

August 22, 2007

FOR PRIVATE CIRCULATION

Equity

	21 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,989	(3.0)	(10.1)	(3.2)
Nifty	4,075	(3.2)	(10.8)	(4.8)
Banking	7,324	(4.4)	(12.8)	(4.4)
IT	3,359	(3.5)	(13.5)	(9.9)
Healthcare	3,430	(3.1)	(10.4)	(9.2)
FMCG	1,799	(2.4)	(1.6)	(6.3)
PSU	6,492	(3.3)	(8.6)	(4.1)
CNX Midcap	5,520	(3.8)	(11.9)	(1.9)

World indices				
	21 Aug 07	% Chg	1 Day	3 Mths
Nasdaq	2,521	0.5	(6.2)	(2.6)
Nikkei	15,901	1.1	(12.6)	(10.2)
Hangseng	21,729	0.6	(5.8)	5.2

Value traded (Rs cr)

	21 Aug 07	% Chg - 1 Day
Cash BSE	4,696.9	(28.7)
Cash NSE	10,779.9	20.3
Derivatives	45,485.5	13.5

Net inflows (Rs cr)

	Aug 07	% Chg	MTD	YTD
FII (17 Aug)	(3,243)	14	(9,075)	33,831
MF (16 Aug)	239	58	812	(105)

FII open interest (Rs cr)

	20 Aug 07	% chg
FII Index Futures	15,032.4	(9.1)
FII Index Options	14,279.3	(1.2)
FII Stock Futures	26,768.4	(4.6)
FII Stock Options	207.3	(10.6)

Advances/Declines (BSE)

	21 Aug 07	A	B1	B2	Total	% Total
Advances	15	56	196	267	14	
Declines	202	669	696	1,567	84	
Unchanged	2	5	15	22	1	

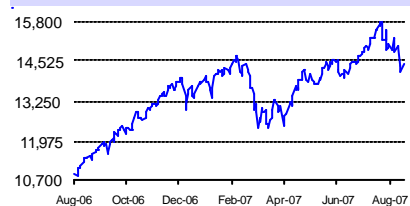
Commodity

	21 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	69.8	0.4	(7.6)	7.5
Gold (US\$/OZ)	657.3	0.0	(4.2)	(0.7)
Silver (US\$/OZ)	11.6	(1.2)	(13.2)	(11.0)

Debt/forex market

	21 Aug 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.81	8.00	7.75	8.16
Re/US\$	41.09	40.97	40.29	40.67

Sensex



Source: Bloomberg

ECONOMY NEWS

- The Government may raise the credit exposure limits of banks to corporate groups taking up infrastructure projects. The Finance Ministry has asked the RBI to allow banks a bigger credit window for such companies. (ET)
- The Government and Sebi have come around to the view that the current norms for delisting of shares featuring a reverse book-building process should not be revamped. (ET)
- The Chinese IT dragon is unlikely to catch up on India's lead in the global IT services sourcing market at least over the next three to five years, according to Nasscom. (BL)
- The Government has ruled out a new financial relief package for exporters hit by falling revenues due to the rupee's rise. (ET)
- The Government has announced a 44.39% jump in collection of direct taxes, including corporate and income tax, to Rs.592.1 bn till August 15 over Rs.410.06 bn a year ago. (ET)

CORPORATE NEWS

- Kingfisher Airlines may use its ally **Air Deccan** to fly abroad. This comes when there are sharp differences between the Government and industry on whether the five-year domestic-operation norm should be relaxed for Indian carriers before they fly overseas. (ET)
- **Jet Airways** is all set to fly to three foreign destinations, Birmingham, Madrid and Geneva. The airline has received permission to fly on these sectors. (ET)
- The Government has turned down the DGH's recommendation to appoint US-based consultant Degolyer and MacNaughton to evaluate **RIL's** proposed three-fold rise in capital expenditure to \$8.6 bn from \$2.4 bn for the KG-D6 development project. (ET)
- **Bharti Airtel** will double the tower capacity to 80,000 by March 2008 as it grows its network to reach more towns and cities across the country, besides expanding in metros. (BL)
- **Siemens** is set to double sales from its Indian operations over the next three years, according to Peter Loscher, President and CEO. (BL)
- **JSW Steel** has acquired three companies in the US for \$900 mn to expand its geographical footprint. The target companies are Jindal United Steel Corporation, Saw Pipes, US and Jindal Enterprises LLC. (ET)
- Sunil Bharti Mittal, chairman, Bharti Enterprises has said the **Bharti** and Wal-Mart would form a 50:50 partnership for front-end retail 'if allowed' by the Government. (BS)
- **PSL Ltd** has bagged a \$2.4-mn order in Oman for supply of steel pipes to network its water sector. The company recently set up a new pipe manufacturing facility in the Hamriyah Free Trade Zone in Sharjah. (BL)
- The **Essar Group** plans to invest more than Rs.200 bn over the next five years to scale up power generation capacity to 6,500MW from about 1,200MW at present. (BS)
- **Lanco Infratech** has bagged an Rs.830-mn contract to develop and modernize the existing airport at Varanasi in Uttar Pradesh. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

COMPANY UPDATE

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Summary table

(Rs mn)	FY07	FY08E	FY09E
Revenues	28,711	40,047	50,059
% change YoY		39.5	25.0
EBITDA	2,697	4,005	5,006
% change YoY		48.5	25.0
Other Income	292	20	20
Depreciation	299	454	593
EBIT	2,690	3,571	4,434
% change YoY		32.7	24.2
Net interest	504	798	938
Profit before tax	2,186	2,772	3,495
% change YoY		26.8	26.1
Tax	667	832	1,049
as % of PBT	30.5	30.0	30.0
Net income	1,519	1,941	2,447
% change YoY		27.8	26.1
Shares outstanding (m)	209	209	209
EPS (reported) (Rs)	7.3	9.3	11.7
P/E (x)	25.5	20.0	15.9
EV/EBITDA (x)	15.9	10.9	9.2

Source: Company & Kotak Securities - Private Client Research

NAGARJUNA CONSTRUCTIONS

PRICE : Rs.186

TARGET PRICE : Rs.213

RECOMMENDATION : HOLD

FY09E PE : 15.9x

We spoke to the management of Nagarjuna Constructions (NCC) and maintain our positive stance on the company. The company is quite positive of achieving the targeted revenue growth for the current fiscal year. NCC expects to improve the operating margins for the current financial year as well, going forward. The company expects a 25% YoY jump in the order inflows as compared to last year. With a current order book of Rs.78 bn, we expect the revenues of the company to grow at a CAGR of 32% between FY07-FY09.

The company's working capital requirements are also expected to increase to achieve the targeted growth in revenues. We are fine tuning our estimates to factor in higher operating margins and slightly higher working capital. We revise our price target to Rs.213.

We maintain our positive bias on the company. However, due to limited upside, we recommend a **HOLD** at current levels. We also analyzed the annual report of the company and present below our key highlights from the annual report:

Annual Report Highlights

- **Significant rise in loans.** Since NCC is on a high growth trajectory, we observed that borrowings for the company for FY07 rose significantly as compared to last year primarily for investments in capex and working capital requirements. A part of the rise in unsecured loans is also from higher mobilization advances received from clients due to a healthy growth in order inflows. Though it has resulted in increasing the interest expenses for the company in FY07, we believe unsecured loans of NCC to show a similar trend due to similar expected increase in order inflows in the current financial year also.
- **Higher working capital requirements.** With the rise in the volume of the projects, working capital requirements of NCC have also shown an increase as compared to last year primarily due to the increase in the number of loans and advances and debtor days. Increase in advances to subsidiaries, suppliers and sub-contractors contributed to the increase in loans and advances. We expect the working capital to remain at similar levels in the future due to the large scale of operations as well as large number of projects being executed by subsidiaries.

Subsidiary companies

The company has floated a large number of subsidiary companies for executing different BOT projects, real estate projects and construction work is under progress in most of these subsidiaries

Key projects under progress

Subsidiaries	Projects	Size (Rs bn)	Equity (Rs mn)
NCC Infrastructure Holdings (NCCIHL)	Western UP Tollway Ltd	5.30	
	Bangalore Elevated Tollway Ltd	7.64	
		12.94	586.7
OB Infrastructure Ltd(OBIL)	Orai Bhognipur section	5.2	468
NCC-Vizag Urban Infrastructure Lts(NCCVUIL)	Modern township project, AP	85 acres devp	476
NCC Urban Infrastructure Ltd(NCCUIL)	National games, other real estate projects	530 acres devp	1200

Source: Company

Focus on international markets as well as new domains for future growth

NCC has also floated different subsidiaries in international markets such as Sri Lanka, Oman and Mauritius to tap the growing opportunities in the construction, development of infrastructure projects, power generation and real estate projects in these markets. It has also expanded into 3 new divisions - metals, power and oil and gas. For metals EPC contracts, company has tied up with POSCO of South Korea. In the oil and gas vertical, NCC has tied up with Nafto gas, Ukraine for oil and gas pipeline projects.

Major project wins by the company

- NCC, along with Tishman Speyer of US and ICICI Ventures had bagged the 400-acre integrated township project at Tellapur near Hyderabad. The project cost is estimated to be around Rs.85 bn and the development agreement is expected to be signed soon.
- In JV with Maytas Infra Ltd and Srei Infrastructure Finance, NCC was awarded the deepwater all-weather port project at Machilipatnam on a BOOT basis and estimated project cost is around Rs.15 bn. The development agreement for the project has still not been signed.
- NCC has bagged a road project on the Pondicherry-Tindivanam section with Maytas Infra Ltd for the total project cost of Rs.3 bn.

We believe that with such large order wins, NCC has proved its capability of bagging large sized complex projects. It has also identified new areas such as metals, oil and gas for portfolio diversification. Thus, we remain positive on the company and expect the order inflow momentum to be maintained in the current year in different segments of NCC.

Valuation and Recommendation

With current order book of Rs 78 bn, we expect revenues to grow at a CAGR of 32% between FY07-FY09 and profits to grow at a CAGR of 27% between FY07-FY09. We have fine-tuned our estimates to factor in an improving operating margin scenario based on higher ticket size of orders as well as diverse portfolio mix, resulting in marginally revising our price target to Rs.213 now as against Rs.210 earlier. At the current market price of Rs.186, the stock is trading at 20x and 15.9x on P/E multiples and 10.9x and 9.2x on EV/EBITDA multiples on FY08 and FY09 estimates. Adjusted with BOT and land development valuations, it is trading at 16.9x and 13.4x on P/E multiples on FY08 and FY09 estimates.

We have valued the company on the sum-of-the-parts methodology, incorporating the valuation of core business, BOT projects and land development valuation. Since NCC is on a high growth path, we are extremely positive on the growth prospects of the company. However, due to limited upside from current level, we would recommend investors **HOLD** the stock with a price target of Rs.213.

Sum-of-the-parts valuation

	Rs per share
Core business valuation	184
BOT projects valuation	14
Land development valuation	15
Total	213

Source: Kotak Securities - Private Client Research

We recommend a HOLD on NCC with a price target of Rs.213

COMPANY UPDATE

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BHEL

PRICE : Rs.1590
TARGET PRICE : Rs.1800

RECOMMENDATION : BUY
FY09E PE : 19.8x

- **Damodar Valley Corporation (DVC) has awarded Bharat Heavy Electricals (Bhel) mega turnkey contracts for setting up two power projects worth 1,000 MW each.**
- **The orders are valued at over Rs.65 bn. These orders will be commissioned during the Eleventh Plan. The projects were identified to supply power to Delhi for the Commonwealth Games in 2010.**

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	172,375	223,561	271,516
Growth (%)	26.2	29.7	21.5
EBITDA	32,909	41,786	54,349
EBITDA margin (%)	19.1	18.7	20.0
Net profit	24,147	30,925	39,271
Net cash (debt)	48,571	61,646	90,533
EPS (Rs)	49.3	63.2	80.2
Growth (%)	42.0	28.1	27.0
CEPS	54.9	69.3	87.2
DPS (Rs)	3.4	3.4	3.4
ROE (%)	25.3	24.9	23.9
ROCE (%)	37.4	36.0	35.1
EV/Sales (x)	4.2	3.2	2.5
EV/EBITDA (x)	22.2	17.1	12.7
P/E (x)	32.2	25.2	19.8
P/BV (x)	8.1	6.3	4.7

Source: Company & Kotak Securities - Private Client Research

Order pipeline from NTPC (MW)

XI plan target	22600
Capacity commissioned	500
To be commissioned	22100
Capacity under construction	13360
To be tendered	8740

Source: NTPC

We recommend a BUY on BHEL with a price target of Rs.1800

Order inflows have accelerated in FY08

There was a significant shortfall in achievement of the Tenth Plan power capacity target. There was pressure on central and state utilities to expedite the allotment during Eleventh Plan orders. This is reflected in robust order inflows for Bhel. Order backlog at the end of Q1FY08 was up 59% YoY. In the first quarter, order inflows were Rs.100 bn against an estimated Rs.44.5 bn in corresponding period of FY07.

Major order wins in Q2 FY08

Power Utility	MW	Value (Rs bn)
UP Thermal Power Obra C	2x800	64
Aravali Power	3x500	29
DVC	2x1000	65
Total	5100	158

Source: BHEL

Order pipeline strong at 27000 MW over the next twelve months

Out of the total 78577 MW power capacity target in the Eleventh Plan, around 50000 MW has been tendered. The balance 28577 MW is being expedited to be ordered in the next twelve months. Thus, the order pipeline is strong for Bhel over the four quarters. NTPC, Bhel's largest client is preparing to tender orders worth 8740 MW in the coming quarters.

Major power projects pipeline from NTPC

Project	Schedule	Capacity (MW)
Kawas and Gandhar	Na	2x1300
North Karnapura (Supercritical)	Dec 07	3x660
Barh (Supercritical)	Mar 08	2x660
Assam Power Gen co bongaigaon	Na	3x250
NTPC-Railways	Na	3x250

Source: NTPC

Valuation

At the current price, Bhel is trading at 25.2x and 19.8x FY08 and FY09 earnings, respectively. The stock has corrected 11% from its high in the last few weeks. During the period, the company has announced major order wins. Thus, it has enhanced revenue visibility. In view of this, we upgrade the stock to a **BUY** with a target price of Rs.1800.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
21-Aug	AdarsDeriva	Davinder Kumar	B	30,000	20.28
21-Aug	Alfa Transfr	Religare Securites Ltd Caterpi	B	63,086	81.90
21-Aug	Alfa Transfr	Micro Management	S	36,758	83.45
21-Aug	Apple Finance	Astute Commodities and Derivatives	S	305,028	7.41
21-Aug	Bella Ste Al	JMP Securities	S	2,239,067	6.77
21-Aug	Bella Ste Al	S N Securities	S	5,106,408	6.32
21-Aug	Bella Ste Al	Setu Securities	S	1,205,300	6.97
21-Aug	Bright Broth	Jyoti Haresh Shah	S	34,541	62.08
21-Aug	Central Bk	FID Funds Mauritius Limited	B	2,500,000	130.48
21-Aug	Dazzel Confi	Pawan Kumar Bansal	S	22,550	4.68
21-Aug	Gangotri I&S	GBK Resources	B	40,000	30.38
21-Aug	Gemstone Inv	Bhavesh Prakash Pabari	S	20,000	25.63
21-Aug	Gulsha Sug C	Micro Management	B	104,359	22.42
21-Aug	Mah Ind Leas	Pradeep Bhat	B	36,263	37.77
21-Aug	Mah Ind Leas	Enca Finlease Ltd.	B	85,340	39.14
21-Aug	Mah Ind Leas	Dharamshi K Gala	S	22,666	39.15
21-Aug	Mah Ind Leas	Satyakunj Investment	S	27,000	37.65
21-Aug	Maikaa Fibre	Krishna Shah	S	100,000	3.98
21-Aug	Novgol Petr	Dinesh Kumar	S	54,776	6.15
21-Aug	Novgol Petr	N C Jain	S	32,479	6.50
21-Aug	Numeri Po Sy	M M Murarka Share and Sec	S	50,000	401.10
21-Aug	ProtoInfosy	Sudhir Jain	S	200,000	3.50
21-Aug	Refex Refrig	JRK Consultants Pvt Ltd	B	100,000	63.41
21-Aug	Singer Indi	Masni Share And Stock Adv Isors	B	90,000	12.88
21-Aug	Smzs Chemica	Enca Finlease Ltd.	B	108,687	4.99
21-Aug	Smzs Chemica	Hansraj S Gada HUF	S	47,000	5.00
21-Aug	Steel Exch	Maru Securities	S	46,500	32.86
21-Aug	Trish Elec I	Florescent Securities Ltd	B	25,000	84.30
21-Aug	Trish Elec I	Paresh Chandrakant Doshi	S	16,000	84.30
21-Aug	Vadilal Ente	Rajiv Arora	S	10,055	102.00
21-Aug	Vertex Secur	Haresh Mohanlal Thobhani	B	50,000	40.00
21-Aug	Vertex Secur	Thresiamma Nemri	S	150,000	39.83
21-Aug	W S Industri	Grantham Mayo Van Otterloo	B	240,400	90.05
21-Aug	Woolite Merc	Deepak Gupta HUF	B	25,000	25.50
21-Aug	Woolite Merc	S.N.Gada HUF	S	9,962	25.59
21-Aug	Woolite Merc	Mangla Shantilal Gada	S	19,717	25.59
21-Aug	Yashraj Secr	Rajesh Shah	S	32,320	45.34
21-Aug	Yashraj Secr	Maru Securities	S	25,000	45.25

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Dabur India	101	(0.5)	(0.1)	0.3
DRL	623	(0.6)	(0.1)	0.2
HPCL	227	(1.0)	(0.1)	0.8
Losers				
Reliance Ind	1,747	(2.8)	(13.7)	3.8
ONGC	790	(3.5)	(11.9)	0.7
Reliance Com	484	(4.6)	(9.1)	5.2

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
22-Aug	Raymond Apparel holds press conference for its strategy plans; Pyxis Systems holds press conference to launch new product; Motorola Inc holds press conference to launch new shop; DLF holds press conference to announce launch of IT Park
23-Aug	HCL Infosystems to announce earnings and final dividend
24-Aug	Cipla holds annual shareholder meeting; Procter & Gamble, Gillette India to announce earnings and dividend
29-Aug	Tata Steel holds annual shareholders meeting; Ballarpur Industries to announce earnings and dividend

Source: Bloomberg

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