

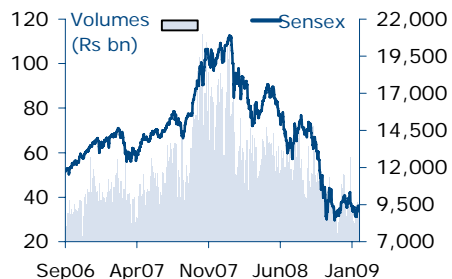
• What's Inside: IT Services, Auto - January 2009 sales update, Events calendar

Market Front Page

Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	9,067	(3.8)	(6.0)	HDFC Bank	57.0	(1.1)	4.6
Nifty	2,767	(3.8)	(6.5)	Reliance	52.4	(2.1)	0.2
BSE Smallcap	3,288	(1.5)	(10.7)	Infosys	26.6	0.2	1.8
CNX Midcap	3,310	(1.4)	(11.4)	Satyam	2.0	5.8	(14.4)
Nasdaq	1,494	1.2	(5.2)	Wipro	6.8	(1.4)	52.1
DJIA	7,937	(0.8)	(9.6)	ICICI Bank	16.1	(2.5)	2.0
IBOV	38,666	(1.6)	3.0	SBI	49.4	3.1	10.3
FTSE	4,078	(1.7)	(8.0)	Sterlite	5.2	(2.1)	(2.8)
CAC	2,930	(1.5)	(8.9)	Tata Motors	3.9	(4.7)	31.0
Turnover	US\$m	% Chg	Commodities				
BSE	611	(16.1)	Gold (US\$/ounce)	902	(0.4)	2.2	
NSE	1,726	(14.1)	Crude (US\$/bl)	40	(3.8)	(10.1)	
Derivatives (NSE)	6,979	(0.1)	Aluminium (US\$/MT)	1,390	3.0	(9.7)	
FII F&O (US\$m)	Index	Stocks	Copper (US\$/MT)	3,175	0.6	3.4	
Net buying	(12)	12	Forex Rates	Closing	% Chg	%YTD	
Open interest	3,695	2,291	Rs/US\$	49.0	(0.0)	1.2	
Chg in open int.	67	(27)	Rs/EUR	62.4	(0.9)	(8.6)	
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/GBP	70.5	0.7	0.8
FII (30/1)	(4)	(1,054)	(1,054)	Bond Markets	Closing	bps Chg	
DII (2/2)	(33)	(33)	727	10 yr bond	6.0	(27.0)	
MF (30/1)	109	(177)	(177)	Interbank call	4.2	5.0	

Charts Front Page

Sensex price volume



Sensex intraday



Corporate Front Page

- Ministry for Corporate Affairs has ordered to scan the books of **Educomp** and six other PSUs. (BL)
- DLF** has suspended work for more than a quarter of its commercial projects in a bid to save costs as demand for homes and offices slow down. (BS)
- DLF** plans to raise Rs40bn through asset sale and private placement. (ET)
- Reliance Communications** has decided to transfer the optical fibre business of the company to Reliance Infratel, a subsidiary of the company. (BL)
- Reliance Industries** has begun talks with over a dozen power and fertilizer firms to sell gas from its KG basin. (ET)
- SAIL** to invest Rs40bn for implementation of its various mining projects in Orissa. (BS)
- Punjab National Bank** to merge its primary dealership subsidiary PNB Gilts with self instead of selling the company. (BS)
- NMDC Ltd** to secure mining lease for Sansangora deposit in Jharkhand. (BS)
- Mastek** to put 10% of staff on 'virtual bench' for up to 12 months, a move which it says will help it stay profitable in the current economic downturn. (BL)
- Central Bank of India** plans to raise Rs5-6bn through Tier-I and Tier-II bonds this year in order to boost its capital adequacy ratio (CAR) to over 11%. (BS)
- Gail India** has signed an agreement with Indian Farmers Fertiliser Cooperative for exploring options to set up units. (FE)
- The **Spice Group** has acquired a 100% stake in the Indian arm of the Dubai-based mobile retail chain Cellucom in an all stock deal. (BL)
- Idea Cellular** will roll-out operations in five service areas by end of 2009. (FE)
- GMR Infra** negotiates to buy SA company based Homeland Mining & Energy for US\$100mn. (BS)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Satyam Computer	57	6.7	-66.4	Jaiprakash Assoc	66	-13.6	-20.6
Indiabulls Finan	117	4.9	-12.1	Indiabulls Real	102	-12.0	-22.1
Amtek Auto	53	4.3	-20.6	Reliance Energy	521	-10.7	-10.2
Great Eastern Ship	178	4.1	-12.5	Jindal Stainless	35	-9.0	-3.4
GSPL	31	2.7	-7.9	Unitech	29	-8.9	-27.9

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Television 18	68	167	1,675	414	304
BF Utilities	445	342	30	8	293
J&K Bank	297	294	52	15	257
GSPL	31	354	9,613	2,758	249
United Phosphorus	96	861	1,994	694	187
Balrampur Chini	59	309	7,316	3,439	113
Parsvnath Developers	38	143	972	479	103
Bharat Elec.	854	1,394	84	46	82
CMC	300	93	7	4	81
Nestle India	1492	2,934	16	9	80

FII - FII trades

Scrip	30/1/2009			2/2/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Sbi	34	1,132	0.4	162	1,121	0.5
Union bank	252	147.0	0.3	-	-	-
Bank of barora	178	255	1.5	449	253	0.5
Pnb	430	401	0.2	400	402	1.0
Iob	29	61	0.5	113	61	0.5
Pantaloon	21	164	1.0	-	-	-

Corporate Front Page

- **Parsvnath** promoter has pledged 10% of the promoter's shares with lenders to fund expansion plans. (BS)
- **Indian Overseas Bank** has received approval from the RBI to acquire Pune-based Shree Suvarna Sahakari Bank (SSSB). (BS)
- **Essar Steel's** US\$2bn investment in Trinidad and Tobago faces uncertainty as its lead banker has fallen prey to the financial meltdown. (BS)
- **Tata Tea** is restructuring its US operations with a view to bring down costs substantially. (BS)
- **Hindustan Unilever** plans to hike variable component in employee salaries. (ET)
- Senior executives across the **Tata Group** are bracing for a 10-15% cut in salaries. (ET)
- **Sobha Developers** to raise Rs7.5bn through a combination of preferential share sale, land sale and by bringing in strategic investors in some projects. (BS)
- **Bhushan Steel** plans to raise Rs4.5bn by issuing 1.5mn redeemable cumulative preference shares. (ET)
- **Adani group** quotes the lowest price in Gujarat Urja Vikas Nigam Ltd's power purchase bid. (BS)
- **KVK Energy and Infrastructure** has parted ways with its JV partner, **Maytas Infra**, in setting up a 1,050MW thermal power plant in Orissa under the banner of KVK Nilachal Power Pvt Ltd. (BS)
- **Merck & Co Inc** plans to expand its research collaboration with Indian companies and is currently in talks with 10 major and minor firms. (BL)
- **Cosmo Films** plans to invest Rs2.6bn to treble its capacity in the next two years. (FE)
- IL&FS Realty Fund has picked up a 15% stake in **Akruti** SPV for Rs2bn. (ET)

Economy Front Page

- Companies coming out with an IPO will be allowed to declare the floor price/ price band at least two working days before the date of opening of IPO. (BS)
- Other state run banks are likely to offer home loans at an interest rate of 8% fixed for a specified period. (ET)
- The Central Board of Excise and Customs in its circular has said that realtors will not be required to pay service tax on sale of flats. (ET)
- Upfront margin that promoters will have to pay when they are allotted warrants to be raised from 10 to 25%. (BS)
- Nabard has reduced refinance interest rates by 25%. (FE)
- Tax exemption on gas output is unlikely soon. (ET)
- The Telecom Commission has approved the introduction of national and international calling cards. (FE)
- India's exports declined marginally by 1.1% yoy to US\$12.7bn in December 2008. (ET)
- The group of ministers of FDI will meet today to discuss the revised guidelines for calculation of direct and indirect foreign holding in sectors attracting foreign investment caps. (ET)
- Listed companies will have to declare dividend on a per-share basis, rather than percentage basis. (BS)
- Bonus issue will have to be completed in 15 days where no shareholders' approval is required and in 60 days where shareholders' approval is required. At present this timeframe is six months. (BS)
- RBI increased the prudential inter-bank exposure limit for the Urban Cooperative Banks to 20% from 10% of their total deposit liabilities. (BS)
- The slowdown in the economy, coupled with higher outgo on account of stimulus package measures, has pushed the fiscal deficit during April-December 2008 to Rs2,183bn. (BL)
- Indian cement sector is expected to witness volume growth of 6-7% over 2010 and most of 2011: Fitch (FE)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Apar Industries Ltd	Shri Kushal N Desai	28/01/2009	Buy	75,000	72.0	5	0.2	20.3
Apar Industries Ltd	Dr N D Desai	28/01/2009	Buy	75,000	72.0	5	0.2	20.4
Apar Industries Ltd	Shri C N Desai	28/01/2009	Buy	72,249	72.0	5	0.2	20.0
Bubna Stock Broking Services Ltd	Rajendra Bubna	31/12/2008	Sell	803,000	11.9	10	13.4	-
Bubna Stock Broking Services Ltd	Rachana Bubna	31/12/2008	Sell	600,000	11.9	7	10.0	-
Geometric Ltd	Godrej Investments P Ltd	29/01/2009	Buy	600,000	18.0	11	1.0	10.0
Orissa Sponge Iron And Steel Ltd	Prakausali Investments (India) Pvt Ltd	--	Sell	522,900	130.0	68	2.6	-

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Amara Raja Batt Ltd	Hdfc Trustee Co.Ltd. A/C Hdfc Equty Fund	2/2/2009	Buy	500,000	40.0	20
Amara Raja Batt Ltd	Templeton Mutual Fund	2/2/2009	Sell	500,000	40.0	20
Everedy Indl	Deutsche Securities Mauritius Ltd	2/2/2009	Sell	506,422	15.5	8
Vakran Softw	Goldman Sachs Investments Mauritius I Ltd	2/2/2009	Sell	282,772	22.5	6
Vakrangee Softwares Ltd	Goldman Sachs Investments Mauritius I Ltd	2/2/2009	Sell	500,000	22.1	11

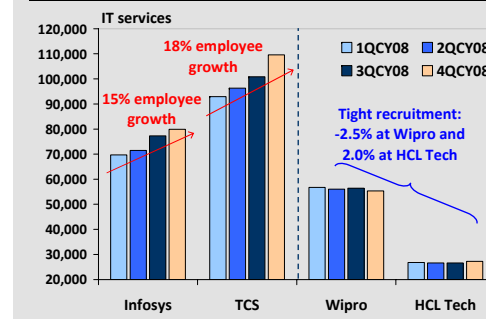
QE December 2008 results of Infosys, TCS and Wipro were in line with our modest expectations. Margins were however boosted by strong cuts in S&M expenses (~150bps at Infosys and TCS) and a favourable currency (150 to 400bps at sector leaders). Going forward, outlook for the sector remains bleak, with TCS's and Wipro's managements expecting weak volumes and Infosys worried on pricing. We believe that for the next two quarters, both pricing and volumes will come under pressure. Though the rising risk aversion among investors and relatively better earnings predictability for major players in IT services bodes well for them, the severe business challenges over the next two quarters are likely to limit any upsides.

Volumes are a key risk for 4QFY09: Volume growth was reasonably good in QE December 2008, at 2.0-2.5%, despite more incidents of clients enforcing the holidays. Pricing came under modest pressure (0 to -1.5% QoQ). As for clients demanding price cuts, Indian IT services vendors have handled the issue well so far, by offering ways to reduce overall cost of servicing rather than by taking like-to-like price cuts. Furthermore, larger vendors have mostly refrained from undercutting their peers, helping the industry arrest sharp price declines. Going forward, however, we believe volumes are at a greater risk in the near term (4QFY09 and 1QFY10). Also, as witnessed in the previous slowdown, we believe the duration of price cuts will be prolonged, with like-to-like price cuts in all four quarters in FY10.

Margins defense would likely need tougher decisions: Margins were helped by net depreciation of the rupee, a better offshore mix, and sharp cuts in S&M expenses. S&M expenses dropped 10% QoQ at Infosys, to a 5-year low in proportion to revenues; at TCS, they declined ~3.5% QoQ and contributed to 160bps expansion in margins. Going forward, we believe management will have to make tougher choices of lower variable salaries and even cutting salaries (iFlex has already cut freshers' salaries by 25%) to counter pricing pressures.

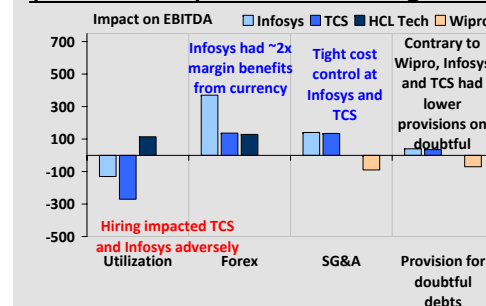
Infosys in for a revenue decline in FY10? We expect Infosys to just about meet the low end of its guidance for 4QFY09. In such a scenario, even to achieve 0% YoY growth (US\$ revenues), it needs to register 3.4% CQGR during FY10. A worsening macro environment and likely revenue decline during 1HFY10 (HoH) makes the situation even more challenging. For Wipro, the revenue decline could be even steeper, as it needs to achieve a ~5% CAGR during FY10 to manage 0% YoY growth (US\$ revenues). However, Infosys's likely lower forex losses in FY10 (net forex losses were 8.5% of PBT in 9mFY09) imply that earnings could outpace revenue growth despite margin pressures. As such, we believe it is likely to guide for a ~Rs100 EPS for FY10 in its April results.

Strong hiring has been dragging down margins at Infosys and TCS



Source: IIFL Research; * Technical employees only

Tight cost control despite pricing pressures helped maintain margins



Source: IIFL Research

Valuation summary

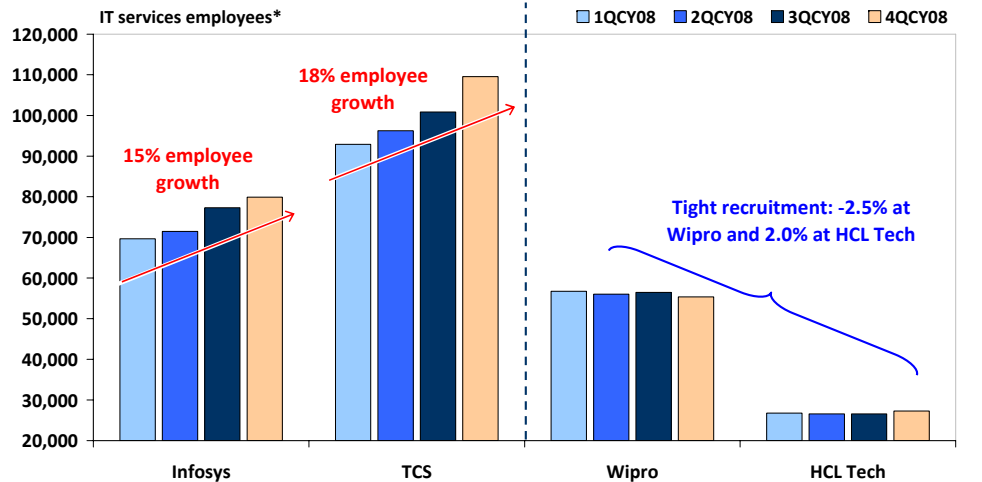
Company	Price (Rs)	Mcap (US\$ m)	3m avg vol (US\$ m)	Employees (1QFY09)	FY09 eps	FY10 eps	FY09 Pex	FY10 Pex	FY09 Mcap/Rev	FY10ii eps YoY	Rec.
TCS	491	9,826	22.6	121,610	54.6	54.0	9.0	9.1	2.1	-1.1%	REDUCE
Infosys	1,280	14,994	58.0	100,306	102.1	103.4	12.5	12.4	4.4	1.3%	REDUCE
Wipro	220	6,573	12.0	97,552	26.2	23.9	8.4	9.2	1.6	-8.5%	REDUCE
Tech Mahindra	235	584	1.1	25,135	79.6	69.4	3.0	3.4	0.8	-12.8%	REDUCE
Mindtree	207	165	0.4	7,924	19.6	46.4	10.6	4.5	1.1	136.7%	REDUCE
Patni* ²	119	338	1.0	14,701	34.4	30.9	3.5	3.9	0.6	-10.2%	SELL

Source: IIFL Research

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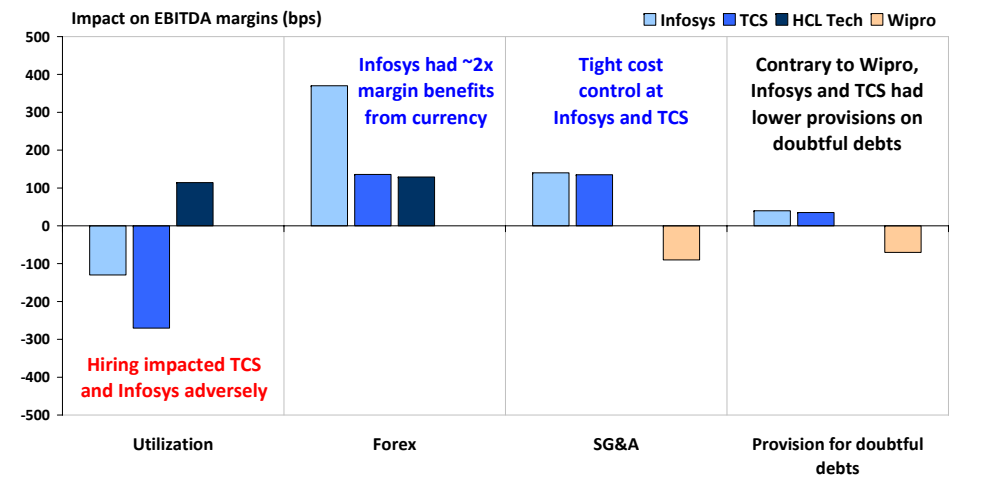
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Figure 1: Hiring at TCS and Infosys has been high, but we believe it has more to do with commitments being honoured and voluntary attrition remaining low than any improvement in the volume outlook. Going forward, we believe managements have to trim down employees and involuntary attrition could be higher.



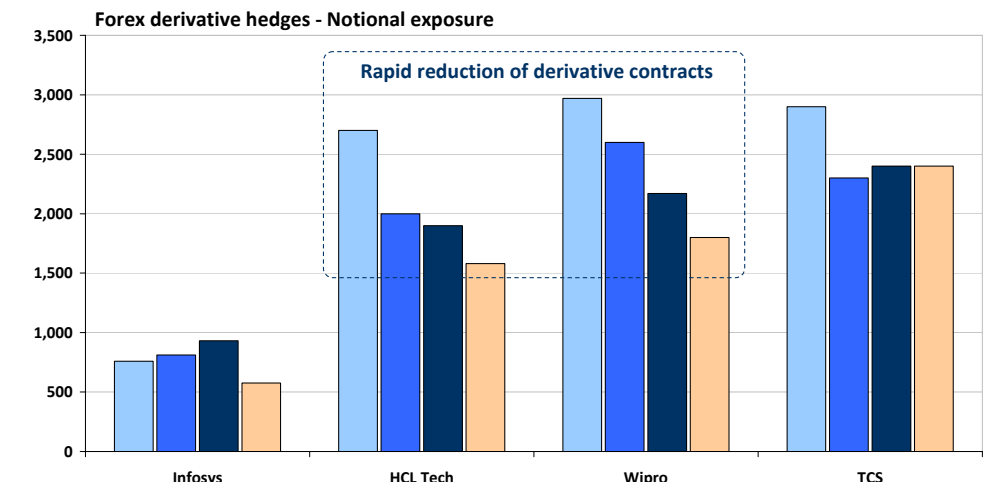
Source: IIFL Research; * Technical employees only

Figure 2: Tight cost control despite pricing pressures helped maintain margins



Source: IIFL Research

Figure 3: Forex hedges have decreased across the board. HCL Tech has cancelled US\$700m worth of forex hedges and Wipro has entered into little incremental hedges. However, given the heavy depreciation of the rupee, we believe managements are better off by eliminating the currency risk and hedging more at the prevailing rate.



Source: IIFL Research

Figure 4: Infosys – management expressed concerns on pricing

	Guidance		QoQ	
	Low	High	at Low	at High
Revenue (US\$ m)	1,128	1,170	-3.7%	-0.1%
Revenue (Rs m)	54,940	56,990	-5.0%	-1.5%
EPS (Rs)	26.49		-7.7%	

Source: IIFL Research

Figure 5: Infosys – Revenue degrowth (US\$) in FY10 is not unlikely

Scenarios for US\$ revenues	FY09	FY10	YoY
Achieves lower end of 4QFY10 - 0% cqgr in FY10	4,670	4,511	-3.4%
Achieves higher end of 4QFY10 - 0% cqgr in FY10	4,712	4,679	-0.7%
Achieves lower end of 4QFY10 - 1.4% cqgr in FY10	4,670	4,670	0.0%
Achieves higher end of 4QFY10 - 0.3% cqgr in FY10	4,712	4,712	0.0%

Source: IIFL Research

Figure 6: Wipro - worrisome 4QFY09 guidance

	Revenues (US\$ m)	QoQ
3QFY09	1,100	
4QFY09	1,045	-5.0%
4QFY09 - excluding Citos*	1,025	-6.8%

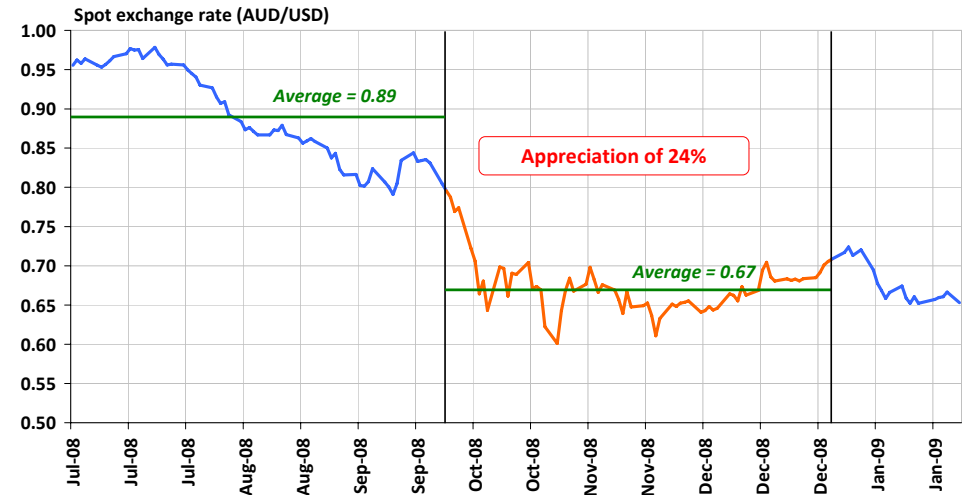
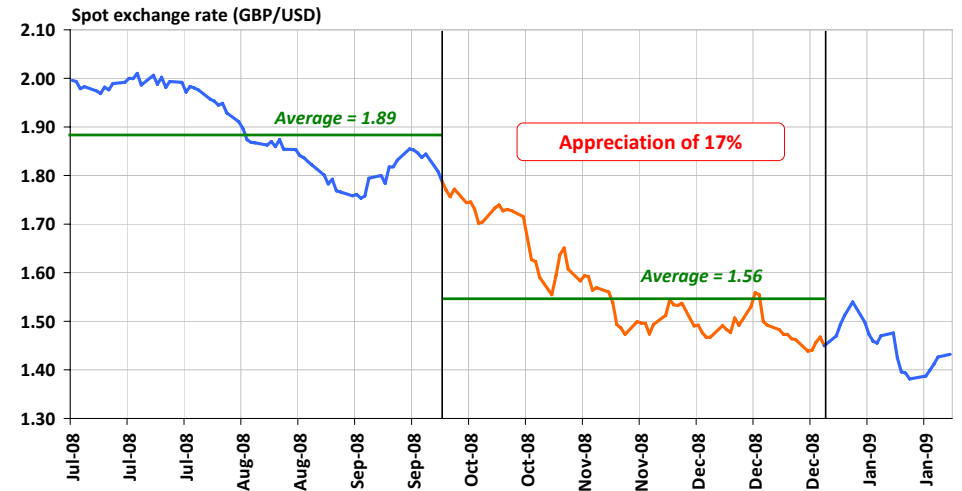
* Assuming revenues from Citos at US\$20m for 4QFY09, Source: IIFL Research

Figure 7: Wipro has to register 5% CQGR (organic US\$ revenues) to avoid a revenue decline (YoY US\$) in FY10

US\$ m	FY09	FY10	% YoY
Achieves 4QFY09 guidance - 0% CQGR in FY09	4,322	4180	-3.3%
Achieves 4QFY09 guidance - 3.4% CQGR in FY09	4,322	4322	0.0%
Achieves 4QFY09 guidance - 0% CQGR in FY09; excluding Citos acquisition	4,302	4100	-4.7%
Achieves 4QFY09 guidance - 4.9% CQGR in FY09; excluding Citos acquisition	4,302	4,302	0.0%

Source: IIFL Research; Assuming revenues from Citos at US\$20m for 4QFY09

Figure 8: Significant depreciation of GBP and AUD (vs US\$) offset the benefits of a weak rupee (against the US\$) and resulted in US\$ guidance misses



Source: IIFL Research

Figure 9: 3QFY09 review

	QoQ				YoY				Comments
	Infosys	TCS	Wipro	HCL Tech	Infosys	TCS	Wipro	HCL Tech	
Revenue (US\$)	-3.7%	-6.6%	-0.9%	1.3%	8.0%	-1.1%	12.4%	11.0%	
EBITDA	13.2%	7.0%	2.3%	5.5%	45.9%	23.3%	19.7%	44.2%	
EBITDA margins	199 bps	59 bps	11 bps	7 bps	251 bps	11 bps	-84 bps	110 bps	
Business metrics									
Volume growth – blended	2.0%	2.4%	2.2%	1.1%	14.5%	16.1%	11.7%	11.9%	Constant-currency pricing has been stable at TCS, Wipro and HCL Tech. At Infosys, it declined by 1.5% onsite and 0.2% offshore (QoQ)
Volume growth – onsite	-1.0%		1.2%	-0.5%	9.2%	12.3%	10.1%	9.1%	
Volume growth – offshore	3.3%		2.6%	1.6%	16.9%	17.8%	12.4%	12.9%	
Pricing – bended	-6.1%	-5.3%	-3.2%	-7.4%	-6.1%	-9.9%	0.8%	-7.9%	
Pricing – onsite	-5.8%	-4.1%	-3.9%	-8.9%	-5.3%	-8.3%	-0.2%	-11.2%	
Pricing – offshore	-4.6%	-3.9%	-1.6%	-5.3%	-4.1%	-9.1%	3.0%	-3.2%	
Employee metrics									
Total utilizat growth	2.8%	7.4%	-0.6%	0.5%	16.3%	21.3%	5.7%	10.4%	'Robust' employee addition at TCS and Infosys affected margins
IT services employee growth	3.3%	8.7%	-1.9%	2.1%	16.8%	20.4%	1.0%	11.8%	
BPO employee growth	-2.2%		-1.1%	-3.1%	10.0%	26.0%	9.4%	7.5%	
Others employee growth	10.3%		0.0%	-1.4%	30.5%	15.6%	-4.5%	8.4%	
Efficiency metrics									
Utilization w/o trainees – change	80 bps	-120 bps	10 bps	30 bps	-180 bps	220 bps	120 bps	-50 bps	Even core utilization dropped at TCS
Offshore volume % - change	90 bps	100 bps	29 bps	39 bps	144 bps	100 bps	44 bps	64 bps	
Utilization w/o trainees	74.5%	79.9%	79.4%	75.0%					
Offshore volume %	70.2%	71.0%	69.7%	75.3%					
Client metrics									
Top client share %	6.2%	5.1%	2.5%	0.0%					
Top 10 share	27.2%	26.3%	20.2%	35.1%					
ARPC (top 10 only)	127.4	156.0	88.9	71.8					
ARPC/Revenues	2.7%	2.6%	2.0%	3.5%					
Top client growth	-21.4%	-19.3%	-8.2%		-29.5%	-26.9%	8.0%		
Top 10 growth	-6.5%	-8.7%	-1.9%	-2.8%	-9.6%	-12.4%	6.6%	3.0%	

	QoQ				YoY			
	Infosys	TCS	Wipro	HCL Tech	Infosys	TCS	Wipro	HCL Tech
Top client revenues (US\$)								
Top 10 revenues (US\$)								
NA growth	1.0%	-1.9%	0.1%	5.8%	11.8%	4.3%	12.0%	20.6%
Europe growth	-12.6%	-11.2%	-3.8%	-4.3%	-3.7%	-1.1%	8.6%	1.2%
Others growth	-7.4%	-11.4%	0.5%	-4.5%	18.7%	-13.6%	22.0%	-5.0%
NA %	64.5%	52.2%	60.0%	59.8%				
Europe %	25.5%	29.2%	26.1%	27.1%				
Others %	10.0%	18.6%	13.9%	13.1%				
BFSI growth	0.6%	-6.6%	-2.0%	1.3%	2.4%	-5.8%	20.2%	4.5%
Manufacturing growth	-6.1%	-10.0%	-0.9%	0.7%	45.0%	-16.1%	15.9%	18.7%
Retail growth	0.3%	16.2%	5.1%	-4.8%	13.4%	53.9%	26.9%	-2.9%
Telecom growth	-15.4%	-13.2%	-2.6%	-3.6%	-14.5%	-10.7%	-0.7%	8.2%
Others growth	-7.4%	-11.4%	0.5%	-4.5%	18.7%	-13.6%	22.0%	-5.0%
BFSI %	34.9%	41.9%	26.0%	27.5%				
Manufacturing %	19.6%	10.6%	19.4%	30.5%				
Retail %	12.6%	11.2%	17.5%	7.7%				
Telecom %	16.7%	15.8%	29.0%	15.7%				
Others %	10.0%	18.6%	13.9%	13.1%				

Source: IIFL Research

Market leaders to the fore

Auto industry volumes possibly showed the first signs of bottoming out in the month of January. Though volumes were still down on a YoY basis, there was some improvement over the previous month. Our channel checks suggest that the financing environment now is much better compared to the situation in October. Maruti's 6% YoY volume growth in January came in as a pleasant surprise, in contrast to the 13% YoY decline in Hyundai's domestic volumes. While Hero Honda continues to outperform the industry, Bajaj's domestic retail sales were much better than dispatch numbers. Another key trend is the marked slowdown in exports across manufacturers.

Maruti Suzuki

Market leader outperforms the industry

While volumes for most other manufacturers declined during the month, Maruti outperformed the industry in January, delivering domestic volume growth of 5.6% YoY. We reckon Maruti's passenger-car market share improved by more than 300bps during the month. We believe this was largely on account of the company continuing with discount schemes and building up inventories at the dealer end. Our channel checks suggest that the company continues to offer the same discount schemes in February, albeit after taking a 1-2% price hike on select models.

Figure 1: Domestic volumes for key car manufacturers

Manufacturer	Jan-09	% YoY
General Motors India	3,937	-28%
Honda Siel Cars India	5,773	-25%
Hyundai Motor India	21,016	-13%
Mahindra Renault	597	-74%
Maruti Suzuki India *	59,050	9%
Tata Motors	15,406	1%

Source: Companies, IIFL Research

*For Maruti's domestic volumes, we have not included Omni sales

Volumes in the key A2 segment grew 2% in spite of the company's supplier problems with the *A-star* (Domestic *A-star* despatches were very low, at ~500 vehicles in the month). Export volume growth, at 3% YoY was disappointing, given that the company commenced *A-star* exports in January. Adjusting for *A-star* exports at ~1,600 vehicles, the company's overall export volumes declined 32% YoY.

Figure 2: Slowdown in domestic volumes, especially in entry-level cars, continues

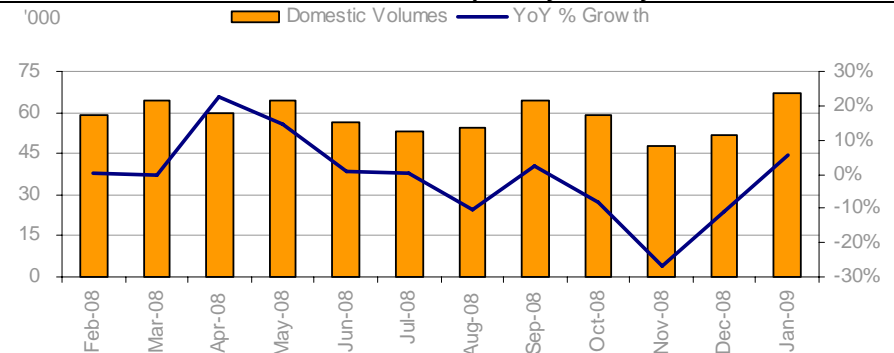
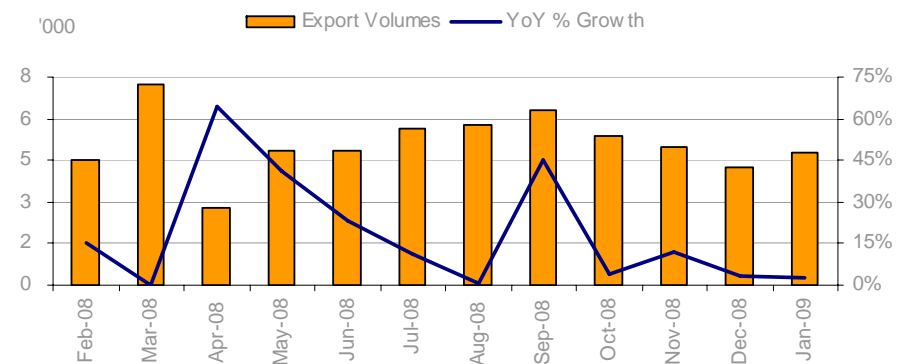


Figure 3: Export volumes up 50% YoY



Source: Company, IIFL Research

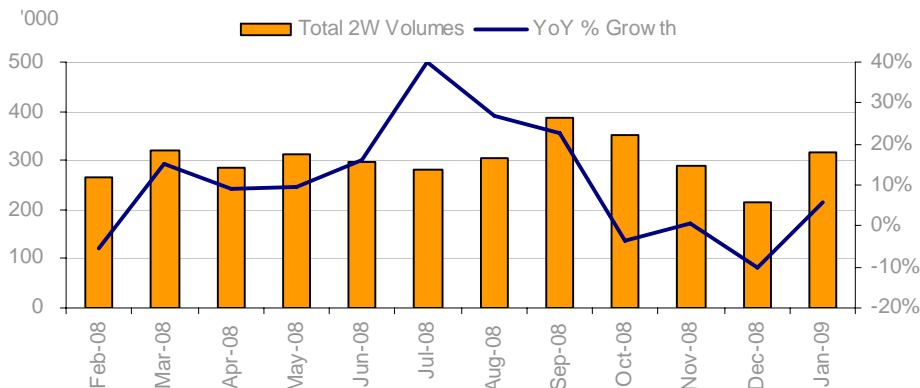
Two-wheelers

Two-wheeler retail sales during January were robust, as the two largest players, Hero Honda and Bajaj, have recently launched new models. The liquidity situation for NBFCs, who are key financiers for two-wheelers, has improved significantly since October 2008. Interest rates have also come down and select banks are more willing to lend to the segment. Improved availability of finance should boost volumes. Honda Motor Scooters India (HMSI) and Yamaha continue to do very well. HMSI's two-wheeler volumes increased 22% YoY to 94,982 vehicles, led by motorcycle sales, which increased 58% YoY to 40,153 vehicles. Yamaha reported almost a three-fold increase in sales volumes to 18,320 vehicles.

Hero Honda: another month of industry-beating growth

Hero Honda managed to outperform the industry, as it has done for almost a year now. The company's volumes grew 6% YoY to 315,458 vehicles. The company has further consolidated its leadership and now has a market share of more than 56% in the domestic motorcycle industry.

Figure 4: Hero Honda off to a good start for 2009 with 6% volume in January

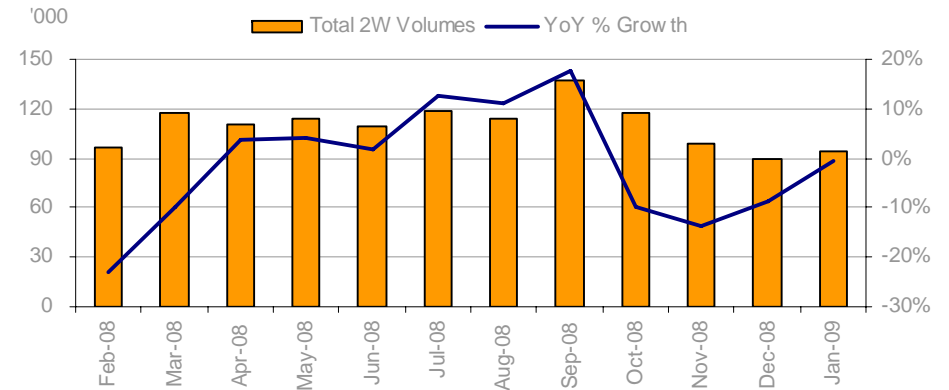


Source: Company, SIAM, IIFL Research

TVS Motors: motorcycles lead two-wheeler volumes

The company's two-wheeler volume sales remained flat YoY. Motorcycle volumes grew 13% YoY to 43,990 vehicles. Overall two-wheeler volumes stood at 93,729 vehicles for January. Export growth continued; in January, export volumes increased 7% YoY to 14,000 vehicles.

Figure 5: Flat volumes with decline being halted by robust motorcycle volumes

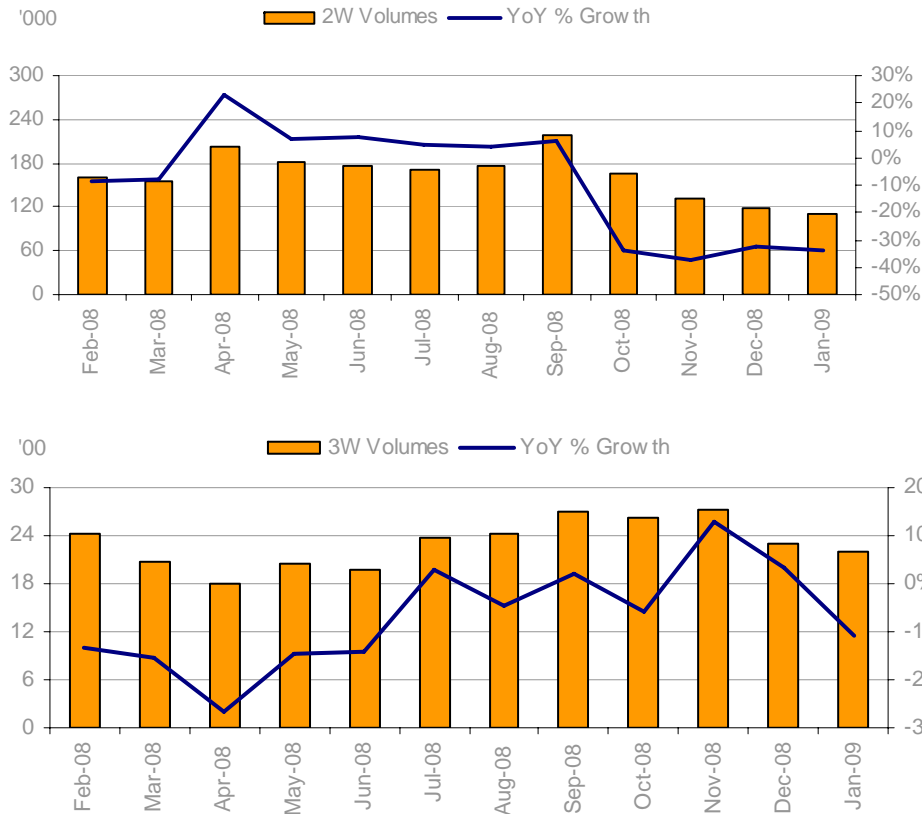


Source: Company, SIAM, IIFL Research

Bajaj Auto: Inventory correction exercise almost complete

Bajaj Auto's retail sales were much better—25,000 vehicles more—than despatch volumes. This has helped bring down the dealer-level inventory to 85,000 vehicles as at end-January. The company was earlier targeting an inventory correction of ~8,000-10,000 vehicles per month over January-March. With much of the targeted inventory correction for the quarter already accomplished in January, despatch volumes should be better from the month of February. Exports, however, slowed down considerably, declining 25% MoM to 54,027 vehicles. The company launched the XCD 135cc in January, and is targeting to sell 20,000+ of these bikes a month from February onwards. Three-wheeler volumes continue to be low.

Figure 6: Growth in exports helped



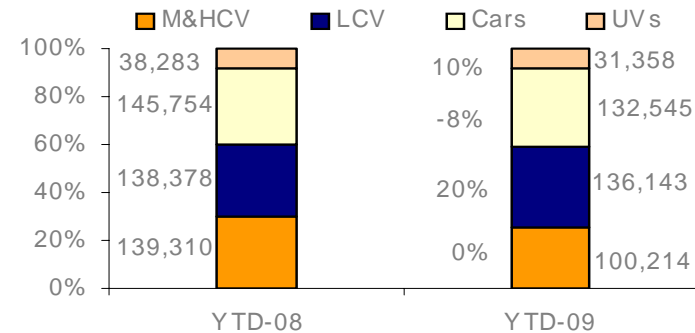
Source: Company, IIFL Research

Tata Motors

Faint signals of fiscal package impact

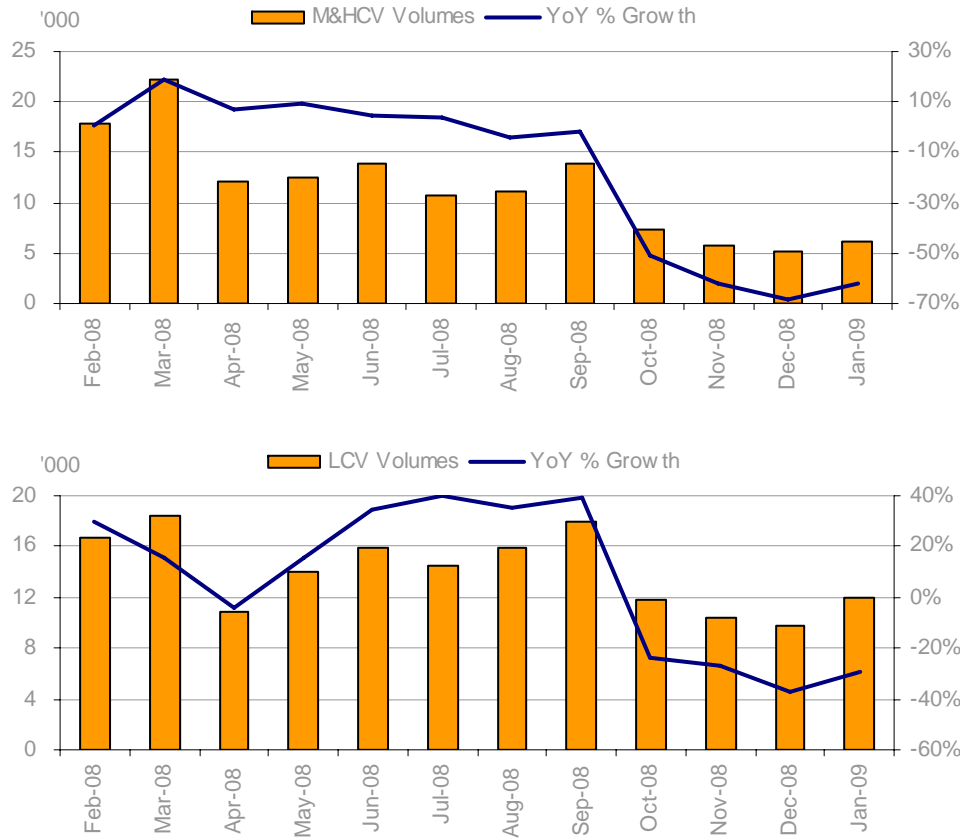
Tata Motors's domestic M&HCV volumes were down 63% YoY but up 18% MoM. The success of the *Ace* family helped limit LCV volumes' decline to 30%. The recently-launched *Indica Vista* helped limit the decline in passenger car sales to only 2.5% YoY, with a sharp 78% increase MoM. *Indigo* volumes, led by the *CS* version, were up 37% YoY to 3,973 vehicles. UV volumes continue to slide, declining 40% YoY to 2,925 vehicles. We believe the company will have to launch new models in the UV segment to arrest this decline, as key competitor Mahindra & Mahindra has recently launched the *Xylo* and is looking to launch new versions of both the *Scorpio* and the *Bolero*. Like other manufacturers, Tata Motors also saw exports declining by a sharp 70% YoY as markets around the world are reeling from the economic slowdown. Though not part of the numbers, the successful launch of Fiat *Linea* deserves a mention.

Figure 7: Sales by segment: LCVs led by the Ace family continue to do well



Source: Company, IIFL Research

Figure 8: The fiscal stimulus package is showing some faint signs of revival in the CV industry



Source: Company, IIFL Research

Figure 9: The launch of the Indica Vista has led to a recovery in car segment volumes; UVs continue to remain weak



Source: Company, IIFL Research

Mahindra & Mahindra

Xylo launch boosts volumes

M&M’s overall volumes declined 19% YoY, with automotive volumes declining by 21% YoY. Tractor volumes too dropped 14% YoY in the month. The key UV segment’s volumes declined 11% YoY, but were up 78% over the previous month, as the company received an encouraging response to the launch of the Xylo. This launch, plus the fact that a refurbished *Scorpio* is expected in the next few weeks, led to a steep YoY decline in *Scorpio* volumes.

Exports also declined sharply—by 80% YoY in the automotive segment and by 70% YoY in the tractors segment. M&M reported a huge forex loss in its 3Q results on account of cancellation of forex hedges taken for exports, which didn’t materialise. If this trend in exports continues, there could be significant losses in the quarters ahead. With the improving credit situation, tractor volumes too have improve sequentially. *Logan* volumes continue to be very weak, as customers wait for the launch of the refurbished model.

Figure 10: UV sales were helped by the launch of the Xylo and grew 78% MoM, tractors too have grown 26% sequentially



Source: Company, IIFL Research

Appendix

Figure 11: Maruti's sales

	Jan-08	Dec-08	Jan-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
A1 - M800	5,470	2,907	5,571	1.8	91.6	57,455	42,878	(25.4)
C - Omni, Versa	8,861	5,350	7,759	(12.4)	45.0	74,420	64,286	(13.6)
A2 - Alto, Zen, Wagon R, Swift	45,957	36,831	46,899	2.0	27.3	413,352	405,650	(1.9)
A3 -Esteem, SX4, Dzire	2,939	6,524	6,580	123.9	0.9	39,841	59,281	48.8
Cars	63,227	51,612	66,809	5.7	29.4	585,068	572,095	(2.2)
MUV - Gypsy, Grand Vitara	232	417	186	(19.8)	(55.4)	3,024	5,560	83.9
Domestic	63,459	52,029	66,995	5.6	28.8	588,092	577,655	(1.8)
Exports	4,648	4,264	4,774	2.7	12.0	42,638	49,644	16.4
Total	68,107	56,293	71,769	5.4	27.5	630,730	627,299	(0.5)

Source: Company, IIFL Research

Figure 12: Tata Motors volume sales

	Jan-08	Dec-08	Jan-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
M&HCV	16,515	5,249	6,222	(62.3)	18.5	139,310	100,214	(28.1)
LCV	17,097	9,704	12,044	(29.6)	24.1	138,378	136,143	(1.6)
Total CV	33,612	14,953	18,266	(45.7)	22.2	277,688	236,357	(14.9)
Cars	16,108	8,824	15,710	(2.5)	78.0	145,754	132,545	(9.1)
UV	5,076	1,442	2,955	(41.8)	104.9	38,283	31,358	(18.1)
Total	54,796	25,219	36,931	(32.6)	46.4	461,725	400,260	(13.3)

Source: IIFL Research

Figure 13: Bajaj Auto's sales

	Jan-08	Dec-08	Jan-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
Two wheelers	167,592	119,215	110,363	(34.1)	(7.4)	1,846,083	1,654,549	(10.4)
Three wheelers	24,601	22,948	21,985	(10.6)	(4.2)	245,237	231,684	(5.5)
TOTAL 2 & 3 WHEELERS	192,193	142,163	132,348	(31.1)	(6.9)	2,091,320	1,886,233	(9.8)
Exports out of the above	43,533	72,744	54,027	24.1	(25.7)	504,124	674,907	33.9
Total domestic volumes	148,660	69,419	78,321	(47.3)	12.8	1,587,196	1,211,326	(23.7)

Source: Company, IIFL Research

Figure 14: Hero Honda sales

	Jan-08	Dec-08	Jan-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
Total	298,050	215,931	315,458	5.8	46.1	2,751,117	3,039,603	10.5

Source: IIFL Research

Figure 15: Mahindra & Mahindra sales

	Jan-08	Dec-08	Jan-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
UV	15,071	7,523	13,397	(11.1)	78.1	120,833	118,962	(1.5)
LCV	688	302	503	(26.9)	66.6	8,591	7,383	(14.1)
3w	2,824	2,305	2,823	(0.0)	22.5	27,974	37,075	32.5
Logan	2,301	300	597	(74.1)	99.0	20,072	11,453	(42.9)
Autos (dom)	20,884	10,430	17,320	(17.1)	66.1	177,470	174,873	(1.5)
Exports	1,425	525	291	(79.6)	(44.6)	9,510	7,739	(18.6)
Total Autos	22,309	10,955	17,611	(21.1)	60.8	186,980	182,612	(2.3)
Tractors	8,053	5,487	6,931	(13.9)	26.3	83,789	82,323	(1.7)
- dom	7,174	5,051	6,666	(7.1)	32.0	77,016	76,282	(1.0)
- exports	879	436	265	(69.9)	(39.2)	6,773	6,041	(10.8)
Total Vehicle Sales	30,362	16,442	24,542	(19.2)	49.3	270,769	264,935	(2.2)

Source: IIFL Research

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Events calendar – February 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
2 Dec Exports ↓ 1% Dec Imports ↑ 9%	3	4	5 ACC WPI for 24 Jan	6 Ambuja Cement	7
9	10	11	12 Patni WPI for 31 Jan	13	14
16	17	18	19 WPI for 7 Feb	20 ABB	21
23	24	25	26 WPI for 14 Feb	27	28

Black: Quarterly results, Blue: Economic data, Red: India Holiday

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Economics / Politics	<ul style="list-style-type: none"> RBI's Monetary Policy meeting (end Jan) 	<ul style="list-style-type: none"> India's national elections State elections in Andhra Pradesh, Orissa, Sikkim RBI's Monetary policy meeting (end April) 	<ul style="list-style-type: none"> RBI's Monetary policy meeting (end July) 	<ul style="list-style-type: none"> RBI's Monetary policy meeting (end October) 	
Auto	<ul style="list-style-type: none"> Tata Motors - Launch of the eagerly awaited Nano. Maruti – launch of the Splash 	<ul style="list-style-type: none"> Tata Motors – Repayment of the US\$3bn bridge loan taken for the JLR acquisition (Jun-09) 		<ul style="list-style-type: none"> Tata Motor's Nano plant at Sanand to start operations 	<ul style="list-style-type: none"> M&M's Chakan plant with a capacity of 320,000 vehicles to start operations.
Cement	<ul style="list-style-type: none"> Dalmia Cement's 2.3mtpa Cuddapah plant to start production Kesoram 1.7 mtpa cement capacity expansion OCL's 2.0 mtpa Orissa plant to start India Cements 1.5 mtpa Malkapur, AP plant to start Deccan cements 1.1 mtpa AP plant to start 	<ul style="list-style-type: none"> ACC's 1.2 mtpa Bargarh plant to start JK Cement 3.5 mtpa Karnataka plant to start Orient Cement 1.6 mtpa Devapur, AP plant to start Grasim's 4.4 mtpa Kotputli expansion to commence prod. 	<ul style="list-style-type: none"> Lafarge's 1.3 mtpa Sonadih plant to start Dalmia Cements 2.3 mtpa Ariyalur plant to start Zuari Cements 2.4 AP mtpa plant to start ACC 3 mtpa Wadi, Kar plant to start Ambuja Cement's 1.5 mtpa Dadri plant to start JK Lakshmi Cement 0.5 mtpa plant to start 	<ul style="list-style-type: none"> JP Associates 3.0 mtpa HP plant to start NCL Industries 1.5 mtpa AP plant to start Raghuram Cement AP 2 mtpa plant to start Andhra Cement 1 mtpa AP plant to start Ambuja Cement 1.5 mtpa Panipat plant to start Shree Cement 1.0 mtpa plant to start 	
Infrastructure				<ul style="list-style-type: none"> BHEL Capacity goes up from 10 GW to 15 GW 	

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Metals	<ul style="list-style-type: none"> • JSW: Capacity expansion to 6.8mtpa (Feb-09) 				
Oil & Gas	<ul style="list-style-type: none"> • Commercial production from RIL KG D-6 starts • Commercialisation of RPL refinery 				
Pharma	<ul style="list-style-type: none"> • Sun Pharma: Israeli supreme court decision on acquisition of Taro shares • Glaxo Pharma: Launch of Allermist in the domestic market 	<ul style="list-style-type: none"> • Dr Reddy's: Full impact of the AOK contracts in the German generic market • Dr Reddy's: ANDA filing for generic fondaparinux in US • Jubilant: Generic sestamibi approval by USFDA • Glenmark: Data from phase II study of melogliptin in diabetes mellitus • Glaxo Pharma: Launch of an in-licensed anti-fungal product in the domestic market 		<ul style="list-style-type: none"> • Max Healthcare: Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi • Ranbaxy: Launch of generic Valaciclovir under exclusivity in US 	
Real Estate	<ul style="list-style-type: none"> • DLF – Buy back of shares- upto Rs 11bn & cap price at Rs600/share • DLF – Capital raising by DAL • Unitech to raise funds via stake sale in hotel projects • Sobha – Right issue upto Rs3.5bn • Puravankara Projects – Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project 				

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Telecom	<ul style="list-style-type: none"> • RCOM expected to launch GSM services nationwide 	<ul style="list-style-type: none"> • Idea Spice merger expected to receive court approval, and get completed • 3G auctions expected to be held 			
Utilities	<ul style="list-style-type: none"> • Lanco's 300MW Amarkartak-I unit to start operations • Tata Power's 250MW unit at Trombay to begin operations • Bidding for 4000MW Tilaiya UMPP 		<ul style="list-style-type: none"> • CESC Budge Budge (250MW) unit operational • Suzlon to start production from new facilities 		
Others	<ul style="list-style-type: none"> • Arshiya International – Capital raising to fund its FTWZ & Rail business • EKC cancels expansion plans in China (300,000 cylinders each in FY10 and FY11) 	<ul style="list-style-type: none"> • 200,000 billet pierced industrial cylinders capacity at Gandhidham comes on stream • 5,000 Jumbo cylinder plant at Gandhidham to start operations 		<ul style="list-style-type: none"> • EKC's Kandla SEZ plant to manufacture 300,000 steel plate cylinders for exports to Europe to start operations. 	



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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