

December 26, 2006
FOR PRIVATE CIRCULATION
Equity

	22 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,472	0.6	(1.7)	10.7
Nifty	3,871	1.0	(2.0)	9.9
Banking	6,829	0.2	(4.5)	20.1
IT	3,522	0.9	(1.3)	18.3
Healthcare	3,746	0.9	0.0	3.6
FMCG	1,902	(0.4)	(4.9)	(6.5)
PSU	5,917	0.9	(5.9)	4.1
CNX Midcap	5,017	0.9	(0.7)	11.4
World indices				
Nasdaq	2,401.2	(0.6)	(2.4)	6.8
Nikkei	17,093	(0.1)	8.6	9.8
Hangseng	19,223	1.4	0.3	10.1

Value traded (Rs cr)

	22 Dec 06	% Chg - 1 Day
Cash BSE	3,988	(5.4)
Cash NSE	7,571	(4.6)
Derivatives	31,073	(10.3)

Net inflows (Rs cr)

	21 Dec 06	% Chg	MTD	YTD
FII	(365.1)	(45.8)	(2,776)	37,093
Mutual Fund	236.2	(48.7)	(443)	13,941

FII open interest (Rs cr)

	21 Dec 06	% chg
FII Index Futures	12,871.4	8.8
FII Index Options	6,843.0	6.1
FII Stock Futures	15,722.7	0.3
FII Stock Options	150.8	3.2

Advances/Declines (BSE)

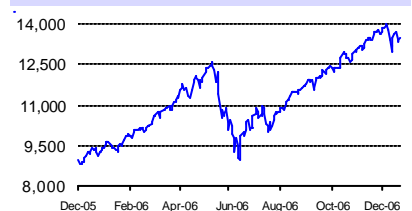
22 Dec 06	A	B1	B2	Total	% Total
Advances	142	374	465	981	57
Declines	64	258	359	681	40
Unchanged	5	22	34	61	4

Commodity

	22 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	62.8	0.6	6.0	2.9
Gold (US\$/OZ)	620.8	0.4	(2.2)	5.4
Silver (US\$/OZ)	12.6	1.6	(5.2)	11.8

Debt/forex market

	22 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.60	7.60	7.44	7.56
Re/US\$	44.58	44.69	44.80	45.91

Sensex


Source: Bloomberg

ECONOMY NEWS

- ❑ The Government is considering a separate cap for FIIs, over and above the foreign investment ceiling, in insurance companies. The Government plans to hike the FDI limit exclusively up to 49%. (ET)
- ❑ The Government is planning to bring property dealers under the regulatory net. To start with, it will be mandatory for brokers to get registered with the realty regulator, even as brokerage charges are likely to be capped at 2% of the property value. (ET)
- ❑ The Center has projected a gross revenue collection of Rs.4700 bn against the budget estimate of Rs.4350 bn at the end of March 31, 2007. Thus, the gross revenue collection is expected to exceed the target by Rs.350 bn, which is 1% of GDP. (ET)
- ❑ The Government is considering a move to reduce the excise on small cars to 12% in the coming Budget. The duty was cut from 24% to 16% in the last Budget. The rate applicable on bigger cars may also be pruned from 24% to 16%. (BS)
- ❑ The Government is looking at a proposal to cut import duty on petroleum products such as petrol and diesel from 7.5% to 5%. This would remove the protection for domestic refineries unless there is a corresponding cut on Customs duty for crude as well. (ET)

CORPORATE NEWS

- ❑ **NTPC Ltd** has proposed the establishment of a nationwide power exchange as a separate company with power sector CPSEs as the initial promoters, and an authorized capital of around Rs.500 mn. (BL)
- ❑ Japanese trading house Marubeni has announced a tie-up with **ITC** for the food business including exports of Indian beans. ITC is planning to invest Rs.15.4 bn in the next two years to expand production capacity for paperboards and specialty papers. (BS)
- ❑ **BSNL** and **MTNL** will jointly invest Rs.18-20 bn for laying an undersea cable between India and Singapore. The two companies have hired a consultant to prepare a blueprint for the project, and a Rs.20 bn tender is likely to be floated by March next year. (BS)
- ❑ **Ansal Housing & Constructions** is planning to raise Rs.2 bn through a QIP to part-finance land acquisition and expansion. The company is also planning to raise funds by placing shares with funds and institutions. (ET)
- ❑ **HCL Infosystems** has said it has earmarked an investment of Rs.700 mn over the next year to expand capacity and strengthen distribution and retail network in India. (ET)
- ❑ The **Kinetic** group is restructuring operations to house its two-wheeler and auto-component businesses in Kinetic Motor Co and Kinetic Engineering, respectively. At the moment, both companies are into the two product lines. (BS)
- ❑ **IOC** is stepping up its presence in the upstream segment overseas. IOC and its government-nominated exploration partner **Oil India Ltd** have jointly picked up equity stakes in oil blocks in Nigeria and Gabon. (BS)
- ❑ Orascom has reportedly tied up with Qatar Telecom to bid for a controlling stake in **Hutchison Essar (HEL)**, hoping that good relations between Qatar and India will help it get around the security hassles. Even the Ruias may join this combination to run the third largest mobile operator in the country.

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

COMPANY UPDATE

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NAGARJUNA CONSTRUCTIONS (Rs.194, FY08 P/E: 16.3x, BUY)

We recently met the management of Nagarjuna Constructions to get an insight into the progress of different projects and new developments regarding order inflows. We maintain our positive stance on the company.

Currently, we maintain our BUY recommendation on the stock since significant upsides are expected to come from the real estate division of the company within two to three years. We would revisit our target price of Rs.200 once the company finalizes its plans for real estate development.

Growing order book

Robust order book, strong order inflows and diversification across different segments have enabled the company to maintain its position in the infrastructure space. Nagarjuna's order book of Rs.70 bn is fairly diversified across roads (45%), buildings (25%), water (16%), irrigation (9%) and electrical projects (6%) with the road segment being the major contributor. It would also continue to remain focused on the road and water segment in the future.

Improving margins

Variable pricing clauses, diversification of order book across different segments and large ticket size orders are likely to result in improvement in the operating margins of the company over last year. We expect the company to achieve operating margins of 9.5% for the full year going forward as compared to 8.9% last year.

BOT projects - financially closed

NCC has achieved financial closure for the road BOT projects and financial closure for the hydropower project is likely by March 2007.

BOT projects

	Bangalore Maddur	Meerut Muzzafarnagar	Bangalore Elev. Corridor	Orai Bhognipur
Cost of project (Rs mn)	2500	5300	7640	5200
Debt (Rs mn)	1875	3975	5730	3900
Equity (Rs mn)	625	1325	1910	1300
Annuity (Rs mn - 6mntly)	297	Toll based	Toll based	448.2
Grant	-	1278	-	-
JV partner	Maytas, KMC const	Maytas, Gayatri Projects	Maytas, Soma Const	KMC constructions
Status	Operational	Financially closed	Financially closed	Financially closed
NCC's stake	33%	30%	33.50%	64%
Concession period	10years	20years	20years	17.5years

Source: Company

The company is likely to receive the first annuity payment for the Bangalore Maddur project and is also entitled to a bonus amount of Rs.297 mn for early completion of this project. Other projects are expected to start getting toll revenues or annuities from FY08/FY09 onwards. Based on the traffic projections, the company is expecting equity internal rate of return (IRR) of at least 16% from these projects.

Real estate development - a big jump expected

Nagarjuna's real estate division is expected to close this financial year with Rs.720 mn of revenues. The 'National Games housing complex' at Ranchi for the forthcoming National Games is also likely to clock approximately Rs.3 bn of revenues over two years. It has also signed an agreement with AP Housing board for the development of 85 acres of land in Vishakhapatnam at the project cost of Rs.4 bn and also carrying out the real estate projects in Bangalore, Cochin, Chennai and Hyderabad.

Along with this, the company would also be finalizing plans to develop the 130 acres of land bank that the company had acquired at very low cost and another 270 acres of real estate development. We believe significant upside is likely to come from the real estate projects over two to three years. We will factor in the revised estimates for real estate division once the company finalizes the plans for development.

Valuations and recommendations

We maintain BUY on the stock since upside are expected to come from real estate ventures

At the current price of Rs.194, the stock is trading at 22.8x and 16.3x P/E on FY07 and FY08 multiples. It is trading at 14.3x and 10.5x EV/EBITDA on FY07 and FY08 estimates. We maintain our **BUY** on the stock and will revisit our price target of Rs.200. At the current market price, the upside is very limited to our target price. **However, further upgrades are likely due to higher value attributed by the real estate development going forward once the company finalizes its plans.**

Summary table (Year end Mar)

(Rs mn)	FY06	FY07E	FY08E
Revenues	18,404	29,446	40,047
% change YoY	54.9	60.0	36.0
EBITDA	1,641	2,797	3,804.5
EBITDA margin (%)	8.9	9.5	9.5
Other Income	20.2	20.2	20.2
Depreciation	181.6	260.9	345.9
EBIT	1,479.3	2,556.7	3,478.8
% change YoY	74.7	72.8	36.1
Net interest	217.0	361.8	399.3
Profit before tax	1,262.3	2,194.9	3,079.5
% change YoY	80.3	74	40.3
Tax	223.3	439.0	615.9
As % of PBT	17.7	20.0	20.0
Net income	1,039.0	1,755.9	2,463.6
% change YoY	82.2	69	40.3
Shares outstanding (m)	103.3	206.6	206.6
EPS (reported) (Rs)	10.1	8.5	11.9
EV/ Sales	2.2	1.4	1.0
EV/EBITDA	25.0	14.3	10.5
P/E (x)	38.6	22.8	16.3
P/B	4.2	3.6	3.0

Source: Company & Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
22-Dec	Arow Coat Pr	Arrow Convertors Pvt Ltd	S	25,000	28.19
22-Dec	Commit Cap S	Padmaja Pinnamaneni	B	24,500	14.00
22-Dec	Commit Cap S	Nagendra Prasad PVS	B	25,500	14.00
22-Dec	Crew Bos	Volga International Ltd	B	144,628	253.41
22-Dec	Crew Bos	V and U Caplease Pvt Ltd	S	175,000	248.64
22-Dec	Dynamic Indu	Rajul Shah	S	16,029	43.01
22-Dec	Garnet Const	Hitesh Jhaveri	B	36,586	71.60
22-Dec	Gemstone Inv	Kishor Balubhai Chauhan	B	25,000	10.74
22-Dec	Gemstone Inv	Bhavesh Prakash Pabari	B	25,000	10.74
22-Dec	Gemstone Inv	Amritlal Versi Malde	S	50,000	10.74
22-Dec	GHCL Ltd	Divya Shakti Trading Serv	B	2,385,599	160.00
22-Dec	Guj Hotels L	Brijal Yogesh Parikh	B	27,000	67.28
22-Dec	Innocorp L	Gorla Shashidhar	B	29,290	21.45
22-Dec	Mahar Polybu	Upsurge Investment and Fi	S	125,000	13.96
22-Dec	Mefcom Agr I	Cosmo Corporate Services	B	95,639	126.86
22-Dec	Mefcom Agr I	Master Finlease Ltd	S	68,630	127.05
22-Dec	Mefcom Agr I	JMP Securities Pvt. Ltd.	S	30,000	126.30
22-Dec	Osian Lpg Bo	S.P.J. Stock Brokers Pvt	S	87,010	14.45
22-Dec	Pace Elec(P)	Pilot Consultants Ltd	B	100,000	41.22
22-Dec	Pace Elec(P)	Shree Thirumalai Marketi	S	249,350	41.13
22-Dec	Phoenix Mill	Ashok Apparels Pvt Ltd	B	176,000	1,200.00
22-Dec	Phoenix Mill	Nandita M.Mehta	S	176,000	1,200.00
22-Dec	Pioner Embro	Admix Vinimay Pvt Ltd	S	117,521	237.74
22-Dec	Pioner Embro	Search Finvest Private Ltd	S	83,826	240.42
22-Dec	Speciality	HoneyvickEnterprises	B	34,584	33.30
22-Dec	Speciality	Enca Finlease Ltd.	B	23,039	35.75
22-Dec	Speciality	HoneyvickEnterprises	S	34,584	35.33
22-Dec	Sujana Metal	Morgan Stanley Dean Witte	B	235,000	97.92
22-Dec	Sumeet Indus	Master Finlease Ltd	B	100,000	14.29
22-Dec	TRF Limited	Birla Mutual Fund Ac Midc	B	80,000	405.00
22-Dec	TRF Limited	Goldman Sachs And Company	S	80,000	405.00
22-Dec	Tricom India	Sanjula S Kothari	B	75,000	143.00
22-Dec	Tricom India	Kanta Ganpat Kothari	B	75,000	143.00
22-Dec	Tricom India	Volga International Ltd	S	271,040	142.79
22-Dec	Uniro Text I	Ashwani Kumar	B	39,734	8.58
22-Dec	VybraAuto(P	Amu Properties and Fin Pv	S	51,521	78.73
22-Dec	Zenith Birla	Sejal Gopalbhai Shah	B	300,000	37.15
22-Dec	Zenith Birla	Mit Gopalbhai Shah	S	300,000	37.15

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Wipro	575	2.9	4.7	1.0
ONGC	867	1.2	4.3	1.1
TCS	1,154	1.5	3.3	0.4
Losers				
ITC	170	(0.7)	(0.9)	3.8
Satyam Computers	463	(0.6)	(0.4)	2.5
Tata Motors	860	(0.5)	(0.3)	0.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
26-Dec	Bharat Petroleum Corp to announce interim dividend; Glenmark to announce interim dividend
28-Dec	Union Bank to announce interim dividend
10-Jan	iGate Global Solutions earnings expected
16-Jan	Bajaj Auto earnings expected
18-Jan	Ranbaxy Laboratories to announce earnings & dividend
19-Jan	Dabur India earnings expected

Source: Bloomberg

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