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CREDIT SUISSE

Research Flash

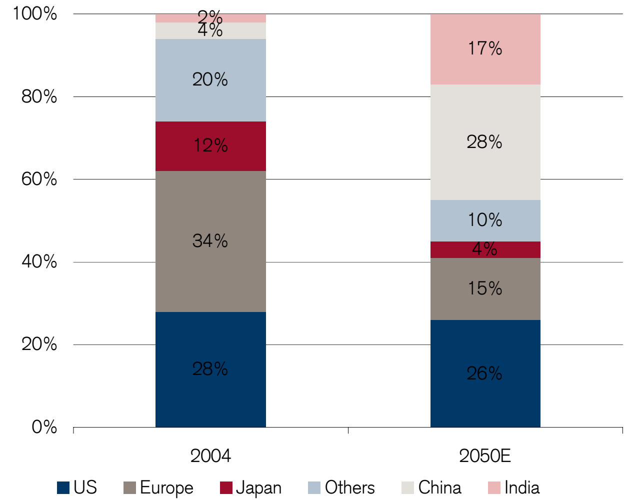
Investment Ideas
Initiating on India – The Dancing Elephant

Private Banking

India – an emerging global power

"No power on earth can stop an idea whose time has come". These words by the former Finance Minister and current Prime Minister Dr Manmohan Singh in 1991 marked the beginning of India's rise in the world economy. In the last five years, India has been one of the fastest growing economies with an average GDP growth rate of approximately 7.6% p.a., with the last two years registering growth rates above 9% p.a. Consequently, India has become the latest entrant to the elite trillion dollar economy club and the Rupee has been one of the best performing currencies with 10% (ytd) appreciation. According to the United Nations, with the current growth rates, India will command 17% of world GDP by the year 2050, compared with just 2% in 2004 (Figure 1).

Figure 1
India to become third largest economy by 2050 (GDP)



Source: Credit Suisse, United Nations

India – From 1991–2007

Before discussing the strengths and the future investment themes in India, let us step back a little in history to briefly discuss the reasons for India's rise. The foundation of the current growth rates were laid in the early 1990s with the opening of the Indian economy in response to the balance of payment

Highlights

- Increased infrastructure focus and a strong young population with rising income levels bodes well for India's growth rates in the long term.
- Consumption and investment-led economic growth makes India less vulnerable to a probable slowdown in the world economy.
- Stretched valuations make us neutral on the Indian markets. Our cautious stand is primarily due to the deteriorating risk/ reward ratio (upside of less than 5% to our one-year Sensex target), rather than any concerns on the growth prospects.

Investment ideas

Larsen and Toubro (HOLD)

India's largest engineering company, proxy to the massive infrastructure capex, good earnings visibility, positives built into the price

Bharat Heavy Electricals Ltd. (HOLD)

One of India's biggest power equipment and engineering companies, play on the increasing power sector capex, strong order-book position drives earnings growth, positives built into the price.

Crompton Greaves Ltd. (HOLD)

India's leading company in the power transmission and distribution (T&D) sector, play on the increasing investments in the domestic power T&D sector and the strong corporate capex cycle, restructuring of international operations to drive faster bottom line growth, positives built into the price.

Important disclosures are found in the Disclosure appendix

crises triggered by the Gulf War. The Liberalization program, as it is called, dismantled the license raj (government permits for import/export/ capacity expansions), reduced red tape and government monopolies and more importantly opened a number of sectors for automatic Foreign Direct Investment (FDI). In other words, it marked a shift from the "socialist/mixed economy approach" to a "capitalist economy" and offered the private sector the chance to play a more dominant role. Since then, the overall development of the liberalization program has remained more or less in the same direction with initiatives such as deregulation of interest rates, lowering of entry barriers in the banking sector for domestic/foreign players, higher foreign ownership limits in listed companies, abolition of the Capital Issues Committee, disinvestment of public sector companies, higher FDI levels etc.

In the late 1990s and early 2000s, three important events enabled India to move to a higher growth trajectory:

- Rise of the Information Technology industry. While everybody is aware of the rise of the Indian IT industry and India being the back-office of the developed economies, the underplayed fact is the significant employment opportunities created by the sector. Based on NASSCOM (industry body) estimates, the sector directly/indirectly employed more than seven million people in FY2007 compared with less than a million employed in 1998.
- Increased government spending on infrastructure. Recognizing the need for better infrastructure to promote higher growth rates, the government of India initiated programs for roads (Golden Quadrilateral project, NSEW corridor), power ("Power for all by 2012") and upgrading of the airport with the help of private participation, amongst others. Increased infrastructure spending was good news for the underutilized capacities of Indian corporates.
- Fall in lending/interest rates. Between January 2001 and August 2003, the yield on 10-year G-sec fell from 10.8% to 5.5% – a significant decline of 500 bp. The softer interest rate regime gave a tremendous push to the housing sector and created a market for retail products such as home, auto and personal loans, thereby kicking off a wave of consumer spending. It also lowered the cost of borrowings for the corporates, thereby making them globally more competitive.

We believe that increased job creation , heightened infrastructure impetus and the rise of consumer spending coupled with the opening of the Indian economy in 1991 had a positive impact on India's GDP growth rates and helped the country to move up from the earlier "Hindu Growth Rate" of 4% (from FY1952– 1991) to 6.3% (FY1992–2007, Figure 2). The positive business environment also contributed to the rise of globally competitive Indian companies such as Tata Steel, Infosys and Reliance Industries. A decade back, even the most optimistic Indian would not have thought that Tata Steel would become the fifth largest steel maker or Reliance Industries would operate the world's largest grassroots oil refinery. We believe one of the most important characteristic of the high growth phase of the last two decades is the economy's resilience to external shocks and considerable amount of stability. The Indian economy was relatively resilient to the impacts of the 1997–1998 East Asian currency crises, sanctions such as those after the 1998 nuclear tests and the India-Pakistan conflict during May-June 1999.

The Bombay Stock Exchange index (Sensex) has risen more than fourfold over the last five years on the back of buoyant GDP numbers, strong corporate earnings, bullish investor sentiment and soaring liquidity (Figure 3). The opening of the Indian economy and the primary markets in the early 1990s has resulted in the structural growth of the market, both in terms of the breadth of companies and sectors available for investment as well as the size of the companies. This is indicated by the fact that the market capitalization as a percentage of GDP has increased from less than 30% in the mid-1990s to more than 90% currently.

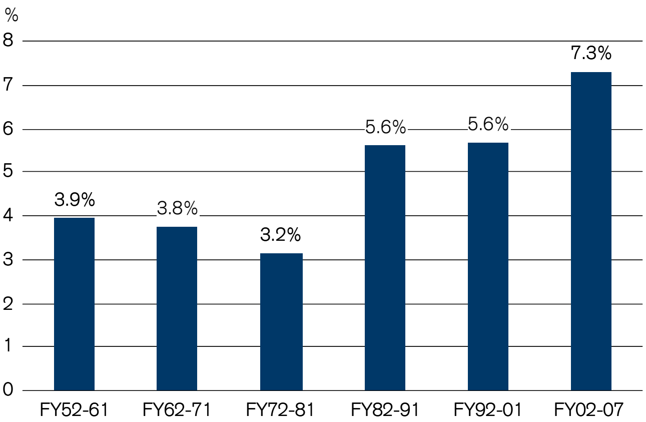
Bearing fruit

The successful journey of the Indian economy over the last two decades can be summed up by the following facts:

- Six Indian companies listed in the 2007 Global Fortune 500, compared with only one in the year 2000

Figure 2

India's GDP growth rate (p.a.)



Source: Credit Suisse/Government of India

Figure 3

BSE Sensex performance

Source: Credit Suisse/IDC

- According to the World Wealth Report 2007, India recorded the second highest increase in HNWI population – 20.3%.
- Total forex reserves stand at USD 230 billion – up 800% in the last ten years.

Let us now discuss some of the strengths and emerging trends, which will enable India to sustain its growth momentum.

Demographic dividend

India's huge population of 1.15 billion, which was once viewed as a curse, today has become a blessing in disguise. India is and will remain for some time one of the youngest countries in the world. This is evident from the fact that in 2006, 63% of India's population (approximately equal to Europe's total population) was between the age of 15–60 years and this percentage will even increase to 69% by 2026 (Figure 4, Figure 5). What this means is that a typical Indian family will earn and save more as the dependency ratio also declines. According to some estimates, in 2020, the average Indian will be only 29 years old, compared with 37 in China and USA, 45 in Western Europe and 48 in Japan. The experience of Asia shows that the economic miracles in Japan and the "Tiger Economies" of Southeast Asia and recently China occurred at a similar stage of demographic transition where the share of working population grew sharply. The presence of a skilled young population in an environment where investment is expanding and the industrial world is ageing could be a major advantage. The current unemployment rate is no cause for alarm, and we believe that if the Indian government puts in place a proper education system and higher employment-creating opportunities for the vast young population, India can accelerate its growth rates further. The country is indeed in the midst of a process where it has a window of opportunity created by its demographic dividend.

Doubling of per capita income in 13–14 years

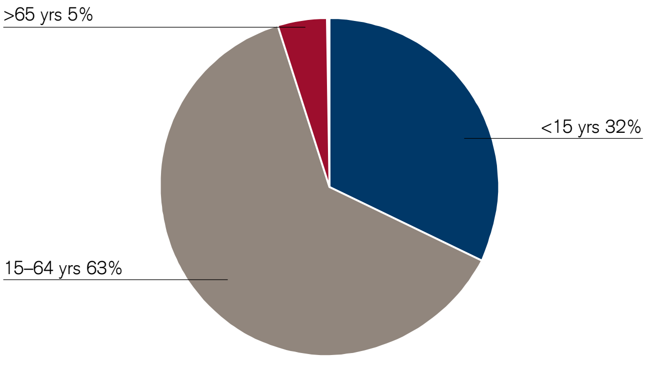
With population growth over the past few years slowing down to 1.6% p.a. as compared with 2.2% p.a. between 1951–2001 and economic growth increasing to +8% p.a. as compared with 4.4% p.a. in the same period, it is estimated that the average Indian will double his real income in the next 13–14 years, as compared with the earlier case of 34–35 years. This is a remarkable difference and we believe that a sizeable young population with rising per capita income could unleash a powerful wave of consumer demand and open up opportunities for number of sectors such as telecom, automobile, financial products, organized retailing etc. Let us look at some of the sectors and their penetration levels in brief.

Telecom. The Indian Wireless sector has been among the fastest growing, driven by falling tariffs (less than USD 2 cents/minute) and cheap handsets (less than USD 40). The net monthly additions of 7 million in June 2007 surpassed those of China. In spite of the accelerating growth, India remains heavily under-penetrated with overall teledensity at 22% and wireless penetration at just under 17%. This compares poorly with the wireless penetration of other countries (Figure 6). The Minister for Communications and IT has targeted 500 million mobile phone users by FY2010, though independent agencies estimate a figure in the range of 350– 400 million to be within reach. Taking into account the independent estimates, it implies CAGR in the range of 25–32% for the next four years.

Financial Services. Even after sixty years of independence, more than 40% of country's population does not have a bank account. In spite of the impressive growth in the last three years by the Mututal Fund and Insurance industry, their penetration remains very poor. Mutual fund industry AUM (assets under management) stands at 8% of GDP, as compared with Brazil's 45% and Korea's 25%. The life insurance premium as a percentage of GDP stands at 2.5%, which compares poorly with the penetration levels of other countries (Figure 7). We expect financial penetration to further improve over the next few years.

Figure 4

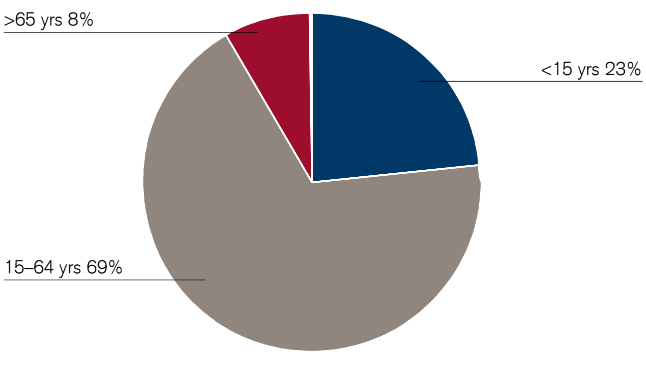
Demographic ranges in 2006



Source: Credit Suisse, UNDP

Figure 5

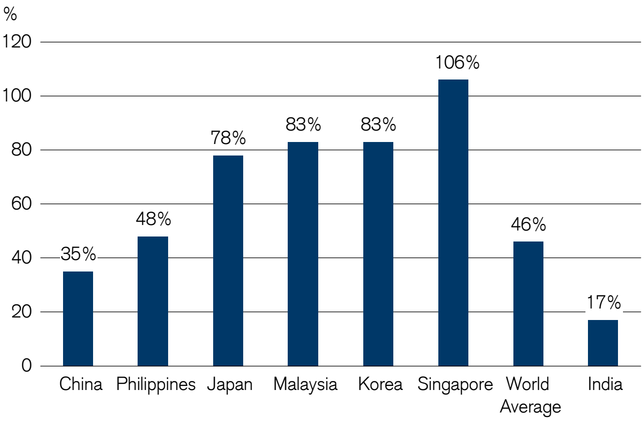
Demographic ranges by 2026



Source: Credit Suisse, UNDP

Figure 6

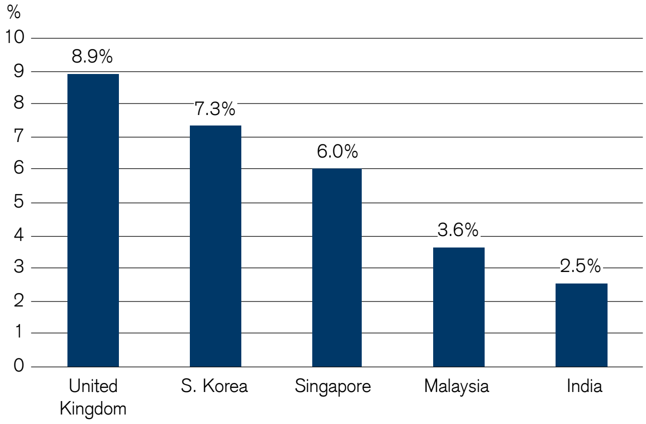
Wireless telecom penetration



Source: Credit Suisse, industry sources

Figure 7

Life insurance premium as a % of GDP



Source: Credit Suisse, industry sources

Organized Retailing. The size of the Indian retail industry is estimated at approximately USD 300 billion. However, currently the industry is highly disorganized and is dominated by family-run stores, with the share of organized retailing standing at a mere 3%. We believe that rising income, changing lifestyles, higher standards of living and a preference for western-style products will drive the growth of organized retailing, with estimated growth of 25–30% p.a. for the next few years.

Strong domestic economy

As well as opening up opportunities for various sectors, demographic profile and rising per capita income also create a strong domestic demand-driven economy. What does and will differentiate India from the rest of the emerging Asian countries is the fact that the growth is led by both consumption and investment with less reliance on exports (Figure 8). India's exports as a percentage of GDP stand at 15%, which is the lowest amongst the important Asian countries. We believe this makes India relatively less vulnerable to any US-led slowdown in the world economy.

Increased infrastructure spending

Nobody can doubt the role which infrastructure development plays in the overall growth of the country. India fares poorly on most infrastructure indicators such as power, road, telecom and airports. Consider the following facts:

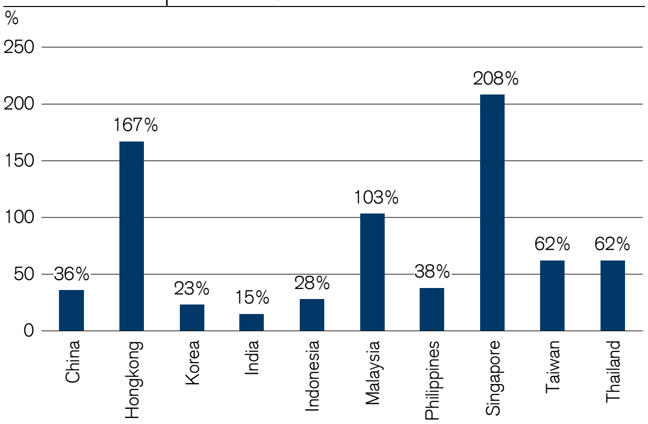
- Per capita power consumption stands at 600 kwh as compared with a world average of 2400 kwh
- Turnaround time at Indian ports is 3.5 days as compared with 10 hours in Hong Kong
- Teledensity stands at 22% which is one of the lowest levels in the world
- National highways along with expressways form only 2% of the total road network as compared with 17% in China
- Average air travel stands at 0.014 trips per person per year as compared with 2.02 trips per person per year in USA.

Urbanization also drives the need for better infrastructure. As per the UN reports, the urban population of India will increase by 2.3% p.a. between 2005 and 2025 as compared with the average population growth of 1.3% p.a. in the same period. As a result, the proportion of urban population to the total population will increase from 29% in 2005 to 37% in 2025. According to the "Approach paper to the 11th Five Year Plan" released by the Indian government, for growth rates to remain at +8%, India will have to increase its infrastructure spending from 4.6% of GDP to 8% of GDP. Table 1 gives a synopsis of the capex planned by the government and the opportunities in various sectors. We believe the infrastructure spending of USD 445 billion is significant as the amount is higher than in Russia or the Gulf States over the next three years.

Indian Corporates are also expected to embark on an intense capex cycle, having so far shied away as there was under-utilization of capacities. However, with rising demand and consumption over the past three years, most of the corporates today are operating at near full capacity. With substantial free cash flows and easy access to capital, we expect Indian Corporates to enter a strong capex cycle which in our view will last for the next three years.

Figure 8

Merchandise exports as a % of GDP



Source: Credit Suisse, CEIC

Table 1: Infrastructure capex over a five-year period

Sector (USD bn)	FY2002–07	FY2008–12	Growth (%)	Opportunities
Power	67.5	142.7	111	13% shortage in peak demand, high T&D loses, Ultra Mega Power Projects
Roads	30.4	81.1	167	Golden Quadrilateral, Rural Roads, NSEW corridor
Airports	1.0	9.0	787	Privatization of major airports
Ports	0.8	19.1	2229	Privatization of major ports
Railways	19.5	65.9	239	Privatization of container traffic
Other	50.0	80.0	60	SEZs, Urban Metros, Irrigation
Telecom	21.5	47.1	119	Increasing teledensity.
Total	190.7	444.7	133	

Source: IDFC

Recent gas discoveries

India had a current account deficit at 1.1% of GDP in FY2005–06 and depends heavily on external sources for its energy requirement. This dependency is reflected by the fact that 30% of India's import bill is made up of oil and related products. However, things could soon change: recent gas discoveries by private sector company Reliance Industries Ltd. (RIL) and state owned Gujarat State Petroleum Corporation (GSPC) have the potential to change the country's balance of payment outlook. RIL's gas discovery in 2002 and GSPC's discovery in 2006 were seen as the biggest discoveries of the respective years. Initial press reports stated that the gas from these fields, which will be available from early FY2009 onwards and will at full capacity by FY2012, should be more than sufficient to meet India's requirements and possibly also make India a net gas exporter. The obvious benefit of the gas discovery will be the substantial foreign exchange savings by the country and consequent positive impacts on the balance of payments. Apart from the valuable foreign exchange savings, it can also bring cost savings to Indian corporates as gas is always a cheaper source of energy as compared with other fuels. In the longer term, due to the favorable impact on the India's BOP, we believe it will make the country more resilient to currency fluctuations such as the 1997– 98 Asian crisis.

Transition from BPO hub to manufacturing hub and implementation of second generation reforms to attract higher FDI

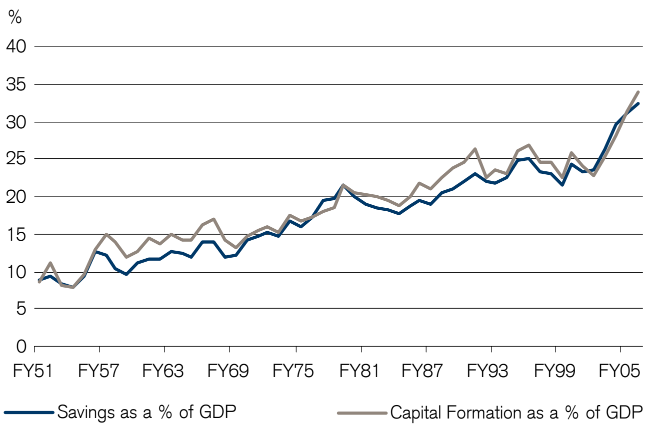
The success of the Indian IT industry in the last decade is well known and documented. However, what started off as a trend applicable only to IT and IT-enabled services is rapidly emerging in services such as engineering design, pharma research, clinical trials and industries such as auto components, autos, engineering, and textiles. Going forward, with better infrastructure facilities, implementation of Special Economic Zone policies and an abundant supply of relatively low-cost workers with advanced technical skills, we believe India can also emerge as a global manufacturing hub. We believe this will enable India to create greater employment opportunities for its vast young population and attract higher level of foreign direct investment (FDI). Though the reform process initiated in 1991 enabled India to attract more FDI, it pales when compared with the FDI levels in China, Hong Kong and Singapore. In 2006, India received FDI worth USD 16 billion as compared with China's USD 73 billion and Hong Kong's USD 43 billion. With India fast liberalizing its sectors such as telecom, aviation, media and insurance to foreign participation along with the gradual implementation of its second set of reforms including opening up the pension sector, relaxing the labor laws, introducing a uniform Good and Services Tax regime and reducing government stake in public sector banks, we believe India can attract higher FDI.

High savings and investment rates to support growth

It will be inappropriate to conclude our bullish view on India without having a look at its savings and investment rates. Since the opening up of the economy in 1991, there has been a significant acceleration in the savings and investments rates which in FY2005–06 stood at 32% and 34% of GDP respectively (Figure 9). The savings rate has improved from 23% in FY1991 to 32% in FY2005–06, primarily due to an increase in household savings from 19% to 22% and in corporate savings from 3% to 8%. High corporate savings reflect the healthy and underleveraged balance sheets of the Indian corporates which going forward will enable them to pursue higher M&A activity. High savings when properly channeled result in high investment rates and consequently put an economy into a sustainable growth path. We believe that India is currently undergoing this virtuous phase of high savings, increased investments and therefore high growth rates.

Figure 9

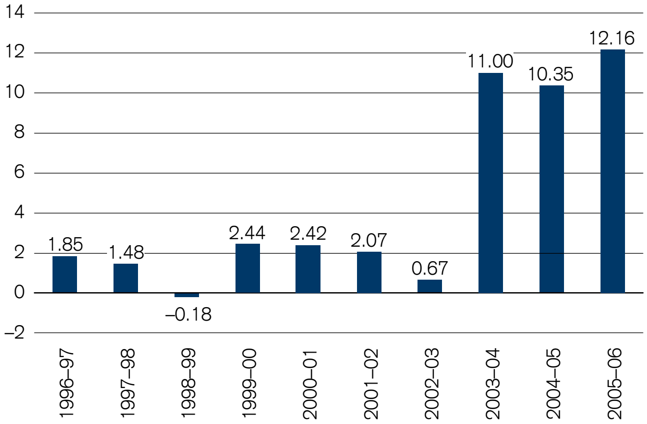
Acceleration in savings and investment rate post FY1991



Source: Credit Suisse, Government of India

Figure 10

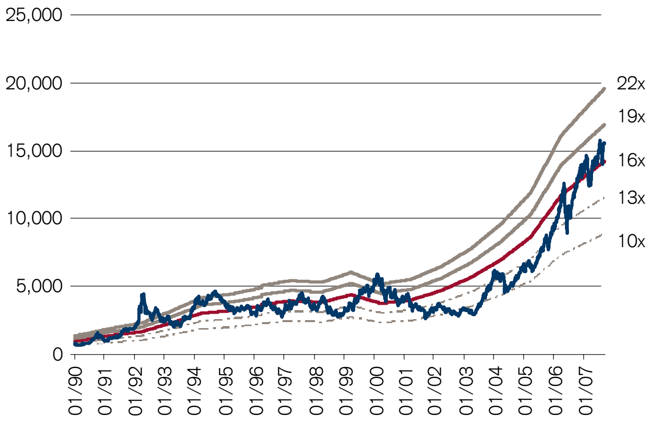
Net FII inflows in USD bn



Source: Credit Suisse, Government of India

Figure 11

BSE Sensex one-year forward PE band chart



Source: Credit Suisse, Datastream

Structure of Indian capital markets

The history of Indian Stock Markets dates back to 19 century, when the first Bombay Stock Exchange (BSE) was established in 1875. Though the Indian stock markets are more than a century old, they were until recently characterized by a lack of institutionalization, low volumes and limited retail and foreign participation. However, in the last few years, Indian capital markets have undergone substantial changes in terms of integration with global markets, regulation and supervision. The Indian Markets are today more closely correlated with the global markets than they were a few years back. Reforms, particularly the establishment of market regulator SEBI, market determined prices and allocation of resources, screen-based nationwide trading and derivatives trading, have all greatly improved both the regulatory framework and the efficiency of trading and settlement. According to a 2003 Economic Intelligence Unit survey regarding corporate governance, India ranked third after Singapore and Hong Kong.

BSE and the National Stock Exchange (NSE) are the two premier stock exchanges. As mentioned before, the opening of the Indian economy and the primary markets in the early 1990s resulted in the structural growth of the market, indicated by the fact that market capitalization as a percentage of GDP has increased from less than 30% in the mid 1990s to more than 90% currently and the combined (BSE+NSE) annual spot market trading volumes have increased by 470% during the same period. Global fund managers and portfolio managers, taking note of the structural changes in the economy and the stock markets, have steadily increased their presence and commitments to the Indian markets (Figure 10). Due to increased foreign participation, the markets today are affected by global as much as local events.

Valuations – consolidation time

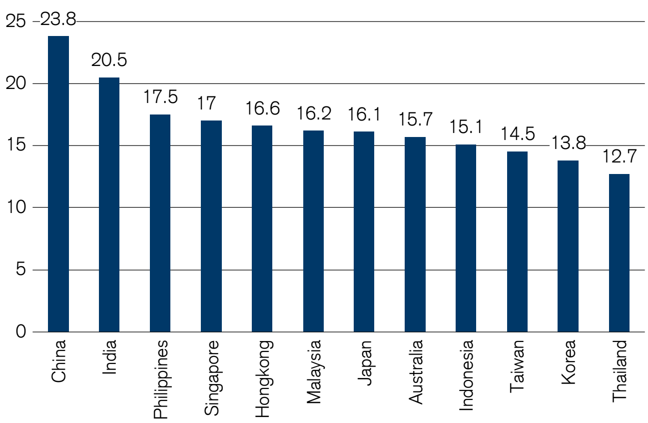
BSE Sensex is the benchmark index of the Bombay Stock Exchange and reflective of investor sentiment. It has risen more than fourfold over the last five years and has been in a secular uptrend on the back of buoyant GDP numbers, strong corporate earnings, bullish investor sentiment and soaring liquidity. As a result of strong consumer demand and increased infrastructure spending, Indian companies reported better earnings, high operating margins and healthy ROEs. Recognizing the growing profitability of Indian companies in the last four years, the Sensex valuations have been rerated from PE band of 10–12x forward earnings to the current PE band of 16–19x forward earnings. Though the PE expansion has been seen for most of the Asian and emerging markets, the expansion of the Indian stock markets has been more pronounced, making it among the most expensive markets in the region (Figure 11, Figure 12).

Though the Indian stock markets are expensive markets compared with the other global emerging and Asian markets, we expect the premium valuations to continue primarily due to the following fundamental and liquidity driven factors:

- Long-term growth prospects and stability of earnings. Driven by the factors mentioned earlier in the report, we expect the Indian economy to continue on its growth path. With 9% GDP growth and inflation at 5–6%, we expect Sensex companies to post 15% CAGR in earnings for the period FY2007– 09.

Figure 12

Comparative PE Valuation for FY2007



Source: Credit Suisse, Bloomberg, IBES

- Expected increase in weighting in the MSCI index . India has a relatively low weighting in the MSCI emerging markets and Asia (ex-Japan) indices when compared with countries such as Taiwan and Korea. Though India has seen its weightage steadily increase over the past few years, we believe that given the size of the economy and the structural changes it is undergoing, it deserves a higher weightage.
- Low exposure of household savings to equities. According to RBI, in 2006 only 4.6% of annual household savings were invested in shares and debentures. However we believe that the better regulatory and trading framework, aided by the changing demographic profile of investors will result in a shift in investment patterns from traditional investment instruments (such as gold and fixed deposits) towards capital market products. This is also vindicated by the AC Nielsen survey which shows that Indians are becoming more and more investment oriented. According to the survey, 53% of Indians would invest in shares of stock or mutual funds after covering their essential living expenses – the third highest globally for investment in shares and mutual funds after Hong Kong and China.

We believe that due to these fundamental and liquidity driven factors, the Sensex will command premium valuations as compared with other regions.

We have considered these factors as well as the value of subsidiaries in the Sensex companies to assign a PE multiple higher than the earnings growth. As discussed earlier, Sensex earnings are expected to grow at a CAGR of 15% for the next two years, and we value the Sensex at 18x FY2009 earnings, which gives us a one-year Sensex target of 17,550.

Though our one-year target for the Sensex stands at 17,550, we are currently neutral primarily due to the deteriorating risk/reward ratio (upside of less than 5% from current Sensex levels). It should be noted that our cautious call on the Indian markets is primarily due to higher valuations and a deteriorating risk/reward ratio rather than any concerns on the growth prospects. The risks to our one-year Sensex target are changes in earnings expectations and global risk appetite.

Conclusion

Though India will have its own share of ups and downs in the form political uncertainty, opposition to second generation reforms, concerns on high fiscal deficits etc, we believe the high savings and investments rate along with the opportunities thrown up by the demographic dividend and accelerated infrastructure spending will enable India to sustain its growth rates in the long term. Doubling of per capita income will ensure a steady improvement of penetration levels for various sectors such as telecom, automobiles and financial services. The recent oil and gas discoveries will reduce India's dependence on external sources and also strengthen its forex position. Though we are bullish on the growth prospects of the Indian economy in the long term and believe in the power of consumer demand that can emerge a few years down the line, we are neutral on the stock markets, primarily due to stretched valuations.

To participate in this growth story, we are initiating coverage with large capital goods companies with a diversified exposure. We believe infrastructure spending is a compelling investment theme and expect it to remain in favour for the next few years. The best positioned companies to tap this opportunity include Larsen and Toubro (HOLD), Bharat Heavy Electricals (HOLD), and Crompton Greaves (HOLD). We have initiated coverage on all the three companies with a HOLD recommendation, primarily to reflect the low upside from the current price levels to our one year target price.

Individual stock recommendations

Larsen and Toubro Ltd. (HOLD) – Target price INR 3022

Larsen and Toubro (L&T) is India's largest engineering company with interests through subsidiaries in IT, financial services and urban infrastructure development and is likely to benefit from the massive infrastructure and corporate capex expected in the country over the next five years. Backed by a strong order-book position (2x FY2007), the company has good earnings visibility. To achieve higher growth rates, the company will focus on exports and has also identified five new areas as future growth engines. We expect a 32% CAGR in consolidated earnings over the period FY2007–10, driven by 28% CAGR in consolidated sales and a 150 bp improvement in margins. Our HOLT derived one-year price target is INR 3022.

Bharat Heavy Electricals Ltd. (HOLD) – Target price INR 2097

Bharat Heavy Electricals Ltd. (BHEL) is one of India's biggest power equipment and engineering companies. The power sector capex is set to increase by more than 2x in the next five years as compared with the previous five. Strong corporate capex and a healthy order-book position of 3x FY2007 sales provide good visibility in earnings growth. The company aims to have USD 10 billion in sales by FY2012 compared with the current USD 4 billion, implying a CAGR of 20% p.a. We expect 29% CAGR in earnings over the period FY2007–10, primarily driven by 26% CAGR in sales and a 160 bp im-

Table 2: Valuation overview

Stock	Bloomberg	Currency	Mcap (in INR mn.)	Rating	Closing Price as on 01.10.2007	Target Price	P/E 2008E	P/E 2009E	EV/EBITDA 2008E	EV/EBITTA 2009E	P/BV 2007	Dividend Yield 2007
Larsen and Toubro	LT	INR	798469	HOLD	2819	3022	33.2	25.3	23.1	17.6	5.9	0.90%
BHEL	BHEL	INR	974341	HOLD	1990	2097	30.5	23.6	19.4	15.1	3.2	2.10%
Crompton Greaves	CRG	INR	127070	HOLD	346	344	35.1	25.6	19.1	15	7.9	0.60%

Source: Credit Suisse, Bloomberg, HOLT provement in margins. Our HOLT derived one-year price target comes to INR 2097.

Crompton Greaves Ltd. (HOLD) – Target Price INR 344

Crompton Greaves Ltd. is India's leading company in the power transmission and distribution (T&D) sector. After the acquisition of Belgium-based Pauwels, the company is now among the world's top ten transformer manufacturers. Crompton Greaves is a play on the increasing investments in the domestic power T&D sector and the strong corporate capex cycle. Recent acquisitions in the international markets will enable the company to target replacement demand in Europe and USA. Restructuring these acquisitions will see the bottom line of the company growing faster than the topline. We expect 37% CAGR in earnings over the period FY 2007–10, driven by 21% CAGR in sales and a 250 bp improvement in margins. Our HOLT derived one-year price target comes to INR 344.

Abbreviations frequently used in reports					
Abb.	**Description**	**Abb.**	**Description**	**Abb.**	**Description**
CAGR	Compound annual growth rate	EPS	Earnings per share	P/B	Price-to-book value
CFO	Cash from operations	EV	Enterprise value	P/E	Price-earnings ratio
CFROI	Cash flow return on investment	FCF	Free cash flow	PEG	P/E ratio divided by growth in EPS
DCF	Discounted cash flow	FFO	Funds from operations	ROE	Return on equity
EBITDA	Earnings before interest, taxes, depreciation and amortization	IBD	Interest-bearing debt	ROIC	Return on invested capital

Disclosure appendix

Analyst certification

The analysts identified in this report hereby certify that views about the companies and their securities discussed in this report accurately reflect their personal views about all of the subject companies and securities. The analysts also certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Equity rating history as of 02/10/2007		
Company	**Rating**	**Date**
BHARAT HEAVY ELECTRICALS LIMITED (BHEL IN)	HOLD	since 02/10/2007
	HOLD	since 26/09/2007
CROMPTON GREAVES LIMITED (CRG IN)	HOLD	since 02/10/2007
	HOLD	since 26/09/2007
LARSEN & TOUBRO LIMITED (LT IN)	HOLD	since 02/10/2007
	HOLD	since 26/09/2007

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Guide to analysis

Equity rating allocation as of 02/10/2007		
	Overall	**Investment banking interests only**
BUY	46.02%	44.80%
HOLD	50.71%	52.51%
SELL	1.99%	1.61%
RESTRICTED	1.28%	1.08%

Relative performance

At the stock level, the selection takes into account the relative attractiveness of individual shares versus the sector, market position, growth prospects, balance-sheet structure and valuation. The sector and country recommendations are "overweight," "neutral", and "underweight" and are assigned according to relative performance against the respective regional and global benchmark indices.

Absolute performance

The stock recommendations are BUY, HOLD and SELL and are dependent on the expected absolute performance of the individual stocks, generally on a 6-12 months horizon based on the following criteria:

BUY: 10% or greater increase in absolute share price
HOLD: variation between -10% and +10% in absolute share price
SELL: 10% or more decrease in absolute share price
RESTRICTED: In certain circumstances, internal and external regulations exclude certain types of communications, including e.g. an investment recommendation during the course of Credit Suisse engagement in an investment banking transaction.
TERMINATED: Research coverage has been concluded.

Corporate and emerging market bond recommendations

The recommendations are based fundamentally on forecasts for total returns versus the respective benchmark on a 3–6 month horizon and are defined as follows:

BUY: Expectation that the bond issue will be a top performer in its segment
HOLD: Expectation that the bond issue will return average performance in its segment
SELL: Expectation that the bond issue will be among the poor performer in its segment
RESTRICTED: In certain circumstances, internal and external regulations exclude certain types of communications, including e.g. an investment recommendation during the course of Credit Suisse engagement in an investment banking transaction.

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AAA:	Best credit quality and lowest expectation of credit risks, including an exceptionally high capacity level with respect to debt servicing. This capacity is unlikely to be adversely affected by foreseeable events.
AA:	Obligor's capacity to meet its financial commitments is very strong
A:	Obligor's capacity to meet its financial commitments is strong
BBB:	Obligor's capacity to meet its financial commitments is adequate, but adverse economic/ operating/financial circumstances are more likely to lead to a weakened capacity to meet its obligations
BB:	Obligations have speculative characteristics and are subject to substantial credit risk due to adverse economic / operating / financial circumstances resulting in inadequate debt-servicing capacity

For the AA, A, BBB, BB categories, creditworthiness is further detailed with a scale of High, Mid, or Low, with High being the strongest sub-category rating. An Outlook indicates the direction a rating is likely to move over a two-year period. Outlooks may be positive, stable or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly, ratings for which outlooks are "stable" could be upgraded or downgraded before an outlook moves to positive or negative if circumstances warrant such an action.

Credit Suisse HOLT

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