January 17, 2007

FOR PRIVATE CIRCULATION

Equity

	16 Jan 07	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,115	(0.1)	3.7	9.6
Nifty	4,081	0.1	4.9	9.8
Banking	7,419	0.2	6.1	18.9
IT	3,715	(0.0)	3.2	14.5
Healthcare	3,901	(0.2)	5.4	7.6
FMCG	1,927	(0.3)	(1.3)	(5.9)
PSU	6,204	(0.3)	4.0	5.6
CNX Midcap	5,279	0.4	5.3	11.4
World indices				
Nasdaq	2,497.8	(0.2)	1.7	6.5
Nikkei	17,202	(0.0)	1.0	2.8
Hangseng	20,028	(0.2)	4.7	11.1

Value traded (Rs cr)

	16 Jan 07	% Chg - 1 Day
Cash BSE	3,692	(15.5)
Cash NSE	8,343	(2.0)
Derivatives	26,221	(1.9)

Net inflows (Rs cr)

	15 Jan 07	% Chg	MTD	YTD
FII	(238.9)	(215.4)	(1,124)	(1,124)
Mutual Fund	103.5	(83.8)	(70)	33

FII open interest (Rs cr)

	15 Jan 07	% chg
FII Index Futures	12,270.1	2.4
FII Index Options	7,465.1	8.7
FII Stock Futures	16,619.0	1.1
FII Stock Options	141.4	0.9

Advances/Declines (BSE)

16 Jan 07	A	B1	B2	Total	% Total
Advances	99	281	399	779	48
Declines	106	358	365	829	51
Unchanged	3	9	12	24	1

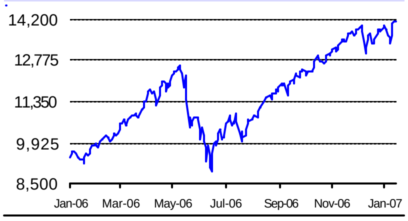
Commodity

	16 Jan 07	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	51.2	(3.4)	(19.3)	(14.6)
Gold (US$/OZ)	624.8	(0.3)	1.4	5.8
Silver (US$/OZ)	12.6	(2.6)	(2.0)	7.5

Debt/forex market

	16 Jan 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.76	7.83	7.65	7.67
Re/US$	44.27	44.29	44.64	45.44

Sensex



Source: Bloomberg

Economy news

- The Government has asked the Indian Banks' Association to consider earmarking a slice of total loan disbursement for members of minority communities. This will work out to as high as 6% of the total loans given by the banking sector. (ET)
- The Finance Ministry is considering a proposal to use part of India's $177-bn forex reserves for infrastructure projects, by floating an SPV called India Investment Corporation (IIC) with a corpus of $10 bn. (ET)
- The Government is planning to raise the external commercial borrowing (ECB) limit to $22 bn from $18 bn for the current fiscal. This follows a huge demand for funds from India Inc across sectors that have been lining up ECB proposals to fund projects. (ET)
- International rating agency Moody's Investors Service has said India may not be able to sustain a growth rate of 9% due to capacity constraints amid signs of overheating in the economy. (BS)
- The Central Government is examining a new national two-tier compensation package for farmers who could be losing their agricultural land to proposed industrial estates and special economic zones. (BL)

Corporate news

- **IOC** is in talks with the Nigerian government to buy a stake in the 6 MTPA state-owned refinery at Port Harcourt in Nigeria, besides planning to set up a greenfield refinery in the country. (BS)
- **Dalmia Cement** has reported a 453% rise in profit at Rs.648 mn for the quarter ended December 31, 2006, as against Rs.117.2 mn posted in the corresponding period of the previous year. During the review period, the company also reported a growth of 66% in sales at Rs.2.31 bn. (ET)
- **Escorts** has reported a 59% growth in turnover in October-December 2006 period at Rs.5.18 bn and said the company would end the year ending September 30, 2007, in the black. Escorts said it had increased EBITDA at Rs.276 mn, as against Rs.150 mn in October-December 2005. (ET)
- **Reliance Industries** plans to set up a 50,000-barrels-per-day refinery in Yemen in collaboration with a local partner. (BL)
- **Tata Steel** has said it has entered into a definite agreement to acquire 100% equity stake in Rawmet Ferrous Industries at an enterprise value of Rs.1.01 bn. (BL)
- **ABB India** has won a contract for a turnkey project worth Rs.1.86 bn from the Karnataka Power Transmission Corporation Ltd to implement an integrated Network Manager Supervisory Control and Data Acquisition, Energy Management System, Distribution Management System solution. (BL)
- Delhi-based **DS Constructions** is close to concluding a funding deal of almost Rs.9 bn via a mix of debt and equity. Part of the loan amount will be convertible into equity at a later date. (ET)
- **United Breweries** group is close to acquiring Glasgow-based distillers Whyte & Mackay for nearly £500 mn (Rs.43.5 bn) by the end of this month. (BS)
- **Wadias** may overturn Danone's plans to go solo in the dairy and water businesses in India by pressing for its right of first refusal. It is believed Danone has to take a no-objection certificate from the Nusli Wadia group to go ahead with its plans. (ET)

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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PATEL ENGINEERING LTD
(RS.462, FY08E P/E: 19.8X, BUY)

Patel Engineering reported a good set of numbers with revenues registering a YoY growth of 29%, operating margins of 19.2% and a decent YoY growth of 16% in net profits ahead of our estimates. The revenue growth was below our estimates but with very good operating profit margins, company has been able to achieve 16% YoY growth in net profits.

Summary table (Rs mn) - standalone

Year end March	FY07E	FY08E	FY09E
Revenues	11,374	14,951	17,920
% change YoY	42	31	20
EBITDA	1,458	1,909	2,300
% change YoY	38	31	21
Other Income	200	200	200
Depreciation	326	393	450
EBIT	1,332	1,716	2,051
% change YoY	34.0	29.0	19.0
Net interest	188	150	174
Profit before tax	1,144	1,566	1877
% change YoY	45	37	20
Tax	126	172	206
as % of PBT	11	11	11
Net income	1,018	1,394	1670
% change YoY	45	37	20
Shares outstanding (m)	60	60	60
EPS (reported) (Rs)	17	23	28
CEPS (Rs)	23	30	36
DPS (Rs)	1	1	1
EV/ Sales	2.2	1.7	1.41
EV/EBITDA	17.1	13.3	10.9
Price to earnings (P/E)	27.1	19.8	16.5

Source: Company & Kotak Securities - Private Client Research

Key highlights of the results - standalone

(Rs mn)	Q3FY07	Q3FY06	YoY (%)
Net Sales	**2184**	**1696.8**	**29**
Expenditure	1765	1335	
Cost of construction	1580	1216	
As a % of net sales	72.3	71.7	
General and Admin expenses	185	119	
As a % of net sales	8.5	7.0	
EBITDA	**419**	**361**	**16**
EBITDA margin	19.2	21.3	
Depreciation	70	72	
EBIT	**349**	**289**	
Interest	24	60	
EBT(exc other income)	325	229	
Other Income	11	46	
EBT	**335**	**276**	**22**
Tax	44	25	
Tax %	13.0	9.1	
PAT	**292**	**251**	**16**
Extraordinary Items	0	0	
Net profit	**292**	**251**	**16**
NPM (%)	13.4	14.8	
Equity Capital	60	49	
EPS (Rs)	5	5	

Source: Company

Performance of the company in Q3FY07

The company reported a decent revenue growth of 29% for Q3FY07 as compared to Q3FY06. By December 2006, Patel Engineering had an order book of Rs.50 bn, thereby providing a visibility for the next three years. Hydropower projects constitute 50%, irrigation projects constitute 28% and transportation projects form 22% of the total order book of Rs.50 bn.

Operating margins of the company in the current quarter were very good due to higher margin projects executed in the current quarter. However, they are lower by 200 bps than in Q3FY06. Patel Engineering has also retired high cost contractee advances that have resulted in a fall in the interest cost of the company. This has resulted in overall net profit growth of 16% for the current quarter, resulting in net profit margins of 13.4%.

Land development plans

The company has formed five wholly-owned subsidiary companies to exploit the existing land of the company. We interacted with the management regarding their land development plans. Patel has a total land of approximately 430 acres spread in prime cities like Mumbai, Hyderabad, Bangalore, Chennai, Mysore as well as in Panvel and Karjat.

The company plans to commercially develop 0.7 mn sq ft of land in Jogeshwari, Mumbai. In Hyderabad, Patel has land of approximately 250 acres, located in Gachibowli and Shamshabad area. In Bangalore, Chennai and Mysore they have land of approximately 100 acres. The remaining 60 acres is spread in Panvel and Karjat.

The company is in the initial stages of finalizing plans for developing this land bank. We have arrived at the approximate NPV for each area based on prevailing prices and upon discounting it to the present value after taking into account the average development time of two to two and a half years from now.

Land valuation table

City	Approx Valuation (Rs mn)	Per share value (Rs)
Mumbai	1,336	22
Hyderabad	4,463	75
Bangalore	464	8
Chennai, Mysore, Panvel, Karjat	1,785	30
Total	8,048	135

Source: Company

Valuations and recommendation

At the current market price of Rs.462, the stock is trading at 19.8x and 16.5x on P/E multiples and 13.3x and 10.9x on EV/EBITDA multiples on FY08 and FY09 estimates.

Target price calculation (1 year forward)

	Rs/share
Core business valuation	377
Subsidiary valuation	14
Land bank valuation	135
Total	**526**

Source: Company

We are incorporating FY09 estimates for the company on a standalone basis. We expect Patel Engineering to maintain the operating margins in the range of 12-13% for the full year. This is despite higher margins reported in the current quarter since hydropower projects carry higher margins while transportation projects have lower margins. We are revising our price target from Rs.360 after incorporating the land valuation.

Our one-year forward price target of Rs.526 is the sum of the core business valuation on DCF, subsidiary valuation on peer valuation multiples and land bank valuation.

We are quite positive on the long-term prospects of the company. Once real estate plans get finalized and company starts getting the returns from those projects, there would be a significant value unlocking for the company. Our one-year forward target price provides an upside of 14% from the current levels and we recommend a **BUY** on the stock.

RESULT UPDATE

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CONTAINER CORPORATION OF INDIA (CONCOR) (RS. 2075, FY08E PER: 16.4X, BUY)

Results were below expectations. However, we continue to recommend BUY with unchanged price target of Rs.2498 (21% upside).

- Net sales for Q3FY07 were Rs.7.5 bn as against Rs.6.3 bn in Q3FY06, thereby registering a YoY growth of 17.5%. However, it slipped 2.9% on QoQ basis due to lower volume growth in the export import segment and, consequently, lower income from ground rent. The growth in sales on a YoY basis is primarily due to buoyant 28.9% growth in the domestic movement of containers by rail.
- The company recorded an EBIDTA margin of 29.8% for Q3FY07, 200 bps higher on YoY and 300 bps lower on a QoQ basis. The lower EBIDTA margin was primarily due to some discounts extended by the company and also the rise in haulage charges, which was passed on to the customers with a lag.
- Depreciation during Q3FY07 was higher by 17% YoY and 4% QoQ to Rs.241.7 mn. This was due to the rise in provisioning of depreciation due to acquisition of wagons and setting up of infrastructure related to the terminals.
- PBT for the Q3FY07 was at Rs.2.2 bn up 28.3% YoY and down 11% on a sequential basis.
- PAT for Q3FY07 was up 21.1% YoY and down 12.6% on sequential basis to Rs.1.6 bn translating into a quarterly EPS of Rs.25.5 and quarterly CEPS of Rs.29.2.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	24,332	30,490	38,349
Growth (%)	22.0	25.3	25.8
EBITDA	6,976	9,417	11,622
EBITDA margin (%)	28.7	30.9	30.3
Net profit	5,258	7,043	8,233
Net debt	(6,763)	(8,096)	(10,902)
EPS (Rs)	80.9	108.4	126.7
Growth (%)	22.7	34.0	16.9
DPS (Rs)	18.0	19.0	20.0
ROE (%)	27.7	29.7	27.5
ROCE (%)	35.3	38.5	36.7
EV/Sales (x)	5.3	4.2	3.2
EV/EBITDA (x)	18.4	13.5	10.7
P/E (x)	25.6	19.1	16.4
P/BV (x)	6.4	5.1	4.0

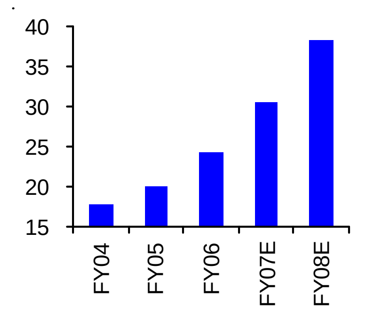
Source: Company & Kotak Securities - Private Client Research

Quarterly performance

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07
Net Sales	**7,472**	**6,358**	**17.5**	**7,693**	**(2.9)**	**22,379**
Staff cost	83	75	11.5	86	(3.5)	252
Rail freight	4,226	3,273	29.1	4,239	(0.3)	12,549
Other exp.	939	1,245	(24.6)	846	11.0	2,671
Total exp.	5,248	4,592	14.3	5,171	1.5	15,472
EBIDTA	**2,224**	**1,765**	**26.0**	**2,522**	**(11.8)**	**6,907**
Other income	205	146	40.4	169	21.7	536
Depreciation	242	207	17.0	232	4.0	697
EBIT	**2,187**	**1,705**	**28.3**	**2,458**	**(11.0)**	**6,746**
Interest	-	0	(100.0)	-	-	-
PBT	**2,187**	**1,705**	**28.3**	**2,458**	**(11.0)**	**6,746**
Extraordinary loss/ (gain)	(1)	1	-	-	-	3
Tax & deferred tax	530	336	58.0	563	(5.9)	1,530
PAT	**1,656**	**1,368**	**21.1**	**1,895**	**(12.6)**	**5,213**
Equity shares o/s (mn)	65	65		65		65
Ratios						
Operting profit margin (%)	29.8	27.8	+200 bps	32.8	-300 bps	30.9
Rail Freight / Sales (%)	56.56	51.48		55.09		56.08
Other Exp / Sales (%)	12.56	19.58		11.00		11.94
EPS (Rs)	25.5	21.1		29.2		80.2
CEPS (Rs)	29.2	24.2		32.7		90.9
Tax / PBT (%)	24.2	19.7		22.9		22.7

Source: Company

Net Sales (Rs bn)



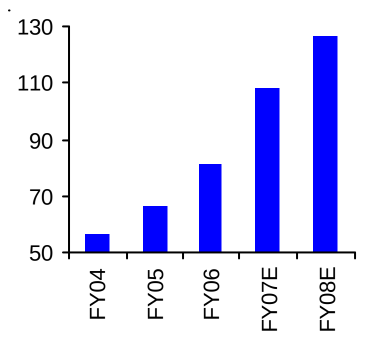
Source: Company, Kotak Securities - Private Client Research

Change in Estmates - FY07E

(Rs mn)	Old	Revised
Sales	31593	30,490
EBIDTA (%)	30.9	30.9
Net Profits	7315	7,043
EPS (Rs)	112.6	108.4
CEPS (Rs)	126.7	122.5

Source: Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Segmental Revenue

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ%
International	5,809	5,038	15.3	6,400	(9.2)
Domestic	1,663	1,290	28.9	1,293	28.6

Source: Company

Segmental profits

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)
International	1,673	1,467	14.0	2,172	(23.0)
Domestic	383	247	55.3	187	104.5

Source: Company

Segmental margins

(%)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)
International	28.8	29.1	(1.1)	33.9	(15.2)
Domestic	23.0	19.1	20.5	14.5	59.0

Source: Company

Change in FY07E estimates

- Accommodating the Q3FY07 results, we estimate the company to report lower net sales of Rs.30.5 bn in FY07E as against our earlier estimate of Rs.31.5 bn.
- We estimate the company to report lower PAT of Rs.7.0 bn in FY07E as against our earlier estimate of Rs.7.3 bn.
- Accordingly, we expect the company to report an EPS of Rs.108.4 in FY07E as against our earlier estimate of Rs.112.6.
- However, we maintain our FY08E estimates and expect the company to report EPS of Rs.126.7.

Model concession agreement signed. Yet, Concor to remain No.1 player

- Indian Railways has finally signed the model concession agreement with 14 private players to run their own container trains. According to the agreement, companies would buy wagons from manufacturers, build inland container depots and find customers, while the railways would run the goods trains.
- Concor has added 12 rakes of 45 wagons each in the first half of FY07 as against 11 rakes of 45 wagons each in the entire last year, that is, FY06. This clearly proves that when other private players are not able to procure the wagons Concor's wagon acquisition plan is moving according to the schedule. This clearly proves the superior ability of Concor to build up the required infrastructure for handling the expected growth in transportation of containers by rail.
- The signing of MCA indicates the end of Concor's monopoly. However, we feel Concor has a tremendous advantage in terms of its scale of operations consisting of volume of traffic, network of terminals across the country, strong base of low cost assets like high-speed wagons and containers, which would ensure its No.1 position in India in the visible future for transportation of containers through rail.

Recommendation and Valuation

We maintain BUY with unchanged price target of Rs.2498 (21% upside potential)

- At Rs.2075, the stock trades at 5.1x for FY07E and 4.0x FY08E to book value.
- It discounts FY07E and FY08E earnings at 19.1x and 16.4x, respectively.
- It discounts FY07E and FY08E cash earnings at 16.9x and 14.4x, respectively.
- We remain positive and reiterate our BUY on Concor with unchanged price target of Rs.2498, which provides an upside potential of 21% from the current level. We recommend a **BUY**.

RESULT UPDATE

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GUJARAT AMBUJA EXPORTS LTD (GAEL)
(RS.32, FY08E PER: 6.1X, BUY)

Result above expectations. We continue to recommend BUY with a revised price target of Rs. 42 (32% upside).

- Net Sales for Q3 FY07 was at Rs 3.9 bn up by 14.5% yoy and up 10% on sequential basis largely due capacity addition in the maize processing and cotton yarn business, which grew by 40.7% and 36.5% respectively.
- EBIDTA margin during Q3 FY07 was up by 230 bps at 8.4% on yoy basis and also up 80 bps on sequential basis. This was primarily due to strong demand for the maize based starch derivatives and cotton yarn thereby leading to better price realizations for the company. Also the raw material to sales ratio declined from 79.2% in Q3FY06 to 75.1% in Q3FY07 mainly due to higher price realizations and better capacity utilisation of the plants.
- EBIDTA for the Q3 FY07 was at Rs 332 mn up by 57.1% yoy and up 22.6% qoq. Major contribution is made by Maize processing segment where 40.7% yoy growth in revenues has led to 415.8% yoy growth in profits and the cotton yarn business where 36.5% yoy growth in revenues has led to 75.9% yoy growth in profits.
- Depreciation during Q3 FY07 was higher by 15.0% yoy and 2.5% qoq to Rs. 77.4 mn. This was due to the increase in the provisioning of depreciation due to the expansion of maize crushing capacity from 325 TPD to 500 TPD and also due to modernisation in the textiles plant.
- Interest cost increase substantially by 45.4% yoy and 73.3% on qoq basis to Rs. 40.8 mn in Q3 FY07 due to the loans taken by the company to fund the expansion plans of the company in maize processing and textiles business.
- PBT for the Q3 FY07 was at Rs. 214.9 mn up 84.6% yoy up 23.3% on qoq basis.
- PAT for the Q3 FY07 was up by 84.4% yoy and 23.3% on qoq basis to Rs 142.1 mn translating into a quarterly EPS of Rs. 1.0 and quarterly CEPS of Rs. 1.6.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	12,932	15,011	18,538
Growth (%)	15.8	16.1	23.5
EBITDA	762	1,152	1,681
EBITDA margin (%)	5.9	7.7	9.1
Net profit	303	479	728
Net debt	2,074	3,249	4,726
EPS (Rs)	2.2	3.4	5.2
Growth (%)	12.6	58.0	52.1
DPS (Rs)	0.2	0.2	0.2
ROE (%)	12.2	16.8	21.3
ROCE (%)	12.8	15.1	17.1
EV/Sales (x)	0.5	0.5	0.5
EV/EBITDA (x)	8.6	6.7	5.5
P/E (x)	14.7	9.3	6.1
P/BV (x)	1.7	1.5	1.2

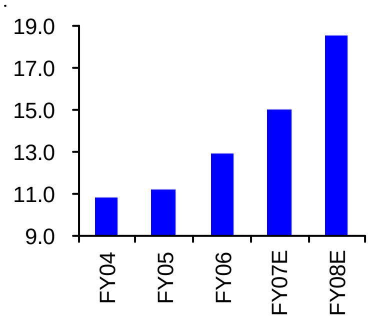
Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07
Net Sales	**3,939**	**3,439**	**14.5**	**3,581**	**10.0**	**10,540**
Increase / decrease in stock	(285)	9	(3,303.9)	27	(1,152.9)	(233)
Raw materials	3,241	2,716	19.3	2,816	15.1	8,416
Staff cost	57	55	4.5	51	12.8	154
Other exp.	594	448	32.4	417	42.3	1,364
Total exp.	3,607	3,228	11.7	3,311	8.9	9,701
EBIDTA	**332**	**211**	**57.1**	**271**	**22.6**	**840**
Other income	1	0	140.6	2	(52.8)	4
Depreciation	77	67	15.0	76	2.5	227
EBIT	256	144	77.0	198	29.3	617
Interest	41	28	45.4	24	73.3	85
PBT	215	116	84.6	174	23.3	532
Extraordinary loss/ (gain)	-	-	-	-	-	-
Tax & deferred tax	73	39	84.8	59	23.3	180
PAT	**142**	**77**	84.4	**115**	23.3	**352**
Equity Rs. mn	279	279		279		279
Ratios						
Operting profit margin (%)	8.4	6.1	+230 bps	7.6	+80 bps	8.0
Raw Materials / Sales (%)	75.04	79.23		79.37		77.63
Staff cost / Sales (%)	1.46	1.60		1.42		1.46
Other Exp. / Sales (%)	15.07	13.03		11.65		12.94
EPS (Rs)	1.0	0.6		0.8		2.5
CEPS (Rs)	1.6	1.0		1.4		4.2

Source: Company

Net Sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Segmental Revenue

Rs mn	Q3FY07	Q3FY06	YoY (%)
Cotton Yarn	450.8	330.3	36.5
Maize Processing	345.4	245.5	40.7
Other Agro Processing	3,134.0	2,861.1	9.5
Wind mill	8.4	2.2	284.6

Source: Company

Segmental PBIT

(Rs mn)	Q3FY07	Q3FY06	YoY (%)
Cotton Yarn	64.0	36.4	75.9
Maize Processing	72.8	14.1	415.8
Other Agro Processing	123.9	116.2	6.6
Wind mill	3.5	0.7	383.6

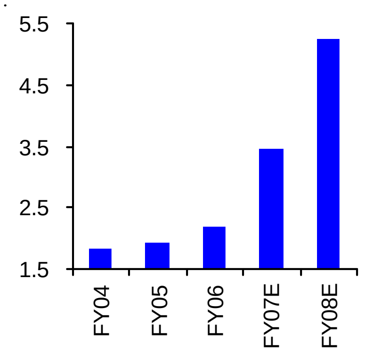
Source: Company

Segmental Margins

(%)	Q3FY07	Q3FY06	YoY (%)
Cotton Yarn	14.2	11.0	28.9
Maize Processing	21.1	5.7	266.6
Other Agro Processing	4.0	4.1	(2.7)
Wind mill	40.9	32.5	25.7

Source: Company

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Buy back of shares at Rs. 38/- per share

GAEL has approved the buy back of Equity shares of Rs 2/- each to the aggregate level of 10% of paid up capital and free reserves of the Company. The total equity and reserves of the company as on March 2006 is Rs. 2.6 bn and hence the company could buyback upto 10% of Rs. 2.6 bn that is Rs. 262.6 mn. At a maximum price of Rs. 38 per share the company could buy back upto 6.9 mn shares, which constitutes 4.9% of the total outstanding shares of the company as on today. We view this step as positive, as buy back of shares may result in higher EPS for the company.

Good growth in Agro processing segment

The Company has been exporting Soyabean De-oiled Cakes, Rapeseed De-oiled Cakes & Castor De-oiled cakes to various countries like Japan, Indonesia, Malaysia, Philippines, Vietnam, Korea, Taiwan, Singapore, Slovak & Australia. In Q3FY07, the total exports of De-Oiled cakes aggregated to 156300 Tons as against 96301 Tons of the corresponding period last year, thereby registering a growth of 62% on YoY basis. The exports of Agro Processing segment other than Maize processed products and Cotton Yarn was at 157096 Tons as against 96460 Tons of the corresponding period last year, thereby registering a YoY growth of 63%. The company also exported Soya Lecithin & Soya Flour. Thus we see that this segment where the company has significant capacities of 3300 tons per day for Soyabean crushing could be the next major growth driver for the company.

Expansion plans on track

- The company is setting up a 31,400 spindles cotton yarn-spinning mill adjacent to the existing 73,000 spindles cotton yarn mill at Himmatnagar, Gujarat. The project is expected to commence commercial production by September 2007.
- The company is setting up a 500 TPD maize crushing capacity plant in Uttaranchal. The company has already bought the land for the project and construction of the building has also started. The first phase of the plant is expected to commence commercial operations by April 2007 and is expected to achieve full scale of operations in the second half of FY08.
- The company is also setting up a 500 TPD maize crushing capacity plant at Nashik with facilities to make ethanol and ENA. The company has already bought the land for the project and the civil construction work has also started at the site. The first phase of the project is expected to start commercial production by September 2007.

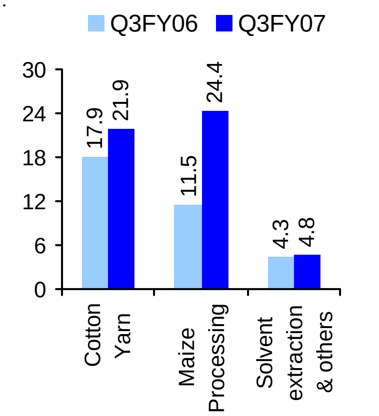
Change in Estimates

	Old		Revised	
	FY07E	FY08E	FY07E	FY08E
Net sales	14608	18139	15,011	18,538
EBIDTA %	6.9	8.6	7.7	9.1
PAT	388	656	479	728
EPS (Rs)	2.8	4.7	3.4	5.2
CEPS (Rs)	4.9	7.5	5.6	8.1

Source: Kotak Securities - Private Client Research

- Accommodating Q3FY07 results we are revising our earnings estimates. We estimate the company to report higher net sales of Rs. 15.0 bn and Rs. 18.5 bn in FY07E and FY08E, as against our earlier estimate of Rs. 14.6 bn and Rs. 18.1 bn respectively due to expected higher utilisation of the seed crushing, solvent extraction and rising prices of the maize processing business of the company.
- We estimate the company to report higher EBIDTA margin of 7.7% and 9.1% in FY070E and FY08E as against our earlier estimate of 6.9% and 8.6% respectively. This is primarily due to higher price realizations in the maize processing and textiles business of the company. Also, going forward we see strong growth in the user industries thereby keeping the product prices strong.
- We expect the company to report higher PAT of Rs. 479 mn and Rs. 728 mn in FY07E and FY08E as against our earlier estimate of Rs. 388 mn and Rs. 656 mn respectively.
- Accordingly we are increasing the EPS estimate of the company from Rs. 2.8 to Rs. 3.4 in FY07E and from Rs. 4.7 to Rs. 5.2 in FY08E.
- We estimate the revised CEPS at Rs. 5.6 and Rs. 8.1 for FY07E and FY08E as against our earlier estimate of Rs. 4.9 and Rs. 7.5 respectively.

Improvement in EBIDTA margins



Source: Company

Recommendation and Valuation

- At Rs. 32, the stock trades at 1.5x for FY07E and 1.2x FY08E to book value.
- It discounts FY07E and FY08E earnings at 9.3x and 6.1x, respectively.
- The stock looks very attractive on cash earnings basis. It discounts FY07E and FY08E cash earnings at 5.7x and just 4.0x, respectively.
- We remain positive and reiterate our BUY on GAEL with a increased price target of Rs. 42, which provides upside potential of 32% form the current level. We recommend **BUY.**

We maintain BUY with increased price target of Rs.42 (32% upside potential)

RESULT UPDATE

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AZTEC SOFTWARE
(Rs.149, FY08E P/E: 11x, HOLD)

Aztec's results for Q3FY07 were below estimates, both on the revenue and net profit fronts. While revenues grew about 5% on a sequential basis, profits were lower about 2% over the period. The seasonality factor led to flattish growth in a few of the top clients, impacting overall growth. Margins were also impacted by the rupee appreciation and lower utilization rates.

Aztec's ODC with Dendrite, which was on a BOT basis was transferred wef Q4FY07. The ODC contributed about 10% of revenues and, to that extent, growth in Q4FY07 would be impacted. However, we believe recent client additions and increasing business from Top 10 clients should allow the company to mitigate this impact in FY08. The management has indicated that, it does not have a BOT arrangement with any other client.

We have made changes to our earnings estimates for FY07E and FY08E. We now expect Aztec to report net profits of Rs.438 mn in FY07E and Rs.590 mn (Rs.617 mn earlier) in FY08E. This will translate into earnings of Rs.13.4 per share in FY08. The current price discounts our FY08E earnings by 11x.

Aztec operates in the fast growing area of product development and testing services. Within this business, the company has broadened its services profile, engaged with several enterprise class clients and also added significant number of employees. These factors have led to a consistent growth in revenues and profits for the company over the past seven quarters (barring Q3FY07).

While Aztec's growth may be impacted to a certain impact due to the transfer of Dendrite ODC, we expect the strong fundamentals to hold the company in good stead in the future. We remain positive about the longer-term fundamentals of company.

We recommend a HOLD on the stock with a revised price target of Rs.173

Based on our DCF analysis, we arrive at a revised price target of Rs.173 (Rs.183 earlier) on the basis of FY08E earnings, providing a 16% upside from the current levels. We recommend a **HOLD** on the stock. The stock may move sideways in the near term in view of the transfer of the Dendrite ODC.

2QFY07 results

Rs mn	3QFY07	2QFY07	QoQ (%)	3QFY06	YoY (%)
Income	**713.4**	**679.2**	**5.0**	**529.8**	**34.7**
Expenditure	568.6	520.4		396.2	
EBDITA	**144.8**	**158.8**	**-8.8**	**133.6**	**8.4**
Depreciation	28.3	29.9		27.0	
EBIT	**116.5**	**128.9**		**106.6**	
Interest	0.0	0.0		0.0	
Other income	10.9	-2.7		-0.3	
Extraordinary items	0.0	0.0		0.0	
PBT	**127.4**	**126.2**	**0.9**	**106.3**	**19.9**
Tax	15.9	11.6		6.7	
PAT	**111.5**	**114.6**	**-2.7**	**99.6**	**12.0**
EPS (Rs)	**2.5**	**2.6**		**2.3**	
Margins (%)					
EBDITA	20.3	23.4		25.2	
EBIT	16.3	19.0		20.1	
PAT	15.6	16.9		18.8	

Source : Company

Revenues

- Revenues during the quarter grew by 5% QoQ. The growth came about mainly on the back of higher volumes.
- Volume growth was brought about by scale ups in several of the existing as well as addition of new clients. According to the management, the company added three $5-mn clients and five $1-mn accounts during the quarter, which would start scaling up in the next few quarters.
- In H1FY07, Aztec had added 29 new clients of which, two clients have the potential to scale up to revenues of more than $3 mn in one year whereas five clients can scale up to revenues of more than $1mn in that period.
- The revenue growth was partly impacted by the seasonality factor due to which, revenues from four out of the top five clients remained stable in Q3FY07, Dendrite being one of those four.
- With several new contracts having started during the quarter, on-site revenues formed 17% of revenues v/s 15% in the previous quarter.
- The average realizations grew marginally over the previous quarter. The company is getting new clients at a 2-3% higher billing rate and also trying to get higher realizations from existing clients at the time of re-negotiations.
- The integration with Disha has resulted in increased cross-selling services within the group, with integrated services being offered to more than 10 clients. In our opinion, effective cross-selling of services by the consolidated entity will help Aztec develop a positioning as an integrated player offering services like R&D, development, testing and maintenance.

Small addition to employee base

- Aztec had added 525 employees during Q2FY07. In Q3FY07, the company added only 39, taking the total strength to 2682.
- Due to the large additions, which, we believe, were made towards the end of Q2FY07, the capacity utilization was lower at about 75% v/s 76% in the previous quarter (excluding trainees). However, the company had about 325 people under training and on bench (few) at the end of the quarter.
- With a view to accommodate the increasing number of employees, the company is adding infrastructure in Pune and Bangalore. The 700-seat Bangalore facility is expected to be operational in Q4FY07 and the 1500-seat Pune facility is expected to come up in H2FY08.

EBITDA margins - lower

- After rising in Q2FY07, EBIDTA margins once again fell in Q3FY07 due to the employee additions at the end of Q2FY07, higher on-site revenues and the rupee appreciation during the quarter.
- The company also incurred some additional one-time visa costs, which also impacted margins.
- In Q4FY07, Aztec plans to add two senior people in sales and also organize events in a bid to improve the demand generation cycle.

Dendrite ODC transferred

- Dendrite, a major customer for Aztec, has transfered its ODC with Aztec, to itself. The ODC was operated by Aztec on a BOT basis and the same was transferred to the client WEF January 2007.
- According to the management, about 10% of the company's revenues came from this ODC and to that extent, the growth rates in 4QFY07 will be impacted. However, the profitability with this ODC was lower than the company average, probably due to relatively lower realizations.
- While the performance over the short term is expected to be impacted, we expect the company to offset much of the impact in FY08 through growth in the existing Top 10 clients and from the enterprise clients added in recent quarters.

Future Prospects

(Rs mn)	FY06	FY07E	YoY (%)	FY08E	YoY (%)
Income	**1982.3**	**2705.4**	**36.5**	**3493.4**	**29.1**
Expenditure	1497.8	2121.6		2719.2	
EBDITA	**484.5**	**583.8**	**20.5**	**774.2**	**32.6**
Depreciation	98.4	118.5		179.0	
EBIT	**386.1**	**465.3**		**595.2**	
Interest	0.1	0.0		0.0	
Other income	8.8	21.4		54.0	
PBT	**394.8**	**486.7**	**23.3**	**649.2**	**33.4**
Tax	13.5	48.4		58.4	
PAT	**381.3**	**438.3**	**15.0**	**590.8**	**34.8**
EPS (Rs)	**8.7**	**10.0**		**13.4**	
Margins (%)					
EBDITA	24.4	21.6		22.2	
EBIT	19.5	17.2		17.0	
PAT	19.2	16.2		16.9	

Source: Company, Kotak Securities - Private Client Research

We have made changes to our FY07E and FY08E earnings estimates, in view of the Q3FY07 results.

- We expect Aztec to achieve revenues of Rs.2.71bn in FY07E and Rs.3.49bn in FY08E. We have assumed the rupee to appreciate to Rs.44 per USD by FY07 end and further to Rs.43 per USD by FY08 end.
- We expect Aztec to further add about 1200 employees through to FY08-end (after excluding the Dendrite ODC employees which will be transferred in 4QFY07). The average realizations are expected to remain stable through to FY08E.
- We expect the EBIDTA margins to improve over 3QFY07 through FY08E. The improvement in utilization levels, higher proportion of value added services, higher proportion of freshers in the employee base and better leverage on G&A expenses are expected to set-off the impact of the expected rupee appreciation and annual salary increases.
- In line with the company's expansion plans, we expect the company to incur a capex of about Rs.550mn over FY07E - FY08E. We have assumed a higher tax element at 9% of FY08E PBT as some of the company's facilities have moved out of the tax exemption period.
- Consequently, net profits are expected to rise to Rs.591mn for FY08E. This would translate into an EPS of Rs.13.4 for FY08E.

Concerns

- Rupee appreciation beyond our assumed levels of Rs.43 per USD by FY08 end could provide a downward bias to our earnings estimates.
- A steep deceleration the economies of major global economies could impact revenue growth of Indian vendors.

RESULT UPDATE

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GEOMETRIC SOFTWARE LIMITED
(RS.138, FY08E P/E: 12.5X, HOLD)

Geometric's Q3FY06 results were in line with our estimates. A higher other income component led to a higher-than-expected net profit growth. The consolidated results included financials of Modern Engineering for a period of two months.

The company has acquired Modern Engineering and has also integrated it within itself to a large extent. The management of the company has also changed with Mr. Ravi Gopinath taking over as the MD and CEO of the company.

Geometric has charted out a growth strategy, which would see it getting into the extended PLM environment. The company also plans to tap a larger number of clients through its branding initiatives and also an increase in its sales and marketing infrastructure. Strategic partnerships and inorganic growth would also feature as future drivers of growth.

Based on the above strategies, the company plans to grow revenues at a mush faster pace. Potential billing rate increases and increased offshore revenues (especially Modern-led), along with better management of employees and other costs are expected to help the company in improving profitability in the longer term.

However, we believe that the company will face challenges in terms of employee additions (shortage of skilled employees), improving profitability of Modern (EBIDTA of about 4% in Q3FY07, in our estimate) and winning direct client deals. Further success on these issues will make us more comfortable with higher valuations for Geometric.

The company's initiatives of selling off old property and acquisition of an engineering services company have been delayed slightly and Geometric hopes to complete these in H2FY07.

We recommend a HOLD on the stock with a price target of Rs.156

We have considered the acquisition and the equity dilution while arriving at our projections. We expect the company to report an EPS of Rs.6.4 in FY07 and Rs.11 in FY08. Based on FY08E earnings and according a PE multiple of 14x FY08E earnings, we arrive at a target price of Rs.156, which is also supported by our DCF analysis. We have increased our FY09E and FY10E earnings estimates in our DCF analysis to accommodate the aggressive plans of the company. We continue to recommend a **HOLD** on the stock with a price target of Rs.156.

1QFY07 results

(Rs mn)	2QFY07	3QFY07*	QoQ (%)	3QFY06	YoY (%)
Income	**799.7**	**1067.5**	**33.5**	**599.0**	**78.2**
Expenditure	649.1	897.4		448.0	
Operating profit	150.6	170.1	12.9	151.1	12.6
Depreciation	49.8	56.7		45.5	
EBIT	**100.8**	**113.4**	**12.4**	**105.6**	**7.4**
Interest	0.0	16.2		0.1	
Other inc	28.9	49.0		-40.3	
E.O items	0.0	0.0		0.0	
PBT	**129.7**	**146.1**	**12.7**	**65.2**	**124.3**
Tax	13.8	21.9		12.5	
PAT	**115.9**	**124.2**		**52.7**	
Minority Interest	15.0	18.8		13.4	
PAT after M I	100.9	105.5	4.5	39.4	168.0
EPS (Rs)	**1.7**	**1.7**		**0.6**	
Margins (%)					
Operating Profit	18.8	15.9		25.2	
EBIT	12.6	10.6		17.6	
Net Profit	14.5	11.6		8.8	

Source : Company * - Includes Modern Engineering WEF Noverber 2006

Revenues

- Geometric's Q3FY07 organic revenues grew by 3% QoQ. The revenue growth was impacted by a marginal de-growth in the product revenues and the sharp appreciation in rupee (about 3.5%).
- In dollar terms the 7% revenue growth was led by the software services business, which grew by 6% QoQ and the engineering services wherein revenues grew by 18% QoQ.
- The products business reported a sluggish growth for the second successive quarter with Q2FY07 reporting a mere 4% QoQ rise in revenues.
- Industrial customers continued to dominate the revenue profile by contributing 47% of the quarter's revenues.
- Of late, Geometric has deployed its own sales engine in a bid to win more orders from customers. This is as against the company's strategy of relying only on partners. This strategy has paid off with the company having already signed six relationships directly with the industrial customers.
- Engineering services revenues grew 18% sequentially on the back of ramp-up in existing as well as new accounts.
- The company has consolidated the financials of Modern wef November 2006. During the two-month period, Modern achieved revenues of Rs.245mn with EBIDTA of about 4% and a PAT of Rs.4mn.
- Modern had 500 employees working in the US, which are now a part of Geometric. Nearly 234 employees of Geometric were already working on Modern's assignments from India and these continue to work on those projects.

Employees

- On an organic basis, Geometric added about 170 engineers during the quarter. However, the utilization (including trainees) fell to 84% from 87% in the previous quarter as most of these employees were in training. The company had indicated its plans to increase the bench size to cater to future business opportunities.
- The company plans to add more freshers in the next quarter and the impact on utilizations is expected to continue.

Margins

- Organically, the EBDITA margins improved during the quarter by about 75 bps QoQ. This was due to the absence of one time expenditure incurred towards reimbursements, celebrations, visa expenses, etc in 2QFY07.
- The company also raised salaries for a select class of employees and reductions in perquisites costs incurred in 2QFY07.
- The company has witnessed reduced attrition of 20% in 3QFY07 as compared to 23% in 2QFY07. However, it continues to face challenges in finding experienced personnel. This has put additional pressure on salaries, which led to this mid term review and increase in salaries.
- Including Modern, EBIDTA margins were lower at about 16%.
- The company recorded a higher than expected other income of Rs.49mn. This is as against a other income component of Rs.29mn in 2QFY07.

Future strategy

- The company has laid down its future strategy wherein it plans to enter the extended PLM environment.
- Post the acquisition of Modern, Geometric plans to develop and leverage its global engineering delivery proposition to win large accounts.
- With additional branding and scale up in its direct sales force, the company plans to win more large accounts.

- Geometric will continue to leverage on existing and new partnerships as well as inorganic growth to grow at a faster pace.
- Geometric plans to improve profitability through a greater off-shore content in revenues especially in the Modern-led business. The company sees potentially higher billing rates, which are also expected to improve profitability.
- Better utilisation of its sales infrastructure and better leverage on SG&A expenses are expected to help further improve margins.
- However, in the near term, margins may be impacted by higher sales costs, higher bench, investments in improving the delivery infrastructure & processes and increased engagements with clients.

Future Prospects

(Rs mn)	FY06	FY07E*	YoY (%)	FY08E	YoY (%)
Income	**2234.2**	**3876.3**	**73.5**	**6321.9**	**63.1**
Expenditure	1740.9	3172.1		5169.9	
EBDITA	**493.3**	**704.2**	**42.7**	**1152.0**	**63.6**
Depreciation	171.7	220.7		301.7	
EBIT	**321.6**	**483.5**	**50.3**	**850.4**	**75.9**
Interest	0.4	34.5		48.3	
Other inc	68.3	78.6		132.0	
E.O items	0.0	0.0		0.0	
PBT	**389.5**	**527.6**	**35.5**	**934.1**	**77.0**
Tax	68.1	73.8		157.8	
PAT	**321.4**	**453.8**		**776.3**	
Minority Interest	63.6	65.1		98.0	
PAT after M I	257.8	388.8	50.8	678.3	74.5
EPS (Rs)	**4.5**	**6.4**		**11.1**	
Margins (%)					
EBDITA	22.1	18.2		18.2	
EBIT	14.4	12.5		13.5	
Net Profit	14.4	11.7		12.3	

Source : Company, Kotak PCG * - Includes Modern's financials WEF November 2006

- We have fine tuned our earnings estimates for the company.
- We expect Geometric to report revenues of Rs.3.88bn in FY07 and Rs.6.32bn in FY08. Geometric's net profit is expected to grow to Rs.389mn in FY07 and Rs.678mn in FY08.
- This translates into earnings of Rs.6.4per share in FY07 and Rs.11 per share in FY08.

Assumptions

- We have assumed the number of engineers to grow to 2837 by FY08 end, on an organic basis. The capacity utilization is assumed to at about 79 % in FY08.
- We expect the rupee to appreciate to 43 per US dollar by FY08 end.
- Organic margins are expected to improve over Q3FY07 despite higher salaries and expected rupee appreciation. The improvement is expected on the back of increased capacity utilization, better leverage on fixed costs and improving margins in Modern (Q3FY07 ENIDTA at about 4%).
- We expect Modern to contribute Rs.134mn to FY08 profits.

Concerns

- Rupee appreciation beyond our assumed levels of Rs.43 per USD by FY08 end could provide a downward bias to our earnings estimates.
- A steep deceleration the economies of major global economies could impact revenue growth of Indian vendors.

RESULT UPDATE

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BAJAJ AUTO
(RS.2774, CORE FY08 P/E: 11X; BUY)

Bajaj Auto declared its financial results for Q3FY07. This was better than our expectations in terms of revenue growth. Net sales rose 28% YoY to Rs.25.7 bn from Rs.20 bn reported in the third quarter (Q3) of last year.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	74,694	98,065	117,263
Growth %	30%	31%	20%
EBITDA	11,353	14,795	18,026
EBITDA margin %	15.2	15.1	15.4
Net profit	4,254	7,270	9,160
Net cash (debt)	(13,851)	(11,985)	(6,124)
EPS (Rs)	101	119	145
Growth %	40%	18%	22%
ROE %	23.5	23.5	24.8
ROCE %	16.3	19.2	21.2
EV/Sales (x)	3.16	2.39	1.95
EV/EBITDA (x)	20.8	15.8	12.7
Core P/E (x)	16	14	11
P/BV (x)	5.9	5.1	4.4

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

Period Ended	Q3FY2007	Q3FY2006	YoY %
Gross Sales	**29,267**	**22,847**	**28**
Total Vehicles Sold	740,620	596,814	24
Avg Realization Per Veh	39,517	38,282	3.2
Other Income	1,610	1,064	51
Total Income	**30,877**	**23,911**	**29**
Net Sales	**25,682**	**20,009**	**28**
Total Expenditure	25,631	19,266	33
Op Profits	3,636	3,581	2
OPM %	**14.2%**	**17.9%**	
Interest	2	1	57
Depreciation	472	491	-4
PBT	**4,771**	**4,153**	**15**
Prov for Tax	1,200	1,245	-4
Extra Ordinary Items	123	108	
Prior period Items	-4	10	-136
PAT	**3,452**	**2,790**	**24**
Equity Capital	1012	1012	
EPS (Rs)	**34.1**	**27.6**	**24**

Source: Company

Key Highlights for Q3FY07

- Net sales for the quarter ended December 2006 rose 28% to Rs.25.7 bn from Rs.20 bn last year. The rise in net sales was largely on account of a healthy growth of 24% YoY recorded in total volumes.
- Other income rose 51% YoY to Rs.1.6 bn during the quarter as compared to Rs.1 bn last year.
- Raw material costs, as a percentage of net sales, rose from 69.9% in Q3FY06 to 73.4% in this quarter. This was due to higher input costs especially in steel, aluminum and tyres.
- A sum of Rs. 126 mn has been charged in the current quarter in respect of the company's VRS scheme and another Rs. 126 mn would be charged in the fourth quarter.
- The market value of its investment portfolio stands at Rs.84.7 bn, translating into a valuation of Rs.837 per share.

EBITDA Margins: Under pressure but outlook stable

Operating margins for Q3FY07 declined 370 bps YoY to 14.2%. Moreover, the margins have also declined on a QoQ basis by around 90bps. According to the management, the decline in margins can be attributed to higher input costs as well as higher marketing expenditure due to the festive season initiatives in October when margins had gone down to around 12-13%.

What is comforting is the fact that margins were at around 15% in the remaining months of the quarter. This leads us to believe the margins could be sustained at 15% in the fourth quarter. The company had also effected two price hikes in November 2006 and January 2007. This should provide some respite against the input pressure.

Key Product Highlights: Gaining market share

As far as segmental performance within the motorcycles segment is concerned, Bajaj Auto continues to outperform the industry by a big margin. The higher growth rate of 28% v/s industry growth of 13% in the motorcycle segment resulted in incremental market share of 3%, taking its total market share to 34%. In terms of product mix, the company commands 45% share in the price segment with strongly positioned products, namely, the CT 100 & the Platina.

In the value segment, the company has improved its market share to 21% from 16% in FY06. The Bajaj Pulsar DTSi twins complemented by the Bajaj Avenger DTSi continue their leadership in the premium segment. The new upgrades of Pulsar that were introduced in December 2006 and the expected launch of Pulsar 220 DTS-fi is further expected to consolidate the company's position in this segment.

In the three-wheeler segment, BAL reported 49% YoY growth with 48% of sales coming from the export markets. Export volumes for the segment grew 139% during the quarter. BAL continues to enjoy 78% market share in the passenger segment and healthy operating margins.

Exports on track: Adding to the volume growth

During the quarter, BAL saw 80% growth in export volumes with sales value of Rs.4.6 bn. Exports now constitute 17% of total sales of the company as compared to just 3% five years back. The operations in Nigeria are going well (1 mn market) while the dispatches to Iran have also started during the quarter. In Indonesia, the company's subsidiary has commenced operations with the launch of the Pulsar 180 DTS-I at the Jakarta Motor Show. Annual output from the facility for three-wheelers is expected to be 10,000 units and for two-wheelers, it would be about one-lakh units.

Insurance Business

In the general insurance category, the company recorded a gross premium of Rs.4.6 bn during Q3FY07 as against Rs.3.3bn in Q3FY06 – growth of 38%. Profit after tax for the quarter was Rs.86mn as compared to Rs.38 mn in Q306 – a rise of 126%.

In the life insurance segment, Bajaj Allianz, the gross written premium is Rs.11 bn — an increase of 36% YoY. The total number of policies issued during the quarter was 435,504 as against 177,026 in Q3/2005-06.

Business Outlook: Shift in strategy crucial to future prospects

The company is planning to shift its focus from the 100 cc segment to a different segment altogether with the launch of a new platform for motorcycles within the next six months. We believe this is a step in the right direction as the 100cc segment is getting increasingly commoditized with wafer thin margins. Another major factor that favors this move is that approximately 35% of motorcycles sold are in the replacement segment that can be shifted to a higher displacement at the right price.

Besides, it could dent Hero Honda's stranglehold in the 100 cc segment with its pre-emptive move and gain further market share. The challenge before BAL will be to offer higher displacement at the 100 cc prices, something it has already tested earlier with the Discover112.

Two-wheeler industry sales are likely to remain robust with volumes likely to grow by 14% CAGR over the next four years (crossing the 10-mn mark) led by healthy GDP growth, expected rise in household income, easy availability of finance, growing replacement demand and the increasing aggressiveness of key players. BAL is expected to outperform the industry growth, as it continues to consolidate its leadership in the economy and premium motorcycle segments, while making gradual inroads in the emerging 125 cc and 110 cc deluxe executive segment.

Valuation

We are revising our earning estimates for the core business to factor in the higher growth in the current quarter and expecting the volume momentum to continue in the coming quarters. Margins are also likely to expand in the coming quarters as a result of better realizations and stable raw material costs. We are now expecting the company to post Rs.98 bn and Rs.117 bn in sales with corresponding net profits of Rs.7.2 bn and Rs.9.1 bn, respectively.

This translates into an EPS of Rs.119 and Rs.145 for FY07E and FY08E. However, we continue to maintain our earnings estimates for the non-core segments. Our revised price target based on SOTP valuations comes to Rs.3234 (earlier estimate Rs.3173) achievable over a 12-month horizon.

Price target

Segment	Rs/share	Earlier estimate	Methodology Used
Core Value	2073	2011	DCF
Gen Insurance	52	52	PE Multiple of 15x
Life Insurance	536	536	DCF
BAFL	20	20	Market Price- At 40% Discount
Investments	553	553	Book Value
Target Share price	**3234**	**3173**	

Source: Kotak Securities - Private Client Research

We now recommend a BUY on the with a price target of Rs.3234

The BAL stock trades at Rs 2774 discounting core FY07E and FY08E earnings by 14x and 11x, respectively. We maintain a positive bias for the BAL stock considering its healthy volume growth and improved margin outlook that are further aided by its large cash reserves and unlocked value in the insurance businesses. Besides there could be further upside to our FY08E estimates once there is more visibility on the company's new strategy. Hence, we are upgrading the stock from **HOLD** to **BUY** with a new target price of Rs.3234 — providing an upside of 16.6% from current levels.

RESULT UPDATE

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HT MEDIA LTD

(RS.167, FY08E: EV/EBITDA: 12X, HOLD)

HT Media reported Q3FY07 numbers that were broadly in line with our estimates. Revenues grew by a healthy 24% YoY to Rs.2.75 bn from Rs.2.2 bn in Q3FY06. Revenue growth was also a healthy 10.1% on a QoQ basis. Improved operating margins resulted in higher profitability with net profits growing 97.5% and 33% (YoY & QoQ) to Rs.336mn in Q3FY07.

We have modified our earnings to take into account the Q3FY07 results and our increased optimism about ad revenue growth for HTML across its flagship editions going forward. We have also accounted for some incremental operating expenditure the company is expected to incur as it rolls out new editions in the Hindi business and the business paper initiative.

We now expect HTML to report revenues of Rs.10.5 bn in FY07 and a further Rs.13.3 bn in FY08 and net profits of Rs.1.3 bn in FY07 and Rs.1.9 bn in FY08. On an equity capital of Rs.468.5 mn, (FV of Rs.2); this would translate into an EPS of Rs.5.6 for FY07 and Rs.8.2in FY08.

We expect EBITDA for the existing operations of the company to grow at a CAGR of 58% to Rs.2.96 bn in FY08 from Rs.1.18 bn reported in FY06 over the period FY06-08. Consequently, we expect EBITDA margins to improve to 22.2% in FY08 from the 14.4% reported in FY06.

We see this expansion in profitability as editions ramp up their revenues and profitability after the initial high investments, aided by a conducive macro environment.

The stock has run up significantly over the last quarter and now trades at levels, which fairly discount our FY08 estimates. We consequently now recommend a HOLD on HT Media with a weighted average price target of Rs.180.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	8,210	10,562	13,321
Growth %	30.7	28.6	26.1
EBITDA	1,184	2,073	2,961
EBITDA margin %	14.4	19.6	22.2
Net profit	373	1,306	1,910
Net debt (cash)	(1,626)	(2,072)	(3,921)
EPS (Rs)	1.6	5.6	8.2
Growth %	-75.7	250.4	46.3
CEPS	3.2	7.2	9.9
DPS (Rs)	0.2	0.4	0.4
ROE %	6.8	18.2	23.1
ROCE %	13.5	24	30.4
EV/Sales (x)	4.6	3.6	2.7
EV/EBITDA (x)	32.2	18.2	12.1
P/E (x)	105	30	20.5
P/Cash Earnings	51.6	23.1	16.9
P/BV (x)	5.6	5.3	4.3

Source: Company & Kotak Securities - Private Client Research

Quarterly Results

(Rs mn)	Q3FY07	Q3FY06	% chg	2QFY07	% chg
Revenues	2752.1	2218.0	24.1	2499.4	10.1
Expenditure	2214.9	1850.0		2039.5	
Business paper expenses	-46.4				
EBDITA	490.8	368.0	33.4	459.9	6.7
Depreciation	97.6	98.6		95.9	
EBIT	393.2	269.4	46.0	364.0	8.0
Interest	36.2	34.1		37.9	
Other Income	148.9	47.3		75.8	
Seperation compensation	0.0	13.7		0.0	
PBT	505.9	268.9	88.1	401.9	25.9
Tax	170.0	98.8		149.6	
PAT after EO items	335.9	170.1	97.5	252.3	33.1
EPS (Rs)*	1.4	0.7		1.1	
OPM (%)	17.8	16.6		18.4	
GPM (%)	14.3	12.1		14.6	
NPM (%)	12.2	7.7		10.1	

Source: Company, Kotak PCG Estimates, *-post split FV is Rs.2

Revenues...Healthy ad revenue momentum is the driver

The 10.1% sequential revenue growth for HT Media in Q3 FY07 was spurred by the 12% growth in advertising revenues that offset the tepid growth in circulation revenues. Ad revenues for the quarter stood at Rs.2.33 bn, up 32% on a YoY basis from the Rs.1.76 bn in Q3FY06.

Circulation revenues on the other hand were flattish on a sequential basis at Rs.360 mn. This can be attributed to the loss of price-sensitive readers due to the cover price hikes effected for HT's northern India editions.

We opine that this healthy revenue ad revenue growth comes on the back of the following factors:

(a) Ad rate increases effected by HT for its English & Hindi editions in the previous quarter.

(b) Increased ad yields that are a result of HT's growing footprint both in Hindi & English. We opine that the decent Mumbai entry has increased HT's addressability for national advertisers leading to better ad yields for the overall business.

(c) Healthy macro-economic scenario that has led to continued growth in print media spends by advertisers.

(d) In our opinion Hindustan has also witnessed healthy ad growth on the back of extended footprint in UP post the launch of editions in Agra, Kanpur & Meerut.

The healthy ad revenue momentum was marginally above our expectations and has lent greater optimism to our estimates on the ad revenue front. We have suitably modified our revenue estimates and now estimate a full 23% growth in HT's consolidated ad revenues for FY08 on the back of the 33% growth we estimate for FY07. We opine that HT's dominant position in Indian print branding, extended national footprint and recent ad rate hikes will help it grow at greater than expected industry rates of 15-18%.

EBITDA margins.... tapering witnessed on account of continuing investments

For the quarter, HTML reported EBITDA margins of 17.8% that were down 60 bps QoQ but up 120 bps on a YoY base. These margins in Q3 include an expenditure of Rs.46.4 mn towards the business paper. Adjusted for this the EBITDA margins stand at 19.5%, up 100bps on a QoQ basis.

We opine that continuing investments in different editions, and increased ad and sales costs towards the business paper have impacted margins in the current quarter. We expect investments towards the business paper and new Hind rollouts to keep margins subdued in the remainder of FY07.

We also feel that good execution of these initiatives will add longer term value as it could result in overall yields trending up on the back of increased addressable market.

Supported by stable newsprint prices...

Margins were also helped by stable newsprint prices this quarter, though the levels are higher when compared on a YoY basis. Going forward, we have assumed newsprint prices to modestly taper from the current levels for H1FY08. Any further softening of newsprint prices could be EBITDA positive for the company.

Mumbai - HTML's step towards becoming a national newspaper has been progressing well; Re-worked offering launched in Q4FY07...

In FY06, HT entered the lucrative and competitive Mumbai market that has a possible ad market of close to Rs.7.5 bn and a strong incumbent in the form of the BCCL group. We see the Mumbai move by HTML as a means to grow its footprint and position itself as a national newspaper straddling the country's two major ad markets - Delhi and Mumbai that together account for close to 75% of India's print ad-spends.

We believe HTML has met with a degree of success in its Mumbai edition in terms of circulation numbers. According to the management the current quarter has seen its Mumbai edition gaining circulation numbers and narrowing the gap with the market leader ToI.

The satisfactory Mumbai entry in our opinion has, more vitally, increased ad yields for HT's dailies on back of selling combined Delhi-Mumbai ad packages to advertisers that is reflected in robust ad revenue growth registered during the recent quarters.

We see the decent Mumbai entry and greater reach as one of the major drivers for the healthy ad revenue growth projected over FY06-08E.

Business paper launch expected soon...

HTML is on schedule to rollout its business daily from possibly the Q4FY07. The daily is likely to be launched from the two centers of Mumbai and Delhi initially, with plans to ramp up presence depending on reception to the offering.

The company has also tied up with The Wall Street Journal for sourcing news content. According to the management the association with WSJ would also include sourcing of content and assistance in the development of an internet based business offering.

In terms of investments the initiative is not expected to incur any significant capex due to the surplus facilities enjoyed by HTML. The initiative could result in incremental operating expenditure, business losses and additional working capital requirements to the tune of close to Rs.200 mn across the quarters leading to and after the eventual launch, in our opinion.

Break-even expected for stand-alone business paper at EBITDA level towards the end of FY08E...

We expect the business paper initiative to break-even at the EBITDA level towards the end of FY08E. In our opinion the business paper initiative on a standalone basis will entail an EBITDA burn of close to Rs.120-130 mn over FY07 and FY08, impacting near-term margins to the same effect for the overall business.

We also feel good execution of the initiative will add longer term value as it could result in overall yields trending up on the back of increased addressable market.

Our estimates suggest the business paper on a stand alone basis will post EBITDA margins of 12.5% in FY09 and improve profitability going forward as leverage starts to kick in on the growing revenue base.

We note that business papers across the print industry are estimated to be more profitable than the general newspapers given their positioning and higher ad yields. The nature of the newspaper industry is of high fixed cost; the incremental revenues above the cost base result in an improved margin profile.

Future Prospects:

On a margin front we expect the company to report full year margins of 19.6% for FY07 and a further 22.1% in FY08. These have been modified (20.2% and 22.2% previously) factoring in the greater S&M expenditure and EBITDA burn we expect from the business paper initiative in the near-term.

We see this expansion in profitability as editions ramp up their revenues and profitability after the initial high investments, aided by a conducive macro environment. Newspaper businesses typically enjoy good amount of leverage due to the fixed cost nature of expenses; something that has led to a significant amount of operating leverage and expansion in profitability for HTML over the last two quarters.

Financials

We have modified our earnings to take into account the Q3FY07 results and our increased optimism about ad revenue growth for HTML. We have also accounted for some incremental operating expenditure the company is expected to incur as it rolls out new editions in the Hindi business and the business paper initiative.

We have also factored in revenues from the HT-WSJ initiative to flow in from Q4FY07E (Rs.35 mn) growing to Rs.400 mn for the whole of FY08. Initial investments in the business paper and cash burn at EBITDA level of Rs.130-140 mn are expected over FY07 and FY08.

In the longer term we expect the business paper initiative to add value due to increased profitability of the business paper and the value it could deliver in terms of positioning. We have not factored in any increase in the general newspaper ad yields on account of addition of the business paper in the bouquet.

We now expect HTML to report revenues of Rs.10.5 bn in FY07 and a further Rs.13.3 bn in FY08 and net profits of Rs.1.3 bn in FY07 and Rs.1.9 bn in FY08. On an equity capital of Rs.468.5 mn, (FV of Rs.2); this would translate into an EPS of Rs.5.6 for FY07 and Rs.8.2in FY08.

Our estimates do not factor in any possible ad rate hikes going forward or revenues from to be launched new Hindi editions.

Valuation & Recommendation

We have valued HTML on the basis of two-valuation methodologies- conventional DCF approach and an EV/EBITDA multiple basis. Our arrived fair value for HTML is a weighted average of both these methodologies.

We note that international peers like Tribune, New York Times, Dow Jones (USA) and Singapore Press, Star Publications in Asia trade at one year forward EV/EBITDA bands of 10-11x. We opine that HT should be accorded a trading band that is at a premium on account of its superior earnings growth rates and the expected growth rates in the target markets.

This is backed by the broader fact that India is one of the few markets that is expected to witness growth in print readership given the demographics and improving literacy rates. We prefer to accord a premium to international peers' trading range that works out to 12.5x 1- year forward EV/EBITDA. This provides a fair value of Rs.183 for the stock.

We consequently now recommend a HOLD on HT Media with a weighted average price target of Rs.180.

Our conventional DCF methodology suggests a fair value of Rs.177 for the stock. The rise in DCF based value is due to rolling forward our valuation base, revised earnings estimates and the expected improved profitability of the business paper post FY08.

Assigning equal weights to both the methodologies we arrive at a fair value of Rs.180 for the stock. Despite the limited upside from the current level we have a positive bias for HTML as there could be possible upsides from:

(a) Better than estimated ad revenue momentum across different businesses,

(b) Successful roll outs of newer editions in vernacular media and their impact on ad yields

(b) HT-WSJ's positive impact on overall business' ad yields and,

(c) Greater clarity on new cross media initiatives like radio and internet businesses that could impact valuations going ahead. HTML has radio licenses for the cities of Mumbai, Delhi, Kolkata and Bangalore through a subsidiary; of which Delhi & Mumbai are already operational.

The stock has run up significantly over the last quarter and now trades at levels which fairly discount our FY08 estimates. We consequently now recommend a **HOLD** on HT Media with a weighted average price target of Rs.180.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
16-Jan	Aarvee Den E	Pilot Consultants Ltd	S	130,000	94.54
16-Jan	Accel Frontl	State Bank Of India	S	170,000	78.57
16-Jan	Aftek Ltd	Kotak Mahindra UK Ltd Ac	B	472,990	73.48
16-Jan	Alps Indust	Jain Orna Pvt Ltd	S	273,100	76.56
16-Jan	Ashco Indust	Priti Anil Gandhi	S	20,000	54.27
16-Jan	Bihar Tubes	Yatin B Shah HUF	S	19,230	114.87
16-Jan	Champagn Ind	Crown Capital Limited	B	284,200	653.64
16-Jan	Champagn Ind	Arisaig Partners Asia Ltd	S	200,000	655.00
16-Jan	Epic Energy	Ganesh Barterp L	B	33,915	43.50
16-Jan	Epic Energy	Wallstreet Capital Market	S	50,000	43.50
16-Jan	Epic Energy	Novel Finvest	S	21,536	43.49
16-Jan	Filat Fash	Kishorilal Amritlal Bissa	S	693,000	10.05
16-Jan	Gemstone Inv	M N Rajgopal HUF	S	25,000	17.75
16-Jan	Hisar Metal	Vishwanath Agarwal And Ot	B	22,800	32.21
16-Jan	Indo Borax C	Nisha Suman Jain	S	17,650	60.80
16-Jan	K Sera Sera	Bhagwan Chandiramani	S	150,000	30.50
16-Jan	Kadamb Const	Laxmi Choudhary	S	25,000	26.00
16-Jan	Lok Housi Co	Blackstone Asia Advisors	S	89,273	281.13
16-Jan	Mercator Lin	HSBC Financial Services	S	1,794,256	48.85
16-Jan	Mittal Sec.	Aby Financial Services	S	33,500	13.49
16-Jan	Mittal Sec.	Manas Strategic Cons P. L	S	35,000	13.46
16-Jan	Modipon Ltd	Mavi Investment Fund Limited	B	75,000	215.00
16-Jan	Modipon Ltd	Pinnacle Trades and Inves	S	75,000	215.00
16-Jan	Modison Meta	Adit G Mehta	B	50,000	407.09
16-Jan	Mohit Indust	Gautam Girishbhai Patel	B	35,088	63.32
16-Jan	Mount Eve Mi	Manish Kumar	B	300,000	89.25
16-Jan	Mount Eve Mi	Prism Impex Pvt Ltd	S	210,000	89.12
16-Jan	Nachmo Knite	Thomas Thomas	S	242,673	3.04
16-Jan	Ocean Infrst	Suresh B Shah	S	50,000	3.63
16-Jan	Pradeep Met	Sanchay Holdings Pvt Ltd	S	459,266	16.40
16-Jan	Raj Rayon Li	Scb Corporation	S	100,000	50.11
16-Jan	Ram Informai	Ranga N.B Gorrepati	S	669,163	19.08
16-Jan	Ramsarup Ind	Morgan Stanley Dean Witte	B	90,000	177.21
16-Jan	Riga Sugar C	Chirawa Cements Ltd	B	50,000	58.00
16-Jan	Riga Sugar C	Tanvi Fincap Pvt Ltd	B	35,000	58.00
16-Jan	Riga Sugar C	Superline Trading Company	S	60,585	58.07
16-Jan	Rock Hard Pe	N.J.Associates	B	65,000	15.39
16-Jan	Rock Hard Pe	Varkha Deepak Melwani	B	50,000	14.90
16-Jan	Rock Hard Pe	Deepakkumar Garg	B	100,000	15.23
16-Jan	Rock Hard Pe	Kamal Bhupatry Parekh	S	50,000	14.90
16-Jan	Sanguine Md	Land Mark Capital Markets	S	50,000	45.99
16-Jan	Shakti Pumps	Aap Investments	B	50,000	123.00
16-Jan	Sky Industri	Vijay Jamnadas Vora	S	23,902	58.47
16-Jan	Sujana Univ	Lotus Global Investments	S	1,700,000	20.30
16-Jan	Sybly Indusr	Immortal Financial Serv	B	25,300	15.64
16-Jan	Triven Glass	Chamatkar Net India Limited	B	72,000	54.41
16-Jan	Venkat Pharm	Saravana Insulators Ltd	B	41,751	16.88
16-Jan	Vij.Shanti B	Morgan Stanley Dean Witte	S	59,460	177.60

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Bharti Airtel	670	1.3	3.2	0.8
Suzlon Energy	1,320	3.9	2.9	0.6
Wipro	637	1.6	2.9	0.9
Losers				
Reliance Ind	1,347	(1.3)	(5.0)	1.8
Infosys Tech	2,222	(0.9)	(2.3)	0.6
SAIL	97	(2.7)	(2.2)	10.1

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
17-Jan	Lupin, Wipro, Infotech Enterprises, NIIT Technologies, 3i Infotech, Alembic NDTV, earrnings expected; Spice Jet holds press conference to announce expansion plan
18-23 Jan	Initial Public Offer of Technocraft Industries opens
18-Jan	Ranbaxy Laboratories to announce earnings & dividend; Reliance Industries, Reliance Energy, Chambal Fertilizers, Exide Industries, Shasun Chemicals, Biocon, Siemens, Nicholas Piramal earnings expected
19-Jan	Dabur India, Ramond, IDFC, Ballarpur Industries, Hindustan Construction, Satyam Computers, Gujarat Narmada Valley Fertilizers company, ING Vysya Bank, Dena Bank, Indo Rama Synthetics, NIIT Ltd, Orchid Chemicals, Tata Teleservices (M), Sonata Software, Wyeth, Jain Irrigation, Deccan Chronicle, Jet Airways, i-flex Soluttions, earnings expected
20-Jan	ICICI Bank, Godrej Consumer, Gujarat Alkalies, Chennai Petroleum Corp, Pfizer, Hindustan Zinc earnings expected
22-Jan	Zee Telefilm, JSW Steel, Bank of India, Nalco, India Cements, Cadila Healthcare, Merck Ltd, Maruti Udyog, Kotak Mahindra Bank, Bank of India, Colgate Palmolive India, Jammu & Kashmir Bank, Ingersoll Rand (I) earnings expected

Source: Bloomberg

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