



Economy News

- ▶ IRDA is on course to develop commonly accepted benchmarks and disclosures to value insurance companies as this would be crucial when Indian partners dilute their shareholding from 74% to 26%. (ET)
- ▶ Investors of Indian Depository Receipts (IDR) will be liable to pay Securities Transaction Tax (STT). The Central Board of Direct Taxes is likely to soon clear the air on levy of STT on trading of IDRs on stock exchanges. (ET)
- ▶ The Commerce ministry is likely to propose a reduction in export duty on iron ore, which if materializes could help resolve its difference of opinion. (ET)
- ▶ Public sector banks (PSBs) have placed a new claim on the Central Government for their successful implementation of the farm debt waiver and debt relief scheme in a record time. (BL)
- ▶ The number of projects initiated in 2007-08, by the private corporate sector for implementation, in key sectors such as petroleum, sugar, textiles etc. is sharply down as against the previous year, a study by the Reserve Bank of India (RBI) reveals. (BL)

Corporate News

- ▶ **GAIL India**, the country's largest gas marketing and distribution company, plans to pick up 10 per cent stake in ONGC Petro Additions' (OPaL) petrochemical complex project coming up in Dahej. (BS)
- ▶ Public sector city gas companies; Indraprastha Gas (IGL), Aavantika Gas (AGL) and Maharashtra Natural Gas (MNGL) have challenged **Reliance Industries' (RIL)** move to submit expression of interest (EoIs) for Gurgaon, Faridabad, Noida, Gwalior, Indore and Pune. (ET)
- ▶ **Tata Power** is planning and studying a minimum \$3 billion foray into nuclear power. (ET)
- ▶ Auto component maker **Minda Industries (MIL)** is bidding for Vimercati, an Italian full-service switch products supplier, which supplies automotive switches to car majors like BMW, General Motors and Fiat in the European market. (ET)
- ▶ **Big TV**, the much-awaited direct-to-home service from Reliance Anil Dhirubhai Ambani Group, will be launched soon. Big TV will be the fourth entrant in the 7-million private DTH subscribers market Big TV's entry in the DTH segment and is expected to intensify the competition among the three existing DTH operators on the pricing front. (BS)
- ▶ Chennai-based **Sical Logistics** plans to invest Rs 1,700 crore to develop a nation-wide multi-modal logistics network, including cargo terminals and rail lines. (ET)
- ▶ **Finnish stainless steel** major Outokumpu has decided to scrap its plans of setting up a cold rolling stainless steel mill in India for the time being. The move comes a year after the company announced setting up the project. (BS)

Equity

	14 Aug 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	14,724	(2.4)	16.2	(15.2)
Nifty	4,431	(2.2)	14.8	(13.4)
BSE Banking	6,903	(5.1)	25.3	(21.6)
BSE IT	3,897	2.2	8.6	(13.1)
BSE Capital Goods	12,139	(3.7)	19.3	(10.8)
BSE Oil & Gas	10,197	(2.3)	17.5	(9.0)
NSE Midcap	5,805	(1.9)	15.5	(15.8)
BSE Small-cap	7,110	(1.7)	10.6	(16.8)
World Indices				
Dow Jones	11,660	0.4	1.4	(10.2)
Nasdaq	2,453	(0.0)	7.4	(3.0)
FTSE	5,455	(0.8)	1.5	(13.5)
Nikkei	13,019	0.5	3.5	(6.8)
Hangseng	21,161	(1.1)	(3.9)	(17.9)

Value traded (Rs cr)

	14 Aug 08	% Chg - Day
Cash BSE	4,770	(2.9)
Cash NSE	11,019	(8.6)
Derivatives	47,643.2	8.4

Net inflows (Rs cr)

	13 Aug 08	% Chg	MTD	YTD
FII	(646)	68	389	(27,114)
Mutual Fund	(266)	(158)	(228)	10,333

FII open interest (Rs cr)

	13 Aug 08	% Chg
FII Index Futures	14,239	(4.1)
FII Index Options	20,264	(2.5)
FII Stock Futures	17,966	(2.6)
FII Stock Options	797	2.8

Advances / Declines (BSE)

14 Aug 08	A	B	S	Total	% total
Advances	37	488	140	665	28
Declines	169	1210	291	1,670	70
Unchanged	-	52	9	61	3

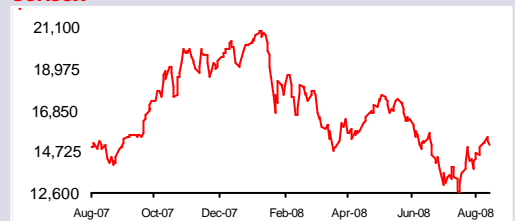
Commodity

	14 Aug 08	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	114.5	0.6	(11.2)	(9.4)
Gold (US\$/OZ)	787.7	(2.3)	(16.6)	(11.7)
Silver (US\$/OZ)	12.8	(10.1)	(27.1)	(22.1)

Debt / forex market

	14 Aug 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	9.23	9.23	9.30	8.01
Re/US\$	43.41	43.41	42.52	42.55

Sensex



MANAGEMENT MEET UPDATE**Sanjeev Zarbade**

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THERMAX LTD**PRICE: Rs.490****TARGET PRICE: Rs.540****RECOMMENDATION: ACCUMULATE****FY09E P/E: 17.9x**

- ❑ We returned positive post our meeting with Thermax.
- ❑ Order inflows from the Steel and sponge iron sector continue to be strong. Management expects to end the year with a healthy order backlog. Making inroads into export markets.
- ❑ Recent order inflows puts the company in a position to accelerate revenue growth in FY10.
- ❑ Maintain earnings for FY09 but raise earnings for FY10 by 10%.

Target price revised upwards to Rs 540 (Earlier recommendation BUY Target price of Rs 480). Stock has shown strong outperformance on large order bookings in recent weeks. Downgrade to Accumulate in view of limited upside from current levels.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	34,815	40,430	50,163
Growth (%)	49.3	16.1	24.1
EBITDA	4,267	4,827	6,284
EBITDA margin (%)	12.3	11.9	12.5
Net profit	2,865	3,251	4,158
Net cash (debt)	6,182	6,495	8,825
EPS (Rs)	24.1	27.3	34.9
Growth (%)	36.1	13.4	27.9
CEPS	26.0	30.8	39.6
DPS (Rs)	8.0	8.0	8.0
ROE (%)	41.2	36.6	36.2
ROCE (%)	59	50.3	50.4
EV/Sales (x)	1.5	1.3	1.1
EV/EBITDA (x)	12.6	11.1	8.6
P/E (x)	20.4	17.9	14.0
P/Cash Earnings	18.8	15.9	12.4
P/BV (x)	7.7	6.0	4.6

Source: Company, Kotak Securities - Private Client Research

Background

Thermax's core business comprise 6 major business areas namely Boilers and Heaters, Absorption Cooling, Water and Waste Solutions, Chemicals for Energy and Environment applications, Power and Cogeneration systems and Air Pollution and Purification. In the past six years, the company's operations have grown from Rs 6.8 bn to Rs 35 bn. The company's products are focused on waste to energy and efficient heating techniques. As much as 70% of the company's revenues are derived from projects while the rest are from products and services. The company has exports across the globe and recently opened manufacturing operations into China.

Key Highlights

- **Cautiously optimistic on the demand environment**

Management indicated that increase in interest rates and spiraling of metal and energy prices are concern for the overall investment scenario for the economy. Moderation in growth rates have already started to get reflected in certain key segments of the economy. However, the management indicated that the situation is of concern but there has been no appreciable decline in order enquiries so far.

- **While orders from cement sector has slowed down, steel remains buoyant:**

Thermax products cater to a broad range of industries including Steel, Cement, Refineries, Sugar, Textiles, Fertilisers etc. In line with the buoyant investment trends in Steel, Cement and Refineries, these three sectors contribute bulk of the orders. The management indicated that while cement was a major source of order inflows in FY08, it has slowed down in the current year. The investment in this sector is likely to remain lacklustre atleast for a year.

Steel sector has shown healthy investment trends. The company is witnessing robust order inflows from steel and sponge iron makers. Thermax has also expanded its prequalifications in refineries. The company indicated that orders have been trickling in from Sugar, distilleries and also polyester sector.

■ **Penetrating the market for non-solid fuel based power generation sector**

Thermax has built expertise in efficient burning of a wide variety of solid fuels (Coal to Bagasse) in the domestic market. This is the core business segment for the company. In recent months, the company has increased its focus on non-solid fuels market. The company is penetrating the HRSG (Heat recovery steam generator) business in domestic and international market.

Recently, Thermax has signed a protocol of agreement for an export order, for supply of HRSG for an oil field Company to enhance the oil recovery through steam injection in their existing oil wells. The company is also implementing a Captive power order in Phillipines.

■ **Expected to end the fiscal with healthy order backlog**

Thermax ended FY08 with an order backlog of Rs 26.3 bn, a decline of 15% as compared to FY07. Capacity constraints along with Government ban on coal linkage to Captive Power plants had resulted in lower order accretion in previous fiscal.

The situation has improved significantly in the current fiscal. While the company received Captive power orders of 100 MW in FY08, it has crossed this milestone in the first four months of current fiscal.

■ **Two major orders Thermax won in current quarter include**

Order of Rs 4.1 bn from a leading steel making Company for setting up a captive power plant for their upcoming Blast Furnace Complex on an EPC basis. The captive power plant will use the waste gas from the furnace to produce power.

Order from a major refinery to supply Pulverised Coal Fired Boilers for their Captive Cogeneration Plant. This order is worth Rs 8.2 bn and is the single largest order ever for the company.

Thermax received order inflows of Rs 9.1 bn in Q1 FY09. Thus on inclusion of the above two orders, the second quarter order inflows will show a strong sequential growth in order inflows and order backlog.

■ **Services business is also doing well**

In the services segment, Thermax provides FEMS (Facility Energy Management Services), which basically conducts energy audits for process industries as mandated by the Bureau of Energy Efficiency. The FEMS segment doubled its revenues in FY08 over previous fiscal.

In addition to this, Thermax is also targeting the Operations and maintenance (OMC) services for its captive and cogen plants. This segment is a recent addition to the portfolio. The company is currently working on 10 contracts for O&M of captive power projects and revenues are expected to grow significantly in the current year from Rs 150 mn in FY08.

■ **Targeting the upto 350 MW utility power generation market**

Thermax's tieup with Babcock and Wilcox for sub-critical units upto 800 MW would enable the company to target the subcritical power utility market.

Thermax maintains that given the high funding requirement of a typical super-critical power unit (unit size is 600 MW and above), the sub-critical technology based power units would continue to be in use. Currently BHEL is the only major power generating equipment maker in the country with a 65% market share. However, in the next few years, there would be emergence of three-four players including Thermax in the power generating equipment sector in India.

Competition from the Chinese companies has waned in recent times. It is believed that there has been reduction in subsidies which is resulting in pushing up of product prices. Also in some cases product specifications have been found not upto the mark.

■ Significant investments in capacity enhancements continues

Thermax has incurred Rs 1.78 bn in FY08 towards capex at Vadodara, Sangli and in China. The vadodara facility will also include an automatic coil facility, which would be the second such facility after BHEL. This facility would cut down delivery time by a significant extent.

The china plant has been recently commissioned. This plant has cost around \$10 million with a capacity to manufacture 200 chillers. It expects to reach full capacity utilisation in a three-year timeframe. China accounts for 50% of the \$600 million global market for absorption chillers.

Financial Outlook

■ Maintain FY09 earnings but raise FY10 numbers in view of strong order inflows

We are maintaining our earnings estimates for FY09 unchanged. However, in view of the new order wins in last few weeks, we expect the company to end the year with a much improved order backlog. This should accelerate growth in FY10.

Thus, we have raised our revenue forecast for FY10 by 6%. EBITDA growth for FY10 is revised upwards by 10%. Ultimately, net profit is higher by 10% as compared to our previous recommendation.

Valuation

At the current price, the stock is trading at 17.9x and 14.0x FY09 and FY10 earnings respectively. Near-term growth is expected to be subdued. In view of this, current valuations do not provide much room for upside.

Raise target price to Rs 540 based on DCF but downgrade the stock to **ACCUMULATE** from **BUY** earlier, mainly in view of limited upside to our target price.

We recommend to ACCUMULATE on Thermax at current levels with a price target of Rs.540

CHANGE IN RECOMMENDATION

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CHANGES IN GRADES OF RECOMMENDATIONS

- ❑ We are making changes in the grades of recommendations which we have.
- ❑ We will discontinue giving HOLD recommendations. On the other hand, we introduce two new grades of recommendations - ACCUMULATE and REDUCE. While these recommendations have been used earlier, those have been for very few specific cases.
- ❑ We are changing the grades of recommendations to bring in more clarity into the recommendation.
- ❑ We feel that, ACCUMULATE or REDUCE recommendation makes the opinion clearer as compared to a HOLD recommendation.
- ❑ Thus, all our HOLD recommendations are being changed to either ACCUMULATE or REDUCE.
- ❑ Henceforth, all recommendations will fall in the four categories of BUY, ACCUMULATE, REDUCE and SELL.
- ❑ The recommendations would likely indicate the following scenarios :
 - BUY : There is decent upside from the current levels
 - SELL : There is decent downside from the current levels
 - ACCUMULATE : The stock looks attractive in the long term. Use any period of under-performance / fall in price to BUY
 - REDUCE : The stock looks unattractive in the long term. Use any period of outperformance / rise in price to SELL

The following list contains the eight stocks which had a **HOLD** recommendation. The new recommendations are given against each stock.

Name of Sector & Co. Name	Recommendation		Current Price (Rs)	Target Price (Rs)
	Current	New		
Capital goods & Engineering				
Siemens India	HOLD	REDUCE	557	550
Suzlon Energy	HOLD	REDUCE	241	241
Cement				
India Cement	HOLD	ACCUMULATE	152	170
Shree Cement	HOLD	ACCUMULATE	632	725
Information Technology				
I Flex Solutions	HOLD	ACCUMULATE	1341	1,362
NIIT Ltd	HOLD	ACCUMULATE	91	115
Patni Computer	HOLD	REDUCE	229	300
Media				
UTV Software Communication	HOLD	ACCUMULATE	796	873

Source: 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)
14-Aug	Abhi Corp Lt	Nisha Suman Jain	B	107,457	44.53
14-Aug	Anjani Synth	Narendra Vallbhji Bahuva	B	89,877	48.97
14-Aug	Bihar Tubes	Jagan Tubes Limited	B	48,410	179.59
14-Aug	Bihar Tubes	Manoj Gupta	B	65,000	183.81
14-Aug	Cera Sanitry	Deutsche International Trust Corp			
		Mauritius Ltd Ac Minivet Fdi Ac	S	35,384	134.64
14-Aug	CNI Res Ltd	Acme Craft Pvt Ltd	S	153,727	5.00
14-Aug	Koff Br Pict	Hitesh Malukchand Shah	B	25,000	22.25
14-Aug	Refex Refrig	Nitin Dharamshi Goratela	S	88,629	280.05
14-Aug	Rit Pro Ind	Shree Atam Vallabh Poly Plsti	S	91,582	118.21
14-Aug	Scenario Med	Smp Secutites Limited	B	2,000	127.45
14-Aug	Shrilakshmi	Prarthana Tarunkumar Brahmbhatt	B	89,000	108.71
14-Aug	Visagar Pol	VHM Impex Private Ltd	S	5,700	62.55
14-Aug	Vishal Info	Yuvak Share Trading Pvt Ltd	S	57,669	252.90

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Infosys Tech	1,694	4.2	6.4	2.1
Cairn India	246	1.9	1.4	3.9
Sterlite Ind	621	1.2	0.9	1.6
Losers				
Reliance Ind	2,277	(2.6)	(14.5)	2.4
DLF Ltd	500	(8.8)	(13.6)	5.9
SBI	1,455	(6.3)	(10.3)	2.0

Source: Bloomberg

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