

March 14, 2007
FOR PRIVATE CIRCULATION
Equity

	13 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	12,983	0.6	(7.3)	(3.7)
Nifty	3,771	1.0	(6.8)	(1.9)
Banking	6,539	1.1	(6.3)	(5.2)
IT	3,580	0.4	(5.4)	0.8
Healthcare	3,522	0.9	(5.7)	(4.2)
FMCG	1,663	(0.1)	(11.0)	(14.9)
PSU	5,666	1.2	(7.4)	(4.2)
CNX Midcap	4,732	0.8	(7.1)	(4.6)
World indices				
Nasdaq	2,350.6	(2.2)	(5.5)	(4.2)
Nikkei	17,179	(0.7)	(6.1)	(1.0)
Hangseng	19,333	(0.6)	(6.8)	(0.5)

Value traded (Rs cr)

	13 Mar 07	% Chg - 1 Day
Cash BSE	4,065	22.9
Cash NSE	8,133	(2.4)
Derivatives	27,434	2.6

Net inflows (Rs cr)

	12 Mar 07	% Chg	MTD	YTD
FII	204	(48)	(197)	5,559
Mutual Fund	(146)	(62)	(1,012)	(2,629)

FII open interest (Rs cr)

	12 Mar 07	% chg
FII Index Futures	13,773	5.6
FII Index Options	8,780	3.8
FII Stock Futures	15,609	1.9
FII Stock Options	47	9.7

Advances/Declines (BSE)

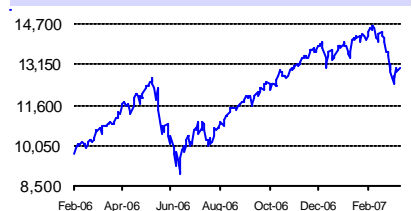
	13 Mar 07	A	B1	B2	Total	% Total
Advances	162	515	545	1,222	67	
Declines	51	167	315	533	29	
Unchanged	2	20	43	65	4	

Commodity

	13 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	57.9	(1.7)	(1.9)	(5.6)
Gold (US\$/OZ)	643.8	(1.0)	(4.1)	2.5
Silver (US\$/OZ)	12.8	(1.8)	(9.5)	(7.8)

Debt/forex market

	13 Mar 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.98	7.97	8.08	7.68
Re/US\$	44.22	44.23	44.20	44.79

Sensex


Source: Bloomberg

ECONOMY NEWS

- The Government has said its efforts to rein in surging prices have reduced inflation rate for essential commodities to 3.67% as on February 24 against 6.77% two months back. (ET)
- The Prime Minister has said India was committed to fiscal consolidation and that resources would not be a constraint for bolstering infrastructure. Dr Singh also said the environment would be made more conducive for foreign investment. (ET)
- The Urban Development Ministry is planning to set up a public sector company to acquire land in cities and develop housing complexes for middle and higher income groups. The move is aimed to moderate property prices and meet growing housing needs. (ET)
- There will be a 9-10% rise in the country's garment exports during 2006-07 over last year's performance of \$8.2 bn, according to the Chairman, Apparel Export Promotion Council. (BL)
- Prime Minister Manmohan Singh has said that in order to break the impasse in WTO talks, developed countries must make meaningful offers to reduce the huge trade-distorting subsidies provided to their agriculture sector. (BS)

CORPORATE NEWS

- **Havell's India** is acquiring Frankfurt-based SLI Sylvania's lighting business for \$300 mn in an all-cash deal. The lighting company is being acquired from a consortium of private equity firms including Cerebrus Capital, JP Morgan and DDJ Capital. (ET)
- **Bharat Petroleum Corporation** and Tata Petrodyne signed an agreement to acquire a participating interest of 25% each in North Sea blocks, 48/1b and 48/2c, from Encore and Norwest. (ET)
- **UTI Bank** hopes to grow its loan book at over 30% in the next financial year. The bank, which is opening branches in Dubai and Hong Kong, is planning to set up shop in other Asian countries to make UTI a pan-Asian bank. (ET)
- **ONGC** has received Rs.8.64 bn as the final settlement for the Mumbai High insurance claim, The Mumbai High North platform in the Arabian Sea was gutted in a fire on July 27, 2005. (ET)
- **Ranbaxy** and **Cipla** have submitted bids to acquire the generic drugs business, estimated to be worth \$6 bn, of German pharma major Merck KGaA. Ranbaxy is approaching the bidding race on its own and Cipla is part of a consortium of private equity partners. (BS)
- **Aban Offshore Ltd** has informed the stock exchanges that its subsidiary, Deep Drilling 1 Pte Ltd, had received a 'notice of termination' from **Reliance Industries** relating to a drilling contract entered into for the deployment of the rig, Deep Driller 1. (BL)
- **Coal India** is expected to hit the market with its IPO before the end of the first quarter or the beginning of the second quarter of the 2007-08 fiscal. The exercise may pass political muster since it would not be a disinvestment in the traditional sense but issue of fresh capital. (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

SECTOR UPDATE

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ENGINEERING SECTOR REVIEW

The engineering and capital goods sector has been enjoying a good run over the last four years. This has been led by the cyclical upturn in industrial capex coupled with the Government's thrust on power sector investment. The sector had been one of the outperformers in FY06 but has consolidated in FY07. With the overall correction in the market, the valuations in the engineering sector are now turning attractive.

Industrial investment scenario continues to be buoyant

Unlike the surge in growth and investments in the mid-90s, the current growth has been spurred by reforms and the investment cycle appears sustainable over the longer-term. The investment scenario looks quite optimistic, particularly with rising domestic savings rates and FDI inflows. Sustained economic growth, fiscal consolidation and an enabling policy environment should continue to provide incentives for capacity addition in industry and sustain its high growth.

A dramatic change in the savings profile of the Indian economy has been the sharp rise in the savings rate of the private corporate sector for four consecutive years. Private corporate savings has risen from 3.7% in 2001-02 to 8.1% in 2005-06. The private corporate sector has financed a large part of its investment in the ongoing long capex cycle from such retained earnings or savings.

Revenue visibility due to healthy order backlogs

Order backlog is one of the prime indicators of the future prospects of the engineering sector. Order inflows have continued to grow at a healthy pace in FY07. Given along side is the accretion to order backlogs of engineering companies. Despite a high base, BHEL's order backlog has increased by 38% at the end of Q3FY07.

Key drivers are investment in capacity additions and infrastructure spending in areas like power

In the power sector, prime drivers are investment in power generating capacity and upgradation of T&D infrastructure. Powergrid Corporation of India Ltd is the prime transmission utility entrusted with the setting up of transmission infrastructure in India.

PGCIL has capital expenditures plans of up to Rs.91 bn during the next fiscal to fund ongoing and new projects. During the current financial year ending March 31 2007, the company expects to spend around Rs.6.1 bn, compared with an initial target of Rs.4.8 bn.

Perspective plan for power transmission

Upgradation of Transmission Capacity					
MW	FY02	FY05	FY07E	FY10E	FY12E
765 KV	0	0	1100	2200	9200
400 KV	1000	2400	7800	11400	16400
HVDC Bipole	0	2000	2500	2500	6500
HVDC BtB	2000	3000	3000	3000	3000
HVDC Monopole	200	200	200	200	200
220 KV	1850	1850	1850	1850	1850
Total	5050	9450	16450	21150	37150

Source: Ministry of Power

Growth in order backlog as of Q3FY07

	OB (Rs bn)	YoY increase in OB (%)
ABB	33.7	61
Crompton Greaves	21.1	44
Siemens	110.0	56
BHEL	467.0	38
L&T	357.0	56
Voltas	24.0	70
Thermax	32.9	112

Source: Company

On the power generation side, while 23250 MW is anticipated in the Tenth Plan, the target for capacity addition in the Eleventh Plan has been put at 67000 MW indicating the need for acceleration in pace of new capacity addition. Over the next 12 to 18 months, NTPC has plans to award projects worth 13900 MW to meet its Eleventh Plan capacity addition target of 22000 MW. Thus, we see heightened activity in the power generation sector, leading to increased demand for generating and T&D equipment.

Demand for construction, mining equipment driven by infrastructure sector

Capex prospects over next five years

Sector	Investment
Roads	NHDP Phase III-IV, USD 26 bn
Ports	Doubling of capacity, USD 13 bn
Airport Modernization	Upgradation in 41 cities, USD 9 bn
Oil and Gas	Refineries USD 11 bn, Transportation USD 22 bn
Power	Capacity addition of 60000 MW
Urban and Commercial infrastructure	USD 40 bn over the next 6 years
Aluminum	Bauxite and smelting US\$7 bn
Cement	USD 2 bn

Source: presentation by L&T

Infrastructure has been a key area of focus for the Government in recent years. Creation of roads and highways, port and airport development, rural infrastructure, and irrigation projects has gained significant momentum. The construction industry is expected to grow from US\$50 bn in 2005 to US\$100 bn in 2010. According to BEML, these projects will require construction equipment valued at Rs.290 bn over the next five to 10 years, which presents a potential growth oriented market for the construction and mining equipment segment.

Moreover, the Budget has been positive for the engineering sector, given the rise in allocation on irrigation and defense and extension of TUFs.

Sector has consolidated in FY07

The capital goods index was among the stellar performers for FY06. Given the combination of positive news flow on orders front and surprises on earnings estimates, the sector received a re-rating. However, in FY07, the sector has been going through consolidation and has been a market performer. Higher prices of copper and other base metals resulted in price pressures on raw material.

Decline in stock prices

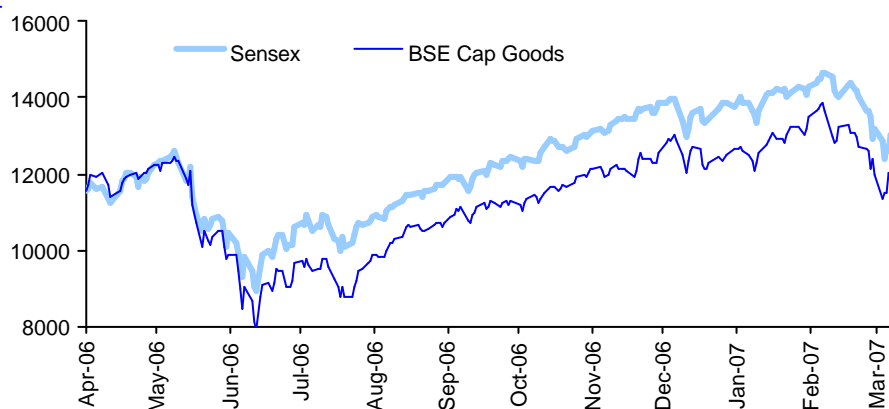
	52 week High	CMP (Rs)	% Chg
ABB	4000	3487	-13
Siemens	1408	1038	-26
Crompton Greaves	234	188	-20
BHEL	2665	2097	-21
Areva T&D	1299	1008	-22
Easun Reyrolle	855	686	-20
Cummins	306	246	-20
KOEL	330	242	-27
L&T	1778	1482	-17
Thermax	447	366	-18
M&P Pumps	260	217	-17
Suzlon	1510	1015	-33
Honeywell Automation	2036	1582	-22
BEL	1794	1502	-16
Bharat Bijlee	1709	1181	-31

Source: BSE

Market correction brings valuations to attractive levels

In line with the weakness in domestic equity markets in February and March, the capital goods index has corrected by 13% from its peak.

Comparison



Source: BSE

Balance sheets of engineering companies are leaner and underleveraged as compared to the previous boom of 1993-96

Acceleration in inflation in recent weeks has raised concerns on overheating of the economy and its subsequent effect on sustainability of the current 9% growth rate. The RBI has responded by sucking liquidity out of the system and raising interest rates. Certain economic conditions that were similar to the 1993-96 boom have been the rise in inflation, accelerated credit growth and increase in real estate prices.

An analysis of the balance sheets of prominent engineering companies for FY1997 and FY06 clearly reveals that these companies are now on a much stronger wicket. There has been improvement on most parameters. The debt equity ratio has come down significantly for companies like CGL, Thermax and Bhel. Additionally, the liquid cash on the balance sheet continues to be very substantial.

Working capital is critical for project-oriented companies. Here, as well, the inventory and debtors (days) has shown a marked improvement. Fixed expenses like employee costs that are sticky in nature have also corrected. Employee cost to sales has been on a declining trend.

Historical Data

	FY1997	FY06
Crompton Greaves		
D/E ratio (x)	0.76	0.47
Employee cost to sales (%)	12.9	6.0
Inventory turnover days	61	25
Debtor days	114	87
Cash on balance sheet (Rs mn)	15.6	1251
Thermax		
D/E ratio (x)	0.15	0.00
Employee cost to sales (%)	13.4	8.3
Inventory turnover days	52	38
Debtor days	112	52
Cash on balance sheet (Rs mn)	0	5408
BHEL		
D/E ratio (x)	0.46	0.08
Employee cost to sales (%)	16.4	14.0
Inventory turnover days	129	102
Debtor days	222	195
Cash on balance sheet (Rs mn)	3501	41339
KOEL		
D/E ratio (x)	1.57	0.90
Employee cost to sales (%)	8.5	6.2
Inventory turnover days	70	29
Debtor days	93	80
Cash on balance sheet (Rs mn)	65	1296

Source: Company

Our picks

- **Larsen and Toubro:** L&T is a proxy for the development of infrastructure in the country. L&T expects order inflows to grow between 30-40% in the current year and the management is guiding towards an improving margin outlook. The company is venturing into new manufacturing verticals in the areas of power generation equipment and shipping. Also, the offset policy of defense procurement promises to be a major opportunity for L&T. The company is trading at 23x FY08 earnings and we reiterate a **BUY** with a target price of Rs.1900.
- **Kirloskar Oil Engine:** Demand for DG sets is driven by the growth in IT, ITes and real estate sector. With the supply deficit in power continuing to widen, we see higher offtake of diesel engines as back-up power. KOEL is currently trading at 13x FY08 earnings and we reiterate a **BUY** with a price target of Rs.320.
- **Mather and Platt Pumps:** M&P Pumps is a subsidiary of Wilo Pumps, which is one of the top ten pump makers in the world. Higher allocation on irrigation should drive demand for the company's products. M&P Pumps is trading at 12x CY07 earnings of Rs.19 per share. We reiterate a **BUY** with a price target of Rs.260.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
13-Mar	Chamatkar.Nt	Jay Investrade Pvt. Ltd	B	150,000	20.20
13-Mar	Control Prin	HDFC Mutual Fund	S	57,622	61.60
13-Mar	Dynamic Indu	Atulbhai M Shah	B	18,000	105.05
13-Mar	Dynamic Indu	Jignesh Dilipbhai Rangoon	S	15,814	104.23
13-Mar	Dynamic Indu	Atulbhai M. Shah	S	18,000	105.05
13-Mar	EnnoreCoke	Monish Bhandari HUF	S	5,000	112.00
13-Mar	Gangotri I&S	Darshan Singh Dhillon	S	30,500	25.51
13-Mar	Gemini Commu	Sudhirkumar S Jhunjhunwal	B	45,197	369.57
13-Mar	Indcap Finan	Indcap Financial Services	B	90,580	27.95
13-Mar	India Cement	Clsa Merchant Bankers Ltd	S	1,563,101	154.03
13-Mar	Koff Br Pict	Maru Securities Pvt Ltd	B	25,000	15.95
13-Mar	Mah Ind Leas	Sejal Gopalbhai Shah	B	50,000	98.09
13-Mar	Mefcom Agr I	Master Finlease Ltd	B	21,087	72.18
13-Mar	Mefcom Agr I	Cosmo Corporater Services	B	25,000	69.59
13-Mar	Nikki Glob F	Vinod Kumar Kakani	B	35,000	13.88
13-Mar	Nikki Glob F	Rajshree S Deshpande	S	35,000	13.88
13-Mar	Oriental	Pavan Anil Gandhi	B	82,612	26.77
13-Mar	Oriental	Kirit Shantilal Gandhi	S	105,000	26.85
13-Mar	Oriental	Ayodhyapati Investment Pvt	S	85,802	26.91
13-Mar	Patel Airtem	Pragnesh A Patel	B	166,000	38.08
13-Mar	Patel Airtem	Mittal Securities and Fin	S	40,000	39.70
13-Mar	Patel Airtem	Himanshu Rawal	S	133,500	38.00
13-Mar	Patel Airtem	Rasik Bhai Patel	S	32,500	38.40
13-Mar	RadhaMadhav	Kotak Mahindra UK Limited	B	152,824	58.50
13-Mar	RadhaMadhav	Sweety Investment	S	208,500	58.48
13-Mar	RadhaMadhav	Laxminarayan J Garg	S	150,000	59.06
13-Mar	Saksoft Ltd	Shree Dhoot Tdg And Agenc	S	70,000	148.05
13-Mar	Sumeet Indus	Master Finlease Ltd	B	96,993	27.57
13-Mar	Vimal Oil Fo	Videocon Industries Ltd	S	63,447	41.42
13-Mar	Vimal Oil Fo	Shree Dhoot Tdg and Agenc	S	117,327	42.26

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
TCS	1,265	2.5	6.0	0.5
ONGC	807	1.7	5.8	0.6
Wipro	584	2.1	3.5	0.6
Losers				
Hindustan Lever	181	(2.1)	(1.7)	4.3
Bharti Airtel	765	(0.5)	(1.6)	1.0
Infosys Tech	2,105	(0.5)	(1.1)	1.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
14-23 Mar	IPO of Vimal Oil & Foods opens
14-Mar	Essel Propac to announce earnings and dividend; Citigroup organizes India Investor Conference 2007; ITC holds press conference; Orbit Corporation holds press conference to announce IPO
15-Mar	Andhra Bank to announce interim dividend; Satyam Computer holds press conference;
16-Mar	Maharashtra Seamless, United Phosphorus, Aventis Pharma, to announce interim dividend
17-Mar	Asahi India Glass, Bank of Baroda, Shipping Corp, Torrent Pharma to announce interim dividend
20-23 Mar	Public offer of ICRA Ltd opens
20-Mar	Nestle India to announce earnings and dividend
21-Mar	Mahindra & Mahindra to announce interim dividend

Source: Bloomberg

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