

June 13, 2007

FOR PRIVATE CIRCULATION

Equity

	11 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,131	0.3	2.4	8.8
Nifty	4,155	0.2	1.9	10.2
Banking	7,454	0.3	7.9	14.0
IT	3,706	(0.8)	1.1	3.5
Healthcare	3,740	(0.3)	1.6	6.2
FMCG	1,790	(0.0)	(0.5)	7.7
PSU	6,429	(0.5)	0.5	13.5
CNX Midcap	5,530	(0.7)	4.4	16.9
World indices				
Nasdaq	2,549.8	(0.9)	(0.5)	8.5
Nikkei	17,761	(0.4)	0.5	2.7
Hangseng	20,636	0.1	0.4	6.3

Value traded (Rs cr)

	11 June 07	% Chg - 1 Day
Cash BSE	3,705	8.7
Cash NSE	8,178	6.6
Derivatives	37,614.6	30.0

Net inflows (Rs cr)

	8 June 07	% Chg	MTD	YTD
FII	(55)	94	(617)	16,651
Mutual Fund	(25)	(111)	22	(454)

FII open interest (Rs cr)

	8 June 07	% chg
FII Index Futures	15,896	6.4
FII Index Options	6,785	7.3
FII Stock Futures	19,063	0.1
FII Stock Options	37	0.7

Advances/Declines (BSE)

	11 June 07	A	B1	B2	Total	% Total
Advances	81	167	330	578	30	
Declines	127	555	581	1,263	67	
Unchanged	2	15	39	56	3	

Commodity

	11 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	65.1	(0.4)	4.4	12.4
Gold (US\$/OZ)	647.3	(1.0)	(3.4)	0.7
Silver (US\$/OZ)	13.0	(1.7)	(1.5)	2.0

Debt/forex market

	11 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.33	8.34	8.17	7.98
Re/US\$	41.2	40.8	40.9	44.2

Sensex



Source: Bloomberg

ECONOMY NEWS

- Industrial production grew at 13.6%, the highest in a decade, powered by 15.1% growth in manufacturing in April 2007, according to figures released by the Central Statistical Organisation. The record growth was propelled by a higher spend on capacity creation. (ET)
- The Government is planning to build up foodgrain stocks abroad to bolster food security. The idea is to use the country's bulging foreign exchange reserves to add to the buffer stock of grain currently held within the country. (ET)
- The Ministry of Corporate Affairs is proposing a penalty for mega corporations failing to notify the Competition Commission of India of M&As. The penalty would be equal to 1% of the turnover or assets of the combined entity, whichever is higher. (ET)
- Planning Commission Deputy Chairman Montek Singh Ahluwalia has said the Government is formulating a strategy to double growth in agriculture and called for sweeping reforms in education and health to make the economic growth truly inclusive. (BS)
- The Indian retail sector may create 2 mn jobs by 2010, a study by ASSOCHAM said. The sector is estimated to add \$14 bn in terms of market size by 2010 to cross \$21.5 bn, according to the study conducted to gauge emerging job opportunities for the youth. (BL)

CORPORATE NEWS

- **RIL**, which is set to enter India's gas market by mid-2008, is working on strategies to advance peak production from its KG basin fields by almost a year. RIL had estimated peak production of 80 mn standard cubic meters per day to begin by 2009-10. (ET)
- The Government has raised Rs.50 bn from the money market, outside its scheduled borrowing program for the first half of the current fiscal, to takeover RBI's 59.73% stake in **State Bank of India** by the month-end. (ET)
- **ICICI Bank** has received the nod from the Securities and Exchange Board of India for its follow-on public offer. The issue of around Rs.100 bn will hit the street on June 19 and close on June 22. (BS)
- **Jet Airways** may raise more money. Jet Airways said it plans to sell as much as \$400 mn of stock in the next few months to fund the purchase and buy new planes. (BS)
- French power major Areva is in 'extensive discussions' with the Indian Government and several Indian companies such as **Bhel** and **L&T** for possible supply of equipment to help 'develop nuclear power activity' in India. (BL)
- **L&T** has obtained two orders worth a total of over Rs.9.9 bn. The engineering construction and contracts division of the company secured a Rs.1.14-bn contract from SAIL. (BL)
- The eldest among the Patni brothers, Gajendra, and his son Amit Patni are venturing into the power sector in India using funds from the proposed sale of their stake in **Patni Computers**, India's ninth most valuable IT firm, according to sources. (ET)
- The Maxis-promoted **Aircel Cellular** is planning to double capacity in existing circles and enter new areas once spectrum is allocated. The nine-circle operator has floated a request for proposal for 30 mn GSM lines, valued at around \$3 bn, sources said. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

EVENT UPDATE

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SUBEX AZURE LTD (SUBEX)

PRICE : Rs.625

RECOMMENDATION : **HOLD**

TARGET PRICE : Rs.657

FY08E PE : 13.7x

Preferential allotment of warrants to promoters...

- Subex has announced a preferential issue of warrants to promoters/the promoter group.
- A total of 2.23 mn warrants will be issued to Subex Holdings Pvt Ltd and Sudeesh Yezhuvath. Subex Holdings Pvt Ltd is 100% owned by Subash Menon.
- Assuming these warrants are converted in toto, the shareholdings of the above-mentioned shareholders will be as under :

Pre and post - allotment share - holding

Particulars	Pre-allotment		Post-allotment	
	Shares (mn)	% share-holding	Shares (mn)	% share-holding
Subex Holdings P Ltd / Subash Menon	3.04	8.73	4.84	13.07
Sudeesh Yezhuvath	0.13	0.37	0.56	1.51

Source : Company

- According to the company, each warrant will be converted into one share at a price of Rs.630.31 per share.

...to replenish shares tendered in sponsored GDR offering

- This preferential issue of warrants will increase the shareholding of Subash Menon (through Subex Holdings Pvt Ltd) to levels, which will be higher than the levels that existed before the sponsored GDR offering of the company in March 2007.
- Subash Menon had tendered 1 mn shares in that sponsored GDR issue, which had brought down his total shareholding in Subex to 8.73%.
- Concerns were raised at that point of time about the already low promoter holding in the company.
- We believe these concerns were largely unfounded and the proposed preferential allotment at Rs.630 will allay those concerns.

Marginal changes to earnings estimates

- We have incorporated the preferential allotment into our earnings estimates.
- We have assumed full conversion during the current fiscal and also marginally increased the other income component.
- Based on the diluted equity, we arrive at an EPS of Rs.45.5 for Subex in FY08 (v/s Rs.45.3 earlier).

Financials (Rs mn)					
	FY06	FY07#	% YoY	FY08E\$	% YoY
Revenues	1,812	3,409	88.1	6,942	103.6
Expenditure	1,302	3,008		4,776	
EBDITA	510	401	(21.4)	2,166	439.9
Depreciation	91	126		185	
EBIT	420	275	(34.4)	1,981	619.5
Interest	26	87		191	
Other Income	29	389		65	
PBT	422	577	36.7	1,855	221.5
Tax	31	(99)		260	
PAT	391	676	72.7	1,596	136.0
Shares (mn)	34.8	34.8		34.8	
EPS (Rs.)	11.2	19.4		45.8	
EBIDTA (%)	28.2	11.8		31.2	
EBIT (%)	23.2	8.1		28.5	
Net Profit (%)	21.6	19.8		23.0	

Source: Company, Kotak Securities - Private Client Research; #: Azure's financials consolidated WEF 2QFY07; \$: Syndesis' financials consolidated WEF 1QFY08

Recommendation

- The integration with Syndesis is progressing along expected lines.
- While Subex has already merged Azure with itself, we believe smooth integration of Syndesis is crucial for the consolidated entity.
- The company has a healthy order book position and pipeline, which gives good revenue visibility for FY08 revenues.
- Our DCF-based price target is Rs.657. We remain bullish on the long-term prospects of the company and recommend a **HOLD** on Subex with potential upsides on successful integration of Syndesis and higher visibility for FY09 revenue and profit growth.

We recommend HOLD on Subex with a price target of Rs.657

IPO NOTE

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Issue details

Issue Closes Wednesday,
13th June 2007

Issue size:

Amount to be raised (Rs mn)	1100
Issue Price - Assumed - (Rs)*	270
Mn. No. of sh to be issued	4.1
Pre Issue no of shares (mn)	18.3
Post Issue no of shares (mn)	22.4

Source: Company * - Kotak Securities - Private Client Research

Summary table

(Rs mn)	FY05	FY06	FY07
Sales	1,463	2,884	6,027
EBITDA	88	263	670
EBITDA Margin (%)	6.0	9.1	11.1
PBT	50	187	393
PAT	30	125	250
PAT Margin (%)	2.1	4.3	4.1
RONW (%)	10.0	18.6	19.7
EPS -Rs. (pre issue)	2.3	8.0	13.9
EPS - Rs.(post issue)*	1.4	5.6	11.2
P/E (x) (@270)	199.7	48.4	24.1

Source: Company * - Kotak Securities - Private Client Research

Share Holding Pattern (%)

	Pre issue	Post issue
Promoters	78.1	64.0
Public and Others	21.8	36.0

Source: Company

VISHAL RETAIL

IPO PRICE BAND : Rs. 230 - Rs.270

Vishal Retail is one of the leading players in the value retail segment operating 50 stores in 18 states spread over 1.28 mn square feet. The company started off as a retailer of ready-made apparel in Kolkata in 2001. Vishal has a diversified portfolio of offerings ranging from ready-made garments to FMCG products, household products, groceries, toys, footwear etc. The company either manufactures products in-house or procures them directly from manufacturers to reduce costs and achieve economies of scale.

Vishal Retail has also got a manufacturing plant in Gurgaon and seven distribution centers across the country. The company has a fleet of owned trucks in order to maintain an efficient logistics system. Out of its 50 stores, 43 are located in Tier II and Tier III cities. The company operates its stores under the brand name 'Vishal Mega Mart'.

Vishal Retail wants to further expand its base of 50 stores to 82 by March 2008. Among these, 22 will be funded through the IPO proceeds. Out of these 22 new stores, 18 will be opened in a Tier III city, one in a Tier II city and the remaining three in Tier I cities. The company wants to strengthen sales from its private labels by expanding its manufacturing and by importing products from low cost locations like China, thereby achieving superior profitability, going forward.

KEY POSITIVES**Tremendous growth opportunities in organized retail**

With over 12 mn retail outlets, India probably has the highest density of retail outlets in the world, with one for approximately every 90 persons. The retail industry in India was estimated at Rs.10 trillion (tn) in FY05, consisting mainly of the small convenience stores, also called 'kirana' stores and other small family run shops/businesses. Organized retail penetration in India is about 3.5%, and is expected to reach 8% by 2010. Hence, it is expected to grow at a CAGR of 26% (source: Cris Infac).

Out of the total retail industry in the country, food, beverages and tobacco form a substantial portion, comprising 76% of the total industry. However, it is in this sector where organized retail penetration is the lowest, that is, 1%. The penetration of organized retail is highest in the footwear category at 31% followed by apparel, books, music/gifts, consumer durables, home décor and furnishings.

The Indian middle class spends most of their money on food and groceries. With higher disposable incomes and a young population willing to spend, the organized retail industry in India is all set to witness tremendous growth over the next few years.

Presence in Tier II and Tier III cities

Vishal Retail operates, and aims to expand, primarily in Tier II and Tier III cities where the penetration of organized retail is very low. This strategy reduces the cost of running a store as rentals in these towns are relatively low compared to a Tier I city. Also, big retailers like Pantaloons and Shoppers Stop do not have any significant presence in these Tier II and Tier III cities. Hence, this reduces the risk arising from competition. On an average, Vishal Retail has been paying a rental of Rs.32 per square feet for all its stores.

New stores opened between FY03-FY07

	2007	2006	2005	2004	2003
No. of stores at the beginning of the year	26	16	14	9	7
Stores opened during the year	27	11	4	5	7
Total stores at the end of the year	49	26	16	14	7
Total space at the end of the year (sq feet)	1,259,556	542,821	285,132	165,882	88,700
Average retail space	858,055	404,017	219,990	122,323	76,505
Sales (in mn)	6026	2884	1463	881	500
Average sales per Square feet (Rs.)	7023	7139	6651	7203	6530

Source: Red Herring Prospectus

Focusing on increasing the sales of private labels and FMCG products

In order to increase footfalls and reduce the risk of seasonality of its products such as apparel, Vishal Retail is increasing the mix of FMCG products in its stores. This will ensure footfalls throughout the year, which, in turn, may lead to consumption of its apparel. It also aims to manufacture at least 25% of its apparel requirements in-house. As of FY07, the contribution of private labels was 9.7% of sales and that rise in sales of private labels will help in expanding margins as well as reducing dependencies on few suppliers. This is expected to lead to higher revenues and profitability for the company, going forward.

Procurement from low-cost production centers and efficient logistics

In order to obtain cost efficiencies, Vishal Retail intends to procure products from low cost production centers across the globe. In India, for example, it sources shirts from locations such as Tirupur and uses its strong distribution network to obtain cost savings. It also sources a few products from low cost locations like China. It has set up a sourcing office in China, which is helping in overall sourcing for the company. Efficient sourcing, along with a strong distribution network is one of the key strengths of Vishal Retail.

Financials: Vishal Retail Growth (YoY)

(Rs mn)	FY03	FY04	FY05	FY06	FY07	CAGR
Net Sales	500	881	1,463	2,884	6,027	86.4
Growth (%)	254.4	76.4	66.1	97.1	108.9	
EBIDTA	64	110	88	263	671	80.2
EBIDTA Margin (%)	12.7	12.5	6.0	9.1	11.1	
Net Profit	5	4	30	125	250	160.0
Growth (%)	108.8	(30.2)	690.6	313.0	100.3	
Net Profit Margin (%)	1.1	0.4	2.1	4.3	4.1	

Source: Red Herring Prospectus

- The net sales of the company have grown at a CAGR of 86.4% from Rs.500 mn in FY03 to Rs.6.03 bn in FY07.
- PAT has grown at a CAGR of 160% from Rs.5 mn in FY03 to Rs.250 mn in FY07.
- For FY07, Vishal Retail registered net sales of Rs.6 bn, thereby recording YoY growth of 109%. The company recorded higher EBITDA margin of 11.1% in FY07, as against 9.1% in FY06.
- The company doubled its net profits to Rs.250 mn in FY07, thereby translating into EPS of Rs.11.2 on post issue capital.

Peer comparison				
(Rs mn)	Vishal Retail	Pantaloon*	Shoppers Stop	Trent*
	FY07	TTM	FY07	TTM
Sales	6027	27923	9283	4378
EBITDA	670	1961	680	360
EBITDA Margin (%)	11.1	7.0	7.3	8.2
PAT	250	692	242	328
PAT Margin (%)	4.1	2.5	2.6	7.5
No. of shares (mn)	22.4	140.7	34.8	15.7
EPS - Rs.	11.2	4.9	7.0	20.9
Price - Rs.	270	440	600	677
P/E (x)	24.2	89.0	85.6	32.4
Market Cap.	6,048	61,903	20,896	10,629
M.Cap / Sales (x)	1.0	2.2	2.3	2.4

Source: Company, Kotak Securities - Private Client Research, Capitaline; * Standalone numbers

Valuation

- We observe that Vishal Retail has been operating at higher EBITDA margins than its peers. Even on the profitability side, the company has been operating at higher margins than Pantaloons and Shoppers Stop.
- Based on FY07 numbers, the company, even at the higher price band of Rs.270, would trade at 24.2x P/E on a post issue basis.
- Even on a market cap to sales basis, the company would trade at less than half of its peers.
- **We do not have any rating / price target on the stock.**

Key Risks

- **Competition:** The domestic retail industry is poised to register strong growth. With the entry of players like Aditya Birla, Bharti-Wal-Mart, Vishal Retail, in the future, may face stiff competition from these players once they enter smaller towns and cities.
- **Not entered into definitive agreements for its new stores:** Out of the 32 new stores it aims to establish, they have tied up properties for only 19 stores.
- **No ownership of stores:** Other than the one store it has in Kolkata, all its remaining stores are operated on properties taken on lease/license arrangement, which may pose a risk in case of future disputes, termination of lease etc.

ECONOMY UPDATE

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IIP PERFORMANCE SPRINGS PLEASANT SURPRISE

The CSO has released the quick estimates of the index of industrial production (IIP) for April 2007. The IIP rose 13.6% as compared to 9.9% in April 2006 on robust performance by the manufacturing sector. The revised cumulative growth for April-March 2006-07 stands at 11.5% over the corresponding period of the previous year.

Key Highlights

- The manufacturing sector recorded 15.1% growth during this month as compared to 11% earlier. The revised cumulative growth during April-March, 2006-07 stands at 12.5% over the corresponding period of last year.
- The mining sector grew 3.4% in April 2007 (YoY) and the revised cumulative growth during April-March, 2006-07 stands at 5.3% over the corresponding period of last year.
- The electricity sector grew 8.7% (YoY) and the revised cumulative growth during April-March, 2006-07 stands at 7.2% over the corresponding period of last year.
- In terms of industries, 16 industry groups in the manufacturing sector (out of 17) have shown positive growth during this month as compared to the corresponding month of the last year.
- The industry groups that have shown the highest growth during this month are...
 - Wood and wood products; furniture and fixtures: 92.2%
 - Food products: 55.0%
 - Machinery and equipment other than transport equipment: 19.2%
- Sectoral growth (use-based classification):
 - Basic goods: 8.9%
 - Capital goods: 17.7%
 - Intermediate goods: 12.6%
 - Consumer goods: 17.7%
- Consumer durables and consumer non-durables in April have recorded growth of 5.3% and 21.9%, respectively, with overall growth in consumer goods being 17.7%.
- Apart from this, the IIP for March 2007 has been revised upwards to 14.5%.

Index of industrial production

	Mining (10.47%)	Growth (%)	Manufacturing (79.36%)	Growth (%)	Electricity (10.17%)	Growth (%)	General (100%)	Growth (%)
Apr-06	157.1	3.4	237.7	11.0	198.0	5.9	225.2	9.9
May-06	162.0	2.9	252.0	13.3	206.3	5.0	237.9	11.7
Jun-06	156.2	4.7	249.4	10.7	198.3	4.9	234.4	9.7
Jul-06	152.1	5.1	250.9	14.3	201.1	8.9	235.5	13.2
Aug-06	136.0	-1.7	252.1	11.9	201.4	4.1	234.8	10.3
Sep-06	146.8	4.3	261.7	12.7	201.0	11.3	243.5	12.0
Oct-06	161.3	5.9	246.3	3.8	212.4	9.7	234.0	4.5
Nov-06	163.8	8.8	266.3	17.2	199.3	8.7	248.8	15.8
Dec-06	175.3	6.1	282.1	14.5	211.5	9.1	263.7	13.4
Jan-07	181.5	7.7	282.9	12.3	215.9	8.3	265.5	11.6
Feb-07	169.6	7.1	270.3	11.9	192.5	3.3	251.8	10.8
Mar-07	194.9	7.3	309.8	15.9	219.1	7.9	288.5	14.5
Apr-07	162.5	3.4	273.5	15.1	215.2	8.7	255.9	13.6

Source: Ministry of Statistics and Programme Implementation, GoI

The general index for industrial production had risen from 225.2 in April 2006 to 255.9 in April 2007. The main drivers of this robust growth have been higher demand for consumer non-durables and rise in investment. We believe the robust industrial growth for April-March 2006-07, which stands at 11.5% over the corresponding period of the previous year, along with robust growth in the manufacturing sector has not been impacted much by interest rate hikes since December 2006.

We know that the industrial sector contributes slightly less than a quarter to GDP. So, a better performance of the industrial sector will provide a cushion against any drop in the contribution from agriculture to GDP. We believe industrial production is likely to grow at greater than 10% levels in the coming months of FY08. This is despite the broader base, as the fundamentals of the economy are still intact.

The flip side of this robust growth is the increasing concern that the Indian economy may be overheating, growing faster than the pace that can be sustained. It may even fuel fears that we may see another interest rate hike in the future to cool the economy. However, we believe that as long as inflation is under control, RBI will not undertake any tightening.

The Finance Minister has said that the Government has no plans to curb demand except in overheated sectors. Moreover, high growth in manufacturing is attributed to the rise in investments, which touched about 34% of GDP in the last fiscal. However, going ahead, this is likely to moderate due to slower growth in credit offtake that is evident from the recent May data. (reduced to 26% for May 2007 from 32% last year)

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
12-Jun	DMC Inter	Narayana Swaroop V	B	11,000	71.45
12-Jun	DMC Inter	Kerul Shah	S	9,165	71.63
12-Jun	Dollex Indut	Immortal Financial Serv Pvt Ltd	S	50,000	132.16
12-Jun	G V Films Lt	BNP Paribas Arbitrage GDR	S	2,200,000	8.39
12-Jun	Gremac Infra	Mavi Investment Fund Ltd	B	285,000	140.00
12-Jun	Jaisal Secur	Canox Trading Pvt Ltd.	B	44,100	28.60
12-Jun	Koff Br Pict	Diamant Investment and Finance Ltd	B	28,454	27.28
12-Jun	Koff Br Pict	Vasant M Chheda HUF	B	53,735	26.59
12-Jun	Osian Lpg Bo	Vaishali Sharad Gawade	B	36,250	7.03
12-Jun	Osian Lpg Bo	Harshvadan N. Shah	B	100,000	7.10
12-Jun	Osian Lpg Bo	Abhayraj Shukla	S	39,601	6.95
12-Jun	Osian Lpg Bo	Prahlad V Panchal	S	50,000	7.15
12-Jun	Osian Lpg Bo	Satish Hasmukhlal Chauhan	S	50,000	7.15
12-Jun	Osian Lpg Bo	Megha Inns and Hotels Pvt Ltd	S	36,549	6.75
12-Jun	Pruden Pharm	Padma S. Shah	S	85,000	18.50
12-Jun	S. Kumars Nat	Morgan Stanley And Co Intl Ac Morgan Stanley Dean Witter Mau	B	4,007,875	83.25
12-Jun	Sandur Man	IDBI Ltd	S	27,650	75.15
12-Jun	Shamke Spine	Saraogi Viniyog Pvt Ltd	B	169,525	3.10
12-Jun	Shri Bajrang	Vasant M Chheda HUF	B	125,000	36.70
12-Jun	Shri Bajrang	JDM Securities	S	72,319	36.92

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	1,698.9	2.0	8.9	3.0
ONGC	860.9	0.9	3.3	0.5
ICICI Bank	919.4	1.9	3.0	0.7
Losers				
Reliance Com	498	(1.5)	(2.9)	5.5
Satyam Comp	479	(3.8)	(2.5)	2.5
Bharti Airtel	806	(0.7)	(1.9)	0.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
13-Jun	Time Technoplas hosts listing ceremony at BSE; Wyeth to announce earnings and dividend; Birla Sun Life Insurance holds press conference; Tech Mahindra holds press conference; JSW Steel holds annual share holders meeting; Easy Bill Ltd and BEST holds press conference
15-Jun	Shipping Corporation of India to announce earnings; EIH Ltd to announce earnings and dividend; Yes Bank and Reuters jointly holds press conference
18-Jun	Tata Motors holds press conference in Pune to launch vehicles
22-Jun	Amara Raja Batteries to announce earnings and dividend; Infosys Technologies holds share holders meeting in Bangalore
25-Jun	Annual General Meeting of SBI
26-Jun	Apollo Hospitals enterprise to announce earnings and dividend
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol earnings expected

Source: Bloomberg

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