April 23, 2007 **FOR PRIVATE CIRCULATION**

Equity

	20 Apr 07	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
Sensex	13,897	2.0	4.6	(1.0)
Nifty	4,084	2.1	5.8	0.4
Banking	6,914	1.0	1.3	(5.5)
IT	3,722	2.2	2.7	(0.0)
Healthcare	3,793	0.5	6.1	(1.1)
FMCG	1,812	0.0	7.2	(7.3)
PSU	6,353	1.8	8.1	3.3
CNX Midcap	5,161	0.9	6.3	(1.0)
World indices				
Nasdaq	2,526.4	0.8	3.2	3.9
Nikkei	17,453	0.5	0.8	1.2
Hangseng	20,567	1.3	5.1	(0.3)

Value traded (Rs cr)

	20 Apr 07	% Chg - 1 Day
Cash BSE	4,156	2.9
Cash NSE	8,858	8.1
Derivatives	36,605	9.1

Net inflows (Rs cr)

	19 Apr 07	% Chg	MTD	YTD
FII	(73)	(111)	3,530	10,689
Mutual Fund	(26)	(236)	(55)	(3,313)

FII open interest (Rs cr)

	19 Apr 07	% chg
FII Index Futures	17,071	1.8
FII Index Options	8,705	4.0
FII Stock Futures	17,325	0.7
FII Stock Options	93	3.7

Advances/Declines (BSE)

20 Apr 07	A	B1	B2	Total	% Total
Advances	152	420	450	1,022	58
Declines	61	273	365	699	39
Unchanged	-	17	36	53	3

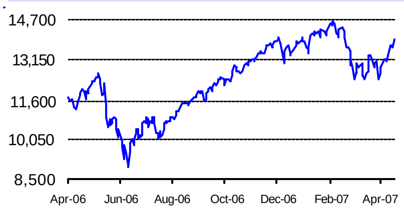
Commodity

	20 Apr 07	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	63.9	(0.3)	2.6	16.1
Gold (US$/OZ)	692.0	1.3	5.4	7.1
Silver (US$/OZ)	13.9	1.9	6.0	5.2

Debt/forex market

	20 Apr 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.10	8.09	7.96	7.86
Re/US$	41.8	42.1	43.8	44.2

Sensex



Source: Bloomberg

Economy news

- With its wheat procurement certain to fall short of the target of 15 million tonnes, the government is putting together plans to import up to 3 million tonnes of wheat this year. (BS)
- Finance Minister said that Inflation control not to be at the cost of growth. (BS)
- Public sector banks' home loan growth rate slowing down to 21% for FY07 from over 40% a year ahead. (BL)
- As part of its liquidity tightening measures, the Reserve Bank of India (RBI) may discontinue overdraft facility offered to banks and primary dealers while dealing under the liquidity adjustment facility (LAF). (BS)
- Seeking to crack down on pharma companies trying to beat price regulations by making cosmetic changes to drug formulations while retaining brand names, the investigative arm of the Monopolies and Restrictive Trade Practices Commission (MRTPC) has asked state drug controllers to list firms that indulge in such practices. (BS)
- CDMA-based mobile operators are set to conduct their first third generation (3G) trials in the country by the end of May. (BL)

Corporate news

- Drug major **Ranbaxy Laboratories** is investing more than $20 million (over Rs 83 crore) in its Romanian subsidiary, Terapia Ranbaxy. (BS)
- **Ceat,** the country's fourth largest tyre maker, is planning a possible takeover or a partnership with a tyre maker in China. China is the world's biggest tyre producer with more than 300 tyre companies (BS)
- **Bombay Rayon Fashions Ltd** has lined up an investment of Rs 550 crore for capacity expansion as well as retail forays in the next two years. (BS)
- **Kishore Biyani's** Future Group plans to invest about Rs 4,000 crore in the next one year to expand its different retail chains as a part of a strategy to touch a topline of Rs 30,000 crore by 2010-11. (BS)
- **Bharati Shipyard Ltd** has signed a contract with UP OFFSHORE (BAHAMAS) LTD, for construction and supply of two Platform Supply Vessels.The Contract value of these two vessels is US $43.30 million (approximately Rs 180 crores). (BSE)
- **ACC** is likely to acquire nearly 25 per cent stake in the Rourkela-based, Shiva Cement, in a move that will further consolidate its Switzerland-based promoter Holcim's position in the fast-growing Indian cement space. (BS)
- The **Adani Group's** Mundra Port plans to raise $400 million from its initial public offering (IPO) for expansion of facilities. Mundra Port as well as its adjoining special economic zone located on the west coast will become the first Indian port to go public in June this year. (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

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SATYAM COMPUTER SYSTEMS LTD.

PRICE : RS.475 **RECOMMEDATION : BUY**
TARGET PRICE : RS.562 **FY08E PE(x) : 18.8x**

Highlights

- While revenues in Q4FY07 beat estimates, EBIDTA margins were lower than expected. The net profit growth was helped by a higher-than-expected other income component and a lower-than-expected tax charge.
- Consulting and enterprise business solutions grew at 9% sequentially indicating, to a certain extent, continuing traction in discretionary spending, as of now.
- The FY08 revenue growth guidance of 28-30% indicates high visibility in volumes (about 25% growth YoY). Guidance of 200-300 bps improvement in billing rates in FY08 also indicates favorable macro environment, going ahead.

We reiterate a BUY on Satyam Computer with a price target of Rs.562

- Despite guidance of stable EBIDTA margins, we have assumed a drop in margins due to rupee appreciation and salary hikes expected during the fiscal. We will closely follow the progress of Satyam on the margin front.
- We estimate Satyam's EPS at Rs.25.3 in FY08 and re-iterate a **BUY** with a price target of Rs.567, a 19% upside from current levels.
- In accelerated slowdown/recession in user economies and a sharp appreciation of the rupee beyond our assumed levels are key concerns.

4QFY07 results

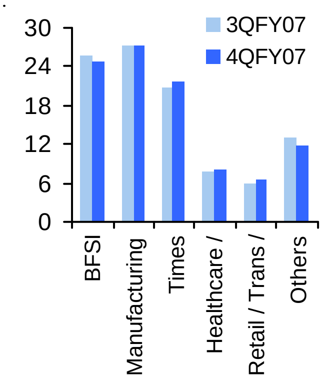
Rs mn	3QFY07	4QFY07	QoQ (%)	4QFY06	YoY (%)
Income	**16,611.2**	**17,791.5**	**7.1**	**12,652.9**	**40.6**
Expenditure	12,511.3	13,689.3		9,507.1	
Operating profit	**4,099.9**	**4,102.2**	**0.1**	**3,145.8**	**30.4**
Depreciation	393.7	353.9		341.0	
Gross profit	**3,706.2**	**3,748.3**	**1.1**	**2,804.8**	**33.6**
Interest	32.3	74.2		26.6	
Other income	101.7	704.0		329.6	
PBT	**3,775.6**	**4,378.1**	**16.0**	**3,107.8**	**40.9**
Tax	403.3	442.3		386.3	
PAT	**3,372.3**	**3,935.8**	**16.7**	**2,721.5**	**44.6**
Sh of loss / Min Int	0.0	0.0		24.2	
PAT after E.O. items	3,372.3	3,935.8	16.7	2,745.7	43.3
Shares (mns)	667.2	667.2		667.2	
EPS (Rs)	**5.1**	**5.9**		**4.1**	
OPM (%)	24.7	23.1		24.9	
GPM(%)	22.3	21.1		22.2	
NPM(%)	20.3	22.1		21.5	

Source : Company

Volume growth at 8% QoQ - higher than all comparable peers

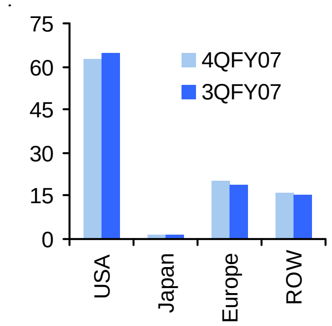
- The 7% rise in revenues came on the back of an 8% rise in volumes. This was higher than the volume growth reported by all comparable peers.
- Satyam's relationship management initiatives and broadening of the service profile, allowed it to further penetrate its existing clients with the Top 10 clients witnessing a 14% QoQ rise. Revenues from its Top client formed only 6.1% of overall revenues v/s 6.32% in Q3FY07 and 9% in FY06.

Vertical-wise revenue break-up (% of revenues)



Source: Company

Geographical break up of revenues (% of revenues)



Source: Company

- Revenues from the BFSI vertical did see a relatively lower growth of about 3% QoQ, in line with industry peers.
- However, emerging verticals like healthcare, retail, transportation, logistics and TIMES more than offset the lower growth in BFSI.
- Europe and ROW continued to grow at a faster clip in turn, leading to a reduction in the geographical risk associated with the US, which now contributed about 62.5% of overall Q4FY07 revenues v/s 66% in FY06.
- The company won three large deals in FY07 and has a strong pipeline of large deals.
- Higher realizations added 0.7% to the sequential rise in revenues. According to the management, it has been able to get higher than average realizations from new clients and has also been able to successfully re-negotiate contracts from several new clients.
- For FY08, the management has guided at a 200-300 bps improvement in average realizations, a first for any Indian IT services company, in our estimate.

Rupee appreciation impacts margins

- Satyam's EBIDTA margins were lower by about 160 bps QoQ. Margins fell mainly due to the appreciation in the rupee by an average of about 1.8% over Q3FY07 and as the company started writing off the RSU charges (about 100 bps impact, in our estimate).
- While the fall in EBIDTA margins was greater than our expectation of an 80 bps decline QoQ, Nipuna, the BPO subsidiary, posted a profit for the quarter and helped Satyam in restricting the fall in margins, to a certain extent.
- The management expects Nipuna to earn 60% higher revenues in FY08 and turn in profits for the whole fiscal.

Other income and tax impact

- Satyam reported a higher-than-expected other income as it earned more on its investible surplus and made Rs.33 mn in forex gains.
- In Q3FY07, the company had to incur a forex loss of about Rs.350 mn.
- The company continues to adopt a policy of hedging about 50% of its next 12 months' receivables. Currently, Satyam has forward cover for about $470 mn.
- The company provided for tax at about 10% of PBT, which was lower than our expectation. This led to a 17% rise in PAT on a sequential basis.

Macro trends intact… as of now

- The management indicated that it has not witnessed any slowdown in demand from its clients due to macroeconomic changes in user economies. However, we believe a sharp deceleration or a recession in major economies can impact revenue growth for Indian vendors.
- The company recently won a managed services contract from Applied Materials, which is expected to scale up in FY08. The company is pursuing several such large deals at present.
- The consulting and enterprise business solutions business grew 9% QoQ, indicating that there has been no impact, yet, on the discretionary spending by clients.
- As a corollary to this, the company is able to bargain for higher billing rates, as mentioned above.

Encouraging guidance, but margin sustenance crucial

- Satyam has guided for a 20-22% revenue growth in rupee terms, for FY08. In US dollar terms, the growth is expected to be 28-30%. With an assumed 200-300 bps rise in pricing, the volume growth is forecast at about 25%, which is encouraging. We note that the guidance is at an exchange rate of Rs.42.30 per US dollar.
- Profit growth is expected to be in the range of 18-20%. Also the guidance is after considering a higher tax rate.

- The guidance implies relatively stable EBIDTA margins, despite the impact of a potential hike in salaries by about 5% for on-site employees and about 16% for offshore employees. The company has also started providing for Restricted Stock Units (RSUs) wef Q4FY07.
- This is expected on the back of improvement in realizations, higher operational efficiency, scale benefits in terms of SG&A, better profitability in subsidiaries and higher productivity in FP projects.
- While the levers for improvement do exist, we will closely watch the implementing of these initiatives as achieving cost improvement is crucial especially in the backdrop the rupee appreciation and salary pressures. We have assumed lower margins in FY08 v/s FY07.
- The equity capital has got diluted to the extent of about 2% due to exercise of ESOPs and RSUs.

Future prospects

- We have made changes to our FY08E estimates in view of the Q4FY07 numbers and the appreciation in the rupee.
- The rupee has appreciated to beyond Rs.42 per US dollar and we have made changes accordingly as compared to our earlier assumption of the rupee appreciating to Rs.43 per US dollar by the end of FY08.
- Based on these, we arrive at an EPS of Rs.25.1 for FY08.

Future prospects

(Rs mn)	FY06	FY07	% chg	FY08E	% chg
Income	**47926**	**64851**	**35.3**	**81453**	**25.6**
Expenditure	36264	49474		62832	
Operating profit	**11662**	**15377**	**31.9**	**18621**	**21.1**
Depreciation	1373	1484		1800	
Gross profit	**10289**	**13893**	**35.0**	**16821**	**21.1**
Interest	56	159		165	
Other income	1168	1833		2750	
PBT	**11402**	**15566**	**36.5**	**19406**	**24.7**
Tax	1509	1520		2329	
PAT	**9893**	**14046**	**42.0**	**17077**	**21.6**
Sh of Pft/(loss) / Min int	-73	1		0	
PAT after E.O. items	9820	14047	43.0	17077	21.6
Shares (mns)	667.2	667.2		680.5	
EPS (Rs)	**14.7**	**21.1**		**25.1**	
OPM (%)	24.3	23.7		22.9	
GPM (%)	21.5	21.4		20.7	
NPM (%)	20.6	21.7		21.0	

Source : Company, Kotak Securities - Private Client Research

Valuations

- We value Satyam based on the P/E method. We have accorded a valuation of 22x FY08E earnings, a discount to the valuations accorded by us to Infosys. We believe this is fair, based on the revenue and earnings visibility and the growth expected in FY08 on a larger base.
- At 22x FY08E earnings, the price target works out to Rs.562, implying an upside of 18% from the current levels. We maintain **BUY** on Satyam.

Concerns

- An accelerated slowdown / recession in major user economies may impact our projections.
- The rupee has appreciated to Rs.41.9 v/s the USD. This is higher than our assumed levels of about Rs.43 per USD in FY08. While we expect the rupee to stabilize at about Rs.43 per USD for FY08, a sharp acceleration from the current levels may impact our earnings estimates for the company.

RESULT UPDATE

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WIPRO TECHNOLOGIES

PRICE : RS.570 **RECOMMEDATION : BUY**
TARGET PRICE : RS.650 **FY08E PE(x) : 23x**

Highlights

- Revenues and PAT for the company grew 8.9% and 11.8% QoQ, respectively.
- Higher-than-estimated revenues in the non-IT business drove Wipro's revenues in Q4FY07, beyond our expectations. Global IT services revenues were in line with our expectations.
- While EBIDTA margins in the IT business matched expectations, PAT was above estimates on the back of one-time tax write-backs.
- The management re-iterated continuing traction in large deals with no impact of a slowdown in client spending or offshoring, as yet, in line with other technology majors.
- We expect PAT growth of 25% for FY08 and an EPS of Rs.24.5 in FY08.
- In our previous update, we had recommended a HOLD on the stock at Rs.634. Since then, the stock has come down by about 10%.
- In view of the 14% upside in the stock, we recommend a BUY on Wipro with broadly unchanged estimates and a price target of Rs.650, implying a P/E of 26.6x on our FY08E earnings estimates.
- An accelerated slowdown/recession in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are key risks to our call.

4QFY07 results

(Rs mn)	3QFY07	4QFY07	% chg	4QFY06	% chg
Turnover	**39,790**	**43,331**	**8.9**	**31,132**	**39.2**
Expenditure	30,898	33,879		23,582	
EBDITA	**8,892**	**9,452**	**6.3**	**7,550**	**25.2**
Depreciation	1,011	1,046		845	
EBIT	**7,881**	**8,406**	**6.7**	**6,706**	**25.4**
Interest	-713	-850		-402	
PBT	**8,594**	**9,256**	**7.7**	**7,108**	**30.2**
Tax	1031	746		983	
	7,563	8,510	12.5	6,125	39.0
Share of profit	89	49		55	
Minority interest	4	2		0	
PAT	**7,656**	**8,561**	**11.8**	**6,180**	**38.5**
EPS (Rs)	**5.24**	**5.86**		**4.23**	
EBIDTA(%)	22.3	21.8		24.3	
EBIT (%)	19.8	19.4		21.5	
Net Profit (%)	19.0	19.6		19.7	

Source : Company

REVENUES

Global IT services and products

- The Global IT services and products (GITSP) business recorded a 6% sequential growth in revenues, brought about by healthy growth in the business volumes. IT services witnessed a 5.4% volume growth.
- The revenue growth was brought about by the Enterprise solutions vertical that grew 8% QoQ and contributed to 44% of revenues.
- In terms of verticals, retail (9% QOQ growth) and the energy and utilities (11% QoQ growth) verticals drove revenue growth. These verticals had won marquee accounts in previous quarters. The financial services vertical reported a 6% QoQ growth, as compared to relatively subdued performance by peers.
- During the quarter, the company has witnessed higher billing rates from new as well as existing clients during contract renewals. IT services witnessed 1.3% higher realizations.
- In its interactions, the management has indicated that new clients and re-negotiated contracts with existing clients are coming in at higher rates. We opine that pricing is also being positively impacted due to the integrated services offering of the company to its clients and the overall business mix.

BPO & Non-IT post healthy growth

- During Q4FY07, BPO grew 12% QoQ and now contributes close to 9.5% of the Global IT services revenues. The company has restructured operations in the BPO division with an increased focus on moving to transaction processing segment and developing greater efficiencies in the voice segment of the business.
- The company is now providing integrated solutions involving both voice services and transaction processing. In our opinion, such an integrated offering makes a good value proposition for the client and also provides an opportunity for Wipro to deepen its client penetration.
- As a result of these measures and better traction for an integrated IT and BPO offering, the division has seen revenue growth and importantly margin productivity.
- The utilization levels for the BPO division were lower at 63%, on account of the employee additions carried out.
- Wipro Infotech witnessed a 12% QoQ rise in revenues to Rs.7.83 bn. Services contributed about 32% to revenues and grew 37% YoY.
- Within the non-IT businesses, Wipro Consumer Care and Lightning revenues grew at a robust pace of 36% YoY to Rs.2.27bn.

Margins - down 53bps QoQ

- Wipro's EBIDTA margins in Q4FY07 were lower by 53 bps than Q3FY07 at 21.8%.
- In the Global IT business, EBIT margins were down slightly to 24%. In our opinion, the margins were impacted by the appreciation of the rupee during the quarter and the 3-5% wage hikes effected in Q4FY06 for on-site employees in the Global IT services segment. Consequently, for the Global IT business, margins fell about 30bps sequentially.
- The impact on margins due to these factors was mitigated to a certain extent by the improved pricing scenario and also the improvement in BPO profitability. We believe the BPO profitability is sustainable at current levels and the beneficial impact on pricing is due to the integrated IT and BPO service offering, in some measure.

- We believe the levers of better pricing and higher utilization in the Global IT business helped the company in the backdrop of an unfavorable Re/$ and the wage hikes. We note that the company has close to $197 mn of hedge that is lower than most peers. Given this, a sustained rupee appreciation could impact the company, at least in the near term.
- A lower than estimated tax rate of 8% of PBT helped Wipro report profits of Rs.8.56bn, a 12% QoQ growth. The lower tax rate was due to a one-time tax write back of Rs.700 mn during the quarter.

Future prospects

(Rs mn)	FY06	FY07	% chg	FY08E	% chg
Turnover	**106,259**	**150,009**	**41.2**	**192,368**	**28.2**
Expenditure	80,655	115,666		149,138	
EBIDTA	**25,603**	**34,342**	**34.1**	**43,230**	**25.9**
Depreciation	3,097	3,934		4,716	
EBIT	**22,507**	**30,408**	**35.1**	**38,514**	**26.7**
Interest	-1,272	-2,582		-2,820	
PBT	**23,779**	**32,990**	**38.7**	**41,334**	**25.3**
Tax	3,391	3,868		6,300	
	20,388	29,122	42.8	35,035	20.3
Share of profit	288	295		500	
Minority interest	-1	6		0	
PAT	**20,675**	**29,423**	**42.3**	**35,535**	**20.8**
EPS (Rs)	**14.50**	**20.17**		**24.34**	
EBIDTA(%)	24.1	22.9		22.5	
EBIT (%)	21.2	20.3		20.0	
Net Profit (%)	19.2	19.4		18.2	

Source: Company, Kotak PCG Estimates

- We have made suitable changes in our earnings estimates to take into account the Q4FY07 results and the changed rupee scenario.
- We have now assumed the average rupee-dollar exchange rate at Rs.43 per US dollar in FY08.
- We expect revenues and profits to grow at 29% and 25%, respectively in FY08.
- EBIDTA margins are expected to come down marginally to 22.47% from the 22.89% reported in FY07 due to expected rupee appreciation and salary hikes.
- We expect the company to report revenues and profits of Rs.193.9 bn and Rs.35.8 bn in FY08, translating into an EPS of Rs.24.5 for FY08.

Valuations

We recommend a BUY on Wipro with a price target of Rs.650

- We have accorded a discount to Wipro as compared to Infosys and arrive at a price target of Rs.650 for the stock. At our target price, our FY08E earnings will be discounted by 26.5x. We now recommend a **BUY** on Wipro with a price target of Rs.650.

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to Rs.41.9 v/s the US dollar. This is higher than our assumed levels of about Rs.43 per US dollar in FY08. While we expect the rupee to stabilize at about Rs.43 per US dollar for FY08, a sharp acceleration from current levels may impact our earnings estimates for the company.

RESULT UPDATE

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KIRLOSKAR OIL ENGINES LTD (KOEL)

PRICE : RS.264 **RECOMMEDATION : BUY**
TARGET PRICE : RS.320 **FY08E PE(x) : 14.4x**

Kirloskar Oil Engines Ltd (KOEL) has reported a healthy set of numbers for the fourth quarter. Post the disappointing third quarter numbers, we had built in lower margins for the fourth quarter. However, KOEL has surprised us positively by reporting margin expansion. Offtake of engines has also been strong during the quarter. We are maintaining our profit estimates for FY08 for the company and reiterate our BUY on the stock with a price target of Rs.320.

Highlights

- Engine revenues grew 40% YoY and 30% sequentially for the quarter.
- Margins in the engines segment maintained
- KOEL has initiated plans to set up a greenfield capacity of 100,000 engines per year.

Summary table

(Rs mn)	FY06	FY07	FY08E
Sales	14,438	19,384	24,000
Growth %	22.1	34.3	23.8
EBITDA	1,588	2,181	2,855
EBITDA margin %	11	11.2	11.9
Net profit	2,006	1,772	1,786
Net cash (debt)	4,505	4,350	1,849
EPS (Rs)	10.6	14.9	18.4
Growth %	38.9	40.4	23.3
CEPS	13.5	18.2	22.5
DPS (Rs)	4.0	4.0	4.0
ROE %	16.1	18.4	19.4
ROCE %	22.4	25.4	25.9
EV/Sales (x)	1.7	1.2	1.0
EV/EBITDA (x)	15	10.9	8.8
P/E (x)	24.9	17.7	14.4
P/Cash Earnings	19.6	14.5	11.7
P/BV (x)	3.6	3.0	2.6

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q4FY07	Q4FY06	% Change
Net sales	5,542	4350	27.4
Raw Material costs	3,883	2911	33.4
Staff costs	274	227	20.4
Other expenditure	610	619	-1.4
Operating expenditure	4,767	3757	26.9
PBDIT	776	593	30.9
Other income	96	43	124.9
Interest	54	29	88.1
Depreciation	96	76	25.8
PBT	721	530	36.1
Current tax	258	191	35.0
Adjusted PAT	464	339	36.6
Extraordinary items	83.8	0	
Reported PAT	547.8	339	62.0
PBDIT %	14.0	13.6	
Tax rate %	36	36	

Source: Company

KEY RESULT HIGHLIGHTS

Revenue witnessed a healthy growth of 27% YoY to Rs.5.5 bn.

The engines division posted a 40% YoY growth in its revenues to Rs.6.71 bn, whereas the auto components division showed a rise of 13% YoY in its revenues to Rs.351 mn as against Rs.309 mn in Q4FY06. For the full year FY07, the revenue of KOEL rose 34% YoY to Rs.19.4 bn as compared to Rs.14.4 bn in FY06. This was supported by a 45% YoY rise in revenues of engines segment to Rs.16.5 bn. The auto components segment grew 16% to Rs.1.29 bn. The other business that includes oil trading de-grew 14% for the year.

Segment performance	Q4FY07	Q4FY06	% Chg	FY07	FY06	% Chg
Engines	5061	3627	40	16501	11402	45
Auto comp	351	309.5	13	1292	1111	16
Others	178	533	-67	2019	2350	-14

Source: Company

Healthy rise in operating profit

Operating margins for the company are a function of the nature of product mix during any particular quarter. Mid and high HP (20-11000 HP) engine have higher value addition without a commensurate rise in material costs and, hence, are more profitable as compared to low HP (< 20 HP) engines.

During the quarter, operating margins expanded 40 bps on a YoY basis and a 500 bps on a sequential basis. Operating profit for Q4FY07 rose 31% YoY to Rs.776 mn as compared to Rs.592 mn in the corresponding period last year. Margin expansion has been primarily aided by cost control on other expenditure. The improved product mix in favor of higher HP engines could have also been a contributing factor.

There has been a sharp decline in segment margins across all divisions.

Segment PBIT%	Q4FY07	Q4FY06	FY07	FY06
Engines	13.3	13.5	10.8	10.6
Auto comp	12.0	10.9	9.7	11.5
Others	1.9	3.5	3.5	1.7

Source: Company

KOEL to set up a greenfield engines plant

KOEL has announced that the Government of Maharashtra under the aegis of Industries Ministry signed an MoU with the company. The company is investing in a greenfield EoU plant to manufacture silent generating sets for global customers and domestic customers. The capacity of the plant will be stepped up in phases to 100,000 engines per year. The company will actively improve the skills of employees and the suppliers in the region to globally competitive standard.

Power supply deficit to necessitate captive stand-by power

Despite the rise in pace of capacity addition in recent years, the power supply deficit in India continues to cripple various parts of India. We believe this situation should continue in the medium-term despite the efforts to augment power generation. Considering this, services oriented businesses like hotels, retail, hospitality, telecom, IT and ITeS, and banking would continue to buy stand-by source of power in the form of DG sets.

MW	Peak Demand	Peak supply	% Shortage
1997-98	65435	58042	-11.3
1998-99	67905	58445	-13.9
1999-00	72669	63691	-12.4
2000-01	78037	67880	-13.0
2001-02	78441	69189	-11.8
2002-03	81492	71547	-12.2
2003-04	84574	75066	-11.2
2004-05	87906	77658	-11.7
2005-06	90119	80631	-10.5

Source: Annual Report (Ministry of Power)

Substantial value in balance sheet

KOEL has substantial investments in group companies. The value of investments and cash is estimated at Rs.127. The book value of unquoted investments stands at Rs.34.9 per share. Since the bulk of the quoted investment is in group companies or is strategic in nature, it may not be liquidated in the future. Adjusted for such strategic holdings, the value of cash and liquid investments work out to Rs.17 per share.

FY08 will see heavy capex towards Kagal

KOEL has spent Rs.1.5-1.7 bn in FY07 and would incur a further capex of Rs.5.0 bn towards greenfield plants in Kagal in FY08. The company has already initiated work on this greenfield facility.

Risk of loss of offtake from PTL

PTL sources its engines from KOEL and Swraj engines. With PTL coming under M&M's fold, the future of this sourcing arrangement remains a question. As of now, PTL contributes roughly Rs.700-800 mn of revenues (4% of revenues). The management opines that loss of revenue due to above may not significantly impact and the loss can be managed.

Valuation

KOEL should benefit from the robust demand scenario in the services sector and infrastructure sector. We see healthy revenue growth for the company in the medium-term. On the margins front, we see expansion as a share of mid to high HP increases in the overall product mix. KOEL is trading at 14.4x FY08 earnings. Within the engineering sector, KOEL is attractively valued. We maintain a **BUY** with a price target of Rs.320.

RESULT UPDATE

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INDIA CEMENTS

PRICE : RS.170 **RECOMMEDATION : SELL**
TARGET PRICE : RS.167 **FY08E PE(X) : 8.5X**

Result Highlights

- Revenues for the current quarter and full year FY07 are in line with our expectations.
- Operating margins stood at 33.1%, slightly better than our estimates due to improved realizations coupled with cost control measures.
- However, profit growth is higher than our estimates on account of lower tax paid by the company for the full year as against our expected MAT rate for FY07.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Revenues	15,487	20,497	23,422
% change YoY	31.4	32.0	14.0
EBITDA	2,679	6,618	7,406
% change YoY	74.6	150.0	12.0
Other Income	-	102.0	80.0
Depreciation	789	777	849
EBIT	1,891	5,943	6,637
% change YoY	153.2	214.0	12.0
Net interest	1,489	1,430	880
Profit before tax	401	4,513	5,757
Tax	47	17	1,151
as % of PBT	11.6	0.4	20.0
Profit after tax	355	4,496	4,606
Net extra-ord income	95.6	-	-
Net income	450	4,496	4,606
% change YoY	883.4	741.9	21.0
Shares outstanding (m)	216	230	230
EPS (reported) (Rs)	2.1	16.5	20.1
CEPS (Rs)	5.7	20	23.7
P/E (x)	81.4	10.3	8.5
EV/EBITDA (x)	20	7.9	6.6

Source: Company & Kotak Securities - Private Client Research

4QFY07 and FY07 results

Rs mn	Q4FY07	Q4FY06	YoY%	FY07	FY06	YoY%
Net Sales	**5757.5**	**4228**	**36**	**20497.4**	**15417**	**33**
Expenditure	3852	3464		13879.8	12807.5	
Inc/Dec in trade	70.5	118		-84	222.5	
RM	615.5	549		2283.2	1899	
As a % of net sales	10.7	13.0		11.1	12.3	
Staff cost	253	197		960.6	811	
As a % of net sales	4.4	4.7		4.7	5.3	
Power and fuel	1221	1267		4898	4830	
As a % of net sales	21.2	30.0		23.9	31.3	
Transportation & Handling	946	741		3272	2750	
As a % of net sales	16.4	17.5		16.0	17.8	
Other expenditure	745.8	593		2550	2295	
As a % of net sales	13.0	14.0		12.4	14.9	
Operating Profit	**1905.5**	**764**	**149**	**6617.6**	**2609.5**	**154**
Operating Profit Margin	33.1	18.1		32.3	16.9	
Depreciation	194	197		777	789	
EBIT	**1711.5**	**567.0**	**202**	**5840.6**	**1820.5**	**221**
Interest	331	314		1430	1489	
EBT(exc other income)	1380.5	253.0		4410.6	331.5	
Other Income	22	18		102	73	
EBT	**1402.5**	**271.0**	**418**	**4512.6**	**404.5**	**1016**
Tax	5	29		17	46.7	
Tax Rate%	0.4	10.7		0.4	11.5	
PAT	**1397.5**	**242.0**		**4495.6**	**357.8**	
Extraordinary Items	0	29		0	95.7	
Net Profit	1397.5	271.0	416	4495.6	453.5	891
NPM%	24.3	6.4		21.9	2.9	
Equity Capital	2203.7	1907.7		2203.7	1907.7	
EPS (Rs)	**6.34**	**1.42**		**20.40**	**2.38**	

Source: Company

Revenues

- Revenues for the company have registered a YoY growth of 36% for Q4FY07 and a 33% YoY growth for the full year, driven by some improvement in the volumes and hike in cement prices.
- India Cement is operating at almost 100% capacity utilization with dispatches at 2.05 MT for the current quarter and 7.53 MT for the full year.
- Cement prices have shown a 33% YoY rise and 3.7% QoQ rise, resulting in a significant improvement in gross sales.
- A rise in excise duty was also witnessed on account of differential excise duty structure introduced in the Union Budget 2007-08. Since the selling price of cement for the company in almost all key markets is above Rs.190 per bag, the company has paid the excise duty of Rs.408 per ton for the first two months of the current quarter and Rs.618 per ton for the third month.
- We expect the realizations for India Cement to stay at the same level for the next year on account of cement price freeze but an improvement in dispatches is expected in the current financial year. We expect dispatches of the company to be approximately 8.4 MT in FY08 on a standalone basis. We are fine-tuning our future estimates for the revenues to factor in similar realizations in FY08 as achieved in the current quarter. Thus, our revised revenue for FY08 stands at Rs.23.4 bn as compared to Rs.23 bn assumed earlier.

Operating margins

- Operating margins of the company have shown a significant improvement both on the quarterly and full-year estimates on account of a robust improvement in the cement prices with EBITDA per ton at Rs.930 per ton for Q4FY07 as compared to Rs.386 per ton for Q4FY06.
- On account of a cement price freeze for a year, cement companies would not be allowed to pass on any rise in the costs to the customer. Hence, due to this, the operating margins of the company might be impacted slightly in a negative way. We expect India Cement to obtain EBITDA margins of 31.6% for FY08.

Profits show strong growth due to low tax provisioning

- Net profits of the company have registered an excellent growth of 416% for Q4FY07 on a YoY basis. For the full year, India Cement's net profit has shown a growth of 891% as compared to FY06. The company has not made any provisioning for tax in the current financials since it is awaiting the sanction of merger of Visaka Cements with itself. Visaka Cements has accumulated losses to the tune of Rs.3.3 bn so India Cements is expected to get a set-off of carried forward losses of Rs.3.3 bn due to its proposed merger with Visaka Cements. On the remaining amount, the company is expected to make a provisioning of Rs.394 mn in audited accounts for FY07.

Valuations and Recommendation

At the current price of Rs.170, the stock is trading at 10.3xFY07 and 8.5x FY08 P/E multiples. On EV/EBITDA multiples, it is trading at 8x FY07 and 6.6x FY08 multiples. Though the demand-supply situation for the Indian cement industry continues to remain favorable, the recent diktats of the government to control inflation and freeze cement prices for a year have resulted in a de-rating of the cement sector. After a year, company is also exposed to the risk of oversupply in the cement industry, which thereby can put pressure on cement prices in future. Thus, we continue to maintain our SELL recommendation on the company.

RESULT UPDATE

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ULTRATECH CEMENTS

PRICE : RS.842 **RECOMMEDATION : SELL**
TARGET PRICE : RS.726 **FY08E PE(x) : 12.9x**

Result Highlights

- Revenues for the current quarter and full year FY07 are higher than our expectations.
- However, operating margins for Q4FY07 stood at 27.1%, lower than our estimates due to higher freight expenses.
- Lower operating margins resulted in slightly lower PAT than our estimated profit for the full year as well as for Q4FY07.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Revenues	32,995	49,108	51,258
% change YoY	26.6	49.0	4.0
EBITDA	5,497	14,178	15,642
% change YoY	56.7	158.0	10.0
Other Income	370	615	669.9
Depreciation	2,160	2,263	2,970
EBIT	3,707	12,531	13,148
% change YoY	146.8	238.0	5.0
Net interest	896	868	1,183
PProfit before tax	2,810	11,662	12,159
% change YoY	549.3	315.0	4.0
Tax	558	3,839	4,013
as % of PBT	20.0	33.0	33.0
Net income	2,252	7,823	8,147
% change YoY	182.4	247.0	4.0
Shares outstanding (m)	124.4	124.4	124.4
EPS (reported) (Rs)	18.0	63.0	65.0
P/E	46.5	13.4	12.9
EV/EBITDA	21.3	7.7	7.8

Source: Company & Kotak Securities - Private Client Research

Result Highlights

Rs mn	Q4FY07	Q4FY06	YoY%	FY07	FY06	YoY%
Net Sales	**14655.2**	**10223.6**	**43.3**	**49108.3**	**32994.5**	**48.8**
Increase/Decrease in Stock	395.6	319.5		325.4	-391.2	
Consumption of Raw Materials	1133.2	764.3		3930	2841.1	
As a % of net sales	10.4	10.6		8.7	7.4	
Purchase of finished goods	834.8	1250.5		1824.3	2653.2	
As a % of net sales	5.7	12.2		3.7	8.0	
Staff Cost	287.6	298.9		1172.2	922.6	
As a % of net sales	2.0	2.9		2.4	2.8	
Other Expenditure	1656.8	1051.1		6156.6	4694.3	
As a % of net sales	11.3	10.3		12.5	14.2	
Power and fuel	3149.6	2239		11383.3	9101.1	
As a % of net sales	21.5	21.9		23.2	27.6	
Freight expenses	3112.4	2382.1		10138.6	7630.8	
As a % of net sales	21.2	23.3		20.6	23.1	
Total Expenditure	**10570**	**8305.4**		**34930.4**	**27451.9**	
EBITDA	**4085.2**	**1918.2**	**113.0**	**14177.9**	**5542.6**	**155.8**
EBITDA margin	27.9	18.8		28.9	16.8	
Depreciation	600.6	549.7		2262.5	2160.3	
EBIT	**3484.6**	**1368.5**	**154.6**	**11915.4**	**3382.3**	**252.3**
Interest	203.4	222.1		868.3	896.4	
EBT (exc other income)	3281.2	1146.4	186.2	11047.1	2485.9	344.4
Other Income	194.8	69.3		614.6	370	
EBT	**3476**	**1215.7**	**185.9**	**11661.7**	**2855.9**	**308.3**
Provision for Taxation	1160.6	400.7		3839.1	558.3	
Tax %	33.4	33.0		32.9	19.5	
PAT	**2315.4**	**815**	**184.1**	**7822.6**	**2297.6**	**240.5**
Paid-up Equity Share Capital	1244.9	1244.9		1244.9	1244.9	
Basic EPS (in Rs.)	18.6	6.55		62.8	18.5	

Source: Company

Revenues

- Revenues for UltraTech Cements have registered a YoY growth of 43.3% for Q4FY07 and a 49% YoY growth for the full year, driven by improvement in aggregate sales volumes, higher capacity utilizations and rise in cement prices by almost 30% on YoY basis.
- UltraTech Cements is operating at almost 101% capacity utilization with dispatches at 5.04 MT for the current quarter and 17.67 MT for the full year, which is better than our estimates.
- On account of cement price freeze for a period of one year, we expect the company's realizations to stay at the same level for the next one year. Since new capacities would become operational by the end of FY08, we expect revenues of Rs.51.3 bn for FY08.

Operating margins

- Operating margins of UltraTech Cements have shown a significant improvement both on a YoY basis on account of a significant improvement in cement prices with EBITDA per ton at Rs.810 per ton for Q4FY07 as compared to Rs.422 per ton for Q4FY06. However, it is lower than our estimates due to higher freight expenses and escalation in raw material costs. We are factoring in higher raw material prices and expect an EBITDA margins of 30% for FY08.

Profits

Net profits of the company have registered an excellent growth of 184% for Q4FY07 on a YoY basis. For the full year, the company's net profit has shown a growth of 241% as compared to FY06. However, escalation in the cost of raw materials and freight expenses have resulted in lower than estimated profit growth. We expect that in the event of fixed prices for a year, operating margins might suffer a setback on account of higher raw material expenses.

Hence, we are fine tuning our estimates to factor in current quarter realizations for the full year and slightly lower operating profits, resulting in expected revenues of Rs.51.3 bn for FY08 and net profits of Rs.8.14 bn for FY08.

Valuations and Recommendation

At the current price of Rs.842, the stock is trading at 13.4xFY07 and 13.0x FY08 P/E multiples. On an EV/EBITDA multiples, it is trading at 7.7x FY07 and 7.8x FY08 multiples. Though the demand supply situation for the Indian cement industry continues to remain favorable, the recent diktats of the government to control inflation and freeze cement prices for a year have resulted in a de-rating of the cement sector.

After a year, UltraTech Cements is also exposed to the risk of oversupply in the cement industry, which, thereby, can put pressure on cement prices in future. Thus, we continue to maintain our **SELL** recommendation on the company.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
20-Apr	Axon Infotec	Tanveerali Yakubali Khan	S	3,400	273.00
20-Apr	Bihar Tubes	Securocrop Securities Ind	B	31,721	147.69
20-Apr	Bihar Tubes	Anmol India Limited	S	61,500	147.69
20-Apr	Crazy Infote	Kalpana Hemant Shah	S	30,000	76.73
20-Apr	Cupid Ltd	Anju Pavankumar Saraf	B	200,000	49.96
20-Apr	Cupid Ltd	Yogesh Ambekar	S	82,326	49.96
20-Apr	Cupid Ltd	Vora Mukesh Jitendra	S	33,850	49.89
20-Apr	Emmso Intern	Orteck Infrastucture Pvt	B	26,000	64.27
20-Apr	Emmso Intern	Abdul Razick Magbool Khan	S	26,083	62.04
20-Apr	Empower Inds	Beni Prasad Jain	B	36,505	13.73
20-Apr	Evinix	Hiren Kumar Parshottam Bh	S	103,746	97.14
20-Apr	Fiem Inds	Bhavesh P. Pabari	B	70,000	119.71
20-Apr	Fiem Inds	Anil Mabulal Vedmehta	S	73,639	119.69
20-Apr	Gremac Infra	Kamlesh Haribhai Chavda	S	83,514	109.55
20-Apr	Jagjanani	Jayesh Kuwadia	B	100,000	24.01
20-Apr	Jagjanani	Hiren Kumar Parshottam Bh	S	113,500	23.45
20-Apr	Mefcom Agr I	Sunita Investments	S	47,000	21.85
20-Apr	Mefcom Agr I	Isf Securities Ltd	S	63,915	21.65
20-Apr	Patel Airtem	Himanshu Rawal	B	281,000	38.33
20-Apr	Patel Airtem	Rasikbhai Patel	S	115,000	38.42
20-Apr	Patel Airtem	Pragnesh A Patel	S	166,000	38.27
20-Apr	Soma Tex Ind	Lilac Farms Private Ltd	S	239,120	32.61
20-Apr	Spectra Indu	Sangeeta Vinod Gupta	B	50,000	31.25
20-Apr	Sujana Univ	Lilac Farms Private Ltd	B	505,122	19.21
20-Apr	Sujana Univ	Edelweiss Estates P Ltd	B	874,492	20.80
20-Apr	Visu Intl	Lilac Farms Private Ltd	S	300,700	13.06
20-Apr	Vyapar Inds	Vikram Chavda	B	73,755	120.00
20-Apr	Vyapar Inds	Charmi Investment	S	73,755	120.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	1,541	3.3	13.4	2.4
ONGC	922	2.9	10.9	0.9
Bharti Airtel	846	3.3	10.1	0.9
Losers				
Wipro Ltd	571	(0.8)	(1.3)	3.3
HLL	205	(0.8)	(0.7)	2.0
Dabur India	97	(3.1)	(0.5)	1.8

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
23-Apr	Power Finance Corporation, Rolta India, Bank of India earnings expected; Reliance Capital to announce earnings and dividend; Central Bank holds press conference to discuss on earnings
24-Apr	Hexaware Technologies, MTNL earnings expected; Maruti Udyog to announce earnings and dividend; Sun TV to consider bonus issue; HDFC Bank to announce earnings and dividend
25-Apr	Godrej Consumer to announce earnings and dividend; IDFC, Grasim, Glenmark Pharma, Alfa Laval India, Maharashtra Seamless, Nalco, Idea Cellular, IL&FS, Thomas Cook earnings expected; Reliance Energy, Dena Bank to announce earnings and dividend
26-Apr	ABB Ltd, Cipla, Motor Industries, SKF India, Wockhardt, Nicholas Piramal, Escorts earnings expected
27-Apr	Earnings expected: Alok Industries, GlaxoSmithKline Consumer Healthcare; Glaxo SmithKline Pharma, Ranbaxy, Polaris Software, FACT, Bharti Airtel, Concor, Hindustan Construction, Jubilant Organosys, Videocon Industries and HCL Infosys
28-Apr	Sesa Goa, Micro Inks earnings expected; Ingersoll Rand, Bank of Baroda, ICICI Bank, Oriental Bank, Corporation Bank earnings expected

Source: Bloomberg

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