

February 20, 2007

FOR PRIVATE CIRCULATION

Equity

	19 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,403	0.3	1.6	7.2
Nifty	4,165	0.4	1.8	8.0
Banking	7,289	1.5	(2.6)	4.2
IT	3,926	0.1	5.7	12.7
Healthcare	3,803	0.0	(2.1)	3.8
FMCG	1,892	(0.1)	(3.0)	(5.0)
PSU	6,209	0.3	(0.2)	2.4
CNX Midcap	5,236	(0.2)	(0.9)	7.0

World indices

		1 Day	1 Mth	3 Mths
Nasdaq	2,496.3	(0.0)	1.8	2.1
Nikkei	17,940	0.4	3.1	13.5
Hangseng	20,538	2.0	1.2	7.2

Value traded (Rs cr)

	19 Feb 07	% Chg - 1 Day
Cash BSE	4,706	16.0
Cash NSE	7,762	(22.6)
Derivatives	32,491	(19.8)

Net inflows (Rs cr)

	15 Feb 07	% Chg	MTD	YTD
FII	617.1	193.2	(599.2)	(599.2)
Mutual Fund	104.9	121.8	(70.2)	194.7

FII open interest (Rs cr)

	15 Feb 07	% chg
FII Index Futures	13,920.2	(1.5)
FII Index Options	7,870.2	(0.6)
FII Stock Futures	18,565.3	(0.6)
FII Stock Options	36.2	(0.7)

Advances/Declines (BSE)

	19 Feb 07	A	B1	B2	Total	% Total
Advances	101	293	375	769	50	
Declines	111	334	311	756	49	
Unchanged	-	11	16	27	2	

Commodity

	19 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	59.4	2.4	14.2	6.4
Gold (US\$/OZ)	670.7	0.3	5.7	7.8
Silver (US\$/OZ)	14.0	0.2	9.1	9.9

Debt/forex market

	19 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.02	8.06	7.83	7.48
Re/US\$	44.13	44.13	44.17	44.98

Sensex



Source: Bloomberg

ECONOMY NEWS

- In an move that paves the way for greater foreign investment in domestic ailing companies, RBI has said foreign institutional investors can pick up stake in these airlines beyond the sectoral FDI cap of 49% through secondary market purchases. (ET)
- The government is looking at expanding the scope of the tax currently applicable on certain zero-tax companies. It may make some structural changes in minimum alternate tax (MAT). The options include expanding MAT to cover units under STPI scheme. (ET)

CORPORATE NEWS

- **State Bank of India** has raised its benchmark prime-lending rate (SBAR) by 75 basis points to 12.25 per cent per annum, effective February 20. The hike follows the increase in cash reserve ratio by the RBI to 6 per cent. However, the existing home loans under the priority sector will not be impacted by the interest rate hike. (BL)
- **Bharti Enterprises** on Monday said that it would invest \$2-\$2.5 billion by 2015 for its maiden retail venture, to be rolled out under its wholly-owned subsidiary, Bharti Retail (Pvt) Ltd. To raise the sum it would use a mixture of internal accruals, debt and equity. (BL)
- **Oil and Natural Gas Corporation's (ONGC)** recent gas discovery in the Krishna-Godavari Basin has been disallowed by the Directorate General of Hydrocarbons (DGH). ONGC's exploration team had last year struck natural gas in ultra-deepwater well UD1 in the Krishna-Godavari block KG-DWN-98/2. (BL)
- **Tata Tea**, a Rs 3,500 crore beverages company, today said it would offload 80 per cent of its stake in its NIPO (North India Plantation Operations) to a group of investors and employees. (BS)
- The Ruias of **Essar** have rejected an offer by the Aditya Birla group's Idea Cellular to acquire BPL Mobile's Mumbai circle, which lost heavily on its valuations due to the corporate battle between its shareholders. (BS)
- Anglo American, the world's second largest mining and natural resources company, today submitted its bid with five others for the Japanese firm Mitsui & Co's 51 per cent stake in India's largest mining firm **Sesa Goa**. (BS)
- Real estate major **DLF** and West Bengal government entered into an agreement to build a township and an industrial hub at Dankuni in the Hooghly district. The project, to be christened Dankuni World Township, would be built on 4,840 acres of land. The public-private partnership (PPP) project would entail an investment of Rs 33,000 crore. (BS)
- Bangalore-based automotive cables manufacturer, **Suprajit Engineering**, has bagged a Rs 40 crore automobile cables order from Tata Motors for the supply of cables to Tata Motors' small car project at Singur in West Bengal. BS

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

RESULT UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6634 1366

VARDHMAN POLYTEX LTD. (Rs 112, FY08E PER: 6.2x, BUY)

Results above expectations. Upgrading earnings estimates and price target to Rs. 144 (28% upside)

- Net Sales for Q3FY07 was at Rs 950.9 mn up by 26.5% yoy basis due to higher contribution from the expanded capacities at Bhatinda and Ludhiana units.
- EBIDTA margin during Q3 FY07 was unchanged at 14.0 %. Although the raw materials to sales ratio declined from 61.1% in Q3FY06 to 59.6% in Q3FY07 the benefits were negated by rise in staff cost and other expenditure.
- EBIDTA for the Q3 FY07 was at Rs. 132.8 mn up by 26.6 % on yoy basis.
- Depreciation during Q3 FY07 was higher by 12.5% on sequential basis to Rs.63.7 mn. This was due to the ongoing capex programme of the company.
- Interest cost stood at Rs. 20 mn in Q3 FY07, which is down 7.4% yoy and down 44.1% on sequential basis.
- PBT for the Q3 FY07 was at Rs. 62.0 mn up 102% yoy up 3.5% on sequential basis.
- PAT for the Q3 FY07 was up by 139.7% yoy and up 1.3% on sequential basis to Rs. 47.7 mn translating into a quarterly EPS of Rs. 4.5 and quarterly CEPS of Rs. 10.5.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	2,886	3,741	4,118
Growth (%)	26.3	29.6	10.1
EBITDA	378.8	554.3	642.0
EBITDA margin (%)	13.1	14.8	15.6
Net profit	89	178	194
Net debt	1,885	2,085	2,167
EPS (Rs)	8.4	16.7	18.2
Growth (%)	19.7	99.7	8.6
CEPS	29.7	39.9	42.7
DPS (Rs)	4.2	4.2	4.2
ROE (%)	5.7	10.4	10.5
ROCE (%)	6.3	9.3	10.3
EV/Sales (x)	1.1	0.9	0.8
EV/EBITDA (x)	8.1	5.9	5.2
P/E (x)	13.4	6.7	6.2
P/CEPS (x)	3.8	2.8	2.6
P/BV	0.76	0.70	0.65

Source: Company & Kotak Securities - Private Client Research

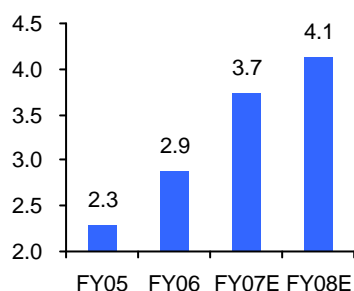
Quarterly performance

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07
Net Sales	950.9	751.6	26.5	983.5	(3.3)	2,765.3
Increase / decrease in stock	(58.8)	(2.20)	2,572.7	33.6	(275.0)	(42.2)
Raw materials	626.0	461.3	35.7	565.1	10.8	1,691.4
Staff cost	46.6	35.9	29.8	40.6	14.8	125.1
Other exp.	204.3	151.7	34.7	201.8	1.2	578.4
Total exp.	818.1	646.7	26.5	841.1	(2.7)	2,352.7
EBIDTA	132.8	104.9	26.6	142.4	(6.7)	412.6
Other income	12.9	10.7	20.6	9.9	30.3	28.1
Depreciation	63.7	63.3	0.6	56.6	12.5	176.2
EBIT	82.0	52.3	56.8	95.7	(14.3)	264.5
Interest	20.0	21.6	(7.4)	35.8	(44.1)	83.4
PBT	62.0	30.7	102.0	59.9	3.5	181.1
Tax & deferred tax	14.3	10.8	32.4	12.8	11.7	48.1
PAT	47.7	19.9	139.7	47.1	1.3	133.0
Equity shares o/s (mn)	10.7	10.7		10.7		10.7
Ratios						
Operating profit margin (%)	14.0	14.0	no chg	14.5	-50 bps	14.9
Raw Materials / Sales (%)	59.6	61.1		60.9		59.6
Other exp / Sales (%)	21.5	20.2		20.5		20.9
EPS (Rs)	4.5	1.9		4.4		12.5
CEPS (Rs)	10.5	7.8		9.7		29.0

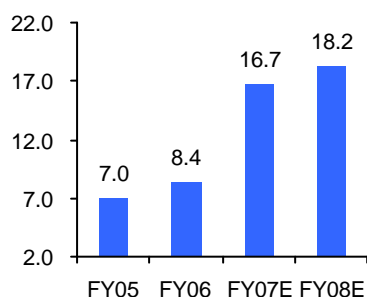
Source: Company

Expansion of spinning capacity

The company has completed with the expansion of the Ludhiana unit with additional 26352 spindles. With this expansion the total spindlage of the company stands at 133280 spindles. The company has the plans to set up another 30000 spindles at the Bhatinda unit at an approximate cost of Rs. 810 mn. This reflects the steady rise in demand that the company is witnessing and hence we are positive about the growth prospects of the company.

Net sales (Rs bn)

Source: Company, Kotak Securities - Private Client Research

EPS (Rs)

Source: Company, Kotak Securities - Private Client Research

Austrian JV

The company is setting up a manufacturing facility to make hi-end value yarn-dyed fabric, which will be used for making shirts of superior quality. The company owns 76% equity in this JV and the balance 24% is held by F. M. Hammerle group of Austria. The plant is being set up at Village Kagal, District Kolhapur, Maharashtra with annual capacity of 12 mn meters. The civil construction has already started and the company has already placed the orders for the machinery for the first phase of the project. The plant is expected to be commissioned in the first half of FY08 and is expected to stabilize in the last quarter of FY08. However we would like to monitor the progress of the plant and hence we have not factored any revenues nor profitability in our estimates.

Retailing

The company has entered into retailing of casual, semi-casual and intimate wear. The company is selling the garments under the brands AO`s and SENSEA. The company has already opened 20 stores of AO`s and 15 stores of STRAPS thereby making it a total of 35 stores operational at different locations across the country such as Mumbai, Bangalore, Delhi, Gurgaon, Ahmedabad, Pune, Ludhiana among others. Currently the retailing business of the company is in its initial stage and hence we do not see any significant benefits from it in the next few quarters.

Change in earnings estimates

Accommodating the Q3FY07 results we are revising our earnings estimates as follows,

Estimates

	Old		Revised	
	FY07E	FY08E	FY07E	FY08E
Net Sales	3,511	4,049	3,741	4,118
EBIDTA (%)	14.9	15.6	14.8	15.6
Net Profits	149	175	178	194
EPS	14.0	16.4	16.7	18.2
CEPS	38.0	42.3	39.9	42.7

Source: Kotak Securities - Private Client Research

- We estimate the company to report net sales of Rs.3.7 bn in FY07E, and Rs. 4.1 bn in FY08E. The higher sales is due to optimum utilisation of the expanded capacity due to steadily rising export and domestic demand for cotton yarn, which is expected to keep the cotton yarn prices strong.
- We expect the company to report higher PAT of Rs. 178 mn in FY07E as against our earlier estimate of Rs. 149 mn and Rs. 194 mn in FY08E as against our earlier estimate of Rs. 175 mn. This is primarily due to the ability of the company to procure the raw material at steady prices and expanding the capacities thereby leading to better efficiency in operations, higher capacity utilisation and distribution of fixed costs.
- We are increasing the EPS estimates of the company from Rs. 14.0 to Rs.16.7 in FY07E and from Rs.16.4 to Rs.18.2 in FY08E.
- We estimate the revised CEPS at Rs. 39.9 and Rs. 42.7 in FY07E and FY08E respectively.

Recommendation & Valuation

- At the current price of Rs. 112, the stock trades at significant discount to its book value. It trades at 0.70x for FY07E and 0.65x FY08E to book value.
- It discounts FY07E and FY08E earnings at 6.7x and 6.2x respectively.
- We reiterate our earlier view that Vardhman Polytex should be valued on a cash-earning basis as the company provides higher depreciation. The stock looks very attractive on a cash earnings basis. It trades at just 2.8x FY07E and 2.6x FY08E cash earnings.
- We continue to recommend BUY with increased price target of Rs. 144 implying 28% upside potential. Maintain **BUY**.

We maintain BUY on Vardhman Polytex with a revised price target of Rs.144

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
19-Feb	Alfavi Overs	Anurag Saboo	B	34,991	29.66
19-Feb	Alfavi Overs	Arya Investments	S	20,000	28.77
19-Feb	Anik Inds	Kamlesh Haribhai Chavda	B	174,134	38.43
19-Feb	Ashco Indust	Hemant B. Bhansali	S	52,074	74.19
19-Feb	Ashco Indust	Nita M. Dalal	S	25,599	74.13
19-Feb	Ashco Indust	Madhusudhan H. Dalal	S	20,862	74.13
19-Feb	Cerebra Int	Salehin Begam	S	30,000	12.08
19-Feb	Cerebra Int	Vishwamurthy.P	S	100,000	12.30
19-Feb	Conart Engin	B K Shah And Co	S	25,000	43.75
19-Feb	Deep Inds	Latin Manharlal Sec Pvt Ltd	B	100,000	58.53
19-Feb	Dham Sugar	Parishram Properties Pvt	S	123,277	14.09
19-Feb	Dynamic Indu	Upendra N Chavda	B	20,000	99.00
19-Feb	Filat Fash	Sasi Kumar Adusumalli	S	30,970	10.06
19-Feb	Garnet Const	Vora Mukesh Jitendra	B	39,822	73.93
19-Feb	Gemstone Inv	Kishor Balubhai Chauhan	B	50,000	24.00
19-Feb	Gemstone Inv	Sharman Appliances Pvt Ltd	S	53,000	24.00
19-Feb	Jayant Agro	Markand Navneetlal Adhika	B	424,000	70.80
19-Feb	Jayant Agro	Jayant Finvest Limited	S	425,000	70.80
19-Feb	Malu Paper	Paresh N Bhagat	B	100,000	36.85
19-Feb	Mast Medi Sy	Samarth U Parekh	B	26,250	20.50
19-Feb	Mast Medi Sy	Nilangi Parekh	S	26,250	20.50
19-Feb	Mohit Indust	B.K.Share And Stock Broke	S	25,000	60.40
19-Feb	Nettlinx Ltd.	Nimeshbhai Harkishandas C	B	100,000	25.35
19-Feb	Nissan Coper	Pilot Consultants Ltd	S	110,900	38.52
19-Feb	Pearl Fashion	Reliance Capital Trustee	B	126,692	457.49
19-Feb	Pearl Fashion	Citigroup Global Markets	S	245,880	460.00
19-Feb	Pochiraju In	UBS Securities Asia Ltd	S	200,000	50.18
19-Feb	Royale M H I	Sparrow Exports Pvt Ltd	B	265,000	31.05
19-Feb	Royale M H I	Pilot Consultants Ltd	S	290,095	27.02
19-Feb	Royale M H I	Shree Dhoot Tdg and Agenc	S	102,935	30.35
19-Feb	Saria Per F	Prudential ICICI	S	311,774	117.60
19-Feb	Soma Tex Ind	Mavi Investment Fund Ltd	S	1,450,000	28.02
19-Feb	Soma Tex Ind	KII Limited Gdr Account	S	550,000	28.00
19-Feb	Steel Stri W	Advantage Software Privat	S	74,864	243.45
19-Feb	Sumeet Indus	Master Finlease Ltd	B	89,935	31.32
19-Feb	Tripex Over	Shahra Securities Pvt Ltd	B	100,150	184.27
19-Feb	Tripex Over	Arandi Investments Pvt Ltd	B	99,850	184.25

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ICICI Bank	980	3.2	5.5	1.8
SAIL	119	5.0	4.7	11.9
Reliance Ind	1,421	1.0	3.9	1.6
Losers				
Reliance Com	463	(0.8)	(1.6)	3.5
Gujarat Ambuja	133	(3.0)	(1.3)	6.1
Hero Honda Motors	717	(3.8)	(1.1)	0.3

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
20-Feb	HLL to announce earnings and dividend
21-27 feb	Initial public offer of Tubeknit Fashions opens
22-Feb	Wockhardt to announce 4th quarter earnings and dividend
28-Feb	Alfa Laval 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	+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
Vinay Goenka	Auto, Auto Ancillary, Sugar	+91 22 6634 1291	vinay.goenka@kotak.com
Saday Sinha	Economy, Banking	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@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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