



## Economy News

- ▶ Banks are taking measures to prevent defaults in the real estate portfolio by reducing exposure to loans against property. (ET)
- ▶ Companies may face curbs on coming up with a 'buy-back' offer for purchase of shares even as the market is still in the process of discovering a 'fair price' for delisting of the shares of the company. (BL)
- ▶ The credit ratings of Indian insurance companies — both life and non-life — are unlikely to be affected in the near future despite the global financial crisis affecting the foreign stakeholders of these companies. (BL)
- ▶ Banking operations were severely affected on Wednesday as nine lakh bank employees went on a two-day nationwide strike in protest against the government policy of encouraging merger of banks. (BL)

## Corporate News

- ▶ **L&T** received orders worth 50 billion rupees (\$1.1 billion) in the buildings and factories segment from NESCO, Godrej Properties, PBEL Property Development, Om Prakash Jindal Grahim Jan Kalyan Sansthan and Mahi Cement. (ET)
- ▶ Jharkhand government and the Steel Ministry in-principle agreed to sort out a logjam in the allotment of iron ore from the Chiria Mines to the **SAIL** by October. The earlier state governments had been insisting that the company could not count Chiria Mines as its lease was given to IISCO before its merger with the SAIL. (ET)
- ▶ **Vedanta Resources**, said it had cancelled the group restructuring plan under which **Sterlite Industries** would have sold its 51% in Balco and a 29.5% in Vedanta Aluminium Company to **Malco**, another subsidiary of Vedanta Resources. (BS)
- ▶ **Simplex Infrastructure** has said that it has bagged a Rs 630-crore order in the Middle East for construction of a twin-tower complex in Dubai, which would add to its overseas revenue. (ET)
- ▶ **IFC** has lent \$100 million loan to **Idea Cellular** to strengthen its network and enable the telecom company to offer services in Bihar. (BS)
- ▶ **Bharti Airtel Ltd** announced that it has partnered with SingTel to offer all Airtel customers free incoming calls while roaming in Singapore during this weekend when the inaugural Formula 1 race takes place in the city state. (BS)

### Equity

|                       | 24 Sep 08 | % Chg |        |        |
|-----------------------|-----------|-------|--------|--------|
|                       |           | 1 Day | 1 Mth  | 3 Mths |
| <b>Indian Indices</b> |           |       |        |        |
| BSE Sensex            | 13,693    | 0.9   | (5.2)  | (3.7)  |
| Nifty                 | 4,161     | 0.8   | (4.0)  | (2.1)  |
| BSE Banking           | 6,887     | 1.2   | 2.1    | 6.3    |
| BSE IT                | 3,417     | (1.1) | (11.5) | (16.6) |
| BSE Capital Goods     | 11,341    | 1.1   | (4.4)  | 5.0    |
| BSE Oil & Gas         | 9,436     | 1.2   | (4.5)  | 0.3    |
| NSE Midcap            | 5,215     | 0.3   | (8.0)  | (7.1)  |
| BSE Small-cap         | 6,102     | 0.1   | (11.9) | (13.6) |
| <b>World Indices</b>  |           |       |        |        |
| Dow Jones             | 10,825    | (0.3) | (4.9)  | (8.4)  |
| Nasdaq                | 2,156     | 0.1   | (8.9)  | (10.2) |
| FTSE                  | 5,096     | (0.8) | (7.4)  | (10.1) |
| Nikkei                | 12,115    | 0.2   | (6.7)  | (13.2) |
| Hangseng              | 18,962    | 0.5   | (9.1)  | (15.2) |

### Value traded (Rs cr)

|             | 24 Sep 08 | % Chg - Day |
|-------------|-----------|-------------|
| Cash BSE    | 4,245     | (0.6)       |
| Cash NSE    | 11,829    | 11.5        |
| Derivatives | 67,052    | (1.9)       |

### Net inflows (Rs cr)

|             | 23 Sep 08 | % Chg | MTD     | YTD      |
|-------------|-----------|-------|---------|----------|
| FII         | (868)     | (879) | (6,926) | (36,495) |
| Mutual Fund | (226)     | (32)  | 1,580   | 11,772   |

### FII open interest (Rs cr)

|                   | 23 Sep 08 | % Chg |
|-------------------|-----------|-------|
| FII Index Futures | 16,056    | (0.6) |
| FII Index Options | 24,797    | 2.3   |
| FII Stock Futures | 21,810    | 1.6   |
| FII Stock Options | 1,973     | 4.1   |

### Advances / Declines (BSE)

|           | 23 Sep 08 | A   | B   | S     | Total | % total |
|-----------|-----------|-----|-----|-------|-------|---------|
| Advances  | 126       | 853 | 223 | 1,202 | 51    |         |
| Declines  | 74        | 794 | 216 | 1,084 | 46    |         |
| Unchanged | 3         | 59  | 14  | 76    | 3     |         |

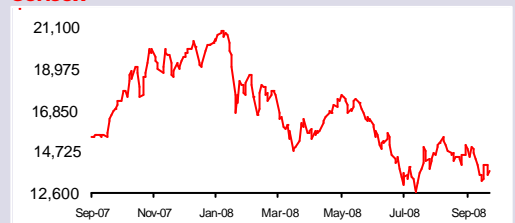
### Commodity

|               |            | 24 Sep 08 | % Chg |       |        |
|---------------|------------|-----------|-------|-------|--------|
|               |            |           | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) | (US\$/BBL) | 105.7     | (0.0) | (8.2) | (21.5) |
| Gold          | (US\$/OZ)  | 882.6     | (1.1) | 8.2   | 0.3    |
| Silver        | (US\$/OZ)  | 13.3      | (0.1) | (1.1) | (20.5) |

### Debt / forex market

|                     | 24 Sep 08 | 1 Day | 1 Mth | 3 Mths |
|---------------------|-----------|-------|-------|--------|
| 10 yr G-Sec yield % | 8.73      | 8.54  | 9.13  | 8.98   |
| Re/US\$             | 45.92     | 45.61 | 43.79 | 42.84  |

### Sensex



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**SATYAM COMPUTER SYSTEMS LTD****PRICE: Rs.334****TARGET PRICE: Rs.527****RECOMMENDATION: BUY****FY09E P/E: 10.6x**

**The stock price has reacted by about 20% over the past week. We spoke to the management on various concerns on the company. While issues on demand side remain, we believe the stock price reaction has been more than warranted. Maintain FY09E EPS estimates at Rs.31.4 and retain BUY with a price target of Rs.527. Our FY09E earnings are discounted by 10.6x.**

We spoke to the company recently to get ourselves updated on the latest developments and also to get comments on various concerns.

**No significant changes in demand scenario v/s 1QFY09**

There has been no perceptible change in the demand scenario for the company in the current quarter. The US market continues to witness lengthy sales cycle and delays in decision making. While the company has seen no project cancellations, project approvals are likely getting delayed.

While the scenario is challenging in the US, Satyam is witnessing increased traction in its other markets like Asia Pacific and the Middle East. On the other hand, the package implementation business is also witnessing good deal flow as compared to services like consulting, we opine.

Satyam has not faced any out-of-the-turn pricing reduction requests and the company continues to receive orders from new clients at a higher-than-average level.

**Client specific issues - more of sentiments, as of now**

We also spoke to the company about the impact of some of its clients undergoing M&A or filing for bankruptcy. Satyam has minimal exposure to Lehman, and Merrill contributes to about 2% of its revenues. The company also has marginal exposure to AIG and Goldman, according to the company.

While Merrill Lynch has been acquired by Bank of America, Satyam has not received any intimation about the future of its engagement with Merrill. We believe that, the impact, if any will be marginal and gradual.

**Employee issues - retrenchment, hiring**

There have been concerns of large scale retrenchment at Satyam. The company has confirmed that, there have been 400 or less people who have left the company because of performance issues. This is in line with the exercise carried out every year.

Also, the company has not gone to several campuses this year for recruitments. According to the management this has been because of quality issues. Also, the process continues till the beginning of the calendar year and we do not see anything different this time around. While demand slowdown is already known, we believe that, the company may be looking at more laterals and just-in-time hiring to re-align itself with the changing demand situation in FY10.

**Guidance should be met (INR based)**

Because of the volatility in the exchange rates between the INR and USD / GBP / Euro, there may be an impact on the USD based revenues of the company. The impact will likely be negative in case rupee depreciates sharply at the month-end.

We note that, the company uses INR as the base currency and then reconverts the same into USD for reporting under US GAAP. Because of this we expect the INR revenue guidance to be met. This is because of the fact that, the company earns close to 70% of revenues in USD terms. Out of the balance, it earns about 15% of

revenues in GBP / Euro terms and about 7% in Aus \$ terms. In any case, we will focus on the volume growth and we believe that, the company should be able to achieve the same.

The depreciation in the rupee v/s the USD in the current quarter should bode well for the margins of the company. It should set off some impact of the salary hikes given during the quarter.

### Hedging positions maintained

We believe that, the company has maintained its hedges at the previous quarter levels of about \$675mn. We view this as a positive in the backdrop of a depreciating currency. We believe this will help Satyam in restricting the hedging and mark-to-market losses on its hedges.

### Future prospects

| (Rs mn)                    | FY07          | FY08          | % chg       | FY09E          | % chg       |
|----------------------------|---------------|---------------|-------------|----------------|-------------|
| <b>Income</b>              | <b>64,851</b> | <b>84,735</b> | <b>30.7</b> | <b>108,752</b> | <b>28.3</b> |
| Expenditure                | 49,474        | 66,380        |             | 85,367         |             |
| <b>Operating profit</b>    | <b>15,377</b> | <b>18,354</b> | <b>19.4</b> | <b>23,385</b>  | <b>27.4</b> |
| Depreciation               | 1,484         | 1,636         |             | 1,947          |             |
| <b>Gross profit</b>        | <b>13,893</b> | <b>16,718</b> | <b>20.3</b> | <b>21,438</b>  | <b>28.2</b> |
| Interest                   | 159           | 201           |             | 222            |             |
| Other income               | 1,833         | 2,671         |             | 2,851          |             |
| <b>PBT</b>                 | <b>15,566</b> | <b>19,188</b> | <b>23.3</b> | <b>24,066</b>  | <b>25.4</b> |
| Tax                        | 1,520         | 2,304         |             | 2,984          |             |
| <b>PAT</b>                 | <b>14,046</b> | <b>16,885</b> | <b>20.2</b> | <b>21,082</b>  | <b>24.9</b> |
| Sh of Pft/(loss) / Min int | 1             | 0             |             | 0              |             |
| PAT after E.O. items       | 14,047        | 16,885        | 20.2        | 21,082         | 24.9        |
| Shares (mns)               | 670.5         | 670.5         |             | 671.8          |             |
| <b>EPS (Rs)</b>            | <b>21.0</b>   | <b>25.2</b>   |             | <b>31.4</b>    |             |
| OPM (%)                    | 23.7          | 21.7          |             | 21.5           |             |
| GPM(%)                     | 21.4          | 19.7          |             | 19.7           |             |
| NPM(%)                     | 21.7          | 19.9          |             | 19.4           |             |

Source : Company, Kotak Securities - Private Client Research

We have maintained our exchange rate assumptions at conservative levels of Rs.39 per USD by the fiscal end. We will make changes, if necessary, at the time of the 2QFY09 results. We expect revenues in FY09 to rise by 28%.

EBIDTA margins are expected to be marginally lower due to salary increases and expected rupee appreciation. Consequently, PAT is expected to rise by 25% to Rs.21.08bn, leading to an EPS of Rs.31.4.

### Valuations and recommendation

**We maintain our BUY recommendation on Satyam with a price target of Rs.527**

- We value Satyam based on the PE method. We accord a valuation of about 16.8x FY09E earnings, a discount to the valuations accorded by us to Infosys. We note that, the company has guided to a 16 - 18% rise in EPS in USD terms.
- We believe this discount is fair, based on the revenue and earnings visibility and the growth expected in FY09E on a larger base.
- At those valuations, the price target works out to Rs.527, implying an upside of 58% from the current levels. We maintain BUY on Satyam.

### Concerns

- A prolonged recession in major user economies or any client specific issues may impact our projections.
- Appreciation of the rupee v/s the USD above our assumed levels will impact our projected financials negatively.

## COMPANY UPDATE

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## PUNJ LLOYD LTD

PRICE: Rs.292

TARGET PRICE: Rs.484

RECOMMENDATION: BUY

FY10E P/E: 12.0x

- ❑ Excellent order inflow witnessed in last two months
- ❑ With expected completion of legacy orders by end of FY09, operating margins are expected to improve going forward.
- ❑ Joint ventures or collaborations with several players to result in enhancing business synergies for the company
- ❑ Stock is currently available at very attractive valuations of 17.9x and 12.0x FY09 and FY10 P/E multiples respectively
- ❑ We continue to maintain our BUY recommendation on the stock with an unchanged price target of Rs.484 based on FY10 estimates using sum-of-the-parts methodology.

## Summary table (Rs mn)

| Year end Mar         | FY08   | FY09E   | FY10E   |
|----------------------|--------|---------|---------|
| Revenues             | 77,529 | 106,797 | 138,832 |
| % change YoY         |        | 37.8    | 30.0    |
| EBITDA               | 6,407  | 10,146  | 13,883  |
| % change YoY         |        | 58.3    | 36.8    |
| Other Income         | 811    | 250     | 500     |
| Depreciation         | 1,462  | 1,808   | 2,153   |
| EBIT                 | 5,756  | 8,588   | 12,230  |
| % change YoY         |        | 49.2    | 42.4    |
| Net interest         | 1,292  | 1,534   | 1,754   |
| Profit before tax    | 4,464  | 7,054   | 10,476  |
| % change YoY         |        | 58.0    | 48.5    |
| Tax                  | 1,235  | 1,975   | 2,933   |
| as % of PBT          |        | 28.0    | 28.0    |
| Profit after tax     | 3,229  | 5,079   | 7,543   |
| Share of pfts of JVs | 356    | -       | -       |
| Net income           | 3,584  | 5,079   | 7,543   |
| % change YoY         |        | 41.7    | 48.5    |
| Shares (m)           | 311.2  | 311.2   | 311.2   |
| EPS (reported) (Rs)  | 11.5   | 16.3    | 24.2    |
| P/E(x)               | 25.4   | 17.9    | 12.0    |
| EV/EBIDTA(x)         | 14.1   | 9.3     | 7.1     |

Source: Company, Kotak Securities - Private Client Research

## Strong order inflow

Order inflow for Punj Lloyd had been fairly aggressive for the company in the current fiscal till date. Company has received an order inflow of Rs.64.4 bn till date in the current fiscal and current order book stands at Rs 240 bn. This provides a revenue visibility for next 2 years. Diversification of order book across geographies as well as segments also hedges the company against slowdown in any particular area.

Recent order inflow of Rs 36.36 bn is one of the largest order inflow for the company this fiscal from Qatar Petroleum for laying 211 km of pipelines with associated stations as well as infrastructure. Along with this, company is also executing key EPC projects in Qatar for Doha Urban pipeline relocation, multi product pipeline for Qatar Petroleum and fuel systems for New Doha International Airport. Punj Lloyd expects significant opportunities to come from Middle East market going forward also. Key orders bagged by the company in current fiscal are -

- Motor spirit quality upgradation project worth Rs.6.5 bn from IOC
- Civil, mechanical, electrical and instrumentation work worth Rs.3.31 bn given by Exxon Mobil.
- Mechanical works for Borouge project worth Rs.4.64 bn by Technicas Reunidas, Spain.
- EPC project for 2X270MW worth Rs.10.05 bn for Govindwal Sahib Coal fired Thermal Power project in Punjab from GVK Power.
- Mechanical works on Jurong Island worth Rs 1.7 bn by FWP Joint Venture, Singapore.
- Drilling exploratory oil wells in the Gialo oilfield worth 1.9bn to be carried by Punj Lloyd upstream.
- EPC project worth Rs 36.36 bn from Qatar Petroleum for laying 211 km of pipelines.

### **Punj Lloyd upstream**

Punj Lloyd upstream Ltd was set up to explore opportunities in the onshore drilling space along with enabling it to move into offshore drilling, well services, field development etc. It has recently bagged a contract worth USD 42 million in Libya for deploying two onshore rigs in the Gialo oilfield. The contract requires drilling exploratory wells in the Gialo oilfield of the prolific Sirte Basin for Waha Oil Company. Waha Oil Company is the second largest crude oil producer in Libya. In addition to operating the oil fields under its control, Waha Oil Company also handles large quantities of oil for a number of companies, including Wintershall, Total and Zuietina, through its production lines running from the Sirte Basin to Es-Sider terminal. Company expects to tap the growing upstream business opportunities in Libya and expand it later in India, Middle east and other regions where the parent company has an operating presence. We believe significant opportunities to come to company in the longer term in the upstream business.

### **Recent Tie ups or collaborations to be positive for the business**

Punj Lloyd has acquired a 74% stake in a company Technodyne International Limited which specializes in engineering, design and consultancy for large scale cryogenic and high pressure tanks. This acquisition is expected to help company acquire the design skills as well as expertise of Technodyne for storage tanks. Along with this, company also signed a collaboration agreement with Singapore Technologies Kinetic Ltd for manufacture of defense equipment. ST Kinetics is an established player with a very good track record of supplying defense equipment in many countries. Punj Lloyd has already been issued a license by Government of India for manufacture of guns, rockets, missile artillery systems and related equipment in the defense sector. With this collaboration, Punj Lloyd is well poised to tap the growing demand of defense equipment from the Indian Defense sector.

### **Nuclear deal to be positive for Punj Lloyd**

Company expects significant opportunities to come up from finalization of nuclear deal. Company is expected to leverage these opportunities through its subsidiary Simon Carves UK which has over 3.5 million man hours of experience in nuclear facilities and Punj Lloyd has the construction capabilities in the sector.

### **Status of auditors' comment on certain losses**

Auditors have qualified in their notes that Punj Lloyd has not provided for losses to the extent of Rs.3.05 bn on a long term contract currently in progress by Simon Carves. These losses were on account of change in design and scope of the work. However company has negotiated with the client for recovery of losses to the tune of Rs 1.1bn. So correspondingly auditors have reduced the expected losses for the period to Rs.1.95 bn. Company is in further negotiations with the client and expects this project to break even by the end of the project.

### **Financial outlook**

- With an order book of Rs 240 bn diversified across pipelines, tankage, infrastructure, process, we expect revenues to grow at a CAGR of 34% between FY08-FY10.
- We expect operating margins to be around 9.5% and 10% for FY09 and FY10 respectively. Margins are expected to improve in FY10 on account of completion of legacy orders by end of FY09.
- With robust order inflow, healthy revenue growth as well as improvement in operating margins, we expect net profits to grow at a CAGR of 45% between FY08-FY10.

### Valuation and recommendation

At current price of Rs 292, stock is trading at 17.9x and 12.0x its P/E multiples on FY09 and FY10 estimates respectively. Net of investment valuations, stock is trading at 15.0x and 10.1x its P/E multiples on FY09 and FY10 estimates respectively.

**We recommend BUY on Punjab  
Lloyd with an unchanged price  
target of Rs.484**

We value the core business at 18x FY10 estimated earnings, at a discount of 25% to 24x target valuations of Larsen and Toubro for FY10. We remain positive on the company and continue to recommend **BUY** on the stock with an unchanged price target of Rs 484 arrived through SOTP methodology.

### Sum of the part valuation

| Segment                          | Rs/share   | Multiples                            |
|----------------------------------|------------|--------------------------------------|
| Value of core business           | 436        | At 18 x FY10 estimated earnings      |
| Value of JV with Ramaprashta grp | 14         | At 2.5x its book value of investment |
| Value of Pipapav shipyard stake  | 33         | At Rs 80 per share                   |
| <b>Total</b>                     | <b>484</b> |                                      |

Source: Kotak Securities - Private Client Research

**MANAGEMENT MEET UPDATE****Apurva Doshi**doshi.apurva@kotak.com  
+91 22 6621 6308**NITIN FIRE PROTECTION INDUSTRIES LTD****PRICE: Rs.270**  
**TARGET PRICE: Rs.500****RECOMMENDATION: BUY**  
**Cons. FY09E P/E: 7.3x**

- ❑ We recently met the management of NFPIL and are positive about its growth prospects.
- ❑ However we have revised downwards FY09 EPS by 10.1% to Rs.36.9 on account of power shortage at its CNG cylinders plant.
- ❑ We continue to recommend BUY with revised price target of Rs.500. (Rs.600 earlier)
- ❑ This provides 85% upside potential from current levels.

**Summary table - Consolidated**

| (Rs mn)           | FY07  | FY08E | FY09E |
|-------------------|-------|-------|-------|
| Sales             | 1,005 | 1,324 | 2,796 |
| Growth (%)        | 46.9  | 31.7  | 111.1 |
| EBITDA            | 168   | 254   | 611   |
| EBITDA margin (%) | 16.7  | 19.2  | 21.9  |
| Net profit        | 100   | 194   | 465   |
| Net debt          | 57    | 332   | 738   |
| EPS (Rs)          | 11.3  | 15.4  | 36.9  |
| Growth (%)        | 53.3  | 94.0  | 139.4 |
| DPS (Rs)          | -     | 2.0   | 2.0   |
| ROE (%)           | 40.1  | 25.9  | 31.7  |
| ROCE (%)          | 48.9  | 25.1  | 29.8  |
| EV/Sales (x)      | 3.4   | 2.8   | 1.5   |
| EV/EBITDA (x)     | 20.6  | 14.7  | 6.8   |
| P/E (x)           | 23.9  | 17.5  | 7.3   |
| P/BV (x)          | 10.0  | 2.9   | 2.2   |

Source: Company, Kotak Securities - Private Client Research

**Slower than expected ramp up of high pressure seamless cylinders plant at Vizag**

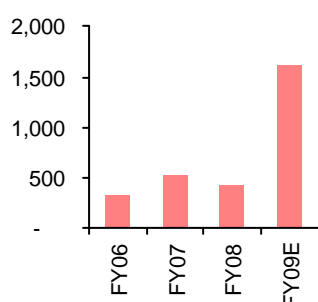
- NFPIL's CNG cylinders manufacturing plant at Vizag commenced commercial production in April 2008. The plant has the capacity to produce 500,000 CNG cylinders per annum of various diameters. It is aimed at both industrial users as well as automobiles with the majority being meant for automobiles.
- Currently the company is facing two days of power shutdown every week due to power shortage. The Vizag SEZ authorities have indicated that the problem is unlikely to be resolved soon. Thus we have assumed only 5 days a week for the plant.
- Meanwhile the company is also looking at various options to either have captive power or to buy the power from private players. However the cost of the private power is higher as compared to the grid power.
- We feel that if the SEZ authorities are unable to provide continuous power in next couple of months then the management would take a call on whether to go for captive power or not.

**Lower capacity utilization in FY09E**

- It produced approximately 15000 cylinders in Q1FY09. Currently, it is operating at around 450 cylinders per day and is expected to ramp up to 650 cylinders per day by December 2008.
- Going forward we expect it to produce 27,000 cylinders in Q2FY09E moving upto 40000 cylinders in Q3FY09E and 50000 cylinders in Q4FY09E. Thus we expect the plant to produce 132000 cylinders in FY09E.
- This would translate into capacity utilization of 26.4% in FY09E. The capacity utilization is on lower side primarily due to power cuts for two days in a week.

**Strong export demand for CNG cylinders**

- Looking at the demand side the global demand for CNG cylinders for automotive applications is likely to grow at an average rate of about 20 per cent. The Asia Pacific region and the emerging markets are expected to drive demand for CNG cylinders for automotive application.
- Most countries in this region are currently meeting its demand through imports from the established CNG markets, as there is little or no manufacturing activity.
- NFPIL has export order book of Rs.700 mn for supplying CNG cylinders and this is to be executed by March 2009. The order contains around 75:25 mix of large and small cylinders. This is to be exported to countries like Pakistan, Malaysia and Bangladesh.
- However the company is going slow in exports to Iran, despite it being a big export market for CNG cylinders. This is due to the fact that there are some problems of negotiating the Iranian LC's with the Indian banks. As and when this is simplified we could expect huge order inflows from Iran.

**Cylinder business revenues (Rs mn)**

Source: Company, Kotak Securities - Private Client Research

### Rising domestic demand

- The demand for CNG cylinders in India is also picking up at a very rapid pace due to increasing fuel oil prices and consciousness to reduce environmental pollution.
- The Supreme Court has also mandated the public transport system of the 28 cities to be converted to CNG to reduce emissions over next few years.
- Also with the recent gas finds of Reliance and GSPC we expect good amount of gas to be available for the automobiles. Availability of gas and infrastructure in terms of filling stations would unlock huge demand from the private vehicles in India.
- In long term we expect huge demand of CNG cylinders for all segments of automobiles like cars, trucks, buses and even two wheelers.
- Thus we feel that the demand should not be a problem for the CNG cylinders industry and the company would be able to sell whatever it produces. Thus there is lot of visibility and confidence in the CNG cylinders business going forward.

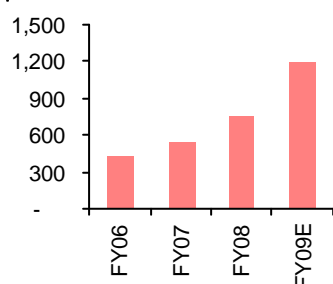
### Looking at higher imports of CNG cylinders for domestic market

- The subsidiary of the company i.e Eurotech Cylinders Private Ltd. is likely to import more number of industrial cylinders from China where it is getting it contract manufactured. This is primarily to cater to the rising demand for industrial cylinders in India.
- NFPIIL facility in Vizag is in an SEZ and it will focus on export of CNG cylinders and also cater to the domestic market for automobiles. Despite being in an SEZ the company can sell in domestic market, subject to the condition of having positive net foreign exchange and payment of requisite duties.

### Strong growth in fire protection business

- The company's fire protection, safety and security business is doing well. The current thrust on infrastructure creation and increase in industrialization is expected to result in an increase in demand for the products of the company.
- Strong emergence of new high growth verticals such as malls, multiplexes, retail chains, manufacturing plants, Telecom, IT, BPO and data centers are expected to lead to robust growth in demand for the fire detection and suppression systems.
- NFPIIL, with its excellent quality, knowledge, wide range of products and adherence to strict delivery schedules is ideally poised to take advantage of this opportunity.
- The current order book of the company is around Rs.300 mn which is likely to be executed in next four months. However the order book is expected to increase substantially going forward as company has identified Telecom as a major growth driver going forward. This is in terms of providing complete fire protection solution for the telecom towers and data centers.

Fire Protection business revenues (Rs mn)



Source: Company, Kotak Securities - Private Client Research



### Successful acquisition of Dubai based Fire Protection Company

- In January 2008 NFPI had acquired 40% stake in a Dubai based fire protection Company 'New Age Company' LLC (NACL). The stake has been taken through its 100% subsidiary Nitin Venture FZE, UAE. NFPI has paid 15 mn Dirham (Rs.162.9 mn) for its 40% stake.
- NACL is engaged in fire protection system, fire detection system, emergency lighting system and water mist fire protection system. The entire activity includes supply and installation, testing and commissioning of equipment system and maintenance with wide range of experience in commercial and residence complex, industrial warehouses, schools, govt. offices with over three decades of experience in UAE and wide range of installed base.
- The current order book of the company is around Rs.250 mn. Majority of the order book is for the construction segment. Looking at the construction boom in the Middle East we expect the order book of the company to grow at steady pace going forward.
- For FY09E we expect NACL to report revenues of Rs.528 mn and PAT of Rs.90 mn. At 40% holding, we expect Rs.36 mn to be added to the net profit of NFPI as share of profit from associate company.

### Looking at further acquisitions

- NFPI is actively looking at acquisitions both in the fire protection and cylinders manufacturing space. Considering the strong expected demand, the company wants to expand aggressively in both these segments and thus is looking for suitable acquisitions.
- Regarding cylinders it is looking for some manufacturing facility with large diameter cylinders and also some jumbo cylinders as the demand for these is rising very fast due to conversion for automobiles into gas.
- In fire protection segment it is looking for acquisitions in fire detection, protection, suppression systems and electronic security systems.
- We feel that the acquisition would lead to the next level of growth for the company.

### Change in earning estimates

- We have revised the earnings estimates for FY09E to account for the delay in stabilization and two days in a week power shut down of the CNG cylinders manufacturing plant at Vizag.
- For FY09E we now expect NFPI to report lower revenues of Rs.2.8 bn, as against our earlier estimate of Rs.3.9 bn. We now expect the Vizag plant to produce 132000 cylinders in FY09E with average realizations of Rs.8500 per cylinder.
- However we expect NFPI to report higher consolidated EBIDTA margin of 21.9% in FY09E as against our earlier estimate of 20.3%. This is primarily due to higher than expected margins in the fire protection and cylinders trading segment.
- We expect NFPI to report PAT of Rs.465 mn in FY09E as against our earlier estimate of Rs.516 mn.
- Accordingly, we expect the company to report lower EPS of Rs.36.9 as against our earlier estimate of Rs.41.0 for FY09E.

#### Change in Estimates (FY09E)

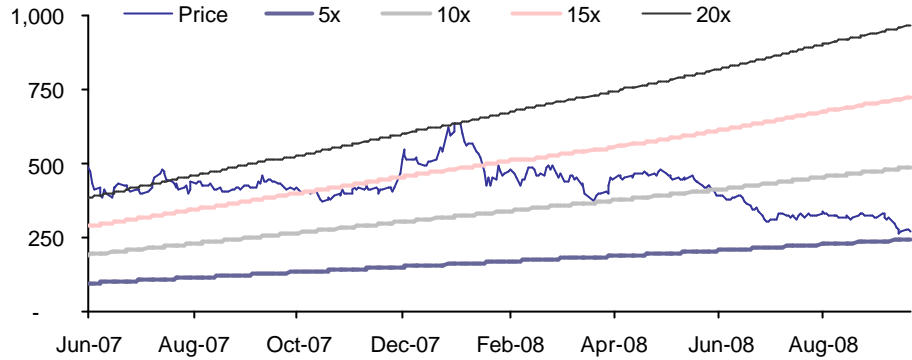
| (Rs mn)    | Old   | Revised |
|------------|-------|---------|
| Revenues   | 3,982 | 2,796   |
| EBIDTA (%) | 20.3  | 21.9    |
| Net Profit | 516   | 465     |
| EPS (Rs.)  | 41.0  | 36.9    |
| CEPS (Rs.) | 49.8  | 40.1    |

Source: Kotak Securities - Private Client Research

**Valuation & Recommendation**

- Post the recent sharp correction in stock price, due to overall market correction and concerns about stabilization of its cylinders manufacturing plant, the stock, at Rs.270, trades at 2.2x book value, 7.3x earnings and 6.7x cash earnings based on FY09E.
- We believe that the current valuation is very attractive considering the clear growth prospects of the company, going forward. This is due to strong order book of Rs.700 mn for its CNG cylinders business which would lead to 111% growth in revenues and more importantly 139% growth in net profits in FY09E.

**One year forward P/E band - NFPIIL**

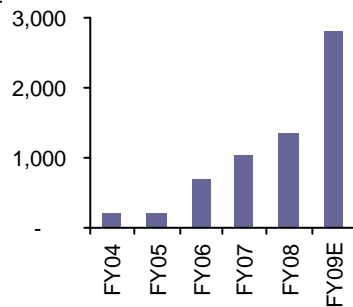


Source: Capitaline, Kotak Securities - Private Client Research

**We recommend BUY on Nitin Fire with a revised price target of Rs.500 (85% upside)**

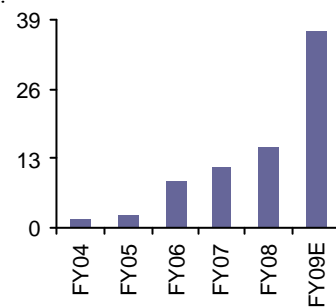
- We have also done one year forward rolling band analysis for NFPIIL which revealed that currently the stock is trading at lower end of the band of 5x - 20x one year forward earning estimates. This makes it very attractive at current levels.
- Thus, we remain positive and maintain our **BUY** recommendation on NFPIIL with revised price target of Rs.500 (Rs.600 earlier) which provides 85% upside potential.

**Net sales (Rs mn)**



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/<br>Sell | Quantity<br>of shares | Avg.<br>price<br>(Rs) |
|--------|--------------|---|--------------|-----------------------|-----------------------|
| 24-Sep | Aarey Drugs  | Prafullaben Amrutbhai Soni              | B            | 30,971                | 55.18                 |
| 24-Sep | Bihar Tubes  | Elara India Opportunities Fund Limited  | B            | 150,000               | 199.50                |
| 24-Sep | Cerebra Int  | Sunil Raheja                            | B            | 32,500                | 23.24                 |
| 24-Sep | G.S. Auto    | Hardik M Mithani                        | B            | 17,109                | 88.82                 |
| 24-Sep | G.S. Auto    | Meet Shares And Stock Services P Ltd    | S            | 20,900                | 89.56                 |
| 24-Sep | G.S. Auto    | Balaji Corporation                      | S            | 20,181                | 90.04                 |
| 24-Sep | Gemstone Inv | Bhavesh Prakash Pabari                  | B            | 26,000                | 56.87                 |
| 24-Sep | Gemstone Inv | Mala Hemant Sheth                       | B            | 44,050                | 55.30                 |
| 24-Sep | Gemstone Inv | Kishor B Chauhan                        | S            | 50,000                | 55.12                 |
| 24-Sep | Gemstone Inv | Prem M Parikh                           | S            | 28,000                | 57.90                 |
| 24-Sep | Goldston Tec | Ankit Rajendra Sanchaniya               | S            | 122,500               | 117.09                |
| 24-Sep | Jaipan Indus | Vhm Impex Private Ltd                   | B            | 56,150                | 205.69                |
| 24-Sep | Khaitan Elct | Arion Commercial Pvt Ltd                | B            | 100,000               | 53.00                 |
| 24-Sep | Khaitan Elct | Pacific Corporate Services Ltd          | S            | 100,000               | 53.00                 |
| 24-Sep | Koff Br Pict | Leelaben Amrutlal Darji                 | B            | 47,285                | 41.37                 |
| 24-Sep | Koff Br Pict | Arvind Naginbhai Patel                  | B            | 26,889                | 41.76                 |
| 24-Sep | Koff Br Pict | Neha Umesh Dhruva                       | B            | 27,610                | 41.85                 |
| 24-Sep | Nexsoft Info | Mukesh G Konde                          | B            | 39,439                | 32.44                 |
| 24-Sep | Nexsoft Info | Kanta Anantrai Desai                    | S            | 30,000                | 32.45                 |
| 24-Sep | Nexsoft Info | Sneha Pankaj Desai                      | S            | 51,000                | 32.45                 |
| 24-Sep | Nexsoft Info | Naresh Kasahvral Raval                  | S            | 26,000                | 32.40                 |
| 24-Sep | Nexsoft Info | Mukesh Hiralal Doctaria                 | S            | 34,000                | 32.45                 |
| 24-Sep | Odyssey Corp | Dahlia Traders Pvt Ltd                  | S            | 31,800                | 33.75                 |
| 24-Sep | PFL Infotech | Vishu Enterprise                        | S            | 41,700                | 12.12                 |
| 24-Sep | Priya Spin L | Pradeep Kumar Agarwal                   | B            | 78,000                | 8.95                  |
| 24-Sep | Priya Spin L | Arvind Kumar Aggarwal                   | S            | 70,000                | 8.94                  |
| 24-Sep | Rasand Eng I | Vincent Commercial Co. Ltd.             | B            | 43,500                | 53.75                 |
| 24-Sep | Rasand Eng I | Sudha Commercial Company Limited        | S            | 43,500                | 53.75                 |
| 24-Sep | RFL Internat | Kalavatiben Bharatkumar Shah            | S            | 27,500                | 0.96                  |
| 24-Sep | Setco Auto   | Setco Engineering Pvt Ltd               | B            | 250,000               | 195.00                |
| 24-Sep | Setco Auto   | Harish Kiritbhai Sheth Huf              | S            | 250,000               | 195.00                |
| 24-Sep | SREI Infra   | Citigroup Global Mkts Mauritius Pvt Ltd | S            | 601,028               | 75.35                 |
| 24-Sep | Twinsta So E | Kamlesh Buddhichand Chheda              | B            | 100,000               | 3.20                  |
| 24-Sep | Twinsta So E | Namita Stocktrade Pvt Ltd               | S            | 100,000               | 3.15                  |
| 24-Sep | Usher Agro   | Pritesh Ashok Patel                     | B            | 400,000               | 120.00                |
| 24-Sep | Usher Agro   | Sophia Growth                           | B            | 600,000               | 119.96                |
| 24-Sep | Usher Agro   | Merill Lynch Capital Mkt Espana S A Svb | S            | 970,000               | 120.00                |

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

|                | Price (Rs) | % change | Index points | Volume (mn) |
|----------------|------------|----------|--------------|-------------|
| <b>Gainers</b> |            |          |              |             |
| Reliance Ind   | 2,046      | 2.0      | 9.4          | 5.5         |
| Bharti Airtel  | 811        | 2.3      | 5.5          | 3.1         |
| Sterlite Ind   | 488        | 8.6      | 4.4          | 8.8         |
| <b>Losers</b>  |            |          |              |             |
| Wipro          | 370        | (4.8)    | (4.5)        | 2.6         |
| NTPC           | 178        | (0.9)    | (2.2)        | 9.3         |
| Infosys Tech   | 1,524      | (1.3)    | (1.8)        | 2.4         |

Source: Bloomberg

## Forthcoming events

## Company/Market

| Date   | Event  |
|--------|--|
| 25-Sep | ISOFT holds press meet to inaugurate its Global Product Centre |
|        | Honda Siel Cars holds press conference for new launch          |
|        | Merrill Lynch & Capgemini holds meet on Asia-Pacific Report    |

Source: Bloomberg

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