

January 25, 2007
FOR PRIVATE CIRCULATION
Equity

	24 Jan 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,110	0.5	4.7	11.8
Nifty	4,090	0.6	5.7	11.8
Banking	7,384	0.9	8.1	21.0
IT	3,722	(0.0)	5.7	16.4
Healthcare	3,804	(0.8)	1.6	5.4
FMCG	1,949	(0.3)	2.5	(2.5)
PSU	6,232	1.3	5.3	7.3
CNX Midcap	5,250	0.7	4.6	10.8
World indices				
Nasdaq	2,466.3	1.4	2.7	4.7
Nikkei	17,507	0.6	2.8	5.2
Hangseng	20,821	0.2	7.7	14.6

Value traded (Rs cr)

	24 Jan 07	% Chg - 1 Day
Cash BSE	4,221	10.8
Cash NSE	8,187	2.0
Derivatives	40,123	7.7

Net inflows (Rs cr)

	23 Jan 07	% Chg	MTD	YTD
FII	319.8	316.4	(599)	(599)
Mutual Fund	(54.2)	(86.5)	(70)	195

FII open interest (Rs cr)

	23 Jan 07	% chg
FII Index Futures	13,538.9	7.5
FII Index Options	9,063.3	8.8
FII Stock Futures	17,423.2	1.2
FII Stock Options	128.2	(0.9)

Advances/Declines (BSE)

	24 Jan 07	A	B1	B2	Total	% Total
Advances	113	332	359	804	49	
Declines	94	293	417	804	49	
Unchanged	3	17	11	31	2	

Commodity

	24 Jan 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	55.4	0.6	(11.3)	(6.7)
Gold (US\$/OZ)	648.8	0.3	4.3	9.6
Silver (US\$/OZ)	13.2	(0.1)	5.3	11.0

Debt/forex market

	24 Jan 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.85	7.86	7.60	NA
Re/US\$	44.27	44.22	44.58	45.37

Sensex


Source: Bloomberg

ECONOMY NEWS

- Trai has cut roaming tariffs by 55% and abolished 'roaming rental' charged by operators. Incoming SMSes while roaming will be free of charge and 15% surcharge on airtime and separate PSTN charges too have been waived off. This will be effective February 15. (ET)
- The Government has decided against a reduction in the excise duty on cement. This is likely to disappoint domestic cement manufacturers, who were looking forward to this sop after the Government scrapped customs duty on portland cement. (ET)
- The Ministry of Power has called for rationalization of duties in the power sector. It has suggested reducing excise and countervailing duties from the present rate of 16% to 8%. (ET)
- The Railway Ministry is planning to allocate Rs.50 bn for its information technology-related operations in the Eleventh Five-Year Plan. This will be a four-fold rise in the allocation by the ministry for infotech-related activities. (BL)

CORPORATE NEWS

- **HDFC** will raise home loan rates if the RBI raises rates in its policy review as is widely expected. HDFC offers 8.25% on one-year deposits against 8.3% offered by some nationalized banks. (ET)
- Bharti group CMD Sunil Mittal has said he is open to Vodafone selling its shares in **Bharti Airtel** in the secondary markets. (ET)
- **HDFC's** third quarter net profit rose 25% as loan disbursements increased and interest spreads were maintained. Net profit for the quarter rose to Rs.3.55 bn, up from Rs.2.84 bn in the corresponding year-ago quarter. (BL)
- **Bhel** has announced that it has won a turnkey contract from Damodar Valley Corporation to set up two 500 MW units at Mejia thermal power station in West Bengal. (BL)
- **Tata Steel** has fortified its presence in South-East Asia by converting two of its NatSteel group companies into wholly-owned subsidiaries and acquiring majority stake in the third. (BL)
- Rise in interest income and growth in overseas operations saw **Bank of Baroda's** net profit for the quarter rise 63% to Rs.3.29 bn, up from Rs.2.02 bn, posted a year ago. BoB's net profit for the nine months ended December '06 was up 26.3% to Rs.7.81 bn against Rs.6.18 bn last year. (ET)
- **ICICI Bank** and **Union Bank of India** have set the ball rolling for an industry wide rise in interest rates again in just over a month. ICICI Bank has raised deposit rates 25-150 basis points across various maturities, while Union Bank hiked deposit rates 25-80 bps. (BS)
- **Tata Power** has signed a memorandum of understanding with the Chhattisgarh Government for setting up a 1,000 MW coal fired mega power plant at an estimated investment of Rs.50 bn. (BS)
- **Parsvnath Developers Ltd** has won the bid to develop a city center in Ranchi in Jharkhand. The project value will be around Rs.4 bn. (BL)
- **Nicholas Piramal India Ltd** has set up the first inhalation anesthetics plant in Asia at Hyderabad. (BL)

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

RESULT UPDATE

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EVEREST KANTO CYLINDERS LTD. (EKC) (Rs.778, FY08 15.2x, BUY)

Everest Kanto has posted an excellent set of numbers for the third quarter. Earnings are in line with our expectations. During the quarter, the company has transferred its Dubai operations to its wholly-owned subsidiary. Hence, for a like-to-like comparison, one must compare the consolidated numbers for the quarter with the standalone numbers for the corresponding quarter of the previous year. We maintain a BUY on the stock with a price target of Rs.924.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	2,355	4,088	6,181
Growth (%)	77.9	73.6	51.2
EBITDA	593	1,096	1,717
EBITDA margin (%)	25.2	26.8	27.8
Net profit	335	594	997
Net cash (debt)	(105)	1	(567)
EPS (Rs)	19	30.5	51.1
Growth (%)	134.6	77.5	67.8
CEPS	24.8	40	61.4
DPS (Rs)	1.4	4.0	4.0
ROE (%)	29.9	26.6	31.8
ROCE (%)	36.0	37.5	41.3
EV/Sales (x)	5.9	3.7	2.5
EV/EBITDA (x)	23.3	13.9	9.2
P/E (x)	40.9	25.5	15.2
P/Cash Earnings	31.3	19.4	12.7
P/BV (x)	10.3	5.9	4.4

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

	Standalone		Consolidated	YoY
	Q3FY06	Q3FY07	Q3FY07	(%)
Net Sales	577	708	1,118	94
Other Income	0	123	12	5,810
Total Income	577	831	1,130	96
Raw material costs	295	401	615	108
Staff costs	21	29	37	77
Other expenditure	101	119	148	47
Total Expenditure	417	550	800	92
PBIDT	160	158	318	99
Interest	7	5	12	72
PBDT	153	276	318	108
Depreciation	19	41	48	152
PBT	134	235	270	101
Tax	47	66	66	41
Reported Profit After Tax	87	169	204	134
PBDIT (%)	27.7	22.4	27.4	
RM costs to sales (%)	51.2	56.7	55.0	
Other expenditure to sales (%)	17.5	16.9	13.2	

Source: Company

KEY HIGHLIGHTS

Strong sequential revenue growth

- EKC posted 94% YoY growth in revenues for the third quarter driven by strong volumes from its Gandhidham facility, which was commissioned, in the fourth quarter of FY06.
- In FY06, the company's Gandhidham unit produced 10510 cylinders. In the first half of FY07 Everest Kanto produced approximately 40,000 cylinders and in Q3FY07E the company is estimated to have produced 35,000 cylinders. The company is likely to end the year with 142,800 cylinders moving up to 289,000 cylinders in FY08E and further to 306000 cylinders in FY09E.

Sustained high profitability

- At 27.4% in Q3FY07, EKC continues to earn very attractive margins on its operations. EKC is able to fully pass on the hike in raw material prices, thereby keeping its margins intact. Everest Kanto is actually passing on higher price increases than the rise in prices of raw materials, thereby generating incremental operating margins. Also, higher capacity utilization is leading to greater operational efficiency leading to lower cost per unit and increasing profitability.

Earnings up 134% YoY in the quarter

- For the quarter, earnings grew 134% YoY and 49% sequentially. Bulk of other income in the standalone numbers is profit on sale of Dubai unit to wholly-owned subsidiary (EKC International FZE). This got netted off in the consolidated other income. The company is favorably positioned to meet or exceed our full-year consolidated profit forecast of Rs.594 mn for FY07.

Valuation

- At the current price of Rs.778, the stock is trading at 15.2x FY08E and 12x FY09E earnings estimates.
- We remain positive on the growth prospects and maintain **BUY** on EKC with a price target of Rs.924, which provides an upside potential of 19% from current levels.

**We maintain BUY on EKC
with a price target of Rs.924**

RESULT UPDATE

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TATA MOTORS

(Rs.916, FY08 Cons PE: 14x; HOLD)

Tata Motors reported financial numbers for Q3FY07 that were better than our estimates, benefiting from a strong volume growth as well as higher realizations. We have revised our earning estimates for the company based on the quarterly performance with a price target of Rs.936. We maintain HOLD on the stock at the current levels.

Key Highlights of Q3FY07

- Tata Motors reported net sales of Rs.69.5 bn for Q3FY07, an increase of 37% over Rs.50.7 bn recorded in the corresponding quarter of last year, followed by EBIDTA growth of 50% at Rs.9.2 bn from Rs.6.1 bn in the third quarter (Q3) last year. However, the revenue includes a figure of Rs.1.32 bn on account of foreign exchange gain.
- PAT for Q3FY07 was Rs.5.1 bn as compared to Rs.4.6 bn in Q3FY06, a rise of 12%. The figures are not comparable, as the company had earned Rs.1.64 bn profit on sale of shares of a subsidiary, Telco Construction Equipment Company Ltd in Q3FY06.
- Adjusting for the forex gain, operating margins for the quarter declined from 12.1% to 11.6% as the company witnessed significant increase in all its input costs. However, what is encouraging is that on a sequential basis there has been an increase in margins and we expect it to be maintained in the fourth quarter. The margins were positively impacted by the 8% rise in average vehicle realizations.
- The net interest cost in Q3FY07 increased to Rs.852 mn from Rs.601 mn in Q3FY06, an increase of around 42% YoY. Tata Motors has formed a new subsidiary called TML Financial Services for the vehicle financing business. We believe that it should lead to reduction in the parent company's debt levels in the coming quarters. However, this would also lead to a reduction in the parent company's income from hire purchase in the future. Already in the third quarter there was a loss of around Rs.200 mn at the EBITDA level as the new business went to the new subsidiary TML Financial Services.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	206,022	266,697	305,043
Growth (%)	18	29	14
EBITDA	27,950	34,482	40,952
EBITDA margin (%)	12.5	12.4	12.9
Net profit	15,797	18,659	22,590
Net cash (debt)	(18,136)	(18,250)	(13,191)
EPS (Rs) (Diluted)	37.8	46.3	56.1
Growth (%)	15	22	21
ROE (%)	32.7	30.0	29.0
ROCE (%)	27.3	29.3	29.8
EV/Sales (x)	1.69	1.29	1.11
EV/EBITDA (x)	13.5	10.4	8.6
P/E (x)	24.2	19.8	16.3
P/BV (x)	6.3	5.1	4.0

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3FY07	Q3FY06	YoY (%)
Gross Sales	80,474	59,036	36
Other Income	143	1,684	32
Total Income	91,380	67,326	36
Net Sales	69,568	50,746	37
Total Expenditure	71,239	52,882	35
Operating Profits	9,236	6,154	50
OPM (%)	13.3	12.1	9
Interest	852	601	42
Depreciation	1,435	1,308	10
PBT	7,092	5,928	20
Prov for Tax	1,956	1,315	49
Exceptional Item	5	10	-54
PAT before Exceptional item	5,136	4,612	11
PAT after Exceptional item	5,132	4,602	12
Equity Capital	3,853	3,763	
EPS (Rs)	13.3	12.2	

Source: Company

Other highlights for Q3FY07

- Sales volume, on a standalone basis, in the third quarter at 141,827 units grew 27.5% against 111,228 units in the previous year period. Export volumes were flat during the period as depreciation of local currency led to lower than expected sales to South Africa. Currently revenues from international business form 16% of the consolidated revenues and hence the management expects forex volatility to stay in the coming quarters as well.
- Despite 34% growth in the M&HCV segment for the third quarter, Tata Motors' market share reduced from 66.2% to 64.2%. This can be primarily attributed to an engine availability issues from Tata Cummins that has now been sorted out.
- The market share in the LCV segment has grown to 63.7% as compared to 60.7% in the previous year with the Ace model reporting average sales of 6,200 units per month. In the passenger vehicle segment, the company's market share has grown to 15.7% as compared to 15.6% in the previous year despite production being hit due to fire at the Pune plant.

Subsidiaries continue to perform

- The company's consolidated revenues at Rs.81.7 bn recorded an increase of 37% as against Rs.59.6 bn in the corresponding period of the previous year.
- The consolidated PAT at Rs.6 bn as against Rs.5.5 bn in the corresponding period of the previous year recorded a growth of 9.3%. However, after adjusting for the exceptional income earned on the Telcon stake sale in Q3FY06, the PAT grew by 51.8%.
- Among the subsidiaries, only TTL posted a drop in profits despite a 118% rise in revenues. This was due to certain accounting adjustments as well as integration issues with Incat.

Business Outlook

- The management is confident that the momentum in the CV sales can be maintained in the current year. Their optimism is backed by the strong replacement demand expected in the CV industry. According to company estimates, out of around 3 mn trucks on Indian roads close to 40% are above the 10-year mark and prove to be inefficient on the long distance.
- Besides, freight rates that have shown significant improvement in the last twelve months have also sustained at the current levels ensuring higher returns for truck operators consequently improving the overall CV market growth. The healthy freight rates, continued buoyancy in IIP and strong GDP growth estimates make us confident of a sustained increase in CV volumes for FY07. However, adverse movement in the interest rates and diesel prices could slow down the growth in CV sale volumes.
- Tata Motors is looking at raising capacity across all products in then next 12 to 15 months as part of its capex plans of Rs.100 bn as it looks to double its turnover in the next four to five years. The company is also looking at launching new models and platforms in the passenger cars, trucks and buses besides face-lift of existing models including the Indica replacement platform. However, new products are scheduled to be launched only from the beginning of FY08 and would continue into FY09.

Valuations

We maintain HOLD on the stock with a price target of Rs.936

- We have revised our estimates upward factoring in Tata Motors' performance in the third quarter. We expect the company to report total revenues of Rs.268 bn in FY07 and Rs.307 bn in FY08 with corresponding net profits of Rs.18.6 bn and Rs.22.6 bn, respectively on a standalone basis. This translates into an EPS of Rs.46.3 and Rs.56.1 on a fully diluted basis. On a consolidated basis, we expect an EPS of Rs.53.2 for FY07 and Rs.64.7 for FY08 on a fully diluted basis.
- We have done an SOTP valuation for the stock including the valuation for its subsidiaries and investments in Tata Steel. Our revised DCF valuation for the stock based on our new estimates comes to Rs.810 while the subsidiaries and its investment in Tata Steel have been valued at Rs.126. The new revised price target for the stock is Rs.936.
- Although at current levels the stock looks fully valued given the fact that CV sales are expected to be moderate FY08 onwards, we maintain **HOLD** on the stock. In future, the company would continue to benefit from its diverse product portfolio given the projected economic growth of the country. Besides, we expect future benefits from its JV with Fiat that we have not yet factored in our valuations.

SOTP valuation

	Value per share (Rs)	EPS (Rs)	
		FY07E	FY08E
TAMO standalone	810	46.3	56.1
Subsidiaries	126	6.9	8.6
Total	936	53.2	64.7

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
24-Jan	Allianz Secu	Suruchi Agro Properties	S	100,500	48.75
24-Jan	Asha Mineche	Sundaram Mutual Fund A C	B	454,600	228.01
24-Jan	Asha Mineche	Stanchart Trus Co Pvt Ltd	S	455,000	228.01
24-Jan	Asian Hotels	Citigroup Global Market	B	192,566	735.19
24-Jan	Commit Cap S	Kathleen Vyapaar Pvt Ltd	B	30,000	11.30
24-Jan	Epic Energy	Wall Street Capital Marke	S	20,100	57.40
24-Jan	Geekay Finan	M. V. Securities	B	43,601	10.50
24-Jan	Hindalcopp	Templeton Mutual Fund	S	1,680,000	114.04
24-Jan	IFCI Ltd	Morgan Stanley and Co Int	S	3,200,000	24.61
24-Jan	Kancha Inter	Kaushalya Chawla	B	68,682	23.28
24-Jan	Kancha Inter	Dharamdas D. Chawla	S	68,682	23.28
24-Jan	KEI Industri	BNP Paribas Ac Parvest Si	B	540,000	124.00
24-Jan	KEI Industri	Emerging Capital Advisors	S	550,000	124.00
24-Jan	Kotak Bank	CLSA Mauritius Limited	B	3,600,000	460.00
24-Jan	Kotak Bank	Calyon	S	3,825,000	460.00
24-Jan	Lloyd Ele En	Brics Securities Ltd	S	202,818	164.61
24-Jan	Madhav Mar G	Emerging Capital Advisors	B	100,000	152.53
24-Jan	Madhav Mar G	Volga International Ltd	S	99,000	152.53
24-Jan	Madhav Mar G	Silvermine Share Broking	S	60,000	154.86
24-Jan	Madhav Mar G	Jhawar Commodities Pvt Ltd	S	50,000	153.99
24-Jan	Maharastra	Arvind Mulraj Udeshi	S	57,000	104.50
24-Jan	Minax Textil	Dipal Rameshkumar Shah	S	30,000	20.21
24-Jan	Mohit Indust	Hasmukh Purshottam Solank	B	25,000	63.35
24-Jan	Mohit Indust	Hemrajsinh S Veghela	B	30,000	62.36
24-Jan	Patel Airtem	Ami Jignesh Shah	B	80,000	40.57
24-Jan	Patel Airtem	Harsiddh Specific Family	S	300,000	40.00
24-Jan	Phoenix Mill	Ashok Apparels Pvt.Ltd.	B	677,550	1,371.35
24-Jan	Phoenix Mill	Sangeeta M.Maker	S	100,000	1,378.00
24-Jan	Phoenix Mill	Rakhi M.Bhansali	S	100,000	1,365.00
24-Jan	Phoenix Mill	Madhumati B.Ruia	S	177,550	1,365.00
24-Jan	Phoenix Mill	Bharat Kumar Ruia	S	300,000	1,375.00
24-Jan	Pitti Lamina	Goldman Sachs Investments	B	50,000	82.00
24-Jan	Pitti Lamina	Laadki Trading and Inv.	S	137,000	82.83
24-Jan	Ram Informa	Obident Export Pvt Ltd	B	101,000	20.88
24-Jan	Ram Informa	Diamant Investment	B	130,796	20.86
24-Jan	Ram Informa	Ranga N.B. Gorrepati	S	330,837	20.83
24-Jan	Royale M H I	Ayodhyapati Investment	S	88,488	36.39
24-Jan	Shri Bajrang	Anil Dhanpat Agrawal	B	40,000	145.30
24-Jan	Shri Bajrang	Suresh Goel and Brothers	S	20,000	145.30
24-Jan	Shri Bajrang	Hariram Goel and Co	S	20,000	145.50
24-Jan	Shri Bajrang	Bajrang Rice Mill	S	20,000	145.20
24-Jan	South Irrn St	Talma Chemicals and Ind	B	1,735,000	22.60
24-Jan	South Irrn St	R D Investments	S	1,750,000	22.56
24-Jan	Sumeet Indus	ISF Securities Limited	S	100,739	23.40
24-Jan	Tyche Inds	Haresh N. Khatri	B	50,000	39.85
24-Jan	Venus Remeds	Citigroup Global Markets	S	99,827	465.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	913	2.3	8.9	1.2
SAIL	104	7.3	5.9	24.6
Wipro	633	2.0	3.5	0.4
Losers				
HLL	214	(3.5)	(3.5)	6.2
Tata Motors	916	(3.6)	(2.7)	2.0
Reliance Com	435	(1.4)	(2.4)	6.3

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
25-Jan	BHEL, Hindalco, Novartis India, Titan Industries, Hindustan Motors, Deccan Aviation, Century Textiles, Century Enka, MRF, GE Shipping, Arvind Mills, Cummins Indiam, Moser Baer, SSI Ltd, Pantaloon Retail earnings expected; Bank of Baroda & India Infoline holds joint press conference; LIC Housing Finance holds press conference; Union Bank of India press meet to announce 3rd quarter results
27-Jan	Shipping Corporation, Dredging Corporation, Syndicate Bank, Vijaya Bank, Shoppers Stop, Divi's Laboratories, Development Credit Bank earnings expected.
29-Jan	L&T, Tata Power, BPCL, SAIL, IBP, Asian Paints, BRPL, Bharti Shipyard, Sun Pharmaceutical Ind, Mid-Day Multimedia, Finolex Industries, GHCL, Alok Industries, Maharashtra Seamless, Welspun-Gujarat Stahl Rohren, Sun TV, Indusind Bank, Strides Arcolab, Andhra Bank, Punj Lloyd, Essar Steel, Jindal Steel, Alstom Projects earnings expected; Balrampur Industries to announce interim dividend
30-Jan	Tata Steel, Trent, ONGC, VSNL, Tata Chemicals, FDC, Madras Cement, Amara Raja Batteries, Essel Propack, Unidit Phosphorous, Hinduja TMT, Tata Elxsi, ICI India earnings expected
31-Jan	Mahindra & Mahindra, Tata Tea, HPCL, MTNL, Engineer India, Rashtriya Chemicals & Fertilizers, Thermax, Punjab National Bank, Gail (India), Ashok Leyland, NTPC, Hero Honda Motors, CESC, Aurobindo Pharma, LML Ltd, Financial Technologies, Gateway Distriparks, Unitech earnings expected

Source: Bloomberg

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