



Economy News

- ▶ The US Government will take control of Fannie Mae and Freddie Max after the mortgage defaults. FHFA will replace their chief executives and eliminating their dividends. The treasury will purchase up to \$100bn of senior preferred stock in each company as need to maintain a positive net worth. (ET)
- ▶ The government is set to introduce dual pricing for diesel, the largest consumed petroleum fuel in the country. Bulk diesel users which include, Industrial consumers, power plants, defense establishments and special economic zones will have to pay Rs.22 per liter higher than the subsidized diesel. (BS)
- ▶ The Nuclear Suppliers Group (NSG) has lifted obstacle to India Buyers products and technologies associated with civilian uses of nuclear technology from most significant nuclear powers. (ET)
- ▶ Securities and Exchange Board of India (Sebi) on Friday proposed raising the equity holding limit in stock exchanges by anchor/strategic investors to 15% from 5% at present. The revised cap would be only applicable for certain investors such as stock exchanges, depositories, clearing corporation, banks and insurance companies. (ET)

Corporate News

- ▶ ADAG Company **Reliance Big Entertainment** has acquired a majority stake in the US-based cricket webcasting portal, Willow TV, for an undisclosed amount. It will invest Rs 3000mn in the portal over the next two years and the amount includes the acquisition price. (BS)
- ▶ **Alembic Ltd.** has chalked out an aggressive expansion plan to double its turnover within 2 to 3 years by foraying into the regulated markets of the US and Europe as well as contract manufacturing. The company has filed 13 abbreviated new drug applications (ANDAs) and 22 drug master files (DMFs) with the US FDA and regulatory agencies in Europe for supply of formulations and active pharmaceutical ingredients. (ET)
- ▶ Madras High Court has suo motu issued notice to **ITC Limited** and Tamil Nadu Pollution Control Board (TNPCB) in an environmental pollution-related issue in Coimbatore district. (FE)
- ▶ **Reliance Money**, the retail brokerage and distribution arm of Reliance Capital, is close to signing a deal to acquire 15-26% in Hong Kong Mercantile Exchange (HKMEX). Apparently the talks are on for a 26% stake sale in HKMEX, while Reliance money is likely to pick up close to 10-15% through fresh issue of shares. The deal will value the exchange at \$200 mn. (ET)
- ▶ **Wipro Technologies** has put about 4-5% of its workforce, about 2400-3000 employees, under the scanner for non-performance. Out of these ~ 1000 employees were asked to leave. (ET)
- ▶ **Indian Hotels Company Ltd**, which owns the Taj group of hotels, has announced the opening of the Taj Residency. (BL)
- ▶ **Coal India Ltd** plans to import coal for the first time to meet surging domestic demand and could source up to 4 mn tonnes (mt) of thermal coal from overseas this year. Import of coal is aimed at tiding over a shortage of the commodity faced by power generators, especially small-sized players. (BL)

Equity

	5 Sep 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	14,484	(2.8)	(4.5)	(7.0)
Nifty	4,352	(2.1)	(3.9)	(6.0)
BSE Banking	7,173	(3.5)	(3.0)	(1.3)
BSE IT	3,942	(3.5)	1.4	(14.3)
BSE Capital Goods	11,981	(1.7)	(4.7)	(0.4)
BSE Oil & Gas	9,653	(1.9)	(4.8)	(3.5)
NSE Midcap	5,733	(1.6)	(2.9)	(7.4)
BSE Small-cap	6,905	(1.0)	(3.9)	(10.3)
World Indices				
Dow Jones	11,221	0.3	(4.4)	(8.1)
Nasdaq	2,256	(0.1)	(6.6)	(8.8)
FTSE	5,241	(2.3)	(4.5)	(11.3)
Nikkei	12,212	(2.8)	(3.9)	(12.7)
Hangseng	19,933	(2.2)	(5.4)	(15.2)

Value traded (Rs cr)

	5 Sep 08	% Chg - Day
Cash BSE	4,730	(12.1)
Cash NSE	11,407	(11.6)
Derivatives	46,868	1.2

Net inflows (Rs cr)

	4 Sep 08	% Chg	MTD	YTD
FII	(399)	(130)	767	(28,803)
Mutual Fund	134	15	170	10,370

FII open interest (Rs cr)

	4 Sep 08	% Chg
FII Index Futures	12,904	2.1
FII Index Options	22,200	0.5
FII Stock Futures	19,296	1.1
FII Stock Options	903	6.3

Advances / Declines (BSE)

	5 Sep 08	A	B	S	Total	% total
Advances	34	670	183	887	36	
Declines	170	1051	264	1,485	61	
Unchanged	1	68	10	79	3	

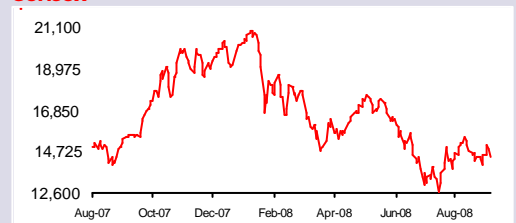
Commodity

		5 Sep 08	1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	108.4	2.0	(5.9)	(21.8)
Gold (US\$/OZ)		803.5	0.9	(4.9)	(9.7)
Silver (US\$/OZ)		12.3	(4.3)	(17.4)	(27.8)

Debt / forex market

	5 Sep 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.67	8.68	9.17	8.24
Re/US\$	44.65	44.36	42.20	42.99

Sensex



MANAGEMENT MEET UPDATE

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AIA ENGINEERING LTD (AIA)**PRICE: Rs. 1577****TARGET PRICE: Rs. 1870****RECOMMENDATION: BUY****CONS. FY09E P/E: 16.1x**

- We recently spoke with the management of AIA Engineering and are very positive about its growth prospects.
- We have also gone through the annual report of AIA Engineering for financial year 2008.
- We maintain our earning estimates and continue to recommend BUY with unchanged price target of Rs.1870.
- 19% upside potential from current levels.

Business Prospects

The company is operating in a high technology oriented niche engineering segment, involving design, development, manufacture and installment of impact, abrasion and wear resistant, high chrome mill internal products. These are used as consumables in the grinding and crushing operation in the mills in the cement, mining and thermal power industry. All the three segments have excellent growth prospects.

A) Cement

Within India, the cement industry has shown significant rise in production primarily due to growth in the infrastructure segment. Since the current investment cycle is expected to last longer the cement companies are investing heavily to create new capacities. As per ICRA, the cement capacity in India is expected to go up from 186 MMTPA as of March 2008 to 219 MMTPA by March 2009 and further rise to 241 MMTPA by March 2010. AIA, having proved its efficiency and superiority with more than 95% market share is expected to be the biggest beneficiary of this.

B) Power

The Power industry, thermal power plants in particular, are also growing due to huge deficit in power generation. Close to 50000 MW of coal-based power generating capacity is proposed to be added in the 11th five-year plan that is by 2012. The rapid pace of the power capacity addition is directed by the vision of the government to have power for all by 2012. This is helping AIA to greatly benefit out of this as almost 30% of the domestic revenues of AIA come from the power sector.

C) Mining

Mining is essential for extraction of core minerals that are raw materials for various ferrous and non-ferrous industries. The mining activity is also gaining momentum especially in the Iron ore segment. Higher demands from the user industries in India and a sustained global commodity cycle has resulted in high mining activity not just in India but also across most of the mineral rich nations like China, Russia etc.

Product development

- The company continues to develop new alloys and parts for various applications for improved wear rates thereby improve the overall efficiency of the mill. With increasing cost of Ferro Chrome, the company is developing lower Chromium alloys for the grinding media to reduce the overall cost of the product.
- The Company has successfully developed new products and plans to foray into the high margin quarry segment. This relates to crushing of stones for the construction segment. AIA is planning to set up an initial capacity of 10,000 MT per annum. This can be scaled up in future as the company expects this segment to grow significantly over a period of time.

Summary table - Consolidated

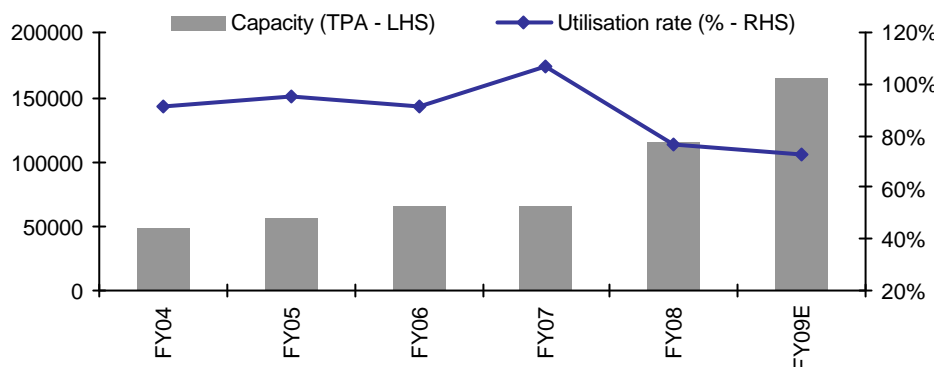
(Rs mn)	FY07	FY08	FY09E
Sales	5,230	6,912	9,985
Growth (%)	28.5	32.1	44.5
EBITDA	1,244	1,638	2,454
EBITDA margin (%)	23.8	23.7	24.6
Net profit	943	1,333	1,844
Net debt (Cash)	(284)	(130)	(608)
EPS (Rs)	50.2	70.9	98.1
Growth (%)	80.1	41.3	38.4
DPS (Rs)	3.5	4.0	5.0
ROE (%)	19.2	21.8	26.4
ROCE (%)	26.1	29.2	35.4
EV/Sales (x)	5.6	4.3	2.9
EV/EBITDA (x)	23.6	18.0	11.8
P/E (x)	31.4	22.2	16.1
P/BV (x)	6.0	4.9	3.8

Source: Company, Kotak Securities - Private Client Research

Capacity expansion

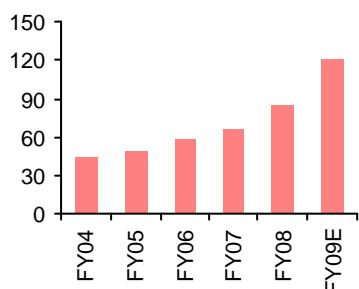
- The company has consolidated capacity of 165000 (65000+50000+50000) TPA of high chrome mill internals as of May 2008. The first phase of the expansion of 50000 TPA was commissioned in June 2007 and the second phase of another 50000 TPA was commissioned in May 2008.

Consolidated capacities & Utilization (TPA)



Source: Company, Kotak Securities - Private Client Research

Mill internal sales (000' TPA)



Source: Company, Kotak securities - Private Client Research

- The company also had plans to set up another one lakh TPA plant to manufacture high chrome mill internals preferably in SEZ or any suitable location in Gujarat. However till date the company has not been unable to procure land for the same.
- Now the company is contemplating to add the third line of 50000 TPA at its Changodar facility, if it is unable to procure land at a SEZ. Thus the next phase of capacity addition is expected in second half of FY10E.
- In FY08, the company sold 85,526 MT of high chrome mill internals, which is up 28.4% on YoY basis. Going forward we expect it to grow by 40.3% to 120000 MT in FY09E.

Backward integration

AIA is actively exploring opportunities to undertake backward integration for two key inputs namely Ferro Chromium and power generation. This is aimed at insulating itself from price increases which it has witnessed over last few years. The company is actively evaluating some Ferro chromium plants of suitable capacity to meet the requirements of its expanded capacities. However till date nothing has been finalized. We await further details from the management.

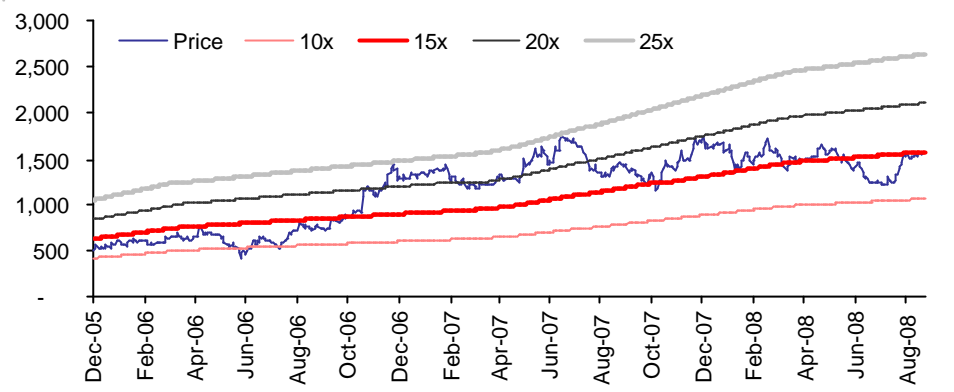
Confident of maintaining margins

Despite sharp increases in raw material prices and sharp rupee dollar movements the company has been able to effectively maintain its operating margins as it has been able to pass on the price hikes. This is primarily due to excellent client relationships, high quality offerings and huge demand for its products. Going forward the management is confident of maintaining the margins in the range of 23% to 25%.

Recommendation and Valuation

- We maintain our earnings estimates for AIA and expect it to report an EPS of Rs.98.1 in FY09E.
- The current market price of Rs.1577 discounts FY09E earnings at 16.1, which we believe is attractive considering the clear growth prospects for the company going forward due to capacity expansion and strong demand for the products of the company.
- We have also done one year forward rolling band analysis for AIA which revealed that currently it is trading towards the lower end of the band of 10 - 25x one year forward earning estimates.

One year forward rolling PE band analysis - AIA

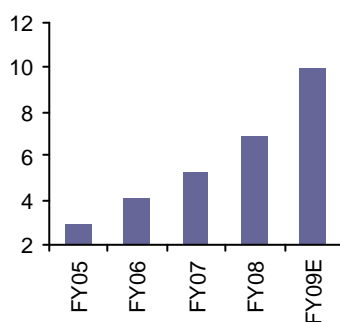


Source: Capitaline, Kotak Securities - Private Client Research

We recommend BUY on AIA Engineering with a price target of Rs.1870 (19% upside)

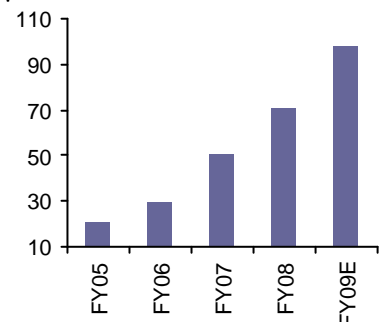
- We remain positive and maintain BUY recommendation on AIA with unchanged price target of Rs.1870, which provides 19% upside potential from current levels.
- We recommend **BUY** on AIA Engineering.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



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)
5-Sep	Arshiya Intl	Archana Ajay Mittal	B	310,656	165.00
5-Sep	Arshiya Intl	Carlson Fund Eq Asian Small Cap	B	500,000	165.00
5-Sep	Arshiya Intl	Swiss Finance Corporation Mauritius	S	392,592	165.00
5-Sep	Asian Oilfie	Decent Fin Ser P Ltd	S	100,000	121.00
5-Sep	Asian Tea Ex	Enca Finlease Ltd.	S	50,000	53.60
5-Sep	Axon Infotec	Rahul Doshi	S	4,470	22.04
5-Sep	Bihar Tubes	Mukesh Jain	B	35,756	200.98
5-Sep	Dollex Indut	Immortal Financial Serv P Ltd	B	65,000	15.46
5-Sep	Dollex Indut	Yusuf Khan	S	65,000	15.44
5-Sep	Easunreyrl	Heritage Asset Mgt Inc Ac India Emerging Opp Fund Ltd	B	121,000	104.25
5-Sep	G.S. Auto	Vijay Kumar Goyal	B	30,418	78.84
5-Sep	G.S. Auto	Spjstock	S	27,702	78.00
5-Sep	Goldston Tec	Masumi Overseas Pvt Ltd	S	150,000	114.78
5-Sep	Intens Tech	Citigroup Global Markets Mauritius	S	178,797	17.82
5-Sep	Org Informat	Deutsche Bank Ag London GDR Ac	S	90,000	29.47
5-Sep	Panam Petroc	Sudhir Jain	S	55,760	132.65
5-Sep	Sel Manuf	Nirmal Narendra Kotecha	S	76,500	265.64
5-Sep	Victory Proj	Yuvak Share Trading Pvt Ltd	S	46,956	26.32

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
BPCL	359	8.6	1.7	2.3
Hindustan Unilever	245	1.9	1.6	1.4
ONGC	1,072	0.3	1.3	1.1
Losers				
Reliance Ind	2,081	(3.3)	(17.1)	3.2
DLF	494	(5.5)	(8.1)	4.9
Infosys Tech	1,712	(4.3)	(7.3)	1.4

Source: Bloomberg

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