Economy News

- Infrastructure growth for May 2008 slowed down to 3.5%, as against 7.8 in May 2007. The deceleration in production of petroleum refinery products, electricity and cement pulled down the growth in six core infrastructure industries pulled down the growth. The core sectors are just one-fourth of IIP. (BS)
- With money in short supply, rates in overnight money market have hit the 9% mark and if rates continue to rule at this level, banks' interest margins will come under pressure. (ET)
- Government has scrapped basic customs duty as well as special additional duty on customs (SAD) on raw cottom imports to boost supplies and soften domestic price. (BL)
- The government may consider imposing export curbs on duties on petrochemical products like polymers, a crucial raw material for plastic manufacturing among other items. (BS)
- State governments may soon be able to offtake pulses at cheaper rates for distribution at reasonable prices. The move is aimed at mitigating the impact of rising prices of pulses, which have contributed to inflation in recent times (BS)

Corporate News

- Anil Ambani's **Reliance Communications** on Wednesday extended its 45-day exclusive merger talks with South African telco MTN till July 21, which seems to indicate that it is trying to arrive at a deal that would remain insulated from the rivalry between the Ambani brothers. (ET)
- **IVRCL Infrastructures and Projects Ltd** secured an order worth Rs 409.71 crore for investigation, design and execution of lift scheme from Thotapally reservoir to Gouravelly reservoir including tunnel and other allied works from the Government of Andhra Pradesh. (BL)
- In a major relief to Adani Group, the Supreme Court today vacated the stay order that stalled work at its multi-product Special Economic Zone in Gujarat. **Mundra SEZ,** established under the SEZ Act of 2005, is proposed to come up in about 6,000 acres of land with a total investment of Rs 7,400 crore. (BS)
- The Supreme Court on Wednesday appointed a three-member arbitration panel to sort out the tussle between the Tatas and the AV Birla group over **Idea Cellular.** Tata Industries (TIL) had exited Idea in June 2006, selling its entire 48.14% stake to the AV Birla group for Rs 4,406 crore. (ET)
- **Financial Technologies,** promoter of the Multi Commodity Exchange (MCX), has started the Singapore Merchantile Exchange, an international commodity derivative exchange in Singapore. (BS)
- **Godrej Industries** on Wednesday said its board will meet on July 29 to consider buyback of equity shares, an announcement which fuelled the shares of the company by about 17 per cent. (FE)

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

Equity

		% Chg		
	9 July 08	1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	13,964	4.6	(6.2)	(11.0)
Nifty	4,157	4.2	(6.6)	(12.2)
BSE Banking	6,184	4.9	(9.9)	(22.2)
BSE IT	4,220	4.3	(1.5)	14.8
BSE Capital Goods	11,365	4.7	(2.2)	(11.9)
BSE Oil & Gas	9,133	4.5	(5.8)	(14.9)
NSE Midcap	5,358	3.4	(10.2)	(15.5)
BSE Small-cap	6,790	3.5	(7.5)	(15.5)
World Indices				
Dow Jones	11,147	(2.1)	(9.3)	(11.4)
Nasdaq	2,235	(2.6)	(8.7)	(5.0)
FTSE	5,530	1.6	(5.1)	(7.3)
Nikkei	13,052	0.1	(7.0)	0.7
Hangseng	21,806	2.8	(7.3)	(10.4)

Value traded (Rs cr)

	9 July 08	% Chg - Day
Cash BSE	4,980.2	8.8
Cash NSE	11,949.6	7.8
Derivatives	47,908	16.5

Net inflows (Rs cr)

	8 July 08	% Chg	MTD	YTD
FII	169	(153)	(497)	(26,988)
Mutual Fund	227	414	553	9,701

FII open interest (Rs cr)

	8 July 08	% Chg
FII Index Futures	19,167	3.9
FII Index Options	18,458	4.0
FII Stock Futures	17,017	4.0
FII Stock Options	736	7.8

Advances / Declines (BSE)

9 July 08	A	B	S	Total	% total
Advances	197	1,444	346	1,987	79
Declines	8	354	93	455	18
Unchanged	-	42	16	58	2

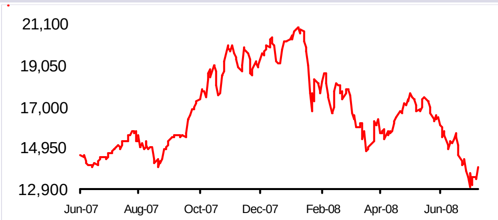
Commodity

		% Chg		
	9 July 08	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	136.6	0.4	4.0	24.1
Gold (US$/OZ)	928.6	1.0	7.3	0.2
Silver (US$/OZ)	18.1	2.1	9.4	1.2

Debt / forex market

	9 July 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	9.32	9.31	8.27	8.02
Re/US$	43.14	43.25	42.97	40.02

Sensex



COMPANY UPDATE

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KPIT CUMMINS

PRICE: RS.63 **RECOMMENDATION: BUY**
TARGET PRICE: RS.87 **FY09E P/E: 8X**

KPIT proposes to acquire the Mechanical Design Services business of Harita TVS Technologies. Relatively small acquisition; no material change to our projected financials

Account for higher costs of capital; rate the stock a BUY with a revised price target of Rs.87 (Rs.96 earlier).

- KPIT Cummins Infosystems Ltd has announced that it has taken over substantial part of the Mechanical Design Services business of Harita TVS Technologies (known as TVS-E Technologies Ltd in India).
- Harita TVS is a TVS Group company and provides Engineering Design Services to customers across US, Europe and India. Harita TVS operates under two segments viz., automotive and construction and industrial machinery. The company offers concept design, product engineering, predictive engineering (analysis), manufacturing engineering services, physical testing, and validation.
- According to the company release, on consummation of the transaction KPIT Cummins will acquire around 100 employees with competencies in product design & validation for Automotive and Industrials products and systems- areas aligned to KPIT's focus on the same verticals. Harita TVS also has close to 20 customers spread across North America, Europe and India.
- KPIT has not disclosed the cost of acquisition of Harita TVS which is expected to add close to Rs.150mn on the revenue line (2.5% of FY08 revenues). The company though has indicated that the profitability of the acquisition would be comparable to KPIT's at the gross margin level.
- We believe the acquisition given efficient execution could help KPIT build greater expertise and increase its breadth of offerings in its focus verticals- Automotive and Industrials. It could also give it an opportunity to grow its client base and penetrate existing client accounts more effectively.

Future prospects

(Rs mn)	FY07	FY08^	% chg	FY09E	% chg
Turnover	**4,637**	**6,006**	**29.5**	**7,373**	**22.8**
Expenditure	3,922	5,083		6,282	
EBDITA	**715**	**923**	**29.0**	**1,091**	**18.3**
Depreciation	121	255		357	
EBIT	**594**	**668**	**12.5**	**734**	**9.9**
Interest	45	76		64	
Other Income	6	9		16	
PBT	**555**	**602**	**8.4**	**686**	**14.0**
Tax	52	76		86	
PAT	**503**	**526**	**4.5**	**600**	**14.2**
Minority Int	(2)	(1)		3	
XO Item	-	14		-	
Adjusted PAT	505	513		597	16.5
Shares (mns)	74.8	79.2		79.2	
EPS (Rs)	**6.8**	**6.5**		**7.5**	
Margins					
EBDITA (%)	15.4	15.4		14.8	
EBIT (%)	12.8	11.1		10.0	
PAT (%)	10.9	8.8		8.1	

Source: Company, Kotak Securities - Private Client Research

- Given the limited disclosure on financials of the acquired business and also its relative small size vis-à-vis KPIT's financials, we have not accounted for this acquisition in our projections. We await greater details on the acquisition and also management commentary on the demand environment along with the Q1FY09E results.
- We have made marginal changes to our earnings estimates on account of our INR assumptions. We have now assumed rupee to appreciate to Rs.39.50 per USD by FY09 end.
- For FY09, we estimate a 23% growth in revenues to Rs.7.36bn on the back of expected decent traction in its business segments. In FY09E we estimate KPIT's margins will drop c60bps to 14.8% on account of cost pressures on the G&A front, increased wage costs and investments towards S&M.
- We expect KPIT to report profits of Rs.597mn, a YoY growth of 17% and an EPS of Rs.7.5 for the fiscal.
- Our DCF-based price target works out to Rs.87 (Rs.96 earlier), accounting for higher costs of capital (13.3% v/s earlier 12.6%). At our price target of Rs.87, our FY09E earnings will be discounted by 11.5x.

We recommend BUY on KPIT Cummins with a revised price target of Rs.87

- We recommend a **BUY** on KPIT Cummins from a 6-9m perspective given relatively attractive valuations and KPIT's positioning in its niche segments of automotive and high tech related services.
- Sharper than estimated INR appreciation and a sharp slowdown in user economies will remain the key risks to our call.

MANAGEMENT MEET UPDATE

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REDINGTON (INDIA) LTD

PRICE: RS.304 **RECOMMENDATION: BUY**
TARGET PRICE: RS.400 **FY09E P/E: 13.6X**

- **We recently spoke to the management of Redington and are very positive about its growth prospects.**
- **Maintain FY09 earning estimates.**
- **Redington stock has corrected sharply and thus is attractive at current levels.**
- **However we factor in higher beta, cost of capital.**
- **We continue to maintain BUY on Redington with revised price target of Rs.400 (from Rs.440 earlier).**
- **32% upside potential form current levels.**

Consolidated summary table

Rs mn	FY07	FY08E	FY09E
Sales	90,614	108,701	128,204
Growth (%)	33.4	20.0	17.9
EBITDA	1,927	2,453	3,049
EBITDA margin (%)	2.1	2.3	2.4
Net profit	1,017	1,361	1,745
Net debt	4,018	5,878	7,239
EPS (Rs)	13.1	17.5	22.4
Growth (%)	36.8	33.8	28.2
DPS (Rs)	-	2.5	2.5
ROE (%)	16.3	19.9	21.4
ROCE (%)	15.1	19.2	19.9
EV/Sales (x)	0.3	0.3	0.2
EV/EBITDA (x)	14.4	12.0	10.1
P/E (x)	23.3	17.4	13.6
P/BV (x)	3.8	3.2	2.7

Source: Company, Kotak Securities - Private Client Research

NBFC - Easyaccess - performing well

- In November 2007, Redington has formed a wholly owned subsidiary for the purpose of conducting non banking financial activities. Primarily the NBFC will help to raise further debt to fund its working capital requirements. The NBFC also would fund the requirements of Redington's IT channel partners thereby helping them to grow and in turn increase the business for Redington.
- Till now, the trade and channel partners of Redington used to get 30-60 days credit, and later they used to approach the banks for financial assistance. However, now with Easyaccess, Redington will directly provide money to its partners and, in the bargain, get better margins for its products.
- In FY08 it recorded revenues of Rs.36.1 mn with PAT of Rs.12.2 mn. This was on disbursals of Rs.4.8 bn in two months of operation in FY08.
- In FY08 majority of factoring was done for Redington. However going forward it would also do factoring for Redington's channel partners. Redington will initially target its 12,000-plus channel partners, and later expand operations to retail consumers.
- In FY09E we expect Easyaccess to achieve revenues of Rs.275 mn with net profit margins of around 20%. Thus it would be value accretive to the shareholders of Redington.
- We feel the creation of NBFC is very positive for the long-term growth prospects of the company, as it would help to meet the working capital requirements to achieve the targeted growth of 25 to 30% without having to dilute further equity. This is very positive for the existing shareholders of Redington.
- Currently Redington owns 100% of Easyaccess. However going forward, to grow aggressively, the management might look to divest some stake in Easyaccess which would lead to value unlocking for the shareholders of Redington

Automated Distribution Centre to be operational by Q4FY09

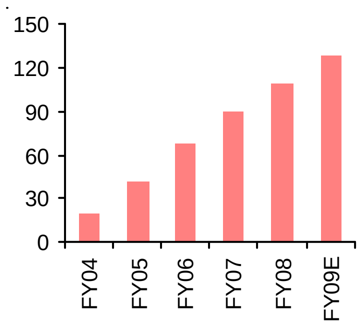
- Redington is in process of constructing Automated Distribution Centre (ADC) to help facilitate faster and efficient movement of cargo with several stock keeping units.
- Redington has acquired around 37 acres for ADC till date and another 15 acres would be acquired by October 2008 thereby taking the total to 52 acres for ADC.
- It has already purchased the land for Chennai, Kolkata and Delhi ADC. Chennai ADC would be operational in Q4FY09. Kolkata and Delhi ADC are expected to be operational in Q2FY10.

- It is in process of acquiring land for Mumbai ADC. This is likely to be completed by October 2008 and then it would be operational in Q1FY11.
- It is likely to spend Rs.275 mn per ADC excluding cost of land. The ADC would bring in efficiency and increased profitability for the company going forward.

Increasing high margin business

- The efforts of the company to focus its non-IT business are getting reflected in its operations and profitability. The revenue from the non-IT business has increased form 5.6% in FY07 to 8.0% in FY08. The share of the business from Nokia has also increased to more then 5 % of total revenues.
- Also the share of top five vendors has been reduced from 71.2% in FY07 to 65.0% in FY08, which indicates that the company is increasing its presence in newer higher value added non-IT verticals. This is also well supported by the fact that in FY08, high end value products contributed 30% to the Indian business revenues and 55% of PAT.
- Thus going forward we expect the share of non-IT value added business to increase and thereby help to improve overall profitability of the company.

Consolidated net revenues (Rs bn)

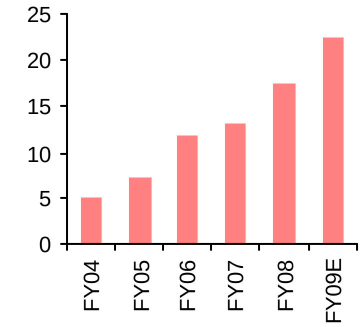


Source: Company, Kotak Securities - Private Client Research

Valuation & recommendation

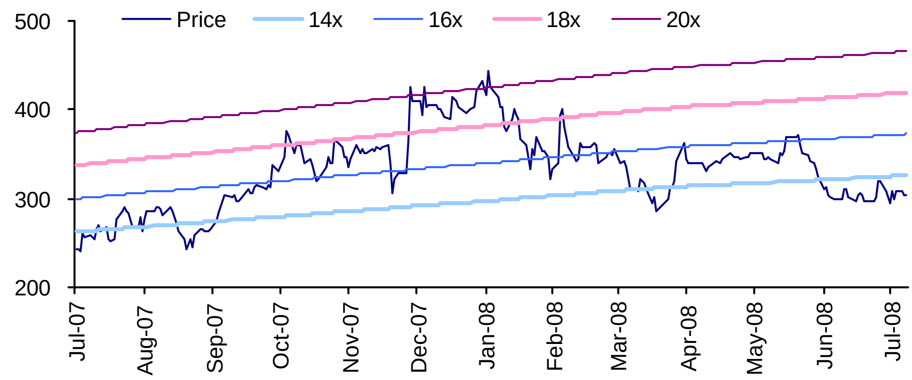
- We maintain our earnings estimates and expect Redington to report consolidated EPS of Rs.22.4 in FY09E.
- At Rs.304, the stock trades at 2.7x book value, 13.6x earnings and 12.5x cash earnings based on FY09E.
- We have also done a one-year forward rolling band analysis for Redington, which revealed that currently the stock is trading at the lower end of the band of 14x- 20x one year forward earning estimates.

Consolidated EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

One year forward rolling P/E band - Redington



Source: Capitaline, Kotak Securities - Private Client Research

- We are changing our cost of equity assumptions in our valuation model on the back of interest rate hikes and change in risk perception. We now use risk free rate of 8.0% and risk premium of 6.5%, WACC of 12.5% and terminal growth rate of 3.0%. We have also incorporated higher beta for the stock.

We recommend BUY on Redington with a price target of Rs.400 (32% upside)

- Using revised assumptions and DCF method of valuation we arrive at revised price of Rs.400. (Rs.440 earlier)
- We continue to remain positive and maintain BUY on Redington with a revised price target of Rs.400, which provides 32% upside potential from current levels.
- We recommend **BUY** on Redington.

RESULTS PREVIEW

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Our Preferred picks: L&T, Cummins, Voltas and Hind Dorr Oliver

QUARTERLY RESULTS PREVIEW: CAPITAL GOODS

Faced with high material prices and risk of potential slowdown in the economy, the capital goods sector was among the major underperformers for the quarter. Relatively premium valuations as compared to other sectors also aided the value erosion. The fourth quarter results also had their fair bit of earnings disappointments which led to several earnings downgrades for the sector companies. While there has been sharp derating of the sector bringing valuations to realistic levels, fresh concerns on macro-economy has added to the uncertainty. In the current scenario, slowing industrial production growth rate, firming up of interest rates, high inflation and energy prices, and talent availability are the major challenges for the sector. Considering the aforementioned factors, our view has been cautious on the sector. Our Preferred picks: L&T, Cummins, Voltas and Hind Dorr Oliver

Order book position

(Rs bn)	Jan-Mar 08	Jan-Mar 07	Oct-Dec 07	YoY (%)	QoQ (%)
Siemens	95.0	108.8	93.6	-12.0	2.0
ABB	61.7	42.5	50.2	45.0	23.0
BHEL	850.0	550.0	780.0	55.0	8.9
Crompton Greaves	21.2	20.6	21.7	3.0	-2.0
Suzlon	191.0	94.8	171.0	102.0	12.0
Thermax	26.0	27.6	28.0	-6.0	-7.0
Voltas	46.3	21.9	35.0	111.0	32.0
L&T	527.0	369.0	496.0	43.0	6.3
Blue Star	10.7	8.3	10.3	30.0	4.0

Source: Companies

Quarterly preview

- **Suzlon:** Revenues would be mainly driven by the export volumes as the domestic market growth has remained subdued partly due to appreciation in rupee hurting the textile manufacturers in the Southern India. Forex fluctuation could be a major influencing factor. The company has USD 500 mn ZCCB on which the company may have to book an translation loss of Rs 1.46 bn. At the same time, the company's exports should benefit from the 7% decline in rupee.
- **BHEL:** The first quarter is the weakest quarter for BHEL as less than 20% of the annual revenues get booked in the quarter. The important issue to be looked at in BHEL could be its momentum in order execution.
- **ABB:** In the first quarter, the company had reported subdued revenue growth. However, we believe revenue growth should again gain momentum as order inflows have kept pace.
- **Crompton Greaves:** We forecast a 21% growth in revenues driven mainly by the power systems segment. In the domestic orders, close to 30% have price variation clause. We expect some margin erosion due to material price inflation.
- **Siemens:** In the second quarter (March ending), profits had been been impacted due to losses in Power Segment and Transportation division. However, the management has indicated that entire foreseeable losses pertaining to projects have been provided in the second quarter and the third quarter numbers should reflect a better picture.
- **Bharat Electronics:** BEL's first quarter numbers are not material as bulk of the revenues and profits are booked in the fourth quarter.
- **Voltamp:** We expect Voltamp to report healthy revenue and profit growth. Management had indicated that current order book has orders booked at rich margins as a result we have built in some margin gains.

- **Larsen & Toubro:** We expect growth momentum to continue in the first quarter. While revenue and operating profits should grow at a fast clip, yoy net profit growth would be marred by lower other income. The company had booked translation gains on FCCB in Q1 FY08 of Rs.1.3 bn.
- **Cummins India:** We expect operating margins to improve sequentially in Cummins partly because rupee has depreciated. Volumes would be aided by capacity enhancements at low HP engines plant at Pirangute and KV facility for high HP engines.
- **Kirloskar Oil Engines:** During the quarter, the company has initiated trial runs at its Kagal facility for engines and generators. Profit growth would be impacted by high input prices on one hand and higher interest and depreciation charges on the other. During the quarter, the company has decided to divest its automotive valves business, which should relieve some pressure on its balance sheet.
- **Hind Dorr Oliver:** We forecast strong revenue growth of 35% for the quarter. Net profits are expected to grow 20% yoy. We have built in margin decline to reflect higher material prices. Management has targeted a revenue of Rs 5.0 bn for FY09, up from Rs 3.0 bn in FY08. Order backlog is strong at around Rs 6.0 bn.
- **Thermax:** We estimate subdued numbers for Thermax in the wake of slack order inflows in FY08.
- **Voltas:** We expect healthy set of numbers from Voltas as Central Airconditioning order book has remained fairly robust. Margins expansion would depend on the execution progress of its projects and material price pressures in its consumer durables and material handling business.
- **Blue Star:** Blue Star is expected to report 61% yoy growth in profits in Q1 FY09.

Our Preferred picks: L&T, Cummins, Voltas and Hind Dorr Oliver

Quarterly preview - Electrical Equipment

	Revenues		Operating profit		Net profit	
	Jan-Mar 08 (Rs mn)	YoY (%)	Jan-Mar 08 (Rs mn)	YoY (%)	Jan-Mar 08 (Rs mn)	YoY (%)
ABB	17,510	25.0	1,979	21.0	1,334	23.0
Areva	4,905	26.0	770	27.0	488	27.0
Bharat Bijlee	1,398	21.0	231	16.0	150	19.0
Crompton Greaves	9,793	21.0	978	18.0	591	26.0
Siemens	19,605	18.0	1,274	40.0	969	18.0
BHEL	39,105	21.0	3,442	11.0	3,194	11.0
Suzlon (Standalone)	12,624	50.0	927	(18.0)	562	-37.0
Bharat Electronics	4,448	10.0	178		270	3.0
Voltamp	1,551	20.0	295	23.0	208	22.0

Source: Kotak Securities - Private Client Research, Companies

Quarterly preview - Capital goods

	Revenues		Operating profit		Net profit	
	Jan-Mar 08 (Rs mn)	YoY (%)	Jan-Mar 08 (Rs mn)	YoY (%)	Jan-Mar 08 (Rs mn)	YoY (%)
Thermax	7,765	18.0	877	15.0	638	14.0
Cummins	6,671	23.0	813	10.0	701	9.0
KOEL	5,924	18.0	538	4.0	216	(21.0)
L&T	59,856	33.0	5,626	33.0	3,707	(2.0)
Voltas	10,724	30.0	954	30.0	748	46.0
HDO	736	35.0	59	31.0	42	20.0
Blue Star	5,916	29.0	579	53.0	360	61.0

Source: Kotak Securities - Private Client Research, Companies

RESULTS PREVIEW

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QUARTERLY RESULT PREVIEW - CEMENT

In line with our expectation, the Cement sector has underperformed the benchmark indices by a huge margin and with continuously rising cost pressures along with preponement of price cut announcements, we believe that sector has further got de-rated. In lieu of the rising inflation, several players announced price cuts in their respective regions in Q1FY09. We had expected an unfavorable demand supply situation for cement manufacturers by Q2FY09, thereby resulting in price cuts. However, continuous government intervention to fight inflation has preponed this process. We believe that under this situation cement companies would have to absorb the increased cost pressures going forward which would impact their profitability negatively.

We believe that under the circumstances of price cuts, impending oversupply, increasing costs and marginal growth or a de-growth in profitability going forward, these stocks will continue to trade at the lower end of the valuation bands till the time some positive news starts flowing in. We, thus, continue to maintain our negative bias for sector under these concerns. Change in our recommendation would come from a steep increase in the cement prices along with an improvement in the operating margins for the cement companies.

Quarterly preview

Volumes impacted by export ban, early monsoons and violence specifically in the northern region

Cement dispatches in the domestic market were impacted by early monsoons and violence in the northern region due to Gujjar agitation. However demand grew at a healthy pace in the southern region and it has also started improving in the eastern region. Western region witnessed increased supply in the month of April and May due to export ban.

Margins may continue to remain under pressure

Cement companies may continue to witness increasing margin pressures due to rise in the coal, freight and raw material expenses. Increase in the cement prices in the month of June is not adequate to set off the increase in the costs for cement companies, thereby it may further result in operating margin decline.

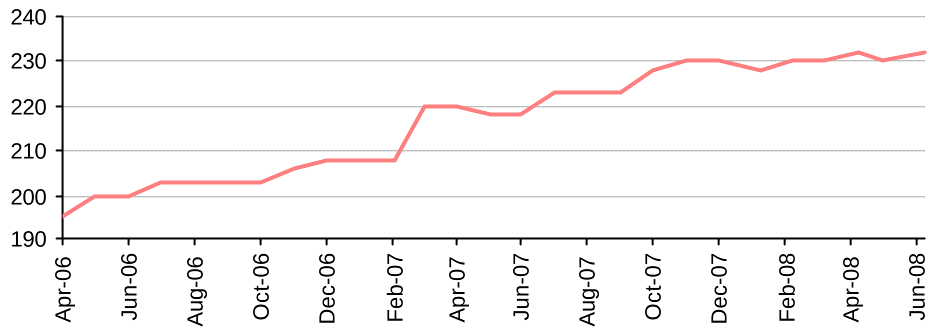
Government eases export ban

In order to increase supply in the domestic market, government had earlier imposed ban on the cement exports. This resulted in reducing the cement prices by Rs 2-3 per bag in different regions. Later the ban was lifted from Nepal and ports of Gujarat. But we don't expect significant improvement in cement prices - firstly due to monsoons and secondly due to upcoming supplies.

Cement pricing trend

North - Dispatch growth remained subdued in Q1FY09 due to violence witnessed in the region. First month of Q1FY09 witnessed inline demand growth due to commonwealth games but violence in the region impacted flow of material between Rajasthan and Delhi, thereby slowing the dispatch growth in May and June. Prices increased marginally in the month of April but later declined as some producers agreed to cut the prices on government's concerns. Prices witnessed marginal increase in June to due to freight hikes.

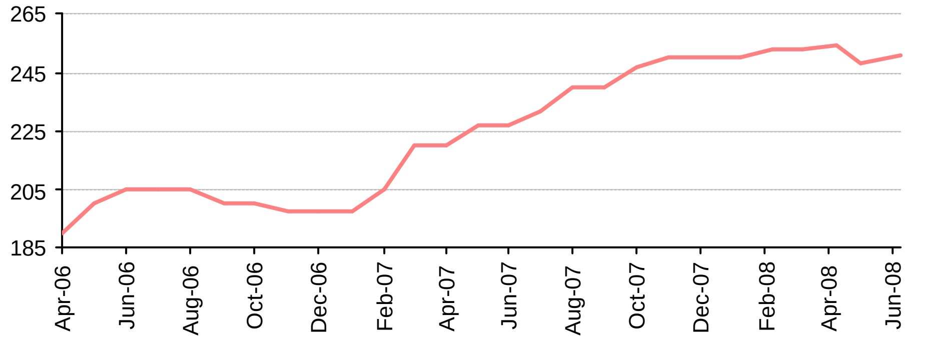
Price trend - North (Rs/bag)



Source: CMA

South - Dispatch growth remained strong and prices remained stable in the month of April. Government's concerns prompted several players to cut prices by Rs 2-3 per bag. However players increased prices by Rs 2-3 per bag in June due to hike in the freight costs.

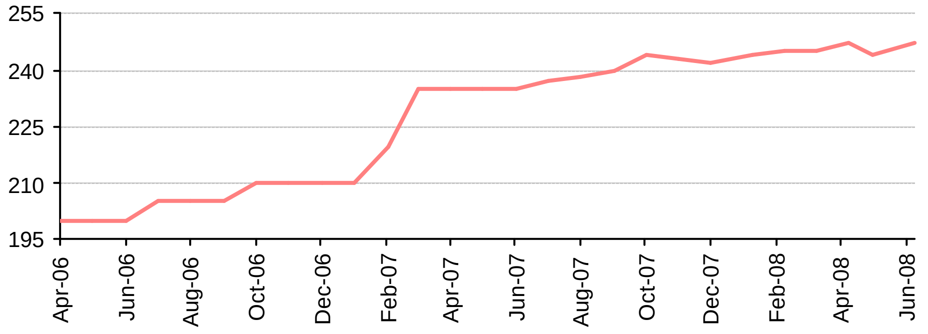
Price trend - South (Rs/bag)



Source: CMA

West - Export ban as well as higher inventories resulted in subdued prices in the month of May. Prices witnessed an increase of Rs 3 per bag in June to due to freight hikes.

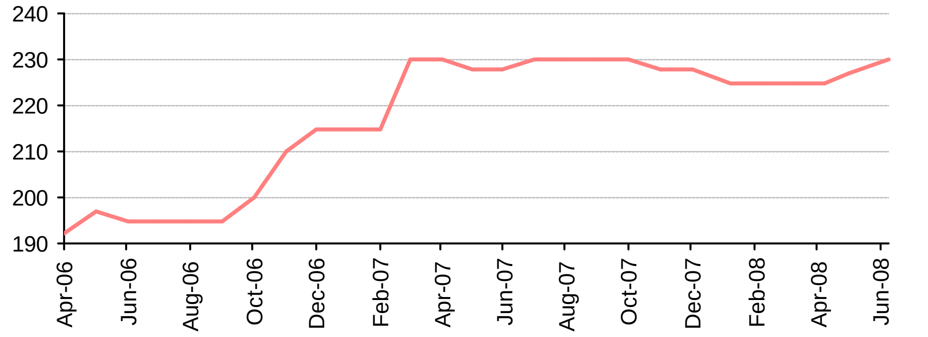
Price trend - West (Rs/bag)



Source: CMA

East - Dispatch growth was robust in the eastern region due to strong demand from realty and industrial sectors. Cement prices have started improving after a long lull in the eastern region. Eastern region also witnessed cement price increases in June due to freight hikes.

Price trend - East (Rs/bag)



Source: CMA

Companies

- **ACC** - Dispatches for ACC for Q2CY08 stood at 5.32MT as against 5.4MT in Q1CY08. We expect prices to be similar to Q1CY08 since the company made an announcement of freezing cement prices for 2-3 months in the month of May. However, due to cost increases, we may witness marginal increase in the net realizations for the company. Company is expected to be impacted by rising coal costs. We expect operating margins to be around 25.2%, resulting in EBITDA/tonne of Rs 830 for Q2CY08 as compared to Rs 1020 for Q2CY07.

- **Ultratech Cements** - Dispatches for Ultratech Cements for Q1FY09 are expected to be 4.3 MT. We expect pricing to be quite similar to Q4FY08 due to stable cement prices in the corresponding period. Though power and fuel and freight costs are also expected to increase, operating margins are expected to be in the range of 30.3%, resulting in EBITDA/tonne of Rs 995 as compared to Rs 979 for Q1FY08.

- **India Cements** - We expect flat volume growth for the company as compared to last year. Higher fuel prices are expected to have an impact on freight costs for the company. Along with this, higher imported coal prices are expected to increase power and fuel cost for the company in Q1FY09. We thus expect operating margins to be around 31.5%, resulting in EBITDA/tonne of Rs 1095 as compared to Rs 1146 for Q1FY08. Higher other income from IPL league may be set off to some extent by rupee depreciation on FCCB loans

- **Shree Cements** - Dispatches for the company were impacted by Gujjar agitation in Rajasthan. We expect dispatches to be around 1.79MT. We expect lower cement realizations for Q1FY09 due to cement price cuts announced in the northern region on account of slower demand as well as government intervention. We expect operating margins to be around 37%, resulting in EBITDA/ tonne of Rs 1168 as compared to Rs 1293 for Q1FY08. Sales tax, wage and interest subsidy benefits have also been withdrawn by the Rajasthan government so we expect the write offs related to removal of these subsidies to happen sometime in FY09.

Result Preview for Q1FY09

(Rs mn)	Revenues			Operating profits			Net profits		
	Q1FY09E	Q1FY08	YoY (%)	Q1FY09E	Q1FY08	YoY (%)	Q1FY09E	Q1FY08	YoY (%)
ACC*	17,556	18,427	-5	4,416	5,444	-19	2,721	3,512	-23
Ultratech Cements	14,104	13,653	3	4,279	4,335	-1	2,297	2,594	-11
India Cements	8,070	7,012	15	2,539	2,643	-4	1,331	1,834	-27
Shree Cements	5,654	4,258	33	2,088	1,823	15	795	1,169	-32

Source: Company, Kotak Securities - Private Client Research - * For ACC, estimates correspond to Q2CY08 instead of Q1FY09.

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW: LOGISTICS (APRIL-JUNE 2008)

- **We expect logistics companies under our active coverage (except CONCOR) to report strong growth in revenues in Q1FY09 due to capacity expansions and foray into newer verticals.**
- **However we expect the operating margins to be under pressure due to rising costs, initial expenses and gestation period with regard to expansion into newer areas.**
- **The stock prices of the logistics companies have been under pressure in line with weak overall economic condition and market sentiment. In Q1FY09, while CONCOR, Allcargo and TCI outperformed BSE Midcaps index. However Gateway Distriparks, GATI and Redington have underperformed the BSE midcaps index in Q1FY09.**
- **We continue to maintain our positive stance on the Logistics sector for medium to long term perspective as the stocks have become more attractive after recent sharp correction in their stock prices.**
- **Our top picks in the logistics sector are Gateway Distriparks and GATI.**

Companies

BUY - Target Price Rs.1,000

- **Allcargo Global Logistics.** We expect the company to report decent growth in revenues due to growing operations of Eculine and ramping up of operations at JNPT, Chennai and Mundra CFS. Also the crane hiring business of Transindia Freight services Ltd. would bring in increased profitability for the company.

BUY - Target Price Rs.1,250

- **Concor.** We expect EXIM volume de-growth of around 5% due to the Gujjar agitation in Rajasthan which disrupted the operations of CONCOR by about ten days. The realizations and margins are also expected to be under pressure due to rising competition, ramp up of relatively lower margin domestic business and disruptions due to Gujjar agitation.

BUY - Target Price Rs.135

- **Gateway Distriparks.** We expect GDL to report strong revenue growth due to a rise in the number of container trains from its Garhi inland container depot for domestic traffic and ramping up of operations at Punjab Conware CFS at JNPT. However, consolidated EBIDTA margin is expected to be lower due to higher contribution from the container train running operations that typically have lower operating margins than CFS business. Also in Q1FY09 it could not run any EXIM trains and thus all the trains were run on low margin domestic routes which would impact the overall operating margins.

BUY - Target Price Rs.120

- **Gati.** We expect Gati to report strong growth in revenues due to higher contribution from the air freight business. However the operating margins are likely to be subdued due to initial expenses of running the air freighters. However the express cargo division is expected to perform very well.

BUY - Target Price Rs.400

- **Redington.** On a consolidated basis, we expect the company to report robust growth in revenues and profitability due to higher contribution from the higher value added and non-IT verticals like mobile phones, gaming and consumer durable products.

BUY - Target Price Rs.125

- **TCI.** We expect TCI to report steady growth in revenues and profitability due to higher contribution from the value-added logistics services like cold chain, express distribution and supply chain.

Overall outlook

Overall, we continue to remain positive on the entire logistics sector. We feel that logistics is expected to be one of the fastest growing sectors, going forward. More importantly, the companies under our coverage are well positioned to take advantage of the logistics boom that is going to unfold over the next few years.

Top Pick

Our top picks in the logistics sector are Gateway Distriparks and GATI.

Q1FY09 estimates: Logistics

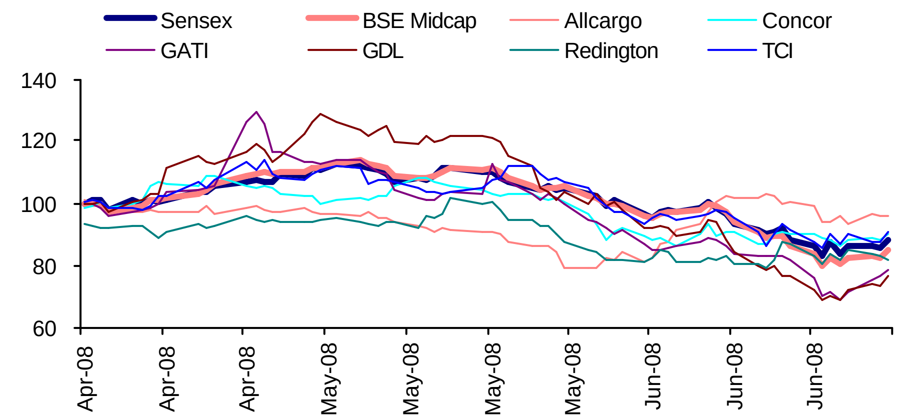
	Revenues (Rs mn)			EBIDTA (%)			PAT (Rs mn)			EPS (Rs)		
	Q1FY09	Q1FY08	YoY (%)	Q1FY09	Q1FY08	YoY (%)	Q1FY09	Q1FY08	YoY (%)	Q1FY09	Q1FY08	YoY (%)
CCONCOR	7,950	7,759	2.5	25.1	29.4	(14.6)	1,910	1,871	2.1	14.7	14.4	2.1
Gateway Distriparks	821	483	69.9	29.8	45.6	(34.6)	165	186	(11.2)	1.4	1.6	(11.2)
Redington	27,750	24,995	11.0	2.3	2.0	15.0	325	273	19.0	4.2	3.5	19.0
TCI*	2,925	2,655	10.2	7.1	7.2	(1.4)	69	57	21.1	1.0	0.8	21.1
June end	Q4FY08	Q4FY07	YoY (%)	Q4FY08	Q4FY07	YoY (%)	Q4FY08	Q4FY07	YoY (%)	Q4FY08	Q4FY07	YoY (%)
GATI*	1,540	1,220	26.2	7.6	10.1	(24.8)	36	73	(50.6)	0.4	0.8	(50.6)
December end	Q2CY08	Q2CY07	YoY (%)	Q2CY08	Q2CY07	YoY (%)	Q2CY08	Q2CY07	YoY (%)	Q2CY08	Q2CY07	YoY (%)
Allcargo Global	4,275	4,024	6.2	8.9	6.6	34.8	245	217	13.1	12.1	10.7	13.1

*Source: Companies, Kotak Securities - Private Client Research; * FV Rs. 2*

	Reco	CMP (Rs)	Target (Rs)	Upside (%)	Diluted Share (mn)	Mkt Cap (Rs bn)	EPS (Rs)		PE (x)	
							FY08	FY09E	FY08	FY09E
Allcargo Global Logistics	BUY	783	1,000	27.7	20.3	15.9	35.4	52.6	22.1	14.9
CONCOR	BUY	795	1,250	57.2	130.0	103.3	58.2	70.1	13.7	11.3
Gateway Distriparks	BUY	76	135	77.6	115.5	8.8	6.4	7.9	11.9	9.6
GATI	BUY	76	120	57.9	93.3	7.1	2.8	4.8	27.1	15.8
Redington	BUY	304	400	31.6	77.9	23.7	17.5	22.4	17.4	13.6
TCI	BUY	78	125	60.3	72.5	5.7	4.5	6.1	17.3	12.8

Source: Companies, Kotak Securities - Private Client Research

Relative price performance



Source: Bloomerg, Kotak Securities - Private Client Research

Note: Analyst Holding: Concor - 100 Shares

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW: NBFCS

NBFCs demonstrated a strong growth in profitability on the back of a rapid business growth during the FY08. We expect business volumes of the NBFC's to remain robust. This, in turn would continue to boost profitability. We expect HDFC to maintain its trend of a 25%+ growth in home loan disbursements. Besides this we expect strong business growth from LIC Housing Finance and Power Finance Corporation. SREI has re-aligned its business operation in this quarter, as the JV with BNP Paribas Leasing Group became operational. We expect SREI's business growth picking up in the following quarters. Overall, we maintain a positive outlook on the NBFC sector. Our top picks in the sector would be LIC Housing Finance and SREI Infrastructure finance.

Top Picks: LIC Housing Finance, SREI Infrastructure Finance

HDFC

- We expect HDFC to continue maintain its leadership position in the mortgage finance segment. The housing loan book of the HFC is expected to demonstrate a ~26% growth during the Q1FY09.
- We expect that the average net spreads of the HDFC to remain firm at ~2.4%.
- Net interest income of the HFC is expected to go up by 38% to Rs6600mn. We expect a 30% growth in Net profit of HDFC to Rs 4862 mn for Q1FY09, with an EPS of Rs 17.1.

LIC Housing Finance

- We expect a strong growth in home loan disbursements for LIC Housing Finance for the Q1FY09.
- Net margins for the quarter are likely to remain firm; however, due to increase in cost of funds we might see some pressure on sequential basis.
- Asset quality is expected to remain firm. Likely to improve over corresponding quarter last year, however we might see some pressure on sequential basis.
- The HFC has revised its benchmark rate by 50bps as on 1st July 2008, following a 50bps hike in the CRR and Repo rate.
- We expect a 45% growth in Net profit for LICHF for Q1FY09 to Rs 679mn, with an EPS of Rs 8.

PFC

- The robust sanction book for FY08 indicates a stronger disbursement growth during FY09. Business growth expected to be strong during Q1FY09.
- Given the 7-8% depreciation in rupee against dollar on sequential basis, we expect PFC to report a forex loss on its borrowings. PFC has outstanding uncovered forex borrowings worth $248mn of which $181mn was raised in Oct-Nov'08 period; this is likely to impact earning during the quarter.
- Increase in cost of fund during the quarter is expected to pressurize margins. Net spreads are expected to witness pressure.
- We expect a ~5% growth in net profit for PFC to Rs 3239mn for Q1FY09, with an EPS of Rs 2.8.

SREI Infrastructure Finance

- SREI's JV with BNP Paribas has commenced operations from April 2008. With the re-alignment of operations, we expect a strong growth in business to maintain with increased activity at the JV level.
- SREI raised its benchmark rate by 150 basis points to 14.5% during Q1FY09, which is applicable for all its business from JV with BNP Paribas.
- On consolidated basis we expect a ~35% business growth during Q1FY09.
- With revenue flowing in from project financing and advisory business, we expect overall profitability to be strong for FY09.
- We expect a net profit growth of ~40% to Rs307mn with an EPS of Rs 2.6.

Top Picks: LIC Housing Finance, SREI Infrastructure Finance

Estimates

	NII					PAT					EPS (Rs)	
(Rs mn)	Q1FY08	Q4FY08	Q1FY09E	QoQ (%)	YoY (%)	Q1FY08	Q4FY08	Q1FY09E	QoQ (%)	YoY (%)	Q1FY08	Q1FY09E
HDFC	4791	8805	6600	38	-25	3728	7656	4862	30	-36		17.1
LICHF	1042	1667	1426	37	-14	467	1181	679	45	-43		8.0
PFC	4147	4850	5091	23	5	3086	2967	3239	5	9	2.7	2.8
SREI Infra Finance	474	350	714	51	104	219	471	307	40	-35	2.0	2.6

Source: Companies, Kotak Securities - Private Client Research

SECTOR UPDATE

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NBFC SECTOR UPDATE

Revising our price targets to factor in higher cost of capital and higher stock beta.

We have revised our price target for HDFC, LIC Housing Finance and Power Finance Corporation to factor in higher beta and cost of capital.

HDFC Ltd

- For HDFC Ltd we have tweaked our FY09 net profit by 3% to Rs26.51bn from Rs 27.1bn.
- We have revised our cost of equity to factor in increase in interest rate for the stock.
- For our Sum-of-the-part valuation, we reconsidered our working for HDFC Standard Life insurance to factor in higher business growth. We have also factored in its value of investment in HDFC Bank and Gruh Finance.
- We maintain a buy on the stock with a revised price target of Rs 2861. (Rs 3142 previously)

LIC Housing Finance

- LIC HF is expected to continue gaining market share with larger players indicating slowing down in the mortgage segment due to decline in attractiveness of this segment.
- We expect strong growth in the over all home loan disbursements of the company, improvement in asset quality and preeminent return ratios.
- We maintain a highly positive outlook for the company, in the light on improved performance.
- We have revised our price target downward to factor in higher cost of equity. We maintain buy on the stock with a price target of Rs 377 (from Rs 415 previously). We also factored in its 39% stake in LIC Mutual Fund.

Power Finance Corporation

- We continue to believe that the loan book of the NBFC would continue to witness strong growth during the 11th Five year plan.
- Of late the company also entered into an agreement with NTPC to finance its Rs 100bn capacity expansion plans.
- On the back of a robust sanction book, we opine that PFC's loan book is expected demonstrate strong business growth.
- However, the NBFC would have MTM forex loss on its foreign currency borrowing, which we believe would have marginal impact on its full performance.
- We have revised our price target downward to factor in higher cost of equity. We maintain buy on the stock with a price target of Rs 193 (from Rs 215 previously).

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
9-Jul	Bihar Tubes	Elara India Opportunities Fund Ltd	B	100,000	145.00
9-Jul	Dhanustech	G L Engineering Ind. P Ltd	S	158,193	167.48
9-Jul	Filat Fash	Muljibhai D Patel	B	38,400	26.35
9-Jul	Filat Fash	Aum Technocast Pvt. Ltd	S	65,000	26.35
9-Jul	Indus Ind Bk	Lotus Global Investments Ltd	B	9,850,816	52.40
9-Jul	Koff Br Pict	Laxmi Cap Broking Pvt Ltd	B	25,851	23.66
9-Jul	Media Matrix	Mohan Narayanan	B	175,000	4.90
9-Jul	Pritishn Com	Jitendra Harivansh Joshi	B	82,000	47.87
9-Jul	Pritishn Com	Capetown Merantile Co Pvt. Ltd.	S	82,000	47.87
9-Jul	Promac Plast	Consolidated Securities Ltd	S	85,000	2.60
9-Jul	Ramsarup Ind	Ashish Jhunjhunwala	B	575,400	114.36
9-Jul	Ramsarup Ind	Neerza Jhunjhunwala	S	575,400	114.14
9-Jul	Refex Refrig	Ankit Rajendra Sanchaniya	B	175,000	197.64
9-Jul	Solect Ems	UBS Securities Asia Ltd			
		Ac Swiss Finance Cor Mauritius Ltd	S	67,993	125.17
9-Jul	Tulsi Extru	Yuvak Share Trading Pvt.Ltd.	B	62,623	33.01

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	2,079	5.0	24.0	3.5
Bharti Airtel	746	5.0	11.1	3.6
NTPC	168	4.4	9.8	6.0
Losers				
National Aluminium	332	(0.8)	(0.3)	0.5
Hindalco	146	0.2	0.1	3.0
Zee Ent	191	1.6	0.2	1.1

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
10-Jul	Bajaj Auto, Bajaj Holdings & Investment, GTL, Syntex Ind earnings expected ; DLF to consider buy-back of its shares
11-Jul	Infosys Technologies, Edelweiss Capital earnings expected
12-Jul	IFCI earnings expected
16-Jul	HDFC, PFC, Petronet LNG, Concor, Tata Teleservices, TCS earnings expected
17-Jul	Polaris Software earnings expected
18-Jul	IDFC, Chennai Petroleum Corpn, Satyam Computer Services, Allahabad Bank, Wipro, Ultratech Cement, GE Shipping earnings expected
21-Jul	SAIL, DRL, Maruti Suzuki, BHEL, Tech Mahindra, Canara Bank earnings expected
22-Jul	Century Textiles, Thermax, Lupin, Asian Paints earnings expected

Source: Bloomberg

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