source: Sharekhan Research

Cushioned against margin pressure

Zensar has shown a remarkable improvement in its operating profit margin (OPM) in the past couple of years. Despite the investments made in building capabilities in the relatively newer service lines, the company managed to gradually improve its margin by 480 basis points to 13.7% in FY2007 from 7.3% in FY2004.

IMPROVING PROFITABILITY



Source: Sharekhan Research

GROWING INORGANICALLY

Company	Date	Number of consultants	Practice	Annual revenue ($ mn)	Geography	Verticals
OBT	Dec-05	160	SAP	4.5	US, with ODC in India	Manufacturing, telecom, automotive
ThoughtDigital	Mar-07	120	Oracle	27.0	US	Communications & Media, Financial services, consumer goods

In this year also, the management expects to show a marginal improvement in the margins. The guidance implies a net margin of 10% (earnings guided at Rs85 crore on a revenue base of Rs850 crore) as against 9.7% in FY2007. The cumulative adverse impact of the steep appreciation in the rupee, wage inflation and consolidation of relatively low-margin business of ThoughtDigital is expected to be mitigated by the turnaround in the ITS business (Rs11 crore of development cost was written off in FY2007), better profitability in the BPO business and utilising the traditional margin levers like lower overhead cost as a percentage of sales, a favourable revenue mix, better employee productivity and higher realisation.

No more hangover of Fujitsu stake sale

Zensar was formed by the merger of Fujitsu ICIM and the erstwhile Zensar in March 2001 and was jointly promoted by the RPG group and Fujitsu, Japan. Recently, the RPG group acquired the entire stake of Fujitsu for an undisclosed sum and now controls the company with a majority stake of 57.8%. This largely eliminates the concerns related to the offloading of stake by Fujitsu that had been a drag on the stock's valuations.

CONCERNS

Possible downgrade in earnings guidance

Given the continued steep appreciation in the rupee, the company might not be able to achieve its earnings guidance of Rs85 crore in FY2008. We have factored in flat OPM and marginal decline in the net margins to reflect the impact of the increase in the interest outgo (a debt of $15 million for the acquisition of ThoughtDigital) and a higher effective tax rate in FY2008. Despite the possible downgrade (which is already factored in our estimates), the earnings are estimated to grow at a healthy rate of 36.4% in FY2008 and at a CAGR of 32.5% over the two-year period FY2007-09.

Lacks consistency in its quarterly performance

Zensar has shown a healthy growth in its quarterly revenues and earnings which have grown at a compounded quarterly growth rate of 8.8% and 23.5% respectively over the past seven quarters. However, it has shown a negative sequential growth in revenues and earnings in two of the seven quarters. This clearly reflects the lack of consistency in its quarterly performance that could limit the re-rating of the stock.

VALUATION

Despite the concerns related to the appreciation of the rupee, Zensar's consolidated revenues and earnings are estimated to grow at a CAGR of 31.1% and 33.1% respectively over the two-year period FY2007-09. The higher than average industry performance over a sustained period of time is likely to result in the re-rating of the stock. Even at the current price the stock is trading at attractive valuations of 10.5x FY2008 and 8.1x FY2009 estimated earnings. This is a fairly large discount to the other comparable mid-sized companies. We recommend a Buy on the stock with a price target of Rs484 (11.5x FY2009 estimated earnings).

PEER COMPARISON

Company	CMP (Rs)	EPS		P/E		EV/EBITDA	
		FY08	FY09	FY08	FY09	FY08	FY09
Zensar	342	32.6	42.1	10.5	8.1	7.0	5.2
KPIT Cummins	144	9.0	11.8	16.0	12.2	10.5	8.1
Infotech Enterprise	378	24.5	32.0	15.4	11.8	10.2	7.9
NIIT Tech	535	42.5	51.4	12.6	10.4	8.1	6.4
Tata Elxsi	334	21.4	26.5	15.6	12.6	11.4	9.0

FINANCIALS

PROFIT & LOSS ACCOUNT Rs (cr)

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net sales	344.9	428.8	605.9	853.6	1041.4
Total expenditure	314.2	374.7	523.0	736.8	891.1
EBITDA	30.7	54.1	82.9	116.8	150.3
Other income	4.7	4.6	9.0	7.0	9.2
Interest cost	0.9	1.6	2.1	5.9	5.3
Depreciation	12.3	15.5	15.3	17.2	21.2
PBT	22.2	41.7	74.5	100.7	132.9
Tax	1.9	5.5	16.2	22.2	30.6
PAT	20.3	36.2	58.3	78.6	102.4
Minority share	0.3	0.5	-0.5	-0.5	-1.0
Net profit	19.9	35.7	58.8	79.1	103.4

KEY RATIOS (%)

Particulars	FY05	FY06	FY07	FY08E	FY09E
OPM	8.9	12.6	13.7	13.7	14.4
NPM	5.8	8.3	9.7	9.3	9.9
RoCE	13.2	21.2	23.7	27.3	28.7
RoNW	15.6	22.9	27.8	28.1	27.5

BALANCE SHEET Rs (cr)

Particulars	FY05	FY06	FY07	FY08E	FY09E
Share capital	23.3	23.4	23.9	24.1	24.3
Reserves and surplus	129.6	157.8	210.1	279.5	372.6
Net worth	152.9	181.2	234.0	303.6	396.9
Total debt	14.5	15.1	80.9	66.0	66.0
Capital employed	167.4	196.3	314.9	369.6	462.9
Net fixed assets	54.3	67.8	94.7	117.5	141.3
CWIP	1.5	7.2	10.0	5.0	5.0
Deferred tax assets	1.8	1.8	1.8	1.8	1.8
Net current assets	109.8	105.9	169.9	206.7	276.3
Capital deployed	167.4	196.3	314.9	369.6	462.9

VALUATION

Particulars	FY05	FY06	FY07	FY08E	FY09E
EPS (Rs)	8.7	15.5	24.4	32.6	42.1
P/E	39.4	22.1	14.0	10.5	8.1
Book value	65.6	77.4	97.9	126.0	163.4
Price/BV	5.2	4.4	3.5	2.7	2.1
EV/Sales	2.1	1.8	1.4	1.0	0.7
Market Cap/Sales	2.3	1.9	1.3	1.0	0.8
EV/EBIDTA	23.9	14.0	10.0	7.0	5.2
Dividend yield (%)	0.7	0.8	1.0	1.2	1.3

Stock Update

Aban Offshore

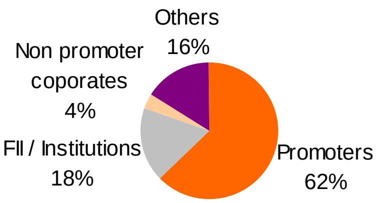
Emerging Star	Buy; CMP: Rs2,750	June 06, 2007

Price target revised to Rs3,110

COMPANY DETAILS

Price target:	Rs3,110
Market cap:	Rs10,585 cr
52 week high/low:	Rs2,810/645
NSE volume (No of shares):	1.2 lakh
BSE code:	523204
NSE code:	ABANLOYD
Sharekhan code:	ABANLOYD
Free float (No of shares):	1.4 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	6.1	51.4	129.7	184.9
Relative to Sensex	1.7	28.9	119.3	97.6

The author doesn't hold any investment in any of the companies mentioned in the article.

- Aban Offshore Ltd's (AOL) earnings estimate for FY2009 has been revised upwards by 15.8% to factor in the higher than our assumption of day rates for the six existing assets that are scheduled for renewal over the next three quarters. The revised estimate also factors in the steep appreciation of the rupee and the exchange rate assumption has been revised to Rs41 against the US Dollar (USD) for FY2008 and FY2009.
- In addition to the net positive impact of the re-pricing of its assets at higher day rates and the change in the foreign exchange (forex) rate assumption, the sentiment towards the stock would be boosted by the flow of positive news related to the delivery of two newly built jack-up rigs and the contracts for the same. Moreover, the delivery of its drill ship, Aban Abraham, is also scheduled in August 2007.
- At the current market price the stock trades at 21.8x FY2008 and 7.5x FY2009 estimated earnings. We maintain our Buy call on the stock with a revised price target of Rs3,110 (8.5x FY2009E earnings).

For further details, please visit the Research section of our website, sharekhan.com

Alphageo India

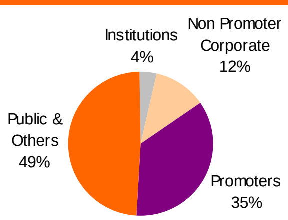
Emerging Star	Buy; CMP: Rs370	June 25, 2007

Price target revised to Rs395

COMPANY DETAILS

Price target:	Rs395
Market cap:	Rs183 cr
52 week high/low:	Rs389/106
NSE volume (No of shares):	28542
BSE code:	526397
NSE code:	ALPHAGEO
Sharekhan code:	ALPHAGEO
Free float (No of shares):	0.32 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

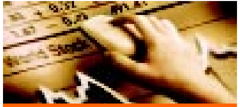
(%)	1m	3m	6m	12m
Absolute	35.1	66.0	140.7	202.2
Relative to Sensex	34.5	52.0	122.4	111.3

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- Alphageo India has reported a 56.7% growth in its revenues to Rs29.5 crore for the fourth quarter ended March 2007. This is in line with our estimate of Rs29 crore.
- The operating profit margin declined by 5.3% to 44.5% during the quarter, largely due to the incremental cost related to the third 3D crew. The crew became operational only in the latter part of Q4FY2007 but the staff cost for the same was reflected in the entire quarter.
- The net profit grew by 41% to Rs6 crore which is marginally higher than our estimate of Rs5.9 crore.
- On the full year basis, the revenue and earnings have grown by 127.5% to Rs54.3 crore and 80.2% to Rs7.5 crore respectively.
- Along with the results, the board has approved a dividend of 15% (or Rs1.5 per share) for the existing shareholders.
- The company had a pending order book of Rs110 crore as of end March 2007. The order book is executable over the next five quarters and provides a strong visibility for the revenue growth in FY2008. Accordingly, we have revised upwards our estimates for FY2008. At the current market price the stock trades at 11.2x FY2008 estimated earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs395 (12x FY2008 estimated earnings).

For further details, please visit the Research section of our website, sharekhan.com



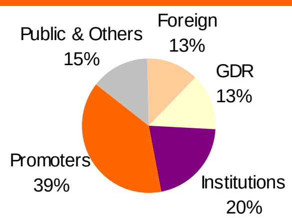
Ashok Leyland

Ugly Duckling | Buy; CMP: Rs38 | June 27, 2007

COMPANY DETAILS

Price target:	Rs42
Market cap:	Rs5,030 cr
52 week high/low:	Rs51.2/30.5
NSE volume (No of shares):	39.5 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float (No of shares):	63.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-2.8	-6.1	-14.1	29.0
Relative to Sensex	-4.2	-15.4	-19.4	-12.0

The author doesn't hold any investment in any of the companies mentioned in the article.

Annual report review

We went through the recently released annual report of Ashok Leyland. We present the highlights below.

- Ashok Leyland had a splendid FY2007 as the commercial vehicle (CV) sales were driven by the strong availability of freight and the Supreme Court's ban on the over-loading of trucks.
- The company made substantial improvement in its operating efficiencies during the year with the success of its "Mission Gemba". The operating profit margin for the year declined by 80 basis points to 9.2% even though the raw material cost as a percentage of sales rose to 74.4% from 71.9% last year. The company also made substantial improvement in its working capital management during the year.
- The return ratios also improved smartly as the return on capital employed rose from 21.7% to 25.8% while the return on net worth rose from 20.2% to 21.5% during the year.
- The company expects FY2008 to be moderate for the industry, as the demand would be affected by the increase in the interest rates. However, increased investments by the government in the infrastructure sector could encourage growth.
- The company maintains its target of making over 100,000 vehicles in FY2008, and has drawn up aggressive plans to increase its annual capacity and sales to over 180,000 vehicles each in the next four to five years. It would also look to increase the share of the non-cyclical business to de-risk its business model.
- At the current market price of Rs38 the stock discounts its FY2009E earnings by 9x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 6.2x. We maintain our Buy call on the stock with a price target of Rs42. ■

For further details, please visit the Research section of our website, sharekhan.com

Aurobindo Pharma

Ugly Duckling | Buy; CMP: Rs725 | June 05, 2007

COMPANY DETAILS

Price target:	Rs914
Market cap:	Rs4,422 cr
52 week high/low:	Rs762/468
NSE volume (No of shares):	1.0 lakh
BSE code:	524804
NSE code:	AUROPHARMA
Sharekhan code:	AURPHARM
Free float (No of shares):	2.4 cr

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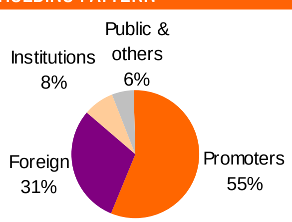


PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	5.5	13.1	10.6	22.7
Relative to Sensex	1.4	0.2	5.4	-12.7

The author doesn't hold any investment in any of the companies mentioned in the article.

USFDA approvals enrich earnings visibility

- Aurobindo Pharma has received the approval from the US Food and Drug Administration (USFDA) for oral suspensions of its antibiotic Cefpodoxime proxetil in 50mg/5ml and 100mg/5ml strengths.
- Cefpodoxime proxetil is the generic version of Pharmacia Upjohn's brand *Vantin*.
- The size of the branded market for Cefpodoxime proxetil suspension is about $20 million and the patent of the product expired a few years ago. Just two competitors, including the innovator and Ranbaxy Laboratories, are there in the market.
- Aurobindo Pharma is the proven leader in this segment in several markets in the world. So anticipating a 20% market share and a 20% price erosion, the product can add annual revenue of $3.2 million and profit of $0.64 million. That would translate into incremental earnings per share (EPS) of Rs0.43.
- Aurobindo Pharma with 82 abbreviated new drug applications (ANDAs), 110 drug master files (DMFs) and 11 USFDA-approved facilities is well positioned to exploit the generic opportunity going forward. Further, its expansion into Europe and emerging markets, and the likely incremental revenue flow from its largest approved anti-retroviral product basket would fuel its revenue growth and margin expansion in future.
- At the current market price of Rs725, the stock is trading at 15.8x its FY2008E and 12.6x its FY2009E earnings. In anticipation of the ramp-up in the formulation exports (particularly to the USA) we maintain our Buy recommendation, with a one-year price target of Rs914. ■

For further details, please visit the Research section of our website, sharekhan.com

BASF India

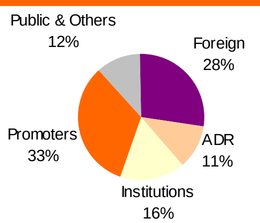
Ugly Duckling | Buy; CMP: Rs273 | June 14, 2007

Q4FY2007 results: First-cut analysis

COMPANY DETAILS

Price target:	Rs300
Market cap:	Rs761 cr
52 week high/low:	Rs283/148
NSE volume (No of shares):	36,573
BSE code:	500042
NSE code:	BASF
Sharekhan code:	BASF
Free float (No of shares):	1.3 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	6.8	34.4	18.1	53.9
Relative to Sensex	4.9	24.0	10.4	-1.9

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- BASF reported decent results for the fourth quarter of FY2007. Its top line grew by 10.7% to Rs160.7 crore. There was an extraordinary item pertaining to a voluntary retirement scheme (VRS) expenditure of Rs3.92 crore during the quarter. Adjusting for the same, the operating profit margin (OPM) grew by 40 basis points to 7.6% and the profits grew by 52.4% to Rs7.6 crore.
- Its consolidated sales rose by 24% to Rs846.6 crore in FY2007. The OPM after adjusting for the VRS expenditures stood at 11.5% against 13.4% in FY2006. The margins were under pressure due to a high raw material cost, which rose from 50.5% in FY2006 to 53.5% in FY2007 as a percentage of sales. The net profit grew by 20.8% to Rs57.1 crore.
- All the segments of the company showed considerable improvement, with the agricultural product division reporting a growth of 16.1% The performance product division grew by 19.3% as the capacity utilisation in all the segments of the division improved during the year. The plastic division's top line grew by 44.9% during the year; its margin however declined to 6.6% from 9.6% in the previous year.
- Considering its growth prospects, we believe the company is trading at attractive valuations of 13.3x FY2007 earnings and 9.5x FY2008E earnings. We maintain our Buy recommendation on the stock with a price target of Rs300.

For further details, please visit the Research section of our website, sharekhan.com

Bajaj Auto

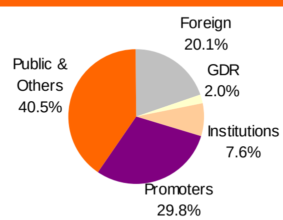
Apple Green | Buy; CMP: Rs2,094 | June 28, 2007

Annual report review

COMPANY DETAILS

Price target:	Rs2,271
Market cap:	Rs21,147 cr
52 week high/low:	Rs3,175/2,063
NSE volume (No of shares):	2.9 lakh
BSE code:	500490
NSE code:	BAJAJAUTO
Sharekhan code:	BAJAJ
Free float (No of shares):	6.9 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

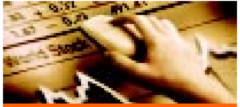
(%)	1m	3m	6m	12m
Absolute	-1.8	-15.1	-19.8	-16.5
Relative to Sensex	-2.8	-23.1	-23.5	-42.1

The author doesn't hold any investment in any of the companies mentioned in the article.

We went through the recently released annual report of Bajaj Auto Ltd (BAL). We present the highlights below.

- FY2007 was an interesting year for BAL as the company rendered a strong performance in the first nine months of FY2007, even though the performance faltered in the last quarter of the fiscal due to the rising interest rates and certain actions taken by the Reserve Bank of India (RBI) to control the growth in non-food credit.
- A number of variants in the motorcycle segment in all sub-segments, good export performance, a launch of new ungeared scooter Kristal led the growth during the year.
- The company continued its productivity improvements during the year as the turnover per employee increased from 132 in FY2004 to 266 in FY2007. BAL also continues to enjoy negative working capital. The high capital expenditure (capex) of the company during the year affected the return ratios as the return on capital employed reduced from 25.5% to 22.3% and the return on net worth reduced from 20.9% to 18%.
- The company expects this slowdown to be an aberration and is hopeful the situation would improve going forward. However, hardening raw material prices, the competitive scenario and possible lower demand in the first half of FY2008 would restrict the margins and the same are expected to remain in the region of 13-15%. The company has plans to launch a new bike in the second quarter of FY2008 and the management believes that the bike will be a blockbuster.
- At the current market price of Rs2,094, the stock trades at 16.1x its FY2009E and at an enterprise value/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 9.2x. We maintain our Buy call on the stock with a price target of Rs2,271.

For further details, please visit the Research section of our website, sharekhan.com



STOCK UPDATE

Bharat Bijlee

Apple Green

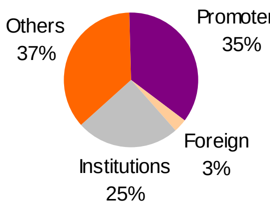
Buy; CMP: Rs1,936 | **June 12, 2007**

Price target revised to Rs2,425

COMPANY DETAILS

Price target:	Rs2,425
Market cap:	Rs1,094 cr
52 week high/low:	Rs2,018/750
BSE volume (No of shares):	12,160
BSE code:	503960
Sharekhan code:	BHARATBIJ
Free float (No of shares):	0.4 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	19.3	65.5	67.3	113.6
Relative to Sensex	16.7	50.8	58.3	46.6

The author doesn't hold any investment in any of the companies mentioned in the article.

- Bharat Bijlee Ltd (BBL) continued its robust performance, in terms of both sales and profitability, in FY2007. Its net sales increased by 56% to Rs470 crore and net profit grew by a superb 62% to Rs55.1 crore in FY2007.
- The profit grew mainly because of good volume growth, operational efficiency, higher productivity, good product mix and higher price realisations.
- During the year, the sales of the motor business grew by 29% against the industry growth of 20%. The sales of the transformer business rose by 95% led by higher realisations and increased production from the expanded capacity.
- The company increased its transformer manufacturing capacity from 5,000MVA to 8,000MVA and considering the robust demand for power generation, transmission and distribution, it plans to increase the transformer manufacturing capacity further to 11,000MVA.
- The outlook for the motor business also appears healthy. The industry has shifted towards larger motors. BBL has already made investments to expand the facilities for larger motors. It also has plans to invest in plant and machinery to increase the maximum rating of motors from 200KW to 400KW.
- The order inflows for motors, transformers and projects increased by 77% from Rs325.3 crore in FY2006 to Rs574.8 crore in FY2007.
- Given the huge investments lined up in India's power generation, transmission and distribution sectors, and the future expansion plans of BBL that provide good revenue visibility, we maintain our positive view on the stock. We retain our Buy recommendation on BBL with a revised price target of Rs2,425.

For further details, please visit the Research section of our website, sharekhan.com

Crompton Greaves

Apple Green

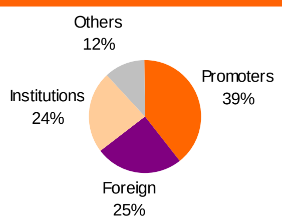
Buy; CMP: Rs250 | **June 01, 2007**

Price target revised to Rs280

COMPANY DETAILS

Price target:	Rs280
Market cap:	Rs9,165 cr
52 week high/low:	Rs253/103
NSE volume (No of shares):	6.1 lakh
BSE code:	500093
NSE code:	CROMPGREAVE
Sharekhan code:	CROMPTON
Free float (No of shares):	22.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	12.1	25.1	31.2	71.6
Relative to Sensex	6.9	11.0	23.0	21.0

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- Crompton Greaves Ltd's (CGL) revenues grew by 25% year on year (yoy) in Q4FY2007 to Rs990.0 crore. The revenues were slightly below our expectations.
- The operating profit margin (OPM) of CGL improved by 80 basis points to 11.5% from 10.7% in Q4FY2006.
- The profit before tax (PBT) increased by a strong 36.5% to Rs106.3 crore.
- CGL provided for full tax rate in Q4FY2007 as against the minimum alternate tax (MAT) rate in Q4FY2006. The increased tax provisioning led to a lower bottom line growth of 24.7% to Rs69.9 crore.
- The consolidated order book stood at Rs4,400 crore.
- In view of the robust top line growth, expansion in margins, continued good performance of Pauwels and the expected stabilisation in the operations of GTV in FY2008, we are maintaining our FY2008 estimates. At the current market price, the stock is trading at 23.9x its FY2008E consolidated earnings and 13.6x its FY2008 EV/earnings before interest, depreciation, tax and amortisation (EBIDTA). We believe that these valuations are attractive because of (a) the robust operating performance of the stand-alone company; (b) higher geographical reach and product depth of its subsidiaries; and (c) its management's expertise in turning around loss-making subsidiaries. We maintain our Buy recommendation on the stock with a revised price target of Rs280.

For further details, please visit the Research section of our website, sharekhan.com

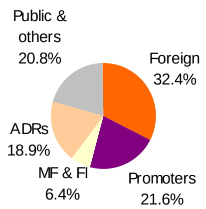
HDFC Bank

Evergreen | Buy; CMP: Rs1,127 | June 06, 2007

COMPANY DETAILS

Price target:	Rs1,355
Market cap:	Rs35,995 cr
52 week high/low:	Rs1,274/620
NSE volume (No of shares):	6.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float (No of shares):	19.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	15.8	25.6	7.7	57.7
Relative to Sensex	11.0	6.9	2.8	9.3

The author doesn't hold any investment in any of the companies mentioned in the article.

Price target revised to Rs1,355

- HDFC Bank has announced it plan to raise additional equity capital of Rs4,200 crore or $1 billion, whichever is higher. The bank would make a preferential offer of 13,582,000 equity shares of Rs10 each to the promoter group at a price of Rs1,024 per share determined by the SEBI formula. Thus the promoters would infuse Rs1,390 crore to maintain their stake at 22.8% of the enhanced equity base.

- We have assumed a follow-on offer price (FOP) of Rs1,000 per share for HDFC Bank which would result in a fresh issue of 2.81 crore equity shares to raise the remaining amount of Rs2,810 crore. The FOP is significantly higher than the bank's FY2007 year-end book value of Rs201 per share. Hence the issue would significantly add to the book value of the bank.

- We have introduced our FY2009 estimates and at the current market price of Rs1,127 the stock is quoting at 20.7x FY2009E EPS, 8.0x FY2009E pre-provision profits and 3.1x FY2009E book value. The historical one-year forward price-to-book value chart indicates that the HDFC Bank stock consistently trades around the 3.7x price-to-book value band. So maintaining the same price-to-book multiple of 3.7x for HDFC Bank we uphold our Buy recommendation on the stock with a revised price target of Rs1,355.

For further details, please visit the Research section of our website, sharekhan.com

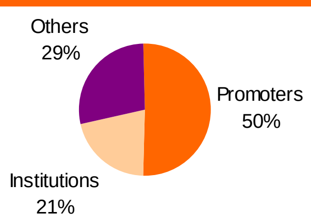
ICI India

Ugly Duckling | Buy; CMP: Rs520 | June 05, 2007

COMPANY DETAILS

Price target:	Rs581
Market cap:	Rs2,125 cr
52 week high/low:	Rs559/242
NSE volume (No of shares):	10,966
BSE code:	500710
NSE code:	ICI
Sharekhan code:	ICI
Free float (No of shares):	2.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	21.3	18.4	29.7	58.7
Relative to Sensex	16.6	4.9	23.6	12.9

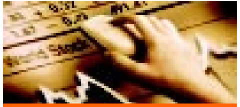
The author doesn't hold any investment in any of the companies mentioned in the article.

Price target revised to Rs581

RESULT HIGHLIGHTS

- The net revenues grew by 5.7% year on year (yoy) to Rs201 crore despite the discontinuation of the surfactant businesses (Uniqema).
- The sales from the continuing businesses (ie paints and chemicals) have shown a growth of 23%. The paint business grew by 26% yoy to Rs170 crore. The continued chemical business grew by 13% yoy to Rs31 crore.
- The profit before interest and tax (PBIT) from the continued businesses grew by 51% in the quarter under review on the back of improved PBIT margin of both the businesses. The PBIT in the paint business grew by 67% yoy with a 170-basis-point expansion in the margin. The PBIT in the residual chemical business grew by 11.5% yoy with an 20-basis-point expansion in the margin.
- The overall operating profit (including all businesses) dropped by 10% yoy with a 150-basis-point contraction in the operating profit margin (OPM).
- With a higher other income (due to a dividend income of Rs31 crore) and stable depreciation, the net profit grew by 20% yoy to Rs12.7 crore.
- ICI India's Q4FY2007 net profit (adjusted for extraordinary items and taxes) at Rs12.7 crore was slightly below our expectations. The net profit grew by 20% yoy.
- The company has announced that it would be utilising Rs210 crore to buy back its own shares from the minority shareholders at a price not exceeding Rs575 per share through market operations.

For further details, please visit the Research section of our website, sharekhan.com



STOCK UPDATE

ICICI Bank

Apple Green

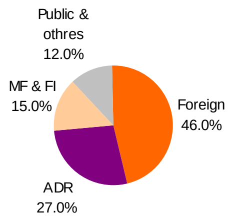
Buy; CMP: Rs918 | **June 18, 2007**

Preferred play on insurance boom

COMPANY DETAILS

Price target:	Rs1,173
Market cap:	Rs81,702 cr
52 week high/low:	Rs1,007/440
NSE volume (No of shares):	14.3 lakh
BSE code:	532,174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float (No of shares):	65.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	3.5	11.7	5.5	92.6
Relative to Sensex	1.4	-1.7	0.6	27.7

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- India's largest private sector lender ICICI Bank plans to raise Rs20,125 crore ($5 billion) through a follow-on public offer (FPO). The FPO is to be equally distributed in the domestic and foreign markets. The FPO will address the increased capital requirements of the bank for the next three years.
- The life insurance sector has been growing at a scorching pace for the past few years and ICICI Prudential Life Insurance is the private sector leader with a 30% market share among the private players and a 10% market share in the overall insurance market.
- We feel one of the concerns pertaining to the bank revolves around its subsidiary ICICI Financial Services (IFS). The formation of the subsidiary is still in the conceptual stage and the bank has only received a firm commitment of Rs2,650 crore for a 5.9% stake sale.
- We feel the stock will continue to consolidate around the current levels, as has been the case in the past after the announcement of any equity issuance. The huge FPO would take its toll on the return on equity (RoE), which is expected to come down to 10.3% and 10.5% in FY2008 and FY2009 respectively from 13.3% in FY2007. At the current market price of Rs918, the stock is quoting at 20.1x its FY2009E earnings per share (EPS), 8.9x its pre-provision profits (PPP) and 2.0x FY2009E book value (BV). We maintain our Buy recommendation on the stock with the price target of Rs1,173. ■

For further details, please visit the Research section of our website, sharekhan.com

Indian Hotels Company

Apple Green

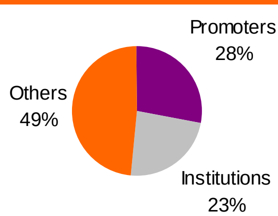
Buy; CMP: Rs144 | **June 21, 2007**

Price target revised to Rs180

COMPANY DETAILS

Price target:	Rs180
Market cap:	Rs8,736 cr
52 week high/low:	Rs164/99
NSE volume (No of shares):	13.5 lakh
BSE code:	500850
NSE code:	INDHOTEL
Sharekhan code:	INDNHOT
Free float (No of shares):	43.4 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	3.9	5.1	-2.2	39.6
Relative to Sensex	2.8	-7.8	-10.1	-6.3

The author doesn't hold any investment in any of the companies mentioned in the article.

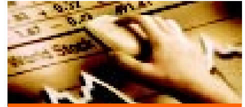
RESULT HIGHLIGHTS

- The FY2007 results of Indian Hotels Company Ltd (IHCL) are above our expectations. However, on a stand-alone basis the FY2007 results are not comparable with the results of FY2006 as the former take into account the effect of the merger of five companies into IHCL with effect from April 1, 2006.The room inventory has gone up by 400.
- The company reported a consolidated total income of Rs2,665.8 crore for FY2007 as against Rs1,914.1 crore for FY006. That implies a growth of 39%. Operating profit showed a growht of 39.5% from Rs512 crore to Rs715 crore in FY2007. IHCL posted a consolidated profit after tax (PAT) of Rs369.9 crore in FY2007 as against Rs248.7 crore in FY2006. This resulted in earnings per share (EPS) of Rs6.1.
- In FY2007 the ARR grew by 28.4% to Rs9,234 from Rs7,186 in FY2006; the OR increased from 70% in FY2006 to 73% in FY2007.

Q4FY2007 results (stand-alone)

- On a stand-alone basis, for the fourth quarter of FY2007 IHCL reported a top line growth of 42% at Rs505.2 crore against Rs355 crore in Q4FY2006. The bottom line of the company grew by a healthy 71% to Rs134.5 crore from Rs78.7 crore in Q4FY2006, resulting in earnings of Rs2.23 per share.
- We have introduced our FY2009 estimates and at the current market price of Rs144 the stock is quoting at a price/earnings ratio (PER) of 20x FY2008E consolidated EPS of Rs7.4 and 16X FY2009E consolidated EPS of Rs9.1. We maintain our Buy recommendation on the stock with a revised price target of Rs180. ■

For further details, please visit the Research section of our website, sharekhan.com



International Combustion (India)

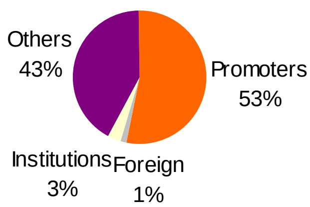
Cannonball	Buy; CMP: Rs320	June 04, 2007

Results meet expectations

COMPANY DETAILS

Price target:	Rs519
Market cap:	Rs76 cr
52 week high/low:	Rs399/202
BSE volume (No of shares):	6,210
BSE code:	505737
Sharekhan code:	INTLCOMB
Free float (No of shares):	0.1 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	19.3	10.5	-2.3	4.5
Relative to Sensex	13.5	-0.6	-7.6	-28.7

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- The revenues of International Combustion India Ltd (ICIL) grew by 15.6% year on year (yoy) to Rs24.1 crore in Q4FY2007, in line with our estimates.
- The revenues of the heavy engineering division (HED) grew by 24.8% yoy to Rs18.4 crore while that of the geared motor and geared box division (GMGBD) declined by 5.1% yoy to Rs5.9 crore. However, on a sequential basis the GMGBD's top line grew by 61.2%.
- The operating profit margin (OPM) of the company improved by 280 basis points yoy to 20.3% in Q4FY2007, in line with our estimates. The margin expansion was driven by a lower raw material cost as the raw material cost as a percentage of sales ratio declined to 51% from 56.3% yoy.
- The outstanding order book stood at Rs56 crore out of which the HED's order book stood at Rs48 crore with the GMGBD accounting for the balance Rs8 crore.
- ICIL is currently trading at a price/earnings ratio (PER) of 6.8x its FY2008E earnings and 4.2x its FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). Considering the strong order backlog and the expansion plans of its key user industries such as steel, sugar and cement, we maintain our Buy recommendation on the stock with a price target of Rs519.

For further details, please visit the Research section of our website, sharekhan.com

Madras Cement

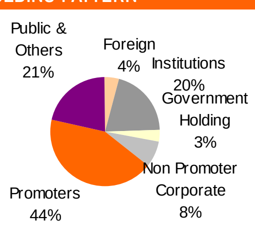
Cannonball	Buy; CMP: Rs2,746	June 04, 2007

Price target revised to Rs3,500

COMPANY DETAILS

Price target:	Rs3,500
Market cap:	Rs3,323 cr
52 week high/low:	Rs3698/1731
NSE volume (No of shares):	6,735
BSE code:	500260
NSE code:	MADRASCEM
Sharekhan code:	MADCEM
Free float (No of shares):	0.69 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

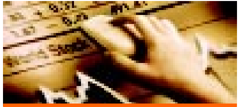
(%)	1m	3m	6m	12m
Absolute	-2.8	-0.4	-11.2	22.6
Relative to Sensex	-7.5	-10.3	-16.0	-16.4

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- Cement volumes of Madras Cement Ltd (MCL) grew at a slower rate of 10.1% in Q4FY2007 compared the previous quarters to 1.48MMT as the plant at Alathiyur witnessed a maintenance shutdown for 15 days. The realisation growth was strong at 27% year on year (yoy) to Rs2,923 per tonne which resulted in a robust top line growth of 45.1% yoy to Rs435
- The operating profit doubled yoy to Rs133 crore whereas the operating profit margin (OPM) improved by 800 basis points yoy to 30%; though on a sequential basis, the OPM dropped by 270 basis points,thanks to higher power & fuel as well as employee expenditure.
- With the tax provision growing at a marginal rate, the net profit jumped by 117% yoy to Rs71 crore.
- We are reducing our FY2008 earnings per share (EPS) estimate by 6.6% to Rs313 from Rs334 earlier as we expect the cement prices to remain firm for the next one year. We are also introducing our FY2009 estimate of Rs359.
- We expect the company to clock a 40% compounded annual growth in its earnings over FY2007-09. At the current market price of Rs2,746, the stock trades at 7.7x its FY2009 estimates and an enterprise value (EV) per tonne of USD77. Considering the positive outlook, we maintain our Buy recommendation on the stock with a reduced price target of Rs3,500 per share.

For further details, please visit the Research section of our website, sharekhan.com



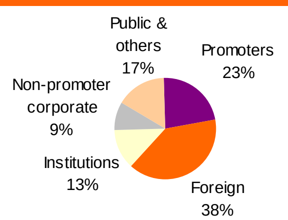
Orchid Chemicals & Pharmaceuticals

Emerging Star	Buy; CMP: Rs253	June 21, 2007

COMPANY DETAILS

Price target:	Rs390
Market cap:	Rs1,665 cr
52 week high/low:	Rs285/165
NSE volume (No of shares):	5.5 lakh
BSE code:	524372
NSE code:	ORCHIDCHEM
Sharekhan code:	ORCHID
Free float (No of shares):	5.1 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-2.2	-0.1	34.6	38.4
Relative to Sensex	-3.3	-12.5	23.6	-7.1

The author doesn't hold any investment in any of the companies mentioned in the article.

Cefepime—a huge opportunity!

RESULT HIGHLIGHTS

- Orchid Chemicals & Pharmaceuticals (Orchid) has received approval from the US Food and Drug Administration (USFDA) for its abbreviated new drug application (ANDA) for Cefepime injection.
- Cefepime injection is a life-saving Cephalosporin antibiotic drug used in hospitals. The brand product had recorded sales of $190 million in December 2006. The patent for the product has already expired.
- Since there will be only two players in the market including the innovator, Orchid will enjoy a near-exclusivity situation with this product and Apotex, through its strong marketing prowess, will be able to capture a healthy market share to the tune of 50-60%. Besides, with the entry of just one player, the market is also unlikely to get eroded beyond 20-30%.
- We believe that Cefepime injections will generate $18.3 million in revenues for six months of FY2008 (from July 2007-March 2008) and $36.6 million in revenues in FY2009. This will translate into incremental earnings of Rs2.6 per share and Rs5.3 per share in FY2008 and FY2009 respectively, on a fully diluted basis.
- At the current market price of Rs253, the stock is trading at 10.1x its estimated FY2008 earnings, on a fully diluted basis. Based on the FY2007 performance of the company, the outlook provided by the management and the recent news flow relating to the company, we are reviewing our estimates for Orchid and will come out with an update shortly. In view of the bright prospects for the company, we retain our positive stance on the stock and maintain our Buy call with a price target of Rs390.

For further details, please visit the Research section of our website, sharekhan.com

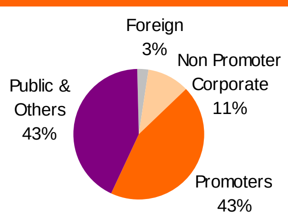
ORG Informatics

Emerging Star	Buy; CMP: Rs105	June 08, 2007

COMPANY DETAILS

Price target:	Rs184
Market cap:	Rs153 cr
52 week high/low:	Rs209/70
BSE volume (No of shares):	81398
BSE code:	517195
Sharekhan code:	SARAELE
Free float (No of shares):	0.83 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-11.9	-9.8	-39.3	-4.3
Relative to Sensex	-13.9	-20.3	-40.5	-35.1

The author doesn't hold any investment in any of the companies mentioned in the article.

Price target revised to Rs184

RESULT HIGHLIGHTS

- ORG Informatics' performance was below expectations in Q4FY2007. Its revenues grew by 17% to Rs70.4 crore, below our expectations. The revenue growth was dented partly by the slippage of some revenues to Q1FY2008.
- The operating profit margin (OPM) declined sharply to 1.3% (as against 9.5% in the nine months ended December 2006) due to the cumulative impact of the higher contribution from low-margin hardware supply part of the MTNL order, expenses related to integration and restructuring of the recently acquired entities (United Technologies and DGIT) and a one-time write-off (around Rs1.3 crore related to provision for bad debts and stock adjustments).
- However, the steep jump in the other income and the write-back of tax provisions enabled the company to post a relatively higher growth of 24.7% in its consolidated earnings to Rs5.3 crore.
- On the full year basis, the consolidated revenues and earnings grew by 97.6% to Rs306.6 crore and 113.7% to Rs17.3 crore. The OPM declined by 110 basis points to 7.6% in FY2007.
- In terms of the outlook, the management expects to maintain the growth momentum on the back of a healthy order pipeline and the expected improvement in its margins as the high-margin maintenance revenues kick in from the MTNL contract. Moreover, the company would continue to actively scout for inorganic opportunities and has got the board approval to raise up to $30 million for the same.
- We have revised downwards the earnings estimate of FY2008 by 2.6% to factor in a higher tax rate. We maintain our Buy call on the stock with a price target of Rs184.

For further details, please visit the Research section of our website, sharekhan.com

Ratnamani Metals and Tubes

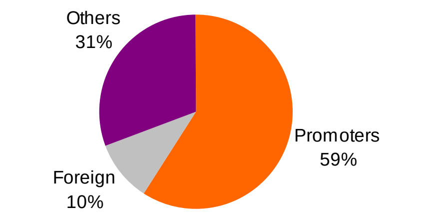
Ugly Duckling | Buy; CMP: Rs917 | June 26, 2007

Price target revised to Rs1,215

COMPANY DETAILS

Price target:	Rs1,215
Market cap:	Rs825 cr
52 week high/low:	Rs948/266
NSE volume (No of shares):	4,630
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNMET
Free float (No of shares):	0.4 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	15.8	33.6	115.3	167.9
Relative to Sensex	14.2	21.9	98.7	89.7

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- The Q4FY2007 results of Ratnamani Metals & Tubes Ltd (RMTL) are above our expectations. The company reported a strong growth of 95.3% in its revenues to Rs172.6 crore.
- The operating profit for the quarter grew by 78.3% to Rs34 crore. The margins declined by 240 basis points to 22.3% from 24.7% in Q4FY2006. The OPM declined due to a higher raw material cost as a percentage of sales. The raw material cost went up by 310 basis points to 62.9% from 59.8% in Q4FY2006. Other expenses as a percentage of sales also went up by 110 basis points to 12.4%.
- The interest expense for the quarter increased by 111.4% to Rs4.9 crore, while the depreciation cost for the quarter increased by 309.6% to Rs6.2 crore.
- The net profit grew by 39.4% to Rs17.6 crore due to a higher tax rate of 36.7% in this quarter compared with 17.8% in Q4FY2006.
- For the full year, the net sales grew by 79% to Rs571 crore and the net profit grew by 91% to Rs64.2 crore.
- The order book grew to Rs500 crore due to the increasing demand for its products from its key user industries, which are in capital expansion phase, impart a strong visibility to its earnings. At the current market price, the stock is quoting at 9.9x its FY2008E earnings and 7.1x its FY2009E earnings. In terms of enterprise value (EV)/ earnings before interest, depreciation, tax and amortisation (EBIDTA), the stock is trading at 5.5x its FY2008E EV/EBIDTA and 4.0x its FY2009E EV/EBIDTA. We maintain our Buy recommendation on the stock with a revised price target of Rs1,215.

For further details, please visit the Research section of our website, sharekhan.com

Shree Cement

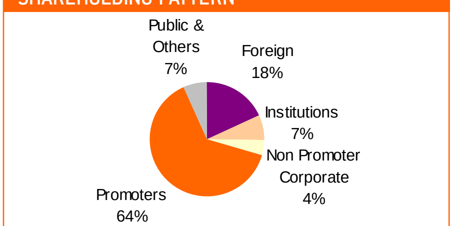
Cannonball | Buy; CMP: Rs1,187 | June 07, 2007

Price target revised to Rs1,500

COMPANY DETAILS

Price target:	Rs1,500
Market cap:	Rs4,131 cr
52 week high/low:	Rs1,590/650
NSE volume (No of shares):	22,984
BSE code:	532349
NSE code:	SHREECEM
Sharekhan code:	SHREECEM
Free float (No of shares):	1.3 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

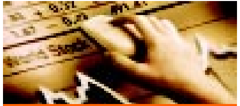
(%)	1m	3m	6m	12m
Absolute	7.6	0.3	-17.0	47.4
Relative to Sensex	5.1	-11.0	-19.2	1.6

The author doesn't hold any investment in any of the companies mentioned in the article.

RESULT HIGHLIGHTS

- Shree Cement's top line grew by a robust 68% year on year (yoy) to Rs378 crore in Q4FY2007. The growth was achieved on the back of a robust 36% growth in volumes and a 24% rise in realisations over last year.
- Consequently, the operating profit grew by 69% yoy to Rs151 crore whereas the operating profit margin (OPM) stood flat at 40% yoy,thanks to higher power & fuel and employee expenditure.
- The company claimed an additional depreciation of Rs114 crore on its new unit (the fourth one) at Ras in the fourth quarter. This resulted in an overall depreciation cost of Rs134 crore. The interest cost reduced from Rs2.3 crore in Q4FY2006 to Rs1.64 crore in the quarter.
- The net profit remained low at Rs24 crore on the back of higher depreciation.
- In view of the high volume growth and strict control measures, we expect the company's profits to grow by 22% yoy in FY2008 and by 9% in FY2009, resulting in a compounded annual growth of 15% over FY2007-09.
- At the current market price of Rs1,187, the stock is trading at 9.4x its FY2008 earnings per share (EPS) and 8.7x its FY2009 EPS. On an enterprise value (EV)/per tonne basis the stock trades at USD84. Keeping our bullish view on the stock, we maintain our Buy recommendation with a price target of Rs1,500 per share.

For further details, please visit the Research section of our website, sharekhan.com



State Bank of India

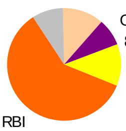
Apple Green | Buy; CMP: Rs1,525 | June 29, 2007

Price target revised to Rs1,780

COMPANY DETAILS

Price target:	Rs1,780
Market cap:	Rs80,261 cr
52 week high/low:	Rs1,531/684
NSE volume (No of shares):	13.7 lakh
BSE code:	500112
NSE code:	SBIN
Sharekhan code:	SBI
Free float (No of shares):	17.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	13.8	52.6	20.2	107.9
Relative to Sensex	12.5	34.9	14.0	43.0

The author doesn't hold any investment in any of the companies mentioned in the article.

- The Reserve Bank of India (RBI) has announced that it is going to transfer its 59.7% holding in State Bank of India (SBI) to the government for Rs35,530 crore on June 29, 2007. The current guidelines restrict SBI from diluting the promoter's stake below 55%, hence the follow-on offer would take place after the amendment to the SBI Act, most probably in December 2007.
- SBI has plans to consolidate its insurance and asset management businesses into a separate non-banking financial company (NBFC). It also plans to sell a 10% stake in the NBFC to three to four investors and intends to list the arm in FY2009. All these would be significant value drivers going forward.
- After providing for the AS-15 impact (Rs900 crore of extra provision per year from FY2008-12) our earnings estimates for FY2008 and FY2009 have reduced by 4% each. Based on the current market price of Rs1,525 the stock is currently trading at 13.9x FY2009E earnings per share (EPS), 1.9x FY2009E stand-alone book value of Rs813 and 1.4x FY2009E consolidated book value of Rs1,061. We maintain our Buy recommendation on the stock with a revised twelve-month price target of Rs1,780.

For further details, please visit the Research section of our website, sharekhan.com

Tata Motors

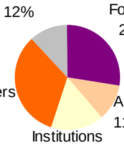
Apple Green | Buy; CMP: Rs685 | June 22, 2007

Annual report review

COMPANY DETAILS

Price target:	Rs792
Market cap:	Rs26,398 cr
52 week high/low:	Rs975/635
NSE volume (No of shares):	15.1 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Sharekhan code:	TELCO
Free float (No of shares):	21.4 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-3.3	-9.7	-19.0	-6.5
Relative to Sensex	-4.2	-19.8	-25.8	-36.3

The author doesn't hold any investment in any of the companies mentioned in the article.

We have analysed the recently released annual report of Tata Motors (TAMO) and present the highlights below.

- TAMO had a good FY2007, registering a 32.3% growth in its top line and a 37.5% growth in its bottom line. The medium and heavy commercial vehicle (M&HCV) sales volumes picked up splendidly during the year, led by a strong growth in the freight availability and the Supreme Court's ban on the overloading of trucks, while light commercial vehicle (LCV) volumes sustained their growth momentum as Ace continued to do well.
- The company continued to make progress towards improving its operational efficiencies as its turnover per employee rose to Rs73 lakh against Rs68 lakh in FY2006. The return ratios remained stable with the return on capital employed (RoCE) at 29.9% and return on net worth (RoNW) at 27.1%.
- The company maintains its optimism towards the automobile sector, considering the strong macro factors. As a strategy going forward, the company plans to focus on new product launches and has lined up a number of launches in the next couple of years.
- At the current market price of Rs685, the stock quotes at 10.4x its consolidated FY2009E earnings and at 5.2x its earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation with a price target of Rs792.

For further details, please visit the Research section of our website, sharekhan.com

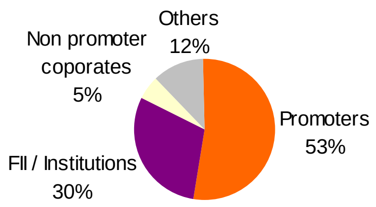
Television Eighteen India

Emerging Star | Buy; CMP: Rs813 | June 14, 2007

Company details

Price target:	Rs967
Market cap:	Rs4,598 cr
52 week high/low:	Rs975/316
NSE volume (No of shares):	1.6 lakh
BSE code:	532299
NSE code:	TV18
Sharekhan code:	TV18
Free float (No of shares):	2.7 cr

Shareholding pattern



Price performance

(%)	1m	3m	6m	12m
Absolute	11.8	45.0	-10.0	191.0
Relative to Sensex	9.9	33.8	-15.8	85.5

The author doesn't hold any investment in any of the companies mentioned in the article.

Price target revised to Rs967

Result highlights

- TV18 India (TV18) reported good results for Q4FY2007 with revenues of Rs80.4 crore (yoy growth of 50.2%)and adjusted net profit of Rs22.8 crore (yoy growth of 23.7%).However, the results are not comparable with those of Q4FY2006, as the numbers of "Awaaz" were included in the reported results from Q2FY2007 onwards.
- The OPM dropped by 1,400 basis points yoy because of the lower profitability of "*Awaaz*", which is still at a nascent stage, and the operating loss of Web-18, which is in investment mode.
- TV18 acquired a majority stake in Bigtree Entertainment, a movie and entertainment ticketing company, in Q4FY2007. It also entered into a 50:50 joint venture with the business process outsourcing (BPO) division of Infosys Technologies to provide media process outsourcing services under the brand "Source 18".
- TV-18 raised Rs200 crore to fund its organic and inorganic growth plans in the media, television and Internet space.
- At the current market price of Rs813, the stock quotes at 36.4x its FY2009E earnings per share (EPS) of Rs22.3 and 20.9x FY2009 enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on the stock with a revised price target of Rs967. ■

For further details, please visit the Research section of our website, sharekhan.com

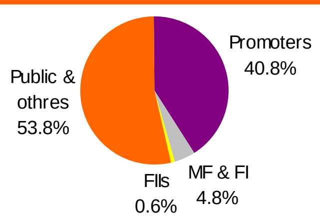
Tourism Finance Corporation of India

Cannonball | Buy; CMP: Rs20.65 | June 28, 2007

Company details

Price target:	Rs30
Market cap:	Rs139 cr
52 week high/low:	Rs24.2/8.9
NSE volume (No of shares):	4.8 lakh
BSE code:	526650
NSE code:	TFCILTD
Sharekhan code:	TFCI
Free float (No of shares):	4.0 cr

Shareholding pattern



Price performance

(%)	1m	3m	6m	12m
Absolute	13.9	42.8	76.4	81.2
Relative to Sensex	12.8	29.2	68.2	25.6

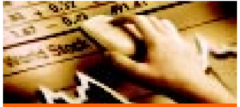
The author doesn't hold any investment in any of the companies mentioned in the article.

Q4FY2007 results: First-cut analysis

Result highlights

- For Q4FY2007 Tourism Finance Corporation of India (TFCI) has reported a 33.1% year-on-year (y-o-y) growth in its profit after tax (PAT) to Rs9.6 crore, which is ahead of our estimate of Rs8.6 crore. The quarter-on-quarter (q-o-q) PAT growth stood at 281.3% but since the earnings are back-ended (the fourth quarter earnings comprise 60-65% of the total annual earnings) the q-o-q PAT growth figure is not relevant.
- In FY2007 TFCI's PAT stood at Rs14.3 crore, up 20% year on year and ahead of our estimate of Rs13.3 crore.
- The net interest income was up by 8.2% to Rs15.4 crore for Q4FY2007 and by 1.2% to Rs28.9 crore for FY2007.
- The operating profit was up by 6.3% to Rs13.7 crore for Q4FY2007 but down 3% to Rs24.9 crore for FY2007.
- Provisions and contingencies declined by 43.4% for Q4FY2007 and by 27.5% for FY2007, reflecting the lower provisioning requirement due to lower incremental non-performing assets (NPAs). We expect TFCI's net NPAs as percentage of loans to have improved from 2.5% in FY2006 to 1.8% in FY2007.
- As per our expectations the company has resumed dividend payment and declared a 5% dividend, which gives a 2.5% dividend yield. At the current market price of Rs20.65, the stock is quoting at 5.8x its FY2009E earnings and 0.6x FY2009E book value. We maintain our Buy recommendation on the stock with the price target of Rs30. ■

For further details, please visit the Research section of our website, sharekhan.com



STOCK UPDATE

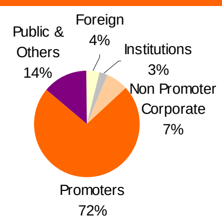
Transport Corporation of India

Cannonball | Buy; CMP: Rs88 | June 08, 2007

COMPANY DETAILS

Price target:	Rs100
Market cap:	Rs594 cr
52 week high/low:	Rs102/41
NSE volume (No of shares):	18,153
BSE code:	532349
NSE code:	TRANSPORTCO
Sharekhan code:	TCIL
Free float (No of shares):	1.8 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	31.6	37.5	-8.4	27.7
Relative to Sensex	28.6	21.5	-10.2	-13.4

The author doesn't hold any investment in any of the companies mentioned in the article.

Price target revised to Rs100

RESULT HIGHLIGHTS

- In Q4FY2007 the overall revenues of Transport Corporation of India (TCI) grew by 18.9% year on year (yoy) to Rs292.6 crore on the back of the better performance of both the XPS and the SCM division.
- The EBIT grew by 61% to Rs15.7 crore yoy whereas the margin improved by 300 basis points to 10% in the quarter, driven by the SCM division's margin of 12%.
- The interest cost doubled to Rs3.12 crore from Rs1.7 crore last year whereas the depreciation provision stood flat on a sequential basis at Rs5.45 crore but increased by 41% yoy, as the company added assets in the form of warehouses and trucks.
- On the back of a better performance at the operating level, the net profit more than doubled to Rs9.42 crore.
- As we have mentioned in our earlier update, TCI has drawn up a capital expenditure plan of Rs440 crore for the next two to three years. The funds would be utilised for buying ships, expanding the warehouses and augmenting its truck fleet. TCI is already in the process of forming a 50:50 joint venture with Scan Trans Holding, Denmark to conduct shipping business.
- The company has identified four properties covering a total area of 12.5 acre for development. The value of these properties taken together translates into Rs26 per share on diluted equity. We believe this provides significant cushion to the company's stock price.
- At the current price of Rs88 per share, the stock is trading at 14.7x its FY2009 earnings estimate. Considering the bullish outlook for the company, we are upgrading our target price to Rs100 per share. ■

For further details, please visit the Research section of our website, sharekhan.com

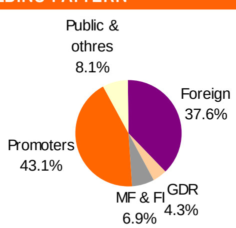
UTI Bank

Emerging Star | Buy; CMP: Rs588 | June 12, 2007

COMPANY DETAILS

Price target:	Rs638
Market cap:	Rs16,550 cr
52 week high/low:	Rs615/222
NSE volume (No of shares):	8.8 lakh
BSE code:	532215
NSE code:	UTIBANK
Sharekhan code:	UTIBANK
Free float (No of shares):	14.8 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	9.4	25.1	28.4	118.9
Relative to Sensex	7.0	14.0	21.4	50.3

The author doesn't hold any investment in any of the companies mentioned in the article.

Price target revised to Rs638

- UTI Bank is looking to raise around $1 billion through a combination of overseas equity issue and a preferential issue to the promoters. The bank plans to issue 4.24 crore-equity shares to non-promoters through global depository receipts. The stake of the present promoters is at 43.3%. The preferential offer to the promoters is for 3.19 crore equity shares, which would help the promoters to maintain their stake at 43%.
- We have introduced our FY2009 estimate and at the current market price of Rs588 the stock is quoting at 18.2x FY2009E EPS, 8.3x FY2009E pre-provision profits and 2.3x FY2009E book value (BV). We maintain our Buy recommendation on the stock with an upgraded twelve-month price target of Rs638. At the target price UTI Bank would trade at 2.5x its FY2009E BV, within its historical average one-year forward price/BV band.
- Latest reports in the media indicate that the government is not in favour of LIC owning a significant stake in two Indian banks (Corporation Bank and UTI Bank). Under such circumstances if the preferential allotment is cancelled, it could be a positive for the bank as its RoE would then be around 16.3% and our price target would then increase to Rs652. ■

For further details, please visit the Research section of our website, sharekhan.com

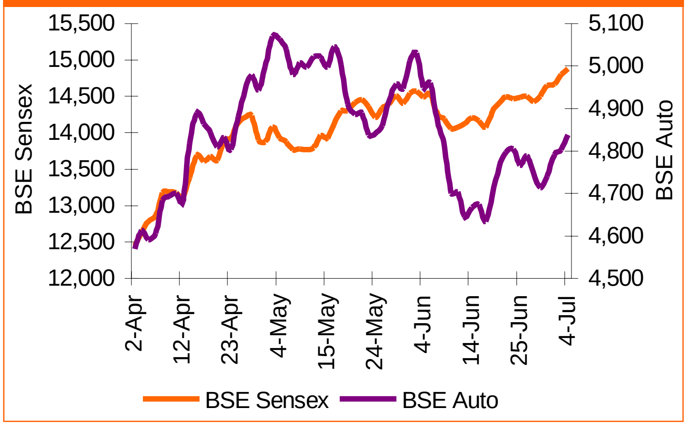
Q1FY2008 Auto earnings preview

The first quarter of the current fiscal has started on a weak note for the automobile industry, as the sales volumes were affected by the rising interest rates, tightening of liquidity by the financiers and the seasonal effect of the monsoon. The two-wheeler segment was the worst affected as the sales in the 100cc segment were hit by price wars that led to stringent checks and lower loan sanctions by financiers. The commercial vehicle (CV) sales too slowed down during the quarter due to lower availability of finance as well as freight (the latter due to the monsoon). The surprise in the pack was the passenger car segment, which saw a good growth led by a number of new launches in the recent times.

The automobile sector has underperformed the Sensex since April 2007 (as can be seen from the chart). This underperformance is likely to continue in the second quarter as well and a revival is expected from September-October onwards.

Among the heavyweights, Bajaj Auto Ltd's (BAL) sales volumes declined by 11.9%, whereas Hero Honda Motors (Hero Honda) reported a decline of 3.6% in its sales for the first quarter. Maruti Udyog Ltd's (MUL) car sales grew by a strong 17.1%; the overall sales of Mahindra & Mahindra (M&M) were up by 21.9% and Tata Motors' sales grew by a mere 1%.

AUTO INDEX VS SENSEX PERFORMANCE DURING LAST QUARTER



The operating profit margins (OPMs) are expected to remain under pressure for the whole sector considering the high raw material prices and increasing competition (particularly in the two-wheeler segment). **We expect MUL, Ceat, Apollo Tyres and Ahmednagar Forgings to be among the lead performers in the sector in Q1FY2008.**

QUARTERLY ESTIMATES

(Rs crore)	Net sales			Profit after tax		
	Q1FY08E	Q1FY07	% change	Q1FY08E	Q1FY07	% change
Bajaj Auto	1,987.5	2,202.7	-9.8	241.2	277.6	-13.1
Maruti Udyog	3,817.6	3,114.0	22.6	374.8	338.0	10.9
Mahindra & Mahindra	2,548.5	2,236.3	14.0	203.7	205.7	-0.9
Tata Motors	5,791.2	5,819.0	-0.5	326.9	417.5	-21.7
Ashok Leyland	1,598.3	1,423.9	12.3	71.4	75.6	-5.6
Omax Auto	150.5	160.3	-6.1	1.6	5.7	-71.9
Sundaram Clayton	214.2	189.9	12.8	19.5	18.0	8.6
Subros	159.7	141.6	12.8	5.4	5.9	-10.0
Ahmednagar Forgings*	172.5	98.7	74.8	18.7	10.3	82.5
SKF India**	364.2	327.9	11.1	28.6	25.3	13.0
Federal-Mogul Goetze**	126.4	114.5	10.3	3.1	-3.4	NA
Ceat	537.5	497.7	8.0	22.5	0.2	9,685.4
Apollo Tyres	830.8	757.3	9.7	38.1	16.3	134.1
Auto universe	**18,298.8**	**17,083.6**	**7.1**	**1,353.9**	**1,392.6**	**-2.8**

*June ending **December ending

For further details, please visit the Research section of our website, sharekhan.com

The author doesn't hold any investment in any of the companies mentioned in the article.

SHAREKHAN SPECIAL JULY 05, 2007

Q1FY2008 Banking earnings preview

We expect the first quarter numbers from the banking industry to be mixed as the net interest margins (NIMs) and provisions are expected to vary across banks. With liquidity not being a concern for the major part of this quarter, we expect most of the banks had a sound operational quarter.

The NIM is expected to vary across banks mainly due to the impact of the deposit costs. The across-the-board prime lending rate (PLR) hikes would definitely show up as an improvement in the asset yields for all banks but the differentiator would be the higher increase in the cost of funds for certain banks who raised large-scale high cost bulk deposits during Q4FY2007.

For most banks the non-interest income component is expected to show a steady year-on-year (y-o-y) growth but a sequential decline, as the non-interest income is normally higher in the fourth quarter compared with the other quarters.

Although benchmark yields have not moved up significantly from March 2007 levels, yet provisions are expected to vary across the board for public sector banks, as some of them shifted securities from the "available for sale" (AFS) category to the "held to maturity" (HTM) category. This would result in a one-time hit during the quarter. The expected increase in the loan loss provisions would also keep the provision figure high.

The latest credit and deposit growth rates at 25.6% (31% in FY2007) and 23.4% respectively show that the gap in advances and deposits has reduced significantly. This would put less pressure on the deposit rates (especially on bulk deposits, some banks have reduced the bulk deposit rates by 200 basis points to 10% levels from the 12% levels offered during March 2007). With inflation having moderated to 4% levels and less pressure on deposit rates, we feel that interest rates are likely to remain stable in the medium term, thereby providing a good operational environment for banks going forward. Our top picks in the private bank space remain HDFC Bank and UTI Bank while in the public sector we like State Bank of India and Bank of Baroda.

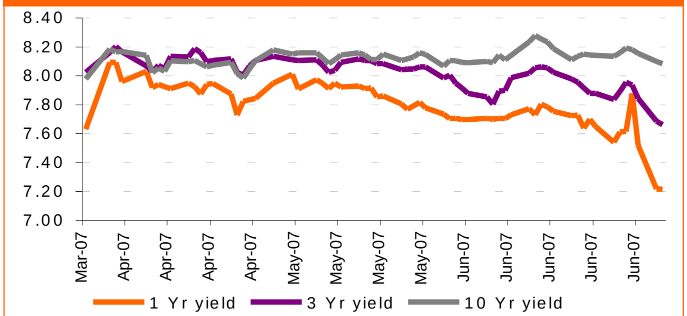
Incremental credit/deposit ratio on a steady decline

With most banks having run out of excess statutory liquidity ratio (SLR) holdings, the gap in credit and deposit growth is slowly going to close, as we are witnessing currently. The incremental credit/deposit (CD) ratio has steadily declined from 120% levels to 75% at present. We expect banks to be net buyers of investments in FY2008 and if there is a an SLR cut in the second half of the current fiscal, then it would be a significant earnings driver for the banking sector as incremental advances yields are higher by 2-3% compared to investment yields. Our estimates suggest that a 2% cut in the SLR would improve the earnings by 2.3% and improve the valuations by 5%.

Benchmark yields have not increased significantly from the March 2007 levels

The benchmark yields of the shorter and medium ends of the yield curve (one-year and three-year) have declined while the 10-year yield has not moved up significantly from the March 2007 levels. Hence the marked-to-market provisions are expected to remain low. However provisions are expected to vary across the board for public sector banks as some of them shifted securities from the AFS category to HTM category which would result in a one-time hit during the quarter.

BENCHMARK YIELDS FOR 1 YEAR, 3 YEAR AND 10 YEAR



Source: Bloomberg

The banking stocks had a phenomenal run in the last three months

Led by the largest bank State Bank of India, which gained 73%, the banking sector witnessed robust gains across the board. Easing interest rate concerns, improved liquidity conditions coupled with a positive macro and policy environment provided the best ground for the banking stocks to record robust gains.

QUARTERLY ESTIMATES (RS CRORE)

Banks	NII Q1FY08E	(%) yoy chg	(%) qoq chg	PPP Q1FY08E	(%) yoy chg	(%) qoq chg	PAT Q1FY08E	(%) yoy chg	(%) qoq chg
ICICI Bank	1854.2	25.7	1.6	1635.6	32.9	-21.7	704.0	13.6	-18.2
HDFC Bank	2121.0	41.0	8.5	855.8	39.0	8.3	313.5	31.0	-8.8
UTI Bank	471.7	46.6	1.6	374.7	22.0	-11.3	188.1	56.1	-11.2
Total - Private	**4446.9**	**34.7**	**4.8**	**2866.1**	**33.1**	**-13.2**	**1205.7**	**23.1**	**-14.9**
SBI	4767.6	22.7	8.2	3292.9	16.1	-8.5	1147.4	43.7	-23.2
PNB	1327.3	2.7	-2.9	868.3	-1.0	-17.0	401.5	9.2	68.9
BOB	1091.5	34.3	3.7	751.8	35.3	8.6	292.1	78.8	18.9
Total - Public	**7186.4**	**20.0**	**5.3**	**4913.0**	**15.1**	**-7.9**	**1841.0**	**38.5**	**-6.9**
Total	**11633.3**	**25.2**	**5.1**	**7779.1**	**21.1**	**-9.9**	**3046.7**	**32.0**	**-10.2**

Q1FY2008 Cement earnings preview

- The growth in cement volumes is expected to have been subdued in Q1FY2008 with capacity utilisations touching 100% and no major capacity having come up in the period. Amongst the front-line stocks, ACC is expected to report a volume growth of 14% year on year (yoy) and of 9% quarter on quarter (qoq) for Q1FY2008, thanks to the incremental volumes from the addition of 0.9 million metric tonne (MMT) capacity at its Lakheri unit. Grasim Industries is expected to report an 8.2% growth yoy for the quarter. Amongst our mid-cap companies, Shree Cement is likely to report a huge volume growth of 23% on account of its capacity expansion at Ras. We expect the Sharekhan cement universe to report a combined volume growth of 7.1%.
- Cement prices across the country remained more or less stable throughout the quarter under review except in the south. In the south, Andhra Pradesh witnessed a hike of Rs5-9 per bag in the first week of June whereas Tamil Nadu saw price hikes of Rs6-7 per bag in May and of Rs7-8 per bag in June. Thus except for the south-based companies, the cement realisation of the cement industry is expected to be more or less flat on a sequential basis for Q1FY2008.
- Amongst our front-line cement stocks, we expect ACC to report a top line growth of 24% yoy to Rs1,820 crore on the back of a higher volume growth. We expect Grasim Industries to report a top line growth of 28.6% to Rs2,414 crore backed by firm viscose staple fibre (VSF) prices. We expect Shree Cement to report a top line growth of 34% yoy to Rs413 crore.
- On the earnings front, we expect our cement universe to clock a growth of 39% yoy backed by an 85% growth in Orient Paper and Industries and a 48% growth in Grasim Industries on account of higher cement realisations and firm VSF prices. On account of the merger of Visaka Cement and India Cements, we expect India Cements' profit to touch Rs200 crore.
- Contrary to the industry's expectations, the cement price freeze will no longer be applicable as clarified by the finance minister recently. We thus expect the demand-supply economics to govern the cement pricing and any cost increase to be passed on to the consumer, as witnessed in Andhra Pradesh recently. We have already seen that prices have increased by Rs3-5 per bag across the country in first week of July. Prices in Andhra Pradesh and Tamil Nadu have already risen by Rs5-15 per bag. With the industry utilisation levels reaching 100%, we believe the higher realisations augur well for the cement players, as the same would result in better than expected profitability even though the volume growth will remain subdued going ahead. We rate Grasim Industries and Jaiprakash Associates as our top picks in the sector as their non-cement businesses are expected to do extremely well going ahead. Amongst our mid-cap universe, we like Orient Paper and Industries, as it trades at a cheap valuation of USD23 on its expanded capacity.

QUARTERLY ESTIMATES

(Rs crore)	Net sales			Profit after tax		
	Q1FY08E	Q1FY07	% change	Q1FY08E	Q1FY07	% change
Shree Cement	422.7	309.4	36.6	113.9	90.4	26
JK Cement	323.5	279.5	15.7	46.9	33.0	42
ACC	1820.1	1462.0	24.0	368.9	259.1	42
UltraTech	1335.3	1180.3	13.1	233.0	210.8	11
India Cements*	705.6	485.2	45.4	199.4	112.7	77
Madras Cement	446.0	340.9	30.8	93.6	78.9	19
Grasim	2450.1	1877.0	30.5	462.3	311.9	48
Orient Paper	147.7	141.6	4.3	48.2	26.0	85

*We have assumed merger of Visaka Cement, consequently the numbers are not comparable.

For further details, please visit the Research section of our website, sharekhan.com

The author doesn't hold any investment in any of the companies mentioned in the article.

Q1FY2008 IT earnings preview

It couldn't have been worse for the information technology (IT) service companies. During the first quarter, the margins of the front-line IT companies are generally dented by the cumulative impact of the incremental cost of visa charges (the visa window opens only during Q1 every year), the inflow of fresh engineers (they are put under training and are non-billable) and the annual salary hikes. (The annual salary hikes are fully reflected in Q1 in case of Infosys Technologies [Infosys] and Tata Consultancy Services [TCS]; the other front-line IT companies provide for the same in either Q2 or spread it out over a number of quarters.) In addition to all this, the steep appreciation in the rupee against all major currencies in Q1 added to the pressure on the margins.

Rupee ripples

The average exchange rate of Rs41.2 against the dollar is much higher than the rate of Rs42.3-43.1 assumed by most domestic IT companies (Infosys: Rs43.1; Satyam Computer Services [Satyam]: Rs42.3) for Q1 and FY2008. In fact, unlike the previous quarter when it was gaining only against the dollar, the rupee also appreciated against all the other major currencies ie. around 5.9% against the basket of three major currencies.

In terms of hedging against foreign exchange (forex) fluctuations, HCL Technologies (HCLT) was most aggressive on this front whereas Wipro's relatively lower forex cover is likely to have exposed it to the vagaries of the forex fluctuations.

Decline in earnings

Given the seasonal cost pressures in Q1 and the adverse impact of the steep appreciation in the rupee, the cumulative earnings of the five front-line companies are estimated to show over a 10% sequential decline for the first quarter. In terms of margins, Infosys and TCS would be worst hi due to the annual salary hikes effective from the first quarter itself. The average wage hike of around 14-15% for the offshore employees and of 3-5% for the onsite staff would translate into an adverse impact of 250-350 basis points on the OPM. This is in addition to the 200-basis-point pressure from the rupee appreciation and around 50-100-basis-point impact of the other seasonal factors.

Guidance, key influencing factor

The street expectations are factoring in three key assumptions related to the growth guidance to be announced along with the first quarter results.

- First, given the change in the assumption for the exchange rate (an appreciation of around 6% as compared with the rate of Rs43.1 assumed by Infosys in April), Infosy is expected to cut the earnings growth guidance by 3-4% in rupee terms.
- Second, the growth guidance in dollar terms is likely to get revised upwards by Infosys and Satyam on the back of the strong demand environment.

Q2 guidance is critical

The FY2008 earnings estimates have been toned down by most of the analysts to factor in the appreciation of the rupee. However, even the revised consensus earnings estimates (after factoring in the muted Q1 performance) imply a healthy double-digit sequential growth in earnings over the next three quarters. Thus, the performance in Q2 needs to be exceptionally robust, especially since it is one of the best quarters historically, to comfortably meet the revised street expectations. More so since it could potentially trigger another round of downgrade in the earnings estimates of the IT companies.

Valuation

In the past couple of months, the tech stocks have grossly underperformed the overall markets and most of the negatives seemed to have been factored in their current valuations. For instance, Infosys trades at lower than 20x FY2009E earnings which is close to the lower end of its price/earnings band and much below its mean valuation of around 24x its one-year forward earnings. Thus, there seems to be limited downside risk from the current levels. Moreover, any knee-jerk negative reaction to the quarterly results could be an attractive opportunity to accumulate the front-line IT stocks.

QUARTERLY ESTIMATES

	Net sales			Net profit			EPS	OPM
(Rs crore)	Q1FY08	% qoq	% yoy	Q1FY08	% qoq	% yoy	(Rs)	(%)
Infosys Tech	3855.0	2.2	27.9	929.9	-8.8	17.1	16.0	27.8
Guidance	*3896-3913*						*17.84*	
Satyam Computer	1783.4	0.2	23.6	356.0	-9.6	0.5	5.4	22.2
Guidance	*1801-1810*						*6.93-5.98*	
HCL Tech#	1610.5	2.1	28.4	304.7	-8.3	30.8	4.6	21.7
Wipro (cons)	4214.1	-2.8	34.6	751.0	-12.8	22.3	5.2	18.7
Wipro (global IT)	2967.4	-2.2	21.1					
Guidance (global IT)	*$711 mn*							
TCS	5193.8	0.9	25.3	1052.0	-10.3	22.0	10.8	24.1

Please note HCL Tech is a June-ending company.

We have adjusted the previous quarter's earnings for any one-time (non-recurring) items.

MUTUAL GAINS **June 13, 2007**

Sharekhan's top equity fund picks

The market continued its upward march in May 2007. The BSE Sensex and the Nifty advanced by an appreciable 4.8% and 5.1% respectively. Further, the country's leading stock exchange, the Bombay Stock Exchange, achieved an important milestone. The market capitalisation of all the companies listed on the bourse crossed the "one trillion dollar" mark on May 28. The question is: What is filling the market with so much buoyancy even when it is fairly priced at the current levels?

Three things: easing of some concerns, flow of certain positive data and most importantly, strong liquidity. Inflation has been one of the key concerns of the market in recent times, as it has compelled the central bank to tighten its fiscal policy, resulting in higher interest rates and a stronger rupee. Well, the good news is that inflation has finally eased. After spending nearly four months at its high perch of above 6%, the Wholesale Price Index has dramatically climbed down to 4.85% for the week ended May 26. That's the lowest since the week ended July 29 last year and has been achieved in just about a month's time. With the easing of inflation the pressure on interest rates is also expected to ease.

Another source of worry in recent times has been the rupee. The local currency has gained 8% so far in the current year and 14% since August 2006 due to strong foreign fund inflows and the Reserve Bank of India's (RBI) reluctance to support the rupee, as the central bank is concerned that the money supply growth would add to inflationary pressures. But now that inflation has moderated, the probability of the RBI's intervention in the foreign exchange market to support the rupee has increased. In fact, according to media reports, the central bank has already made a beginning by purchasing $500 million from the foreign exchange market on May 28.

That brings us to the factor that is most responsible for the market's steady rise despite having reached its fair value and that is liquidity. Liquidity is in abundance, both locally and globally. Liquidity has swelled globally in the past few years owing to lenient monetary policies of central banks, the emergence of financial instruments like derivatives, and the growth of hedge funds and private equity firms. Investors have been pumping money into India from around the globe in the hope of superior returns. Foreign institutional investors have invested $4.0 billion in Indian equities so far in CY2007 vs $8.8 in CY2006.

No doubt it is India's brilliant performance that is attracting foreign funds by planeloads. The country's economy seems to be on a real high as indicated by the strong economic data released last month. Industrial production grew by 12.9% during March 2007 as against 8.9% in the corresponding period last year. The quick estimates of the Central Statistical Organisation peg the industry growth rate for the entire fiscal at 11.3%. The GDP, the key indicator of the economy's health, grew by a good 9.1% in the March quarter, taking the growth for the full fiscal to a strong 9.4%, higher than the government's estimate of 9.2% and the highest in almost two decades!

Some positive data also flowed from the USA last month, allaying fears that the world's largest economy may be headed for recession. For instance, business activity has rebounded, the jobless rate is almost the lowest in six years and stock markets are on a roll in the world's largest economy. Although inflation at 2% remains in the upper band of the Federal Reserve's (Fed) comfort zone, the Fed chief expects inflation to "moderate gradually over time". The Fed thus appears in no hurry to cut interest rates and the same is reflected in the Fed futures rate chart, which shows a horizontal straight line. The Fed kept the key rate unchanged at its May 9 meeting and its next meeting on June 27-28 is also not expected to yield a rate cut.

However there are some concerns that might spook the market going forward. For one, a host of public offerings-including those of DLF and ICICI Bank-is expected to hit the market in June which is likely to divert a large amount of funds to the primary market. Sample this: DLF and ICICI Bank are together looking to mobilise some Rs25,000-30,000 crore! Besides, the market's valuation at 16.5x forward earnings is close to the level at which it has corrected in the past few instances.

Crude could also pose a threat. Continuing its upward march it touched a high of $70 last month and is expected to hover at these elevated levels in the near term, as it is the peak driving season in the USA and the demand for gasoline would remain high. Also, the hurricane season has begun in the USA and more hurricane storms have been forecast for this year. If crude sustains at such higher levels, the Indian government may be forced to hike the prices of petroleum and petroleum products, which might stoke inflation again.

Most importantly, even though interest rates are expected to peak soon, they have taken their toll on Indian companies in the past few months by slowing down demand and automobiles are expected to be the hardest hit. This coupled with a possible slowdown in export demand and exchange rate impact is likely to take its toll on the earnings of the corporate sector, at least in the first half of FY2008. As earnings growth picks up in the second half, we expect the market sentiment to revive.

We have identified the best equity-oriented schemes available in the market today based on the following parameters: the past performance as indicated by the returns, the Sharpe ratio and Fama (net selectivity).

We have identified the best equity-oriented schemes available in the market today based on the following 3 parameters: the past performance as indicated by the one and two year returns, the Sharpe ratio and Fama (net selectivity).

The past performance is measured by the one and two year returns generated by the scheme. Sharpe indicates risk-adjusted returns, giving the returns earned in excess of the risk-free rate for each unit of the risk taken. The Sharpe ratio is also indicative of the consistency of the returns as it takes into account the volatility in the returns as measured by the standard deviation.

FAMA measures the returns generated through selectivity, ie the returns generated because of the fund manager's ability to pick the right stocks. A higher value of net selectivity is always preferred as it reflects the stock picking ability of the fund manager.

We have selected the top 10 schemes upon ranking on each of the above 4 parameters and then calculated the mean value of each of the 4 parameters for the top 10 schemes. Thereafter, we have calculated the percentage underperformance or over performance of each scheme (relative performance) in each of the 4 parameters vis a vis their respective mean values.

For our final selection of schemes, we have generated a total score for each scheme giving 30% weightage each to the relative performance as indicated by the one and two year returns, 30% weightage to the relative performance as indicated by the Sharpe ratio and the remaining 10% to the relative performance as indicated by the FAMA of the scheme.

All the returns stated below, for less than one year are absolute and for more than one year the returns are annualised.

We present our recommendations in the equity-oriented mutual fund category.

AGGRESSIVE FUNDS

MID-CAP CATEGORY

Scheme Name	NAV	Returns as on May 31, 07(%)		
		3 Months	1 Year	2 Years
Reliance Growth	294.38	12.91	33.48	49.08
Birla Mid Cap	71.82	16.74	34.82	44.58
ICICI Prudential Emerging STAR	30.71	11.88	31.80	50.99
SBI Magnum Midcap	23.63	10.42	30.41	48.54
Kotak Midcap	22.04	14.15	24.15	41.40
Indices				
BSE Midcap		12.96	23.16	38.09

OPPORTUNITIES CATEGORY

Scheme Name	NAV	Returns as on May 31, 07(%)		
		3 Months	1 Year	2 Years
ICICI Prudential Dynamic Plan	69.97	11.24	38.75	56.19
ABN AMRO Opportunities	23.81	21.01	45.15	52.67
Fidelity Equity	23.48	16.16	44.28	51.12
HSBC India Opportunities	30.50	14.77	35.18	50.55
Franklin India Opportunity	27.83	16.37	40.60	51.52
DSP ML Opportunities	59.28	13.65	34.36	48.50
Reliance Equity Opportunities	22.74	11.06	33.81	48.91
Franklin India Flexi Cap	22.25	13.38	31.56	48.12
Indices				
BSE Sensex	14544.46	12.42	39.87	47.17

EQUITY DIVERSIFIED/CONSERVATIVE FUNDS

Scheme Name	NAV	Returns as on May 31, 07(%)		
		3 Months	1 Year	2 Years
Birla SunLife Frontline Equity	55.67	16.54	49.33	49.98
DSP ML Top 100 Equity	63.88	17.09	45.36	52.28
HDFC Equity	161.28	14.20	39.96	50.16
Franklin India Prima Plus	151.53	14.26	47.47	51.12
ICICI Prudential Power	89.20	14.86	37.51	52.51
HDFC Top 200	119.10	15.33	36.37	47.24
Sundaram BNP Paribas Select Focus	63.20	11.45	32.64	51.02
SBI Magnum Multiplier Plus 93	56.39	11.42	32.25	54.45
ICICI Prudential Growth Plan	99.80	13.89	33.74	47.62
Birla SunLife Equity	202.36	18.65	46.53	49.64
Indices				
BSE Sensex	14544.46	12.42	39.87	47.17

THEMATIC/EMERGING TREND FUNDS

Scheme Name	NAV	Returns as on May 31, 07(%)		
		3 Months	1 Year	2 Years
DSP ML India Tiger	36.68	16.67	45.00	58.95
SBI Magnum Sector Umbrella - Contra	41.43	16.08	35.44	55.38
Tata Infrastructure	25.74	16.68	34.84	51.44
Tata Equity P/E	29.68	23.82	41.71	42.61
Templeton India Growth	73.63	18.18	35.92	41.20
Indices				
BSE Sensex	14544.46	12.42	39.87	47.17

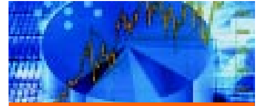
BALANCED FUNDS

Scheme Name	NAV	Returns as on May 31, 07(%)		
		3 Months	1 Year	2 Years
HDFC Prudence	120.89	8.43	33.88	37.27
DSP ML Balanced	42.51	14.87	33.04	36.93
Birla SunLife 95	199.50	15.12	32.73	36.46
FT India Balanced	35.23	10.55	31.47	34.21
Tata Balanced	54.42	13.06	29.05	33.29
Indices				
Crisil Balanced Fund Index	2577.86	9.95	25.29	26.96

TAX PLANNING FUNDS

Scheme Name	NAV	Returns as on May 31, 07(%)		
		3 Months	1 Year	2 Years
PRINCIPAL Tax Savings	86.09	16.28	37.32	50.45
SBI Magnum Tax Gain Scheme 93	46.57	8.60	37.81	48.25
Birla SunLife Tax Relief 96	101.92	16.77	38.27	47.47
HDFC Taxsaver	153.77	13.79	27.00	42.35
Indices				
BSE Sensex	14544.46	12.42	39.87	47.17

Every individual has a different investment requirement, which depends on his financial goals and risk-taking capacities. We at Sharekhan first understand the individual's investment objectives and risk-taking capacity, and then recommend a suitable portfolio. So, we suggest that you get in touch with our Mutual Fund Advisor before investing in the best funds.



AUTOMOBILES — JUNE 11, 2007

Thrown out of gear for a while

The automobile sector has been on a dream run since 2004. While all the other macro factors remain intact, the rising interest rates and liquidity crunch are severely affecting the sector's growth, forcing it to take a breather.

In the past few months, the sector has faced the wrath of financiers, as many banks and financiers have reduced their exposure towards the sector on account of the tightening liquidity, hikes in the cash reserve ratio and increased provisioning. Further, higher interest rates have also led to some deferment in purchases. We expect the H1FY2008 performance of the sector to be dented by this slowdown. However, we expect an improvement in the second half of the fiscal, considering that the interest rates would have peaked out and the festive season would have set in by then.

Considering this we are downgrading our estimates for all the stocks under our coverage. At the current prices, most of the stocks are trading at a discount to the valuations of the Sensex. We expect stocks from this sector to continue to trade at a discount to the index in the medium term and hence continue to underperform the market. However, considering the long-term potential of individual stocks, we maintain our Buy recommendation on the stocks, save for Bajaj Auto, which is being downgraded to a Hold. Our preferred bets are Maruti Udyog, and Mahindra and Mahindra.

VALUATION TABLE

	FY2008 numbers		Downgrade	PE (x)		Target
	Old EPS	New EPS	(%)	FY2008	FY2009	(Rs)
Bajaj Auto	130.6	116.8	11.8	18.1	16.4	2271.0
Maruti Udyog	60.1	59.2	1.4	12.4	10.4	921.0
M&M*	73.1	71.3	2.5	10.1	8.7	913.0
Tata Motors*	63.5	60.8	4.4	10.8	9.9	792.0
Ashok Leyland	3.6	3.4	5.9	10.6	8.6	42.0

*Consolidated

CEMENT — JUNE 27, 2007

Impact of hike in coal royalty

Last week the government increased the royalty on the coal produced and consumed domestically. The royalty, which is charged at a specific rate, will now be charged at an ad-valorem rate of 14%. This will affect the coal consuming industries like power, cement and steel. We have assessed the implications of the same for the cement industry.

For a typical cement company, its coal cost accounts for 15-20% of its total cost. Cement companies consume non-coking coal as a fuel for heating their kiln and also for their thermal captive power plants. The southern companies source coal from Singareni Collieries whereas the northern counterparts source it from Coal India. The rate varies depending on the grade of the coal used by the companies.

Assuming that a company consumes 150-200kg of coal per tonne of cement and depends fully on domestic coal to meet its requirements, the cost per bag of cement will go up by Rs2-3, depending on the grade of the coal used. We believe that the companies will easily be able to pass on the price hike to the consumers, considering the tight demand-supply situation in the country coupled with the clarification given by the finance minister that the government will not exercise any control on the prices of cement going forward. Singareni Collieries, which supplies coal to all south-based companies, has hiked the royalty by Rs300 per tonne and we understand that in Andhra Pradesh the cement prices have already been hiked by Rs7 per bag w.e.f June 19, 2007.

For our south-based companies India Cements and Madras Cement, the cost rise would be marginal as 50-60% of their coal requirements is imported which insulates them from fluctuations in the domestic prices of coal. India Cements believes that the hike will result in a marginal cost increase of Rs1 per bag. Amongst the north-based companies, Shree Cement would not be affected as it uses petcoke as a fuel. The impact on JK Cement too would be marginal as its domestic coal consumption stands at a low 10-15%.

Thus we believe that the impact of the hike in the royalty on coal will be nil on cement companies, as they would be able to comfortably pass on the increase in their royalty cost to the consumers, as being witnessed in Andhra Pradesh.

For further details, please visit the Research section of our website, sharekhan.com

The author doesn't hold any investment in any of the companies mentioned in the article.

Lakshmi Machine Works

Viewpoint | CMP: Rs2,742 | June 15, 2007

Growing at a rapid pace

Lakshmi Machine Works (LMW) is a leading textile machinery manufacturer in India with presence in machine tools and foundry businesses. The company is a major player in the textile machinery space and commands a market share of 50%. In FY07 89% of revenue can from textile machineries.

Textile machinery division

In this division, LMW manufactures the entire range of yarn production machinery. In FY2007, company produced about 2.3 million spindles and expects to produce 3.5 million spindles in FY2008. The textile machinery manufacturing division has recorded a CAGR of 40% over the last two years and expects to grow at 40% in current year. Current order book is Rs5,350 crore which is to be executed over the next two years.

Machine tools and foundry divisions

LMW's machine tools division makes CNC lathes and machining centres for the auto and auto ancillary industries. The company claims 14% domestic market share. The demand for CNC machines is growing at a rapid pace with India developing as a major automotive manufacturing hub and auto sales expected to jump from $34 billion in 2006 to $145 billion in 2016. The division currently contributes about 7% of the total revenue of the company and is growing at a CAGR of 13%. The foundry division of the company supplies intricate and high quality castings in the domestic as well as international markets.

Spare parts business

The company till recently was concentrating on the new machinery spares but sensing the huge demand for spare parts in respect to old machinery, it has set up a spares hub and also acquired a sick company called Jeetsex. In FY2007, spare parts contributed around Rs100 crore to the revenues.

Financials

The company has posted impressive revenue growth of 42% to Rs1,853.58 crore. The operating profit margin stood at 15.6% increase of ten basis points over FY2006. The net profit grew by 42.4% to Rs206.2 crore.

Outlook

It expects to grow at 40%+ for the current financial year and aims to retain a market share of 50-60% in textile machinery division. It hopes to produce 3.5 million spindles in 2007-08 vs 2.3 million spindles in 2006-07.

It is looking for opportunities to grow using both organic and inorganic routes. The machine tool and foundry businesses is expected to grow at 30%. ■

For further details, please visit the Research section of our website, sharekhan.com

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SREI Infrastructure Finance

Viewpoint | CMP: Rs86 | June 01, 2007

SREI, BNP Paribas arm in 50:50 JV

SREI Infrastructure Finance (SREI) and BNP Paribas Lease Group (BPLG), the leasing arm of BNP Paribas, have reached an agreement regarding a strategic partnership in equipment finance in India. The joint venture (JV) would be mutually beneficial, as both the partners will bring in their respective expertise and know-how. The SREI brand, local reach and specialised equipment financing skills is what SREI brings to the table while BPLG is expected to share its international expertise and global brand strength, which should also help in raising resources at lower rates.

Steps leading to the formation of the JV

1. Through a slump sale procedure in the High Court, SREI will transfer assets (of its asset finance and insurance broking businesses) worth Rs4,500 crore and corresponding liabilities around Rs4,125 crore to the new JV (the contribution received by the parent company would work out to Rs375 crore). SREI would also infuse capital of Rs25 crore.
2. BPLG will bring in fresh funds of Rs775 crore for its 50% stake in the JV; if we assume Rs25 crore to be the capital contribution, the premium paid by BPLG would be Rs750 crore.
3. After the transfer of the asset finance and insurance broking businesses, SREI will be left with the project finance, advisory service and venture capital businesses as well as its investments in the Russian subsidiary and QUIPO, the infrastructure equipment bank.
4. The net worth of SREI would remain at Rs500 crore and that of the new JV would be Rs800 crore which will help both the businesses to grow separately.
5. Assuming an 8-10x leverage, the combined asset book could increase to Rs12,000-14,000 crore from Rs5,000 crore at present.
6. Management control would remain with SREI.

Conclusion

We feel the deal has been structured well as it addresses the key issue of growth without diluting the equity. It has also been successful in unlocking value for shareholders. The stock has been locked up in the upper circuit for the past two trading sessions after the news hit the markets. ■

For further details, please visit the Research section of our website, sharekhan.com

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SHAREKHAN EARNINGS GUIDE

Prices as on July 02, 2007

Company	Price (Rs)	Sales			Net Profit			EPS			(%) EPS Growth	PE (x)			ROCE (%)		RONW (%)		DPS	Div Yield
		FY06	FY07	FY08E	FY06	FY07	FY08E	FY06	FY07	FY08E	FY08/FY06	FY06	FY07	FY08E	FY06	FY07	FY06	FY07	(Rs)	(%)
Evergreen																				
HDFC Bank	1,146.1	3,670.3	5,225.8	7,183.9	871.2	1,141.9	1,502.9	27.8	35.8	41.6	22%	41.2	32.0	27.5	-	-	17.7	19.3	7.0	0.6
Infosys Tech	1,942.7	9,521.0	13,893.0	17,659.8	2,458.0	3,726.0	4,706.9	44.6	66.9	81.8	35%	43.6	29.0	23.7	39.7	43.8	35.3	40.0	21.0	1.1
Reliance Ind	1,684.5	81,211.0	105,701.0	91,354.0	9,069.0	10,386.0	10,499.9	65.0	74.4	75.2	8%	25.9	22.6	22.4	20.1	25.1	20.1	19.4	10.0	0.6
TCS	1,134.6	13,245.0	18,633.0	24,003.0	2,911.0	4,132.0	5,157.0	29.7	42.2	52.7	33%	38.2	26.9	21.5	40.1	39.5	49.4	45.2	7.5	0.7
Apple Green																				
ACC	936.2	3,160.2	5,803.5	6,654.7	310.5	1,060.8	1,341.0	16.8	56.2	71.4	106%	55.7	16.7	13.1	12.0	35.0	14.5	33.8	15.0	1.6
Aditya Birla Nuvo	1,367.9	4,830.3	8,258.0	10,782.4	204.9	281.2	501.0	21.9	32.0	53.7	57%	62.5	42.7	25.5	7.8	7.5	12.8	15.5	5.0	0.4
Apollo Tyres	319.4	2,613.6	3,292.3	3,741.0	78.2	113.4	158.0	20.4	24.4	31.3	24%	15.7	13.1	10.2	12.7	16.4	11.6	11.6	4.5	1.4
Bajaj Auto	2,129.2	7,488.1	9,317.5	9,585.3	999.3	997.9	1,182.8	98.8	98.6	116.8	9%	21.6	21.6	18.2	25.5	22.3	20.9	18.0	40.0	1.9
Bank of Baroda	266.4	4,416.6	4,959.3	5,850.7	827.0	1,026.5	1,307.4	22.6	28.1	35.8	26%	11.8	9.5	7.4	-	-	11.2	12.5	6.0	2.3
Bank of India	227.6	4,059.8	5,247.1	6,034.6	701.2	1,122.8	1,352.7	14.4	23.0	27.7	39%	15.8	9.9	8.2	-	-	14.8	21.1	3.5	1.5
Bharat Bijlee	2,139.8	301.1	469.9	590.5	34.1	55.1	76.4	60.3	97.6	135.3	50%	35.5	21.9	15.8	44.6	63.4	42.1	48.8	25.0	1.2
BEL	1,904.9	3,502.0	3,894.3	4,469.7	583.0	713.9	843.1	72.9	89.2	105.4	20%	26.1	21.4	18.1	41.7	37.8	29.7	26.7	12.0	0.6
BHEL	1,533.0	13,442.6	18,405.2	22,699.6	1,679.3	2,414.7	3,076.3	34.3	49.4	62.9	35%	44.7	31.1	24.4	36.4	42.9	23.0	26.2	14.5	0.9
Bharti Airtel	837.4	11,662.5	18,519.7	26,824.0	2,257.6	4,257.0	6,072.7	11.9	22.5	32.0	64%	70.4	37.2	26.2	24.6	31.7	20.7	29.1		0.0
Canara Bank	272.6	4,959.5	5,477.8	6,007.2	1,343.9	1,420.8	1,552.0	32.8	34.7	37.9	8%	8.3	7.8	7.2	-	-	20.3	18.5	7.0	2.6
Corp Bank	331.1	1,798.3	2,017.7	2,267.6	444.5	536.1	631.1	31.0	37.4	44.0	19%	10.7	8.9	7.5	-	-	13.8	15.0	9.0	2.7
Crompton Greaves	261.7	4,131.4	5,639.0	7,297.7	227.9	281.7	383.5	6.2	7.7	10.5	30%	42.1	34.0	24.9	32.2	36.8	29.4	27.3	1.0	0.4
Elder Pharma	416.6	352.4	457.5	562.1	36.7	55.7	74.8	21.0	29.9	40.2	38%	19.9	13.9	10.4	13.4	17.0	14.2	18.4	2.5	0.6
Grasim	2,618.5	9,715.8	14,412.0	13,587.6	1,039.0	1,967.5	2,228.0	101.3	214.6	244.3	55%	25.9	12.2	10.7	17.8	33.3	16.6	27.5	16.0	0.6
HCL Tech**	336.3	4,388.3	6,077.9	7,662.0	773.9	1,166.5	1,409.8	12.0	17.7	20.8	32%	28.0	19.0	16.2	21.4	25.5	19.5	21.7	8.0	2.4
HUL *	189.1	11,060.5	12,103.4	13,713.0	1,310.7	1,539.7	1,883.4	6.0	7.0	8.6	20%	31.5	27.0	22.0	68.7	67.0	56.8	56.5	6.0	3.2
ICICI Bank	950.7	9,691.8	13,563.8	17,693.7	2,540.1	3,110.2	4,015.7	28.5	34.6	35.8	12%	33.3	27.5	26.6	-	-	13.6	13.3	10.0	1.1
Indian Hotel Co	150.4	1,084.3	1,544.0	1,787.0	181.2	322.4	363.5	3.1	5.3	6.0	39%	48.5	28.4	25.1	14.0	21.6	10.6	17.9	1.6	1.1
ITC	154.0	9,790.5	12,369.0	14,330.4	2,239.9	2,699.9	3,002.5	6.1	7.2	8.0	15%	25.2	21.4	19.3	33.8	36.5	26.4	27.8	3.1	2.0
Lupin	724.8	1,606.1	1,970.9	2,600.0	182.7	302.1	328.9	20.7	34.2	37.3	34%	35.0	21.2	19.4	15.8	23.3	28.4	24.0	3.3	0.5
M&M	733.8	8,222.7	10,050.3	10,960.5	663.3	965.6	974.4	27.9	40.6	40.9	21%	26.3	18.1	17.9	27.3	29.7	22.8	27.2	11.5	1.6
Marico	55.6	1,145.3	1,559.5	1,826.0	86.9	112.9	147.1	1.5	1.9	2.4	29%	38.3	30.0	23.1	26.1	28.0	33.3	23.2	0.7	1.3
Maruti Udyog	771.4	12,052.2	14,653.9	17,572.8	1,189.2	1,562.0	1,712.3	41.1	54.0	59.2	20%	18.8	14.3	13.0	34.5	31.7	24.7	23.5	4.5	0.6
Nicholas Piramal	315.3	1,582.5	2,420.2	2,946.4	127.5	232.6	297.0	6.0	11.0	14.1	53%	52.6	28.7	22.4	12.0	16.6	12.6	21.4	3.5	1.1
Omax Auto	82.1	578.6	689.5	733.3	20.0	23.6	19.9	8.8	11.1	9.3	3%	9.3	7.4	8.8	15.8	18.1	16.7	17.9	2.3	2.7
Ranbaxy*	364.7	5,281.6	6,021.6	6,932.9	261.7	515.1	831.9	7.0	13.8	20.8	72%	52.1	26.4	17.5	17.5	19.2	21.2	22.2	8.5	2.3
Satyam Com	466.5	4,793.0	6,485.0	8,223.0	982.0	1,405.0	1,698.0	15.2	21.4	25.3	29%	30.7	21.8	18.4	26.9	27.8	25.7	25.9	8.0	1.7
SKF India*	427.9	781.4	1,342.5	1,537.1	91.7	99.3	127.5	17.4	18.8	24.2	18%	24.6	22.8	17.7	43.0	39.4	26.4	23.5	4.5	1.1
SBI	1,530.8	23,024.3	23,501.0	26,946.7	4,406.7	4,541.3	5,164.7	83.7	86.3	90.4	4%	18.3	17.7	16.9	-	-	17.0	15.4	14.0	0.9
Sundaram Clayton	856.4	629.3	816.3	1,001.7	68.6	92.8	112.2	36.2	48.9	59.1	28%	23.7	17.5	14.5	27.8	31.2	23.7	26.5	15.0	1.8
Tata Motors	684.1	23,769.5	32,426.4	35,891.7	1,728.1	2,170.0	2,331.1	45.2	56.3	60.9	16%	15.1	12.2	11.2	30.8	33.4	27.9	28.4	15.0	2.2
Tata Tea	858.4	3,106.5	4,044.6	4,199.0	293.9	353.5	380.0	52.5	60.0	61.5	8%	16.3	14.3	14.0	13.9	12.3	19.0	19.1	12.0	1.4
Unichem Lab	258.3	459.9	545.6	638.9	76.2	88.9	102.5	21.2	24.7	28.5	16%	12.2	10.5	9.1	26.7	26.7	25.3	23.9	5.0	1.9
Wipro	512.8	10,611.0	14,943.0	18,269.0	2,027.0	2,917.0	3,459.2	14.2	20.4	24.2	31%	36.1	25.1	21.2	23.5	26.1	25.7	29.1	6.0	1.2
Emerging Star																				
3i Infotech	313.9	417.8	655.3	1,089.5	50.2	96.5	155.1	9.5	14.3	21.3	50%	33.0	21.9	14.7	15.1	15.0	13.7	14.5	2.0	0.6
Aban Offshore	3,081.2	490.1	576.4	1,099.5	76.8	112.4	485.3	20.8	29.2	126.1	146%	148.1	105.5	24.4	15.9	7.5	26.3	11.6	-	-
Alphageo India	442.6	23.9	55.0	90.0	4.2	7.5	18.1	8.5	15.2	32.9	97%	52.1	29.1	13.5	27.0	28.5	20.4	28.7	1.5	0.3
Cadila Healthcare	369.0	1,484.5	1,828.8	2,129.7	164.9	233.8	277.4	13.1	18.6	22.1	30%	28.2	19.8	16.7	17.0	20.5	23.6	27.6	4.0	1.1
FM Goetze*	199.3	453.9	387.4	667.7	13.5	-6.3	38.2	5.3	-	12.8	55%	37.6	-	15.6	10.9	9.2	14.0	16.1	0.0	-
KSB Pumps	615.2	359.6	406.4	476.9	37.9	51.1	60.5	21.8	29.4	34.8	26%	28.2	20.9	17.7	44.1	45.0	23.3	25.3	4.0	0.7
Marksans Pharma	46.8	297.4	240.8	535.5	22.9	9.9	73.5	6.4	2.8	20.4	79%	7.3	16.7	2.3	9.8	4.7	18.1	20.0	-	-
Navneet Pub	61.9	294.3	326.8	369.1	35.6	43.6	53.7	3.7	4.6	5.6	22%	16.5	13.4	11.0	16.0	19.0	19.4	21.0	2.0	3.2
NDTV	425.0	221.0	278.4	356.3	24.1	20.9	43.2	4.0	3.4	6.9	32%	107.2	125.0	61.6	14.1	5.4	12.7	7.4	0.8	0.2
Network 18#	508.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Year CY instead of FY

** June ending company

#It is a recent listing, consolidated results for FY07 not published

Company	Price (Rs)	Sales			Net Profit			EPS			(%) EPS Growth	PE (x)			ROCE (%)		RONW (%)		DPS	Div Yield
		FY06	FY07	FY08E	FY06	FY07	FY08E	FY06	FY07	FY08E	FY08/FY06	FY06	FY07	FY08E	FY06	FY07	FY06	FY07	(Rs)	(%)
Nucleus Software	1,014.7	148.2	221.2	322.6	37.0	55.2	81.0	21.8	32.6	49.7	51%	46.5	31.1	20.4	37.7	37.4	32.1	33.2	3.5	0.3
Orchid Chemicals	250.0	821.5	874.4	1,181.1	82.9	96.6	248.3	12.8	14.7	25.7	42%	19.5	17.0	9.7	10.4	10.4	10.6	9.4	3.0	1.2
ORG Infomatics	101.2	155.2	306.6	426.2	8.1	17.3	24.1	5.9	10.2	14.1	55%	17.2	9.9	7.2	37.5	36.7	43.2	27.6	-	-
Tata Elxsi	345.0	235.6	308.0	395.8	34.5	52.4	67.1	11.0	16.7	21.4	39%	31.4	20.7	16.1	57.5	62.0	98.6	84.0	7.0	2.0
TV18 India	893.6	152.0	239.8	325.5	37.2	60.8	85.1	17.7	11.0	15.1	-	50.5	81.2	59.2	19.4	13.9	21.2	20.7	2.0	0.2
Thermax	518.9	1,624.3	2,326.7	3,264.0	100.9	199.2	279.3	8.5	16.7	23.4	66%	61.3	31.1	22.2	37.2	53.3	22.3	31.4	3.4	0.7
UTI Bank	607.1	1,807.9	2,577.2	3,605.8	485.1	659.0	875.3	17.4	23.4	24.6	19%	34.9	25.9	24.7	-	-	18.2	20.9	4.5	0.7
Ugly Duckling																				
Ahmed Forging	231.7	357.9	635.0	934.2	40.5	67.5	121.3	12.2	20.3	36.5	73%	19.0	11.4	6.3	24.5	27.9	15.7	21	-	-
Ashok Leyland	37.8	5,329.8	7,320.4	7,996.3	327.0	441.3	461.9	2.2	3.1	3.5	26%	17.2	12.2	10.8	21.7	25.8	20.2	21.5	1.2	3.2
Aurobindo Pharma	787.2	1,593.6	2,250.2	2,622.4	45.5	203.2	277.9	8.6	38.1	45.8	131%	91.5	20.7	17.2	7.4	11.2	8.6	13.5	1.5	0.2
BASF	261.1	683.0	836.7	1,165.5	45.4	56.2	80.1	16.1	20.0	28.4	33%	16.2	13.1	9.2	24.8	27.5	17.1	19.2	7.0	2.7
Ceat	159.5	1,744.1	2,134.8	2,425.2	0.5	39.7	72.7	0.1	8.7	15.9	1161%	1,594.5	18.3	10.0	8.4	14.0	0.2	10.2	1.8	1.1
Deepak Fert	92.9	608.7	692.4	891.9	74.6	93.7	135.3	8.5	10.6	15.4	35%	10.9	8.8	6.0	11.3	11.5	14.2	13.9	3.0	3.2
Genus Power Infra	334.8	212.8	365.2	494.0	14.8	28.2	39.1	14.7	23.2	31.7	47%	22.8	14.4	10.6	23.3	24.9	36.4	27.9	1.5	0.4
Hexaware Tech	162.5	678.7	848.2	1,124.2	91.6	124.2	158.6	7.7	8.9	11.2	21%	21.1	18.3	14.5	32.3	33.2	28.3	28.6	0.4	0.2
ICI India	523.0	992.0	900.0	945.1	53.7	107.0	119.0	13.1	26.2	29.1	49%	39.9	20.0	18.0	11.5	9.8	10.1	15.0	27.0	5.2
India Cements	209.4	1,541.8	2,049.7	2,690.6	42.4	449.3	583.6	2.2	20.4	22.4	219%	95.2	10.3	9.3	8.2	22.2	5.1	31.5	-	-
Indo Tech Trans	406.5	92.7	155.5	226.6	11.1	25.2	30.7	10.5	23.7	28.9	66%	38.7	17.2	14.1	23.0	38.7	23.3	30.6	4.5	1.1
JM Financial	1,038.1	335.0	452.3	565.3	67.2	102.6	145.1	23.4	31.6	44.7	38%	44.4	32.8	23.2	-	-	21.8	17.2	2.5	0.2
Jaiprakash Asso	758.2	3,791.4	4,384.2	5,235.2	379.4	443.6	638.2	19.5	20.5	29.5	23%	38.9	37.0	25.7	12.4	14.3	24.4	22.8	2.5	0.3
KEI Industries	84.5	299.4	603.9	868.9	26.0	40.1	58.8	5.2	6.8	10.0	39%	16.3	12.4	8.5	32.6	34.5	42.3	32.2	0.5	0.6
NIIT Technologies	510.2	607.5	885.9	1,145.7	66.3	129.2	166.1	17.2	33.0	42.5	57%	29.7	15.5	12.0	25.9	38.7	30.3	39.0	6.0	1.2
PNB	528.4	6,147.7	6,556.9	7,440.0	1,439.0	1,540.0	1,971.1	45.6	48.8	62.5	17%	11.6	10.8	8.5	-	-	16.4	15.3	9.0	1.7
Ratnamani Metals	922.2	319.1	571.2	818.4	33.5	64.1	88.5	37.3	71.2	95.9	60%	24.7	13.0	9.6	38.7	45.3	50.7	57.7	5.0	0.5
Sanghvi Movers	804.7	149.0	178.6	237.1	31.9	47.2	62.4	44.5	54.5	72.0	27%	18.1	14.8	11.2	26.4	23.3	39.6	18.8	12.5	1.6
Saregama India	317.2	126.7	143.3	176.8	7.2	16.8	23.5	4.9	11.4	16.0	81%	64.7	27.8	19.8	8.9	18.0	11.9	20.1	-	-
Selan Exploration	98.8	18.7	26.2	38.4	6.6	10.6	16.3	4.6	7.3	11.3	57%	21.5	13.5	8.7	26.0	28.5	19.5	23.8	-	-
SEAMEC	198.9	82.3	159.1	224.6	19.4	58.6	79.1	5.7	17.3	23.3	102%	34.9	11.5	8.5	13.0	29.0	11.0	25.0	-	-
Subros	218.2	565.1	647.4	767.0	24.3	31.9	39.3	20.3	26.6	32.8	27%	10.7	8.2	6.7	20.6	21.7	18.9	19.5	3.0	1.4
Sun Pharma	1,036.5	1,637.2	2,132.1	2,791.2	573.6	774.1	936.5	30.9	40.0	47.9	25%	33.6	25.9	21.6	16.4	19.0	36.1	19.5	5.5	0.5
Surya Pharma	75.1	257.7	287.5	462.1	22.0	27.3	42.4	19.8	18.8	38.3	39%	3.8	4.0	2.0	13.0	15.6	20.1	23.9	-	-
UltraTech Cement	884.2	3,302.8	4,910.8	5,433.8	229.8	782.2	898.5	18.5	62.8	72.2	98%	47.9	14.1	12.2	14.7	43.3	22.1	44.7	4.0	0.5
UBI	131.3	2,999.4	3,632.2	4,104.9	675.2	845.3	1,079.7	13.4	16.7	21.4	27%	9.8	7.9	6.1	-	-	15.8	17.5	3.5	2.7
Universal Cables	121.3	297.5	377.2	478.8	16.6	21.9	30.1	8.3	9.5	13.0	25%	14.6	12.8	9.3	18.1	18.2	11.9	13.7	2.4	2.0
Wockhardt*	394.2	1,413.1	1,729.0	2,272.8	257.1	241.2	360.9	23.5	22.0	30.2	13%	16.8	17.9	13.1	17.0	11.4	31.5	22.6	5.0	1.3
Zensar Tech	340.4	428.8	605.9	853.6	35.7	58.8	79.1	15.5	24.4	32.6	45%	22.0	13.9	10.4	21.2	23.7	22.9	27.8	3.5	1.0
Vulture's Pick																				
Esab India	450.5	238.2	287.2	325.6	35.2	42.6	52.1	22.8	27.7	33.9	22%	19.8	16.3	13.3	113.9	108.1	103.1	56.0	5.5	1.2
Orient Paper	421.6	857.6	1,102.2	1,272.9	29.6	138.4	183.7	19.9	85.4	95.3	119%	21.2	4.9	4.4	16.3	48.8	75.0	95.0	10.0	2.4
WS Industries	51.1	147.1	165.4	200.5	4.3	7.9	12.2	2.4	3.7	5.8	55%	21.3	13.8	8.8	13.0	15.4	10.6	11.2	-	-
Cannonball																				
Allahabad Bank	82.5	2,184.4	2,218.1	2,597.0	706.4	750.1	839.6	15.8	16.8	18.8	9%	5.2	4.9	4.4	-	-	26.8	22.7	4.0	4.8
Andhra Bank	85.8	1,627.1	1,864.4	2,232.2	485.5	537.9	611.3	10.0	11.1	12.6	12%	8.6	7.7	6.8	-	-	19.0	17.5	3.8	4.4
Cipla	210.1	2,891.4	3,438.1	4,100.5	692.4	660.8	847.2	8.9	8.5	10.9	11%	23.6	24.7	19.3	29.4	21.5	34.9	18.9	1.2	0.6
Gateway Dist	192.7	138.6	165.0	227.2	73.0	79.8	111.5	7.9	8.7	12.1	24%	24.4	22.1	15.9	20.0	14.8	12.7	12.2	2.0	1.0
ICIL	395.2	66.8	79.8	98.9	5.7	8.3	11.3	23.8	34.6	47.1	41%	16.6	11.4	8.4	28.8	32.2	17.4	20.5	2.5	0.6
J K Cements	153.4	872.3	1,233.0	1,479.0	32.5	178.6	210.9	4.7	25.5	30.2	153%	32.6	6.0	5.1	9.6	23.2	4.8	21.6	1.5	1.0
Madras Cements	3,025.2	1,008.4	1,574.1	1,904.0	79.9	308.5	378.1	66.2	255.3	313.0	118%	45.7	11.8	9.7	14.9	45.3	20.3	46.0	15.0	0.5
Shree Cement	1,311.3	694.8	1,368.0	1,723.0	152.6	356.7	433.6	43.8	102.4	124.5	69%	29.9	12.8	10.5	26.5	42.6	51.5	46.0	3.0	0.2
Tourism Finance	22.7	29.4	29.7	37.5	11.9	14.3	20.2	1.8	2.1	3.0	29%	12.6	10.8	7.6	-	-	6.6	7.5	0.5	2.2
TCI	99.8	904.8	1,088.5	1,265.7	20.7	30.8	39.0	4.0	4.6	5.1	13%	24.9	21.7	19.6	17.8	17.6	19.4	22.4	1.5	1.5

* Year CY instead of FY

^Not comparable with EPS of FY2006 due to restructuring.

** June ending company

Remarks	
Evergreen	
HDFC Bank	• The consistent growth of 31% quarter after quarter makes HDFC Bank, India's leading private sector bank, a safe bet. The risk from the interest rate volatility is low as its fee income/net income ratio is the highest in the industry at 30%. Recent capital raising plans along with approval for new branch licences would help the bank to sustain the growth momentum.
Infosys Tech	• Infosys is India's premier IT and IT-enabled service company. It is one of the key beneficiaries of the strong trend of offshore outsourcing. Moreover, despite the cost pressures the company has proven its ability to maintain its profitability.
Reliance Ind	• RIL's refining business remains strong. The upswing in the petrochemical cycle is likely to continue for the next 18-24 months. Upstream assets are valued at Rs580 per share. Its subsidiary, RPL, adds another Rs167 per share to the stock price.
TCS	• TCS pioneered the IT service outsourcing business from India and is the largest IT service firm in the country. It is a leader in most service offerings and is in the process of further consolidating its leadership position through the inorganic route and large deals.
Apple Green	
ACC	• ACC is India's largest cement maker and will be the primary beneficiary of the improving cement demand-supply equilibrium. The volume boost from the expanded capacity and the cost reduction through captive power plants shall boost its profitability. Holcim's strategic stake in it will result in the unlocking of value.
Aditya Birla Nuvo	• Aditya Birla Nuvo participates in India's four most exciting sectors: garments, insurance, telecom and IT/IT enabled services. It has a perfect strategy: to earn cash from its cash cow businesses, such as carbon black, rayon and fertilisers, and invest in high-growth businesses, such as garments, insurance, telecom and IT/IT enabled services.
Apollo Tyres	• Apollo Tyres is the market leader in the truck and bus tyre segment with a market share of 28%. We expect the replacement cycle to get triggered in a big way, given the sharp rise in the commercial vehicle (CV) sales in the past one year. The margins improved substantially in FY2007 and are expected to be sustained heron. Considering the strong growth opportunities and the powerful position of the company in the market, we believe that the stock is under-valued.
Bajaj Auto	• Bajaj Auto is a leading two-wheeler maker. It is being spilt into three separate companies, comprising a holding company, an automobile company and a financial service & insurance company. The sales of the two-wheeler segment have been currently affected due to rising interest rates. The three-wheeler segment should help in maintaining the overall volume growth. It is the second largest player in the insurance business.
Bank of Baroda	• BOB, with a wide network of over 2,700 branches across the country, has a stronghold in the western and eastern parts of India. With only around 25% of its investment portfolio in the available-for-sale category of duration below 1 year, the bank has insulated its investment portfolio very well from the risk of rising interest rates. We expect a 15.1% growth in its net revenue and a 25.7% growth in its earnings over FY2006-08E.
Bank of India	• BOI has a wide network of 2,644 branches across the country and 24 branches abroad. With only around 25% of its investment portfolio in the available-for-sale category and its duration below one year, the bank has insulated its investment portfolio very well from the risk of rising interest rates. With improving margins and steady asset growth, we expect a strong 21.9% growth in its net revenues and a 38.9% growth in its earnings over FY2006-08E.
Bharat Bijlee	• Bharat Bijlee, a leading transformer manufacturing company, shall benefit from huge investments in the T&D sector. Its OPM and RoCE are all set to improve substantially on transfer of the low-margin elevator business.
Bharti Airtel	• Bharti Airtel is leading the wireless telephony revolution and has emerged as the largest mobile operator in the country. In addition to the robust growth in revenues, the focus on cost efficiencies and high-margin non-voice business are more than mitigating the impact of declining trend in the tariffs.
BEL	• BEL, a public sector unit involved in manufacturing of electronic, communication and defence equipment, is benefiting from the enhanced capital expenditure outlay in the budget to strengthen and modernise security systems. Moreover, civilian and export orders are also aiding the overall growth in revenues.
BHEL	• BHEL, India's biggest power equipment manufacturer, will be the prime beneficiary of a four-fold increase in the investments being made in the power sector. Its order book of Rs55,000 crore stands at around 3x FY2007 revenue and we expect it to maintain the growth momentum.
Canara Bank	• Canara Bank, with a wide network of 2,513 branches across the country, has a stronghold in the southern parts of India, especially in states like Andhra Pradesh and Karnataka. With nearly 60% of its investment portfolio in the held-to-maturity category, the bank faces some risk from the rising interest rates. We expect a 10% growth in its net revenues and an 8% growth in its earnings over FY2006-08E.

	Remarks
Corp Bank	• Corporation Bank has one of the lowest cost/income ratio and the highest Tier-I CAR. This leaves ample scope to leverage balance sheet without diluting equity, quite unlike the other state-owned banks. It is most aggressive on technology implementation with all its branches under Core Banking Solution, covering 100% business of the bank. It has superior asset quality with NPAs at 0.47%.
Crompton Greaves	• The outlook is buoyant for Crompton Greaves' key business of industrial and power systems. A strong order book of Rs4,400 crore is equivalent to 1.3x FY2007 consolidated revenues and generates earnings visibility. The synergy from the acquisitions of Pauwels and GTV will drive its consolidated earnings.
Elder Pharma	• With leading big brands like Shelcal and Tiger Balm, pharma company Elder Pharma is set to make the most of the domestic demand with line extensions and new molecules. New in-licencing agreements will ensure good growth for the company. The fairness cream, Fairone, shall drive the earnings.
Grasim	• Going forward, the improved performance of the VSF business, continued concrete performance of its cement business and the steep uptrend in the earnings of its 51% subsidiary, Ultratech, would drive Grasim's consolidated earnings.
HCL Tech	• HCL Tech is one of the leading Indian IT service vendors. It has been able to successfully ramp up the business from the large-sized deals bagged over the past few quarters, which has considerably improved its revenue growth visibility.
HUL	• HUL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HUL is likely to be a key beneficiary. The rural demand growth will be icing on the cake. HUL has regained the pricing power in all the product segments. Turn-around of loss-making businesses and cost reduction measures should help it improve its profitability.
ICICI Bank	• ICICI Bank is India's second-largest bank with a strong positioning in the retail advance segment which gives it dual advantages of a healthy growth in both loans and fee income. Various subsidiaries add Rs380 to overall valuation. Listing of the subsidiary ICICI Holdings would unlock significant value for the stock. The bank has successfully raised Rs20,000 crore without any dilution which would fund its growth for the next three years.
Indian Hotels Co	• The tight demand-supply scenario in the hotel industry will push up the ARRs in the short term and we expect Indian Hotels Co (India's largest hotel company) with its pedigree of hotels to be the key beneficiary of this trend. We expect its earnings to grow at a strong 27.3% CAGR over FY2006-08.
ITC	• ITC's plan to diversify from the key business of cigarettes is paying off with the non-cigarette businesses of hotels, paper and agri-products reporting a strong growth in revenues. The cigarette business would nurture the growth of the businesses that are at nascent stage. As ITC gains leadership position in each of these businesses, we expect its valuations to improve further, reducing the gap between its valuation and that of HLL.
Lupin	• Leading pharma company Lupin is set to take off in the export market by targeting the US market (primarily for formulations) while maintaining its dominance in the anti-TB segment globally. Further, with an expanded field force and therapy focused marketing division, Lupin's branded formulation business in the domestic market has been performing better than the industry. Lastly, Lupin's ongoing R&D activities are expected to yield sweet fruits going forward.
M&M	• M&M is a leading maker of tractors and utility vehicles in India. The utility vehicle and tractor segments should be able to grow by 10% this year. Investments in the other businesses like passenger cars and commercial vehicles along with world majors will help the company diversify into various auto segments. Acquisitions by subsidiary Systech will pay off over the coming three years. Value of its subsidiaries adds to the sum-of-parts valuation.
Marico	• Marico is India's leading FMCG company. Its core brands, Parachute and Saffola, have a strong footing in the market. It intends to play on the broader beauty and health platform. Its risk appetite is rising, as is evident from the five acquisitions made in eighteen months. It is also directing its energies to the high-margin businesses, viz value-added hair oil, *Kaya* and *Sundari*.
Maruti Udyog	• Maruti Udyog is India's largest small car manufacturer. This is the only pure passenger car play. With new launches the company is expected to maintain its growth rate in the domestic market. Suzuki has identified India as a hub for manufacture of small cars for its worldwide markets. Increased indigenisation and cost control measures to help improve margins.
Nicholas Piramal	• Pharma major Nicholas Piramal is ready to gain from the ramp-up in it contract manufacturing deals with MNCs. Further, the acquisition of Pfizer's Morpeth facility in the UK adds glory to its global contract manufacturing strength. The restructuring of its wide spread field force is likely to unlock value in terms of higher product acceptance and greater market share in domestic market.
Omax Auto	• A leading maker of auto components and auto ancillaries Omax has re-structured its revenue model by diversifying its domestic customer base, increasing the share of exports in revenues and broadening its product range. It is expanding its capacity to tap growth opportunities.
Ranbaxy	• Ranbaxy, apart from adopting an inorganic growth strategy, has been maintaining an aggressive product introduction strategy as well in the domestic, regulated and other pharma markets. With such efforts, it maintains the numero uno position in the domestic market. Exclusivity opportunities in the USA, along with strong expansion in semi-regulated markets, will drive its growth.

	Remarks
Satyam Comp	• Satyam is among the top five Indian IT service companies. In the past few quarters, it has been able to bag some large-sized deals and has further consolidated its leadership position in enterprise solutions segment.
SKF India	• SKF, a leading bearing and engineering solution provider, enjoys good visibility in high-margin replacement market. It will be the primary beneficiary of growing volumes of Indian automobile industry and the huge industrial investment lined up by India Inc. It also plans to focus on its high-margin service division.
SBI	• Despite being the largest bank of India SBI is growing at a high rate which is commendable. Its loan growth is likely to remain healthy at 22-25% with improving core operating performance and stable net interest margins. The ownership transfer from RBI to the government and value unlocking from its investments in subsidiaries could provide further upside for the parent bank. The asset quality has been improving with the net NPAs falling to 1.7% of the net advances.
Sundaram Clayton	• Sundaram Clayton is a strong player in the air brake and casting business and supplies mainly to the automobile industry. It is being split into two companies: the Airbrakes business will be held by WABCO and the castings company will be held by the Sundaram group. This value unlocking will lead to higher sourcing by WABCO of its global requirements from India and good export prospects for the casting business as well.
Tata Motors	• Tata Motors is one of India's leading automobile companies with diverse product portfolios across commercial vehicles and cars. The commercial vehicle segment is witnessing a slowdown due to rising interest rates. However, with the spending on infrastructure long-term prospects continue to be positive. The international operations and subsidiaries also add value to the company.
Tata Tea	• Over past two years Tata Tea has transformed itself from just a commodity (tea) seller to a branded tea maker. It has recently acquired management control of Mount Everest Mineral water, owner of the Himalayan brand. This makes the company a compete beverage company, having presence in all the vertical: tea, coffee and water. However, its valuations are much cheaper than is peers.
Unichem Lab	• Big brands in the domestic pharma market and a strong marketing network are the distinguishing features of Unichem. Its domestic business is growing steadily while it is aggressively registering products in international markets (particularly in Europe). The recent acquisition of the balance 40% in subsidiary, UK-based Niche Generic, would boost its product registration and launches in the entire European region, and augment its exports.
Wipro	• Wipro is one of the leading Indian IT service companies. The revival in the BPO business, strong traction in its existing IT service business and the incremental growth from the recent inorganic initiatives have considerably improved the growth visibility in the global software service business.
	Emerging Star
3i Infotech	• 3i offers software products and solutions to the banking, financial services and insurance (BSFI) sector. The growth momentum is expected to continue due to a healthy order book and the growing visibility of its product business in the overseas markets. The benefits of the recent acquisitions will also get fully reflected in its performance in the coming quarters.
Aban Offshore	• Aban Offshore, one of Asia's largest oil drilling companies, is benefiting from the increase in oil exploration and production activities globally. The re-pricing of its existing assets at significantly higher day rates and efforts taken to substantially ramp up the asset base through organic and inorganic routes would significantly improve its financial performance over the next few years.
Alphageo	• Alphageo provides seismic survey and other related support services to oil exploration & production companies in India. The recent order wins and a healthy pipeline of orders have considerably improved the company's revenue growth visibility.
Cadila	• Cadila's improving performance in the US generic market along with the steady progress in the CRAMS space enriches its growth visibility. With key subsidiaries expected to turn profitable in the near future, Cadila is all set to harvest the fruits of its long-term investments.
F-M Goetze India	• Federal-Mogul Goetze India, a leading supplier of piston and piston rings, enjoys a 65% share of the OEM market and 70-80% penetration in the CV and tractor segments. It would benefit from increasing dieselisation in the car segment. There also exists a huge potential for outsourcing to its parent, who is looking to shift some of its manufacturing lines to low-cost countries.
KSB Pumps	• KSB Pumps, a leading maker of pumps and valves, is a beneficiary of the investments lined up in India's power and industrial sectors. The strong order inflow in the pump business and the capacity expansion would drive its growth.
Marksans Pharma	• Contract manufacturing orders and the lifestyle bulk drug business will drive the growth of pharma company, Marksans Pharma. The recent efforts to direct its product to regulated markets, particularly Europe and other newer ROW markets, would also boost growth. The inorganic growth trigger cannot be ruled out.

Remarks	
Navneet Pub	• Publishing major Navneet's earnings will continue to grow in FY2008 backed by the procedure of change in the syllabus in Gujarat and Maharashtra. The growth in stationary business would be aided by the introduction of non-paper stationary products.
NDTV	• NDTV is one of India's largest television production houses. With numerous revenue streams in its fold, such as a global consulting tie-up, a global subscription alliance, Internet ventures and its move to launch general entertainment and lifestyle channels, it has already put the building blocks in place for a long-term growth.
Network 18	• Network 18, the holding company of the TV18 group, owns the best media properties through its holdings in TV18 and GBN. While, TV18 owns business channels CNBC and Awaaz, GBN controls CNN-IBN and IBN-7. GBN will soon launch a Hindi general entertainment channel via its tie-up with Viacom. Network 18 is in the process of launching a full fledged home shopping network inclusive of a dedicated home shopping channel. We expect Network 18 to create immense value through its holdings.
Nucleus Software	• Nucleus Software offers a comprehensive suite of software products to banking and financial service companies globally. Its flagship product "FinnOne" is rated as the highest selling retail banking product in the IBS annual ranking review 2006. The niche positioning and a robust order book provide a reasonably healthy growth outlook.
Orchid Chem	• Orchid will benefit the most in the bulk and formulation market for cephalosporins in the USA. Its entry into European and Canadian markets will further boost its sales in the coming years. With UK MHRA approval for its plants and marketing tie-ups in place, Orchid is all set to make its entry into the European market, which will catapult its growth to a different trajectory.
ORG Infomatics	• ORG Infomatics is focused on providing IT services in the convergent IT and telecom space. Driven by a restructured business model, it has shown an exponential growth over the past couple of years. The growth momentum is likely to be maintained due to a healthy order book and the reasonable size of its operations now.
Tata Elxsi	• Tata Elxsi has successfully transformed itself from a system integration company into an established player in the niche segment of product design and engineering services. It has built the required scale of operations and strong client relationships to effectively tap the huge emerging opportunity in this segment.
TV18 India	• TV18 is India's leading news media company. It owns the nation's top business news channels, CNBC TV-18 and Awaaz. It also owns a repertoire of web properties such as moneycontrol.com, poweryourtrade.com and commoditiescontrol.com. The buoyant economic fundamentals augur well for its media properties. With top-notch management it remains one of the best media companies in the country.
Thermax	• The continued rise in India Inc's capex will benefit Thermax' energy and environment businesses. It has a strong order book of Rs3,100 crore which is equivalent to 1.3x FY2007 revenues and ensures visibility of earnings. Better operational efficiencies coupled with cost management will lead to a 260-basis-point expansion in margin over FY2006-08.
UTI Bank	• Over the last few years UTI Bank has grown its balance sheet aggressively. We expect the quality of its earnings to improve as the proportion of the fee income goes up. It has also announced plans to raise capital, which would help to maintain its growth momentum for the next three years. Its asset quality continues to remain healthy with the net NPAs at 0.68% despite a strong asset growth.
Ugly Duckling	
Ahmed Forging	• Ahmednagar Forgings, a very promising forgings company, has a strong order book of Rs850 crore, executable over next twelve months. It is more than trebling its forging capacity to 165,000tpa by FY2008 and is also increasing its machining capacity. It trades at very attractive valuations considering the stupendous increase in its size and improving product mix.
Ashok Leyland	• Ashok Leyland is the second largest CV player in the industry. Its short-term performance may get affected due to slowdown in the segment due to rising interest rates. Long-term prospects appear bright. Initiatives on value engineering and e-sourcing of materials should help in maintaining the margins going forward.
Aurobindo	• Aurobindo, with 82 ANDAs, 110 DMFs and 11 USFDA approved facilities in hand, is well positioned to exploit the US generic opportunity going forward. Further, its expansion into Europe and other emerging markets and likely incremental revenue flow from its largest approved ARV product basket would fuel the revenue growth. Galloping Pen-G prices and higher formulation growth would expand the margin going forward.
BASF India	• BASF India (BASF) is set to benefit from the changing demographics and the resulting consumption boom in India. BASF's products are used in industries like white goods, textiles, home furnishing, paper, construction and automobiles all of which have been growing at a fast pace in contemporary times. To capitalise on the resulting opportunity, BASF is expanding the capacity of its products. A dividend yield of over 3% provides a margin of safety to the investment.

Remarks	
Ceat	• Tyre maker Ceat has an overall market share of 12% across categories and ranks fourth in the industry. Exports account for 20% of its sales. It is improving its product mix with higher contribution expected from exports and specialty tyres where the profit margins are higher. Ceat has undertaken various initiatives in order to improve its productivity and this should lead to improvement in margins. We find the stock's valuations attractive.
Deepak Fert	• Deepak Fertiliser manufactures and supplies industrial chemicals. The industrial upsurge will increase the demand for bulk chemicals. A new 70,000MTPA capacity for producing IPA will act as an inflexion point for its top and bottom lines. It also has plans to expand its ammonium nitrate capacity at a cost of Rs400 crore. Despite a Rs700-crore capex, there is no equity dilution and the debt/equity ratio remains comfortable.
Genus Power Inf	• Genus, India's leading electric meter manufacturing company, is all set to reap the benefits of the APDRP initiatives, like the 100% metering programme and the replacement of mechanical meters by electronic meters. A healthy order book of Rs403 crore will maintain growth in its revenue and profitability.
Hexaware Tech	• Hexaware Technologies is a mid-sized IT service company focused on the fast growing enterprise solutions market and HR IT services. It has a dominant position in PeopleSoft products and is scaling up its capabilities in Oracle and SAP. The strong revenue growth visibility and the ability to maintain margins would help its earnings to grow at a CAGR of 28.5% over CY2006-08.
India Cements	• India Cements, the largest cement manufacturer in the southern region, is all set to see exponential growth because of its high leverage to cement prices. It plans to raise its capacity by 3 million tonne in the next 2 years, which will take its total capacity to 12 million tonne.
Indo Tech	• The demand for transformers is on an upswing, thanks to high power-generation targets of the government. The annual demand for transformer is expected to be around 95,000MVA whereas the current capacity of transformer industry stands at around 75,000MVA. To cater to this opportunity transformer maker Indo Tech is tripling its capacity, which will result in a strong earnings growth.
ICI India	• We expect ICI's paint and starch business to grow at a CAGR of 20% over next two years. Though due to the discontinuation of some of its businesses the top line growth may look subdued. The company has Rs876 crore of investment on its book, which would translate into free cash and cash equivalents of around Rs215 per share.
JM Financial	• JM Financial is a non-banking financial company. After the recent split with Morgan Stanley (MS) the company has bought a 60% stake in ASK Securities to start its own institutional equity desk. It also plans to expand its retail broking and margin funding businesses. It has a huge pool of cash after it raked in almost Rs1,900 crore for the deal in which it sold its 49% stake in the foreign institutional equities business to MS. Despite MS' exit, we feel there is still significant value to be unlocked in the scrip in the medium to long term.
Jaiprakash Asso	• Jaiprakash Associate, India's leading cement and construction company, is all set to reap the benefits of the huge investments to be made in India's infrastructure. It has a strong order backlog of Rs7,200 crore. The Taj Expressway project as well as the real estate business will add significant value to the stock price going ahead.
KEI Industries	• KEI makes stainless steel wires, cables and winding wires. It is expected to be a major beneficiary of the pick-up in investments in the power generation as well as transmission and distribution sectors. On the back of these investments we expect its revenues and earnings to grow at a CAGR of 66% and 63% respectively over FY2006-08E.
NIIT Tech	• NIIT Tech was formed by hiving off the software service business of NIIT into a separate entity in June 2004. It is focused on three key industry domains and is benefiting from its inorganic initiatives and restructuring undertaken to consolidate the client base.
PNB	• PNB has the best deposit mix in the banking space with the low-cost deposits constituting 49% of its total deposits. Its asset quality is also healthy with net NPAs at 0.5%. A strong retail franchise and technology focus will help boost its loan and fee businesses. However a high level of AFS bond portfolio poses a risk in a rising interest rate scenario.
Ratnamani Metals	• Ratnamani is the largest maker of stainless steel (SS) tubes and pipes in the country. Given the buoyant demand for SS tubes and pipes from its clients including BHEL and L&T, and a strong order book of RS.500 crore, we expect its revenues and earnings to grow at a CAGR of 47% and 45% respectively over FY2006-08.
Sanghvi Movers	• Sanghvi Movers is the largest crane hiring company in Asia. It is a perfect asset play on the upsurge in the country's capex cycle. The usage of cranes is an essential part of investment spending and of the projects being undertaken by Indian companies; this bodes well for the company. Its strong cash flows make it an attractive investment.
Saregama India	• Saregama is in the business of music and home entertainment, and has a repertoire of around 3 lakh songs spread across a number of languages. We expect a strong growth in Saregama's earnings from the sale of music in non-physical format with tremendous growth in the value-added services in the telecom sector and the expansion of the radio broadcast sector.

Remarks	
Selan Exploration	• Selan is an oil exploration & production company with five oil fields in the oil rich Cambay Basin, Gujarat. The initiatives taken to develop and monetise the oil reserves in its Bakrol and Lohar oil fields are likely to significantly ramp up the production capacity and result in a re-rating of the stock.
SE Asia Marine	• SEAMEC with its fleet of three MSVs, which are deployed by oil companies for construction and maintenance of underwater pipelines, is a key beneficiary of the boom in E&P spends and higher rates for MSVs. It has recently acquired a vessel, which is being converted into a diving support vessel and will commence operation by Q3CY2007, boosting the company's overall performance.
Subros	• Subros, the largest integrated manufacturer of automobile air conditioning systems in India, is expected to be a prime beneficiary of buoyancy in the passenger car segment. It is a strong play on growth plans of Maruti Udyog and Tata Motors, who are expanding their capacities. It plans to double its capacity in next two years which in turn will maintain momentum in its earnings growth.
Sun Pharma	• Sun Pharma has been a steady performer in domestic pharma market supported by its leading position in chronic therapies, which contribute 70% of its domestic formulation sales. Going forward, the robust growth in Caraco, the US outfit of the company, as well as in the domestic and ROW markets would maintain the growth momentum. Further, the recent disclosure of R&D pipeline will unlock value for investors.
Surya Pharma	• A shift to a high-margin product portfolio is the name of the game and Surya is well aware of it. The cephalosporin opportunity would result in sweet fruits for this pharma company.
UltraTech Cement	• Going forward, UCL should benefit from firm cement prices across the country as well as higher volumes owing to rising capacity utilisation and improving cost efficiency, as it commissions its captive power plants. Synergies with Grasim will reduce its freight cost. All this should improve its operating margins.
UBI	• Union Bank has a strong branch network and an all-India presence. The net NPAs are expected to go down to 1.2% by 2007. With the biggest chunk of its investment portfolio in the held-till-maturity segment, it is perfectly guarded against interest rate increases. With an average return on equity of 17.8% over FY2006-08E, the bank is available at attractive valuations.
Universal Cables	• Universal Cables is a leading player in the Indian power cable segment and hence would be one of the biggest beneficiaries of the huge demand for power cables over the next couple of years. It has investments that are worth Rs34 per share of its group companies.
Wockhardt	• A stream of new launches in the USA and sustained momentum in the domestic business will ensure good growth for Wockhardt. The recent acquisition of Negma Laboratories will propel the company to a new growth trajectory as synergistic benefits start flowing in. Further, the likely approval of bio-similar in USA, EU and other geographies would drive Wockhardt in the medium to longer term.
Zensar	• Zensar, promoted by the RPG group, has effectively utilised the inorganic route to gain critical mass in the fast growing service practice like enterprise solutions and extended its presence into newer markets. Its earnings are expected to grow at a healthy CAGR of 33% over the two-year period FY2007-09.
Vultures's Pick	
Esab India	• Change in positioning from low margin, high volume products to quality and high margin products. Double-digit manufacturing sector growth to help business of electrodes and welding equipment.
Orient Paper	• Orient Paper is set to benefit from the upswing in both its businesses: paper and cement. The volume growth in the cement business through capacity expansion and increased blending and savings in power costs (thanks to the 50MW captive power plant) would drive the profitability of the cement division. Rising paper prices and increased capacity augur well for the paper division. It also has investments in excess of Rs100 crore on its books.
WS Industries	• WSI, a leading maker of insulators, is all set to reap the benefits of a three-fold increase in investment in the T&D segment in India. A strong order book of about Rs110 crore and a shift to higher-margin product of hollow insulators will drive the earnings. It plans to develop an IT park covering 10 lakh sq ft at Chennai. Taking WSI's current 59% stake in its realty venture, we arrive at a value of Rs29.1 per share for the realty venture alone.
Cannonball	
Allahabad Bank	• Allahabad Bank, with a wide network of 1,933 branches across the country, has a stronghold in the northern and eastern parts of India. With only around 35% of its investment portfolio in the available-for-sale category of duration of 3.7 years, the bank has insulated its investment portfolio from the risk of rising interest rates. With an average RoE of 24% over FY2006-08E, the bank is available at attractive valuations.

Remarks		
Andhra Bank	•	Andhra Bank, with a wide network of over 1,200 branches across the country, has a stronghold in the southern parts of India, especially in Andhra Pradesh. With only around 32% of its investment portfolio in the available-for-sale category of duration of 2.3 years, the bank has insulated its investment portfolio very well from the risk of rising interest rates. We expect a 17.1% growth in its net revenues and a 12.2% growth in its earnings over FY2006-08E.
Cipla	•	Partnership agreements with major international firms and low R&D costs are what drive Cipla. This pharma company has a business model similar to that of only a few in the business. Also, Cipla--the cheapest manufacturer of ARVs--is well set to gain from the anti-AIDS focus worldwide.
Gateway Dist	•	Gateway Distriparks, a port-based logistic facilitator, has strong presence at JNPT, the country's biggest port. It has a market share of 25%. The recently won contract from the Punjab state government to operate a CFS near JNPT for a period of 15 years will provide the much-needed trigger for the volume growth going ahead. The company's foray into the rail operation business will be a trigger for its earnings in the long term.
ICIL	•	International Combustion, which makes gear motors & boxes, polymers, heavy engineering equipment etc, is a good play on India Inc's current capex plans, especially in the sugar and steel industries. The emerging outsourcing trend in the gear motor space should lead to an earnings surprise. Its strong order book of Rs64 crore is equivalent to 1.0x FY2006 revenues and ensures visibility of earnings.
J K Cements	•	The firm cement prices and volume growth from the recent capacity expansion will drive JK Cement's top line. This coupled with the company's drive to bring down its power cost by installing a CPP and a waste heat recovery unit would result in substantial margin improvement.
Madras Cements	•	Strong cement consumption in the southern region would continue to drive the earnings of Madras Cement, one of the most cost efficient producers of cement. The 4-million-tonne expansion of the company's existing facilities will provide the much needed volume growth in the future.
Shree Cement	•	The company's recent addition of 1.5MMT coupled with expansion of 4MMT over the next 18 months will drive volumes at a CAGR of 22.1% over the next 2 years. The company's robust cash flows will enable it to withstand the downturn in the cement cycle.
TFCI	•	Tourism Finance Corporation of India TFCI provides financial assistance to the hotel and tourism sector. Given its exposure to only this sector, its performance is inextricably linked to the prospects of the tourism sector. This was largely responsible for TFCI's earlier financial problems. However, things are now looking very promising for TFCI with improved asset quality and strong loan demand due to significant expansion plans lined up by the hotel and tourism sector. We expect TFCI's earnings to grow at a 32% CAGR over FY2006-09.
TCI	•	TCI, a leading logistic solution provider, is rightly focusing on its high-growth logistic business and high-margin express cargo business. Driven by the exponential growth in the logistic business and the incremental revenue from the express cargo business, its earnings are expected to grow substantially. The company's plans to develop property at 4 identified places provide a cushion to its stock price.

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