

February 6, 2008

FOR PRIVATE CIRCULATION

**Equity**

	5 Feb 08	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	18,663	0.0	(9.8)	(3.8)
Nifty	5,484	0.4	(12.6)	(5.2)
Banking	10,938	(1.6)	(8.1)	1.4
IT	3,552	(0.6)	(9.2)	(7.4)
Healthcare	3,769	1.7	(14.2)	(2.8)
FMCG	2,234	(0.5)	(7.9)	10.2
PSU	8,812	1.8	(20.6)	(10.9)
CNX Midcap	7,609	0.8	(21.0)	2.4
<b>World indices</b>				
Nasdaq	2,310	(3.1)	(7.8)	(18.3)
Nikkei	13,746	(0.8)	(10.2)	(18.8)
Hangseng	24,809	(0.9)	(15.0)	(20.5)

**Value traded (Rs cr)**

	5 Feb 08	% Chg - 1 Day
Cash BSE	5,136	(7.6)
Cash NSE	12,323	(10.5)
Derivatives	31,121	(22.5)

**Net inflows (Rs cr)**

	4 Feb 08	% Chg	MTD	YTD
FII	3,811	268	4,845	(12,382)
Mutual Fund	819	(2,700)	787	8,366

**FII open interest (Rs cr)**

	4 Feb 08	% chg
FII Index Futures	24,644	0.3
FII Index Options	7,268	8.6
FII Stock Futures	29,837	2.1
FII Stock Options	32	27.8

**Advances/Declines (BSE)**

	5 Feb 08	A	B1	B2	Total	% Total
Advances	135	414	436	985	65	
Declines	82	249	180	511	34	
Unchanged	-	3	13	16	1	

**Commodity**

	5 Feb 08	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	88.1	(0.4)	(10.0)	(8.9)
Gold (US\$/OZ)	888.2	(1.7)	3.4	7.7
Silver (US\$/OZ)	16.4	(2.0)	7.4	5.2

**Debt/forex market**

	5 Feb 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.54	7.54	7.74	7.91
Re/US\$	39.56	39.45	39.30	39.35

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- An increase in the I-T exemption limit, a higher ceiling for tax-saving investments along with a wider range of products under this category and a rejig in tax slabs are some key proposals being considered by the UPA Government for the Budget. (ET)
- Political pressure is building on banks to cut home loan rates. Top ministers have already conveyed as much to some bank chairmen, and the Finance Minister is expected to hard sell softer interest rates when he meets bank chiefs on February 12. (ET)
- Small and medium enterprises in the software export business may continue to enjoy income tax benefits for some more time. (ET)
- The Center's direct tax revenues continue to be buoyant, with net direct tax collections rising 40.47% between April 2007 and January 2008 at Rs.2185.38 bn. (BL)
- The Government will soon unveil a Rs.5-bn scheme, under which facilities like R&D and skill upgrading will be provided to capital goods makers. (ET)
- Trai may meet a long-standing demand of FM radio broadcasters by recommending an increase in the FDI limit. (BS)

**CORPORATE NEWS**

- The Munjal family, owners of the **Hero Group**, is negotiating with the French car major PSA Peugeot Citroen for a possible alliance for passenger cars. (ET)
- **Allahabad Bank, Corporation Bank and Canara Bank** have decided to cut interest rates on housing loans but have kept their prime lending rates (PLRs) unchanged. (BS)
- **ICICI Bank** has indicated that it has not yet decided on cutting interest rate and it was still assessing the demand-supply position for credit. (BS)
- **Maruti Suzuki India** has denied reports of plans to launch a small car with a 660cc engine positioned below the Maruti 800 and priced at Rs.150,000. (BS)
- **Tata Power** has said Maithon Power, a 74:26 JV between Tata Power and Damodar Valley Corporation announced completion of its financing for the 1050 MW coal based thermal power project, being set up in Dhanbad. (BL)
- **GAIL (India)** has proposed extending its planned Dabhol-Bangalore gas pipeline to Goa to meet Goa's fuel needs. (BL)
- Suzlon Energy Australia, a step-down subsidiary of **Suzlon Energy**, has bagged an order from Pacific Hydro, Australia, for 56.7 MW of wind turbine capacity. (ET)
- **Subex** has been awarded a contract from Telekom Slovenije, Slovenia's leading telecom operator, to implement the Nikira (tm) V6.1 Fraud Management System. (BL)
- **Concor** is eyeing offshore business opportunities. (ET)
- **Aurobindo Pharma** has received US approval to sell a generic version of Pfizer's epilepsy treatment Neurontin. (BL)
- **Canara Bank and Oriental Bank of Commerce** along with the insurance arm of the HSBC Group are likely to start a life insurance venture in the next four months. (BS)
- **Global Broadcast News** has said its board has approved raising up to Rs.6 bn through a QIP of shares. (BL)
- **Crisil** has reached a preliminary understanding with US-based Equifax and Tata Capital to set up a credit information company. (BS)
- The IPO for **Wockhardt Hospitals** has been extended by two days till February 7. (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

### SECTOR UPDATE

Teena Virmani  
teena.virmani@kotak.com  
+91 22 6634 1237

## CONSTRUCTION SECTOR REVIEW POST Q3FY08

The performance of the construction sector in Q3FY08 was impacted by negative surprises in some companies on the execution as well as operating margin front. Order inflow was also lower than expectations but was tilted more towards buildings, power, irrigation and less towards the road segment. Margin improvement or stability in margins was witnessed in the current quarter.

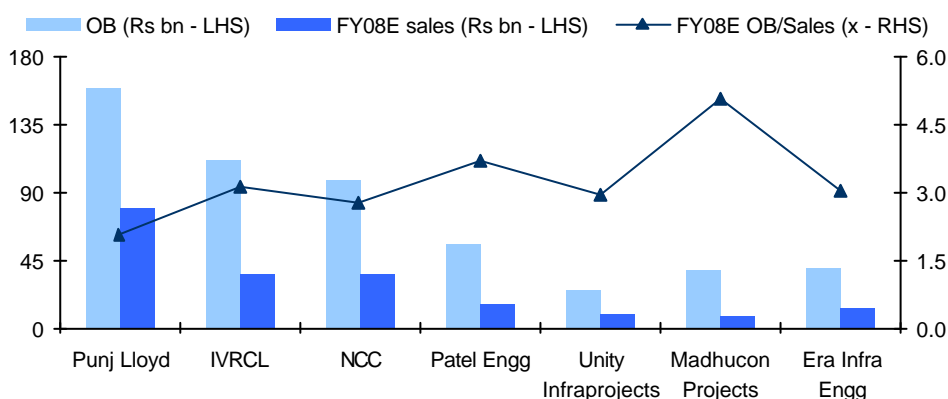
With enhanced progress in the SPVs executing several projects, companies are planning to unlock value in the subsidiaries through private placements or strategic stake sales. Though the current quarter's performance was not in line with expectations, we believe the robust order books and improving margins are expected to drive growth in profitability, going forward. We maintain our positive stance on the construction sector with our top picks being Punj Lloyd, IVRCL and Unity Infraprojects.

### Key highlights of Q3FY08 results

- **Order books robust but order book mix is changing.** The current order books of the company provide revenue visibility for the next two or two and a half years. However, order inflow in the current quarter was lower than expectations. This was due to a slowdown in order inflows, particularly in the road segment due to modification in the model concession agreement (MCA). Under the new MCA, bidding for large sized BOT projects was done based on the revenue sharing model as against annuity, toll or negative grant based model used earlier.

Due to higher risk and lower returns involved as against earlier, companies under our coverage did not participate aggressively to qualify for the initial round. However, the order inflow mix is changing towards building, power, water and irrigation as against more focus towards roads earlier.

### Order book to sales

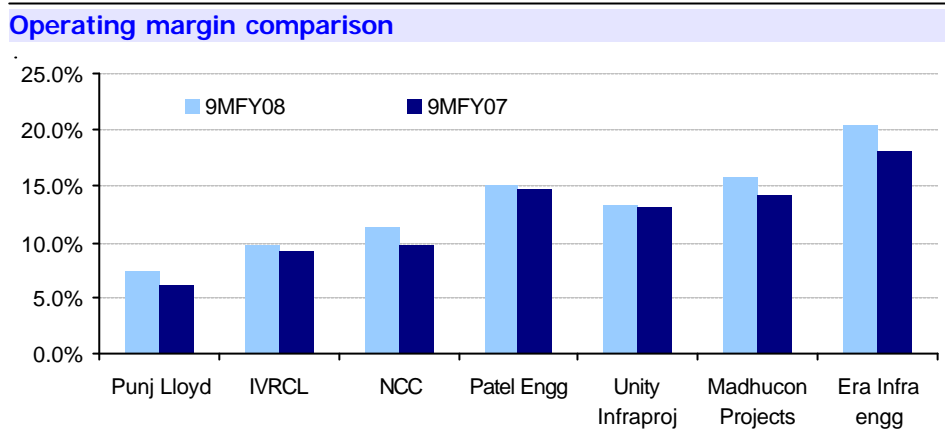


Source: Companies

- **Improving profitability.** We believe the quarterly trend of operating margins depends on projects executed in the specific quarter. However, construction companies under our coverage universe have posted an overall improvement in operating margins based on 9MFY08 performance vis-à-vis last year. This improvement in margins was brought about by a large number of factors such as variable pricing clauses, diverse project mix, selective bidding, increasing ticket size of orders and a favorable demand environment. We believe operating margins of companies are expected to remain stable or improve, going forward. Net profit margins of the companies are not comparable in Q3FY08 due to withdrawal of Section 80IA benefits.

Operating margin trend (%)						
	Q3FY08	Q3FY07	Improvement	9MFY08	9MFY07	Improvement
Punj Lloyd	4.90	5.80	-90 bps	7.25	5.94	131 bps
IVRCL	11.40	10.70	70 bps	9.70	9.30	40 bps
NCC	11.10	11.50	-40 bps	11.30	9.80	150 bps
Patel Engineering	17.90	19.20	-130 bps	15.06	14.78	28 bps
Unity Infraprojects	13.60	14.00	-40 bps	13.30	13.20	10 bps
Madhucon Projects	13.55	13.91	-35 bps	15.80	14.20	160 bps
Era Infra engineering	23.10	18.60	450 bps	20.40	18.10	230 bps

Source: Companies; Kotak Securities - Private Client Research



Source: Companies

- **Higher visibility in subsidiary performance.** Different BOT projects executed under subsidiaries such as roads, water desalination, real estate, etc, are progressing according to schedule and there is a greater visibility attached to them on account of projects nearing completion in a year. Moreover, a few companies such as Unity Infraprojects and Madhucon Projects are looking to raise funds at the SPV level for funding specific projects. Higher-than-expected valuations may result in re-rating of the stocks. Hence, we believe future fund requirements are to be met through raising money through subsidiaries. Hence, the return ratios of the core business may not be impacted in the short to medium term.
- **Future growth areas.** Construction companies are continuously identifying new growth ventures by diversifying across geographies as well as segments. Apart from the BOT projects in the road segment, the emerging new growth areas for companies such as real estate, oil and gas exploration, coal mining, thermal power projects and onshore oil drilling have seen increased investments by different players. Key examples are:

  - Madhucon Projects - Entry into coal mining in Indonesia through a holding company and plans to export the coal to China, Korea or India.
  - IVRCL - Entry into oil and gas exploration in Yemen and Egypt through an acquired company Alkor.
  - Nagarjuna Constructions has already bagged orders in the metals segment
  - Punj Lloyd - Entry into onshore drilling, real estate and urban infrastructure.

## Relative valuations

Valuations							
Companies	P/E		Adjusted P/E*		Price (Rs)	Target Price (Rs)	Recommendation
	FY08E	FY09E	FY08E	FY09E			
Punj Lloyd	35.7	21.1	31.5	18.6	401	624	BUY
IVRCL	31.7	23.5	23	17.1	454	547	BUY
NCC	35.8	24.9	24.9	17.3	262	291	HOLD
Unity Infraprojects	18.1	14.8	15.8	13.0	852	1048	BUY
Madhucon Projects	52.5	38.9	15.5	11.5	691	771	HOLD
Era Infra engineering	13.4	15.3	13.4	15.3	769	780	HOLD

*P/E net of BOT and subsidiary valuations; Source: Kotak Securities - Private Client Research*

Thus, we continue to remain positive on the sector given the revenue visibility, improvement in margins and venture into other growing and profitable areas.

**Bulk deals**

<b>Trade details of bulk deals</b>					
<b>Date</b>	<b>Scrp name</b>	<b>Name of client</b>	<b>Buy/ Sell</b>	<b>Quantity of shares</b>	<b>Avg. Price (Rs)</b>
5-Feb	A V Cottex I	Sudhir Jain	B	68,200	20.00
5-Feb	Alpha Hi-Tec	Magunta Raghav	S	31,662	4.00
5-Feb	Autolite Ine	Janki Textile and Industries Ltd	S	25,611	100.00
5-Feb	Axon Infotec	Anmol Finance Company	B	10,000	60.00
5-Feb	Axon Infotec	Chirag Securities	B	15,000	59.86
5-Feb	Axon Infotec	Rupak Developers Private Ltd	B	5,000	60.00
5-Feb	Axon Infotec	Maharaja Advisory Services	S	4,200	59.88
5-Feb	Axon Infotec	Nincro Investments and Finance	S	25,000	60.00
5-Feb	Baba Arts	Money Managers	B	200,000	28.73
5-Feb	Baba Arts	Lahoti Computers Private Ltd	S	200,000	28.73
5-Feb	Baba Arts	Gordhan P Tanwani	S	88,804	29.25
5-Feb	Bhagyashree	Master Trust Ltd	S	50,000	69.45
5-Feb	Birla Cap	Pari Stock Trading Pvt. Ltd	S	52,163	13.03
5-Feb	Dai Ich Kark	Shernez F Vakil	B	199,170	25.15
5-Feb	Ennore Found	Subkham Holding Pvt Ltd	B	83,863	199.00
5-Feb	Ennore Found	Subkham Capital Investment	S	83,891	199.00
5-Feb	Kailash Fico	Shivani Suryakant Shah	B	60,400	48.14
5-Feb	Khaitan Elct	Pacific Corporate Services Limited	B	475,000	98.41
5-Feb	Khaitan Elct	Withal Commercial Pvt Ltd	S	100,000	97.88
5-Feb	Khaitan Elct	Sarswati Vincom Ltd	S	100,000	97.59
5-Feb	Khaitan Elct	Lotus Capital Financial Services Ltd	S	200,000	98.99
5-Feb	Kirti Finves	JMP Securities Pvt. Ltd.	B	271,019	1.15
5-Feb	Madhav Mar G	Meenakshi Jatia	S	100,000	70.00
5-Feb	Mah Ind Leas	Ayodhyapati Investment Pvt. Ltd	B	46,193	33.72
5-Feb	Multibase 1	Bsma Ltd	B	94,716	42.50
5-Feb	Nectar Life	Merill Lynch Capital Markets Espana	B	91,972	261.01
5-Feb	Nectar Life	Grants Investments Ltd Fccb	S	91,000	261.00
5-Feb	Pace Elec(P)	Uniflex Carrying Co. Pvt Ltd	S	112,000	16.12
5-Feb	Radico Khait	Goldman Sachs Investments Mauri	S	714,662	107.68
5-Feb	Sayaj Hotels	Trans Agro India Private Limited	B	100,000	110.35
5-Feb	Sh Bhaw Pa M	Sudhir Tandon	B	80,000	11.05
5-Feb	Sh Bhaw Pa M	Sudhir Tandon Huf	S	80,000	11.05
5-Feb	Subhkam Cap	Subhkam Capital Invest. Pvt Ltd	B	100,000	1,249.00
5-Feb	Sundarammul	Accord Capital Markets Ltd	B	495,353	17.50
5-Feb	Sundarammul	Micro Management Ltd	S	199,525	17.50
5-Feb	Tulip Star H	Bhamribai Bhavarlal Jain	B	51,643	80.00
5-Feb	White Lion A	Mahesh Ramanlal Shah	S	29,677	10.98
5-Feb	Zodiac Cloth	Notz Stucki Et S A Ac Aruna Fund	B	99,418	601.65
5-Feb	Zodiac Cloth	Bsma Limited	S	99,442	600.02

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
NTPC Ltd	223	3.9	11.9	15.5
ONGC	1,075	2.1	8.2	1.3
Reliance Ind	2,617	1.0	6.5	1.7
<b>Losers</b>				
SBI	2,229	(2.0)	(4.9)	0.7
ICICI Bank	1,191	(1.7)	(4.0)	1.8
TCS	955	(2.1)	(3.5)	0.4

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
7-Feb	Morgan Stanley organizes a press meet for launch of new fund Reliance Life organizes a press meet for new initiative Arcelor Mittal; Shivalik Bimetal & Auerhammer holds press meet GSS America Infotech holds press conference to discuss on IPO
11-Feb	Reliance Power listing on BSE & NSE
19-Feb	ABB to announce earnings and dividend

Source: Bloomberg

## Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals, Hotels	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Saurabh Agrawal	Metals, Mining	+91 22 6634 1291	agrawal.saurabh@kotak.com
Saday Sinha	Banking, Economy	+91 22 6634 1440	saday.sinha@kotak.com
Rohit Ledwani	Retail	+91 22 6634 1507	rohit.ledwani@kotak.com
Sarika Lohra	NBFCs	+91 22 6634 1480	sarika.lohra@kotak.com
Chetan Shet	FMCG, Power	+91 22 6634 1382	chetan.shet@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

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