Emkay
PCG Recommendations

June 2007

Mr. Krishna Kumar Karwa,
Managing Director

From the Managing Director's Desk

Dear Investors,

Investors in large caps, midcaps and small caps all have had a fruitful land positive, May07. We had the nifty hitting a new high ending the month at 4295 appreciating by around 3.5% during the month; on the other hand, midcaps indices have done better with CNX midcap indices appreciating by around 6% during the month.

June will be a crowded month with many big IPOs lined up with DLF issue itself amounting to around Rs. 10,000 crs. Typically the momentum, which is created before such large issues, fizzles off post such large issuances. Investors need to be cautious around the mid- month when this IPO is expected to hit the market.

We had a 3 day Mid-Cap Cos. Conference starting 28^{th} May, 2007 with 21 corporates like Yes Bank, Everest Kanto, Bhushan Steel, Panacea Biotec, Bharti Shipyard, Ratnamani Metals, Granules etc. meeting and sharing their growth plans with our Institutional Clients. All the Cos. had optimistic outlook with no fears of slow down due to interest rate hikes, inflation etc.

Global Indices are buoyant with Bank Of Japan and US Fed keeping interest rates unchanged. India has also been a beneficiary of Global Liquidity with net FII inflows for the current month being at 3659.7 Crs. Crude Oil prices have hardened to $69 a barrel. This normally would have been a concern for the Indian Economy, however with the rupee having appreciated by 7% in the last 2 months, the negative impact has been contained.

I believe if the markets have to move to the next level, Large Cap IT stocks should do well in the current month. Oil Refining and Marketing Cos are quoting at reasonable valuations and are expected to show robust performance in the first quarter. Investors should use the current euphoria to review their portfolios and exit from fundamentally weak stocks.

Happy Investing

The following are our recommendations for June 2007...

TAJ GVK HOTELS & RESORTS LTD.

(Price: Rs.165, FY08E- P/E 15.4x SELL, Target Price: Rs.157)

(Initiated call on 07.05.07 at Rs 177)

Initiating Coverage

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Stock details

BSE Code	500193
Bloomberg Code	TAGJ@IN
Market Cap (Rs bn)	10.32
Free Float (%)	25.36
52-wk Hi/Lo (Rs)	344/152
Avg Daily Vol (BSE)	27465
Avg Daily Vol (NSE)	42256
Shares o/s (mn) FV Rs 2	62.70

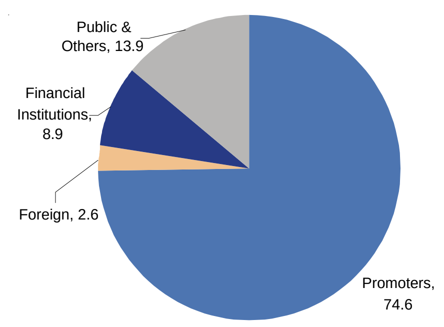
Source:Company , Emkay Private Client Research

Summary table

Rs mn	FY08E	FY09E	FY10E
Total Revenue	2701.4	3499.0	4400.2
Growth %	10.6	29.5	25.8
EBITDA	1281.0	1660.4	2111.4
EBITDA margin %	47.4	47.5	48.0
Net Profit	668.4	855.4	1128.4
EPS (Rs)	10.7	13.6	18.0
CEPS (Rs)	13.5	17.9	23.1
ROE %	29.7	29.8	30.3
ROCE %	28.7	27.1	31.8
EV/Sales (x)	4.8	3.8	2.8
EV/EBITDA (x)	10.2	7.9	5.8
P/E (x)	15.4	12.1	9.1
P/CEPS (x)	12.2	9.2	7.1
P/BV (x)	4.1	3.2	2.5

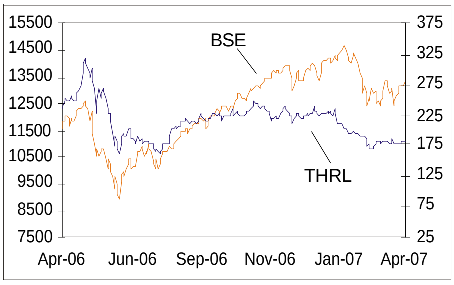
Source:Company , Emkay Private Client Research

Shareholding pattern (31 March, 2007)



Source:Company, Emkay Private Client Research

One-year performance (vs. Sensex)



Source: Capitaline

TajGVK Hotels & Resorts Limited (THRL) is a joint venture between Indian Hotels Co. Ltd and the Hyderabad based GVK Group. Indian Hotels, which manages the Taj group of Hotels owns 25.5% and the GVK Group owns 49.1% in the company. GVK is a Hyderabad based group with interest in varied sectors such as Hospitality, Infrastructure – power plants, roads and airports, Chemicals and Services. Indian Hotels is a distinguished player in the hospitality industry with operations spread across India and is expanding operations globally.

THRL is a dominant player in the hospitality sector and market leader in Hyderabad with 4 properties under its umbrella of which 3 are in Hyderabad and one in Chandigarh. The company has a total room inventory of 684 rooms with 534 rooms in Hyderabad and 150 rooms in Chandigarh. The company is strengthening its position in Southern India with one property each coming up in Chennai & Hyderabad and expansion planned in 2 properties in Hyderabad.

We initiate coverage on THRL with a Sell recommendation with a 12-month price target of Rs 157, which is based on DCF valuation. At the target price of Rs 157 the stock shall trade at a P/E multiple of 15x FY08E earnings. Our target multiple is at a 20% discount to the sector average of 19x. We attribute the discount to: 1) High dependence on the Hyderabad market (84% of FY07E revenues), where growth is peaking; 2) Hyderabad market to see further room addition over next 3 years which is expected to affect Occupancy Rate (OR's) & Average Room Rate (ARR's); and 3) Subdued earnings CAGR of 15% for FY07-09E vis-à-vis an industry average of 26%.

Investment Thesis:

High dependence on Hyderabad market – THRL currently has 4 properties in its portfolio with 3 properties in Hyderabad and one in Chandigarh. It is coming up with 2 new properties one each in Chennai and Hyderabad, which are expected to be operational by September 07 and Q1FY09 respectively and is planning expansion in its Hyderabad properties – Taj Residency & Taj Krishna. This makes the company heavily dependent on Hyderabad market for its operations.

In FY2007E THRL is expected to generate almost 84% of its total revenue from Hyderabad market. Going forward we expect the contribution from Hyderabad market to remain at around 77%.

Hyderabad market not expected to grow due to significant supply of additional room inventory – In FY2007 Hyderabad market saw addition of 2 new properties with 450 rooms being added to the room inventory in the city. This addition resulted in pressures on OR's which fell from around 81% to 73% on a cumulative basis as on Feb'07 *(Source: CRISINFAC)*. On addition of these properties the occupancies for the third quarter fell from 77%, 85% & 80% in Oct'05, Nov'05 & Dec'05 respectively to 64%, 68% & 63% in Oct'06, Nov'06 & Dec'06 respectively.

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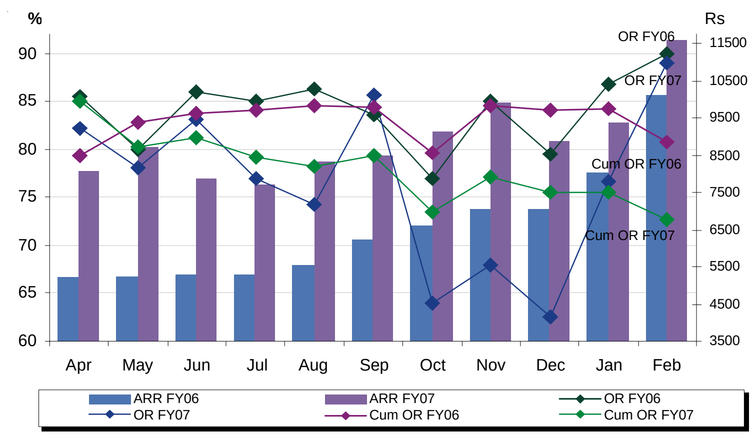

Source : Crisil Research

The Hyderabad market is expected to get further additions to its room inventory between FY08 & FY10 with significant projects under way. In FY08 Bharat hotels, IFTHA & Royal Orchid are expected to add 160, 150 & 65 rooms respectively, in FY09 Hotel Leela, Empee International Hotels & Taj GVK are expected to add 300, 250 & 366 rooms respectively and in FY10 Taj GVK, Viceroy Hotels & Bharat Hotels are expected to add 190, 175 & 160 rooms respectively.

We believe that the Hyderabad market is sensitive to addition of inventory and on any further addition the market shall see a significant fall in occupancies thereby affecting the revenues and ability of the players to rise ARR's. With significant additions planned in Hyderabad and with majority of revenues for THRL being generated from Hyderabad we believe that the company will face pressure on its OR's and the room for increase in ARR's shall be reduced thereby impacting revenue growth and profitability.

Capex in the pipeline but growth is back-ended – THRL has lined up a capex of Rs 4250 mn to build 2 new hotels and 2 expansions. The gestation period to commission these properties will be in the range of 2-3 years, which we believe will not allow immediate growth, but the growth shall be in a phased manner. These projects shall even run the risk of timely implementation, in absence of which the revenue and profitability growth shall be impacted.

Further, we believe that the capex planned to be incurred by the company shall not be able to maintain the current earnings in the immediate future, thereby resulting in reducing the ROCE & ROE of the company in the years going ahead. We expect the ROCE to reduce from 39% expected in FY07 to 29%, 27% & 32% in FY08E, FY09E & FY10E respectively and the ROE to reduce from 37% expected in FY07 to 30% in FY08E, FY09E & FY01E.

Subdued growth in revenue and profitability during FY08 & FY09 – Based on the expected addition to the room inventory in Hyderabad we believe that there will be pressure on OR's which shall adversely affect the pricing power of THRL. Due to this pressure on the pricing power we expect the growth of THRL to be subdued in the coming years. We expect the growth to come only from room additions and not from increase in OR's and ARR's. Based on our financial estimates we expect the revenue to grow by 11% in FY08E, 29.5% in FY09E & 25.8% in FY10E to Rs 2701 mn, Rs 3499 mn & Rs 4400 mn in FY08E, FY09E & FY10E respectively. Further, we do not expect a significant growth in profitability in FY08E

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and expect an EPS of Rs 10.7, thereby growing by mere 4% over FY07. However, in FY09E & FY10E we expect the company to register an EPS of Rs 13.6 & Rs 18 respectively.

Valuation & Recommendation –

We initiate coverage on THRL with a Sell recommendation with a 12-month price target of Rs 157, which is based on DCF valuation. At the target price of Rs 157 the stock shall trade at a P/E multiple of 15x FY08E earnings. Our target multiple is at a 20% discount to the sector average of 19x.

Initiating Coverage

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Stock details

BSE Code	532746
Bloomberg Code	UIP IN
Market Cap (Rs bn)	5.41
Free Float (%)	30.48
52-wk Hi/Lo (Rs)	679/317
Avg Daily Vol (BSE)	32100
Avg Daily Vol (NSE)	42823
Shares o/s (mn) FV Rs 10	13.4

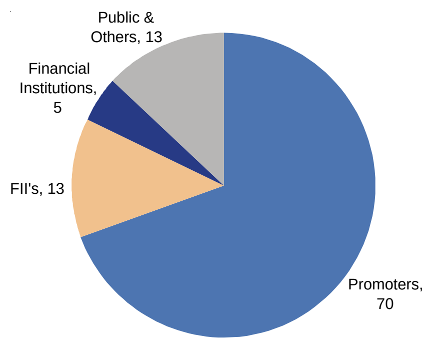
Source: Emkay Private Client Research

Summary table

Rs mn	FY06A	FY07E*	FY08E*	FY09E*
Sales	3,287.4	5,424.3	8,244.9	11,955.1
Growth %	23.9	65.0	52.0	45.0
EBITDA	429.0	705.2	1,030.6	1,494.4
EBITDA margin %	13.1	13.0	12.5	12.5
Net Profit	245.9	438.7	572.6	798.9
EPS (Rs)	23.2	32.8	42.8	59.8
CEPS (Rs)	27.0	46.7	61.9	87.3
ROE %	35.2	37.7	35.0	35.1
ROCE %	27.4	24.8	24.7	25.9
EV/Sales (x)	1.7	1.3	0.9	0.6
EV/EBITDA (x)	13.1	10.1	7.2	5.1
P/E (x)	22.4	15.8	12.1	8.7
P/CEPS (x)	19.3	14.0	10.6	7.5
P/BV (x)	5.8	5.1	3.7	2.6

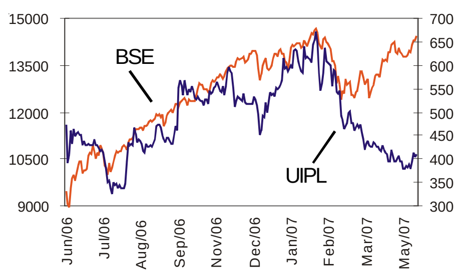
Source:Company Emkay Private Client Research. EPS calculated on increased equity of Rs 133.7 million after IPO issue

Shareholding pattern (31 Mar, 06)



Source:Emkay Private Client Research

Stock Performance (Rel to sensex)



Source: Capitaline

Unity Infra Projects Ltd.

(Price: Rs.520 , FY09E- P/E 8.7x BUY, Target Price: Rs.609)
(Initially Recommended at Rs. 407 on 24th May. 2007)

Unity Infrastructure Projects Ltd. (UIPL) is a small size engineering & construction company providing integrated engineering, procurement & construction services for civil construction & infrastructure projects. The company is carrying out its projects in 11 states across India and also in Nepal. The company has two 100% subsidiaries:

(a) Unity Reality Developers Ltd. — for real estate development
(b) Unity Infrastructure Assets — for undertaking BOT projects

Having consolidated its position in infrastructure space, especially in the areas of transportation engineering, Irrigation & water supply, industrial structures and airports the company is now focusing on real estate & BOT projects in a big way.

Driven by strong growth in construction business coupled with good potential seen in real estate business we expect revenues and net profit for the company to grow by 54% & 37% respectively over the period FY06- FY09E.

Investment Positives:

Strong Order Book in the construction segment

Unity Infrastructure Projects Ltd.'s construction business comprises of 2 segments viz: Civil Construction (comprising of commercial & residential buildings, Airports, Railway Stations) and Infrastructure segment comprising of Transport & Irrigation & Water Supply.The current order book of UIPL is Rs 21.7 billion (as on Dec'06) with civil projects accounting for about 75.6%, irrigation & water supply accounting for 17.2% while transportation segment accounting for 7.3%. The company is also looking for entry into BOT & BOOT projects through its wholly owned subsidiary Unity Infrastructure Assets which would further increase company's profitability.

Ability of the company to undertake projects on a Turnkey & design-build basis by providing a range of specialized construction & operational services enables the company to command higher margins at the EBITDA levels. With increased order book size & company's venture into higher value added business the EBITDA margins are excpected to increase.

Good growth seen in infrastructure segment

Infrastructure segment is expected to be on the exponential growth in the next few years. Government plans to infuse about US $ 320 bn for building & upgrading India's infrastructure. Private participation is being seeked by the Government through BOT & BOOT projects across sectors. Investments are increasing in civil construction segments like Airports, malls etc. UIPL's vast experience in infrastructure & civil construction projects would help the company to bid for & secure more complex & profitable infrastructure projects. The company also plans to expand its activities in other areas like hydropower & port projects. Hence, we see a good growth for the company with the growing economy of India in the coming years.

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Focusing on BOT projects

With increasing opportunities in the BOT segment, UIPL has forayed into this segment by floating a 100% subsidiary Unity Infrastructure Assets. The Government has planned a number of projects across sectors, such as roads, water supply, power & real estate on BOT & annuity basis. UIPL plans to bid aggressively for the BOT projects going forward. BOT or annuity projects generally provide better operating margins because of the added overall control of projects costs that can be exerted by the contractor. Up till now the company has successfully procured Rs 940 million water supply project from Ulhasnagar Municipal Corporation in 50:50 JV with Pratibha Industries Ltd. We believe UIPL is well positioned in the construction & infrastructure space and would be able to bag major orders in the BOT & BOOT segment.

Strong focus on Real Estate Development to drive business growth

With the exponential growth in the economy opportunities in the real estate segment are growing rapidly. The promoters through their group company have had previous experience in the real estate sector having built prominent residential apartments in the city of Mumbai. Looking at the opportunity, UIPL has recently forayed into real estate development. The company has formed a 100% subsidiary, Unity Reality Developers Ltd. for its real estate development projects.

For real estate projects, the company is focusing more on projects on contract basis where the margins are good rather than building on its land bank. UIPL has recently bagged Rs 430 million commercial complex projects from India Bulls where the land belongs to India Bulls and further the raw material viz. cement, steel would be provided to Unity by India Bulls. This would result in increased margins for UIPL. Unity Infra Projects has bagged real estate projects on BOT basis in Joint Venture with BSEL Infra in Nagpur & Pune where the land cost has to be paid during the lease period. Such business models for real estate projects on contract basis insulates UIPL from blocking its money in land bank.

Risks & Concerns:

- The projects of the company are heavily concentrated in & around Mumbai with Mumbai contributing about 21% of the current order book.
- Increasing interest rates are detrimental as debt comprises a significant portion of BOT projects.
- Entire construction industry is expected to experience pressure on margins with increasing raw material cost & wages.

Valuations:

With an EPS CAGR growth of 37% estimated over FY06-FY09E, on the back of a 54% CAGR growth in net sales and a ROE & ROCE levels of 34.3% & 35.8% on FY09. We feel, at the current price of Rs 520, the stock trades at an EV/EBITDA of 5.1x FY09E and the current valuations look attractive. UIPL is a compelling BUY and we initiate a coverage on the stock with a BUY reccommendation. We arrive at a target price of Rs 609 for the stock based on SOTP approach. At our target price the stock will be valued at 6x EV/EBITDA for FY09E.

Result Update

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Great Offshore is the largest integrated offshore oilfield services provider

Great Offshore Ltd.

(CMP : Rs 768, FY08 - PE : 13x, BUY with a Target Price of Rs.1153)

Company Background –

Great Offshore is the largest integrated offshore oilfield services provider offering a broad spectrum of services to upstream oil and gas producers to carry out offshore exploration and production (E&P) activities. It has a fleet size of 39 vessels comprising a mix of 25 offshore support vessels (OSV's), 11 harbour tugs (HT), 1 construction barge and 2 drilling rigs.

Great Offshore was a division of Great Eastern Shipping Company Ltd, which got hived off into a separate company under a scheme of Demerger on 16th October 2006, w.e.f. 01st April 2005. Since commissioning its operations in 1983, Great Offshore has serviced major E&P operators in India as well as in the international waters of the North Sea, the Middle East, South Africa and South East Asia with its state-of-the-art vessels that include exploratory rigs, offshore support vessels, anchor handling tug supply vessels and a construction barge.

Great Offshore declared its forth quarter and annual results for FY07, which was largely in line with our expectations. Under-mentioned are key financials and analysis of the same:

Sales for FY07 improved 55% YoY

Operating margins for the year improved by 500 basis points YoY

PAT for FY07 improved 54% YoY

Key Financials - FY07

(Rs. Mn)

Particulars	Q4FY07	Q3FY07	Grwth QoQ	FY07	FY06	Grwth YoY
Net Sales	1492.9	1482.7	0.7	5,368.4	3,468.0	54.8
Other Income	26.5	6.1	334.4	78.1	29.4	165.6
Total Income	1,519.4	1,488.8	2.1	5,446.5	3,497.4	55.7
Total Expenditure	812.1	760.9	6.7	2,762.4	1,937.0	42.6
Operating Profit	707.3	727.9	(2.8)	2,684.1	1,560.4	72.0
Operating Margins	47.38	49.09	(3.5)	50.0	45.0	11.1
Interest	133.3	95.4	39.7	359.6	164.3	118.9
PBDT	574	632.5	(9.2)	2,324.5	1,396.1	66.5
Depreciation	220.3	193.3	14.0	696.7	421.8	65.2
PBT	353.7	439.2	(19.5)	1,627.8	974.3	67.1
Tax	54.4	63.8	(14.7)	213.6	56.3	279.4
Profit After Tax	299.3	375.4	(20.3)	1,414.2	918.0	54.1
Equity Capital	381.2	381.2	0.0	381.2	381.2	0.0
EPS (Rs) - FV Rs 10	7.9	9.8	(20.3)	37.1	24.1	54.1

Source: Company

Financial Analysis (FY07) –

- Comparative quarterly numbers for FY06 are not available as the company during that period was a division of Great Eastern Shipping Co;
- Aided by increase in its fleet size from 33 as on Mar'06 to 39 currently and an increment in day rates for vessels the company has registered an impressive revenue of Rs 5368.4 mn for year ending Mar'07 as against Rs 3468 mn during FY06 – an improvement of 55%. This is however marginally lower than our expected revenue of Rs 5520 mn, primarily due to maintenance and dry docking of vessels;
- The company registered an improvement of 500 basis points operating margins for year ended Mar'07 at 50% as against 45% during FY06. The improvement in margins is primarily on account of improvement in day rates for vessels and cost efficiencies in operating expenses during the period.

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- PAT for FY07 stood at Rs 1414 mn as against Rs 918 mn in FY06 – am improvement of 54%;
- EPS for FY07 stood at Rs 37.1 as against Rs 24.1 for FY06.

Significant Updates –

We spoke to the management of Great Offshore for an update on the status of fleet expansions and new contracts, following are some key take-aways from the discussion:

- Inline with the strong demand for OSV's and rigs in domestic as well as international markets, Great offshore plans to increase its fleet size over the next 3 years.
- The company's current order book consists of one AHTSV to be commissioned in Q2FY08, one jack-up rig to be received by Q3FY09 and one multi role support vessel to be received in FY10. The total committed capital expenditure towards these additions is about US$245 mn until FY10, which will be financed through a mix of debt and equity in the ratio of 25% internal accruals and 75% debt.
- Apart from this planned expansion, the company is also open to buy second-hand vessels if opportunity exists. With a debt-equity ratio of 1.1 of FY07E, the company is well placed to make any unplanned additions to its fleet.

Business Outlook & Valuation –

Financial Estimates –

We maintain our FY08 & FY09 estimates, which are stated as under:

Year Ended	Mar08E	Mar09E
Net Sales (Rs Mn)	7683.0	8618.3
EBITDA (Rs. Mn)	3732.0	4327.7
EBITDA (%)	48.6	50.2
PAT (Rs Mn)	2167.7	2472.6
EPS (Rs)	56.9	64.9
P/E (x) at Rs 768	13.5	11.8

Source: Emkay Private Client Research

Recommendation –

We maintain a BUY with a target price of Rs 1153

We continue to remain positive on this scrip. The key growth driver for Great Offshore is its fleet expansion, increasing efficiency in capacity utilization and increasing day rates for its vessels resulting in better profitability. The planned expansion of the company shall result in increasing its fleet size from 39 by FY07 and 42 by FY10E. We expect revenues to grow at a CAGR of 32% between FY06-09E and EBIDTA to grow at a CAGR of 39% during the same period. Great Offshore currently trades at a forward multiple of 13x FY08E and 12xFY09E. At our target price of Rs. 1153, the stock shall trade at 20x FY08E and 18x FY09E earnings. With an EPS CAGR of 37% estimated over FY06-09E, EV/EBIDTA of 10x for FY08E & 9x FY09E we believe the present valuation looks attractive. Based on this we maintain a BUY recommendation on this scrip with target price of Rs. 1153.

Result Update

Patel Engineering Ltd.

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(Rs403, FY09E, EPS Rs25.7, P/Ex15.7, BUY with a Target Price of Rs.513)

Key Financials (Consolidated)-

(Rs Mn)	Q4FY07	Q4FY06	YoY%	FY07	FY06	YoY%
Net Sales	4910.2	3634.8	35.1	13309.7	10223.3	30.2
Other Income	23.1	33.3	(30.6)	70.0	59.7	17.3
Total Income						
Total Expenditure	4302.1	3227.3	33.3	11514.5	8902.8	29.3
EBIDTA	608.1	407.5	49.2	1795.2	1320.6	35.9
EBIDTA (%)	12.4	11.2		13.5	12.9	
Interest	92.8	84.6	9.7	193.2	261.1	(26.0)
Depreciation	108.1	76.5	41.3	378.0	311.4	21.4
PBT	430.3	279.7	53.8	1294.0	807.7	60.2
Provision for Tax	39.7	34.6	14.7	144.7	65.8	119.8
PAT	390.6	245.1	59.4	1149.3	741.9	54.9
Minority Interest	32.4	11.0		40.6	8.8	361.2
PAT after Minority Interest	358.2	234.1	53.0	1108.7	733.1	51.2
Equity Capital	59.7	50.0	19.4	59.7	50.0	19.4
EPS (Rs)	6.0	4.7	27.7	18.6	14.7	26.5

Source: Company. Face value: Rs1.EPS calculated on increased equity capital of Rs 59.7 million.

Q4FY07 records healthy growth

Cost of construction as a percentage of sales declined by 330 bps to 79.3%. However, general & administrative expenses increased by 81.3% to Rs 408.6 million which as a percentage of net sales increased YoY by 210 bps to 8.3%.

Results for the quarter ended March'06 were in line with our expectations. Net sales increased by 35.1% to Rs 4910.2 million. EBIDTA for the quarter increased by 49.2% to Rs 608.1 million while EBITDA margins increased YoY by 120 bps to 12.4% majorly on account of change in project mix on a YoY basis. Cost of construction as a percentage of sales declined by 330 bps to 79.3%. However, general & administrative expenses increased by 81.3% to Rs 408.6 million which as a percentage of net sales increased YoY by 210 bps to 8.3%. Other income declined by 30.6% to Rs 23.1 million.

Interest cost for the quarter declined by 9.7% to Rs 92.8 million due to repayment of debt from the IPO proceeds. Depreciation cost was up by 41.3% to Rs 108.1 million. Tax incidence (current+ deffered) increased YoY by 14.7% to Rs 39.7 million, which as a percentage of PBT increased by 300 bps to 13%. This resulted in 53% increase in Profit after tax to Rs 358.2million.

FY07 records healthy growth

EBITDA margins increased by 60 bps to 13.5%. Interest cost for the period is down by 26% to Rs 193.2 million on account of repayment.

FY07 results were in line with our estimation. Net sales for FY07 increased by 30.2% to Rs 13309.7 million while EBITDA margins increased by 60 bps to 13.5%. Interest cost for the period is down by 26% to Rs 193.2 million on account of repayment of debt to the tune of Rs 792.8 million from the IPO proceeds. Depreciation increased by 21.4% to Rs 378 million on increased capex during the period. Tax provisions increased by 119.8% to Rs 144.7 million. PAT for the full year period increased by 51.2% to Rs 1108.7 million.

Order book

The order book of the company as on 31st Mar'07 stands at Rs 50 billion (3.8xFY07 Revenues).

The order book of the company as on 31st Mar'07 stands at Rs 50 billion (3.8xFY07 Revenues). Average ticket order size of the company is Rs 2-2.2 bn with an average execution period of about 4 years

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	SectoralBreak-up(%) of the order book	Expected EBITDA margins (%)	(%) of revenues in FY07
Hydro Projects	55	17-22	49
Irrigation	25	10-15	29
Transport& others	20	5-8	22

Source: Company.

The order book of the company grew in excess of Rs 2000 crores (higher than revenues). The company further expects a growth of 40% to 60% in its order book for the next 2 years. The company expects a higher contribution from hydro power projects thereby improving its margins.

Going forward, Patel Engineering is moving into Independent Power Producer (IPP) & real estate sectors.

Foray into Independent Power Production

Venturing into IPP agreement with the Govt. of Gujarat for 120 MW Thermal Power Plant.

Patel Engineering Ltd. Has entered into an MOU with the Government of Gujarat for 1200 MW Thermal Power Project at Bhavnagar involving a total investment of Rs 50 bn. The project is to be implemented in 3 phases of 400 MW each (400MWx3). The company proposes to take up a strategic partner for Electro Mechanical Works. PEL expects to funds its own equity contribution through internal accruals.

The details of the Project are as follows:

Details of the Thermal IPP Project	
Project Size	1200 MW
Location	Bhavnagar, Gujarat
Investment	Rs 50 bn
Proposed Debt: Equity	80:20
Development Phases	3x 400 MW
Stake of Strategic Partner	30-40%
Phase 1 Equity Requirement from Patel Engineering (Rs Mn)	1500-1800
Start Date	FY09
Year in which Revenues Expected from Power	FY2011

The company is also looking for IPP projects in the Hydro Power segment. Patel Engineering's foray into IPP's would result in its going up the value chain thereby increasing the shareholders' value in the long term.

A wholly owned subsidiary to be formed for Real Estate Business

- The company plans to form wholly owned subsidiary Patel Realities India Ltd. (PRIL) for its real estate ventures.
- The company has a total land bank of 507 acres spread across Mumbai (92 acres), Bangalore (32 acres), Chennai (29 acres) & Hyderabad (354 acres) which it plans to monitise. This would result in significant increase in shareholders' value. The land bank has been acquired since the 1950's & thus the cost of land acquisition is insignificant. At the current market prices we have estimated the land bank at Rs 151 per share.

The first phase of development would cover Mumbai & Bangalore.The second phase would cover Hyderabad & Chennai.

- The company plans to develop commercial complex, residential complex, IT parks, Corporate Offices, Malls etc. The first phase of development would cover Mumbai (750000 sq.ft of commercial development) & Bangalore (3-5 mn sq ft for development of IT Park & residential complex). First phase is expected to commence in FY08 & revenues there from are expected in FY09-FY10. The second phase would cover Hyderabad & Chennai.

Contd...

- The company does not intend to raise funds for its real estate subsidiary going forward which according to us is positive for the stock.

Tax at MAT Rate

PEL has continued to provide tax rate at the MAT levels as it claims to be a developer & has filed litigation for the reversal of the order. Total Outflow from FY2000-FY2007 would entail to Rs 270 million. However, taking a conservative estimate we have provided for a cash outflow of Rs 270 million in FY08 & also provided for taxation levels at 33% for future years.

Business Outlook–

Increased thrust on infrastructure development especially on transportation, irrigation, water projects and power with Patel Engineering's impressive track record of executing hydro and irrigation projects gives it a competitive advantage.

Further, the company plans to increase the share of hydro projects in its order book and also enter the power generation space and real estate business.

Consolidated Financials-

We estimate a PAT of Rs 1224.7 million in FY08E & Rs 1536.4 million in FY09E translating into an EPS of Rs 20.5 & Rs 25.7 respectively.

	FY07A	FY08E	FY09E
Net Sales (Rs Mn)	13309.7	17404.2	21755.3
EBIDTA (Rs Mn)	1795.2	2436.6	3045.7
EBIDTA (%)	13.5	14.0	14.0
PAT (Rs Mn)	1108.7	1224.7	1536.4
EPS (Rs) Face Value Rs 1	18.6	20.5	25.7
PE (x) at Rs 403	21.7	19.6	15.7
EV/EBIDTA (x)	15.4	11.5	9.6

We estimate a 28% CAGR increase in net revenues between FY07-09E to Rs 21755.3 million and an increase in EBITDA margins by 50 bps in FY08 & FY09 to 14%. We estimate a PAT of Rs 1224.7 million in FY08E & Rs 1536.4 million in FY09E translating into an EPS of Rs 20.5 & Rs 25.7 respectively.

Valuation-

At the current price of Rs 403, the stock quotes at P/E of 20x FY08E and 16xFY09E. We believe the stock to be a good long-term investment in the construction space. We value the business of the company on Sum of the parts method.

Segment	Basis	Multiple	Value (Rs Mn)	Per share value (Rs)	Justification
Construction Business	EV/EBITDA	9xFY09	20895.0	350.0	Valued at a PE multiple of 14x FY09 & EV/EBITDA of 9x FY09
Annuity based BOT Project	NPV of Annuity		715.7	12.0	Cost: Rs 4100 million; D:E ratio : 80:20; expected IRR: 12%-14%;fixed annuity of Rs 660 million paid semi annually
Real Estate Division	Land bank		9037	151.0	Current land bank of 502 acres taken at a discount of 25%-30% value. Development thereafter will be EPS accretive.
Total Fair Value				**513.0**	

Contd...

Following the development of removal of benefit of u/s 80IA in the current budget we had maintained a BUY on Patel Engineering (Report dated 3rd April'07) at Rs 316 with a reduced target price of Rs 393, and till date the stock has given a return of 34% from our recommendation price. Looking at the robust business model of the company and good growth prospects in the construction sector we have upgraded our target price to Rs. 513 on SOTP method. At current market price of Rs. 403 the PEL stock is trading at a PE multiple of 20x & 16x on FY08E & FY09E earnings. We recommend a BUY with an increased target price at Rs. 513

Results Update

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Amtek Auto Limited

(Rs. 405, FY08E - P/E 14x, BUY Target Price of Rs. 510)

Key Consolidated Financials -

(June Ending, Rs Mn)	Q3FY07	Q3FY06	YoY%	9MFY07	9MFY06	YoY%
Net Sales	11,008.3	7,465.8	47.4	29,881.3	20,547.0	45.4
Total Expenditure	8,811.7	6,076.8	45.0	23,977.2	16,769.4	43.0
Operating Profits	2,196.6	1,389.0	58.1	5,904.1	3,777.6	56.3
OPM (%)	20.0	18.6	7.3	19.8	18.4	7.5
Interest	210.7	113.9	85.0	581.0	376.3	54.4
Depreciation	367.7	276.4	33.0	1,035.8	795.6	30.2
PBT	1,618.2	998.7	62.0	4,287.3	2,605.7	64.5
Provision for tax	409.1	224.7	82.1	1,045.0	548.9	90.4
PAT	1,209.1	774.0	56.2	3,242.3	2,056.8	57.6
Minority Interest	124.5	76.1	63.6	314.5	189.0	66.4
PAT after Minority Interest	1,084.6	697.9	55.4	2,927.8	1,867.8	56.8
Equity Capital	254.4	240.1	6.0	254.4	240.1	6.0
EPS (Rs)	8.5	5.8	46.7	23.0	15.6	47.9
Diluted EPS (Rs)	7.8	5.7	36.7	21.1	15.3	37.9

Source: Company

Net sales grew by 47%YoY in Q3FY07

EBITDA margins improved by 135bps YoY in Q3FY07

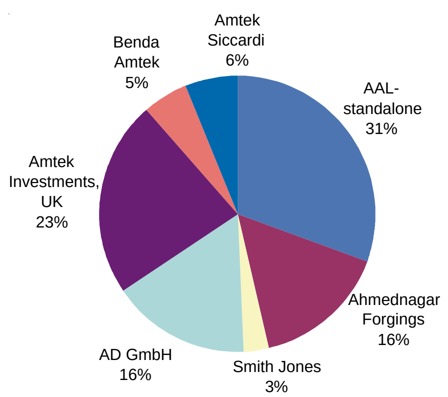
Net profit after minority interest increased by 55% YoY in Q3FY07

Consolidated results better than our expectations

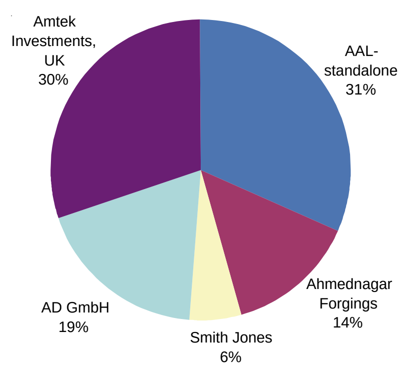
On a consolidated basis AAL reported net sales growth of 47% YoY in Q3FY07

Amtek Auto Ltd (AAL) reported its Q3FY07 results. The results have been better than our expectations. AAL reported impressive net sales growth of 47% YoY to Rs11,008mn as against Rs7,466mn in Q3FY06. AAL reported impressive growth in net sales backed by good growth of Amtek Auto – standalone (42% YoY), Ahmednagar Forgings (69% YoY), Zelter (30% YoY) and Amtek Investments (13% YoY). AAL's sales for the quarter includes the revenue from two new subsidiaries – Benda Amtek and Amtek Siccardi. Overseas subsidiaries reported growth of 15% YoY for the quarter to Rs4,667mn. AAL's exports on a standalone basis went up by 17% YoY to Rs1010mn. For 9MFY07 AAL's net sales grew by 45% YoY to Rs29.8bn which were mainly supported by Amtek Auto – standalone, Ahmednagar Forgings, Zelter and Amtek Investments.

AAL – Consolidated Revenue Break-up Q3FY07



AAL – Consolidated Revenue Break-up Q3FY06



Source: Company

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EBITDA margins improves mainly due to Amtek Siccardi and Benda Amtek

AAL's consolidated EBITDA margins reported improvement mainly because of strong performance of Amtek Siccardi and Benda Amtek

During Q3FY07, AAL's EBITDA soared by 58% YoY to Rs2,197mn and its EBITDA margins grew remarkably by 135bps YoY to 20% from 18.6% in Q3FY06. Amtek Auto-standalone faced the pressure of raw material price rise during the quarter and its EBITDA declined by 300bps YoY. AAL reported improvement in EBITDA margins mainly due to Amtek Siccardi and Benda Amtek which reported margins of 23.4% and 24.9% respectively. AAL has not completely passed on the increase in raw material prices to various OEMs and it is likely to get a price hike in Q4FY07 which would help the company to improve its EBITDA margins. For 9MFY07 AAL's EBITDA grew by 56% YoY to Rs5904mn and EBITDA margins improved by 137bps YoY to 19.8%.

Net profit grows by 56% YoY in Q3FY07

For 9MFY07 AAL reported EPS of Rs23 on a consolidated basis

AAL's net profit after minority interest for Q3FY07 jumped by 56% YoY to Rs1,085mn as against Rs698mn in Q3FY06. Amtek Auto-standalone and Ahmednagar Forgings were the main contributor for jump in the net profits for the quarter. AAL reported EPS of Rs.8.5 for Q3FY07.

For 9MFY07 AAL reported net profit after minority interest of Rs2928mn, a jump of 57% YoY and it reported EPS of Rs.23 for the period. AAL's EPS for 9MFY07 on diluted equity stood at Rs.21.1.

Key Standalone Financials -

(June Ending, Rs Mn)	Q3FY07	Q3FY06	YoY%	9MFY07	9MFY06	YoY%
Net Sales	3,146.4	2,314.1	36.0	8,221.2	6,557.1	25.4
Other Income	203.1	45.6	345.4	532.0	142.1	274.4
Total Income	3,349.5	2,359.7	41.9	8,753.2	6,699.2	30.7
Total Expenditure	2,241.5	1,579.5	41.9	5,776.2	4,539.4	27.2
Operating Profits	904.9	734.6	23.2	2,445.0	2,017.7	21.2
OPM (%)	28.8	31.7	(9.4)	29.7	30.8	(3.4)
Interest	60.2	43.4	38.7	165.8	148.2	11.9
Depreciation	163.1	130.9	24.6	428.1	384.8	11.3
PBT	884.7	605.9	46.0	2,383.1	1,626.8	46.5
Provision for tax	231.5	163.9	41.2	634.5	440.3	44.1
PAT	653.2	442.0	47.8	1,748.6	1,186.5	47.4
Equity Capital	255.4	240.1	6.4	254.4	240.1	6.0
EPS (Rs)	5.1	3.7	38.9	13.7	9.9	39.1
Diluted EPS (Rs)	4.7	3.6	30.0	12.6	9.7	29.6

Source: Company

Business Outlook and Valuation –

AAL is a second largest forgings company in India

Currently AAL is sitting on a cash chest of Rs14.9bn

AAL is a leading Indian supplier of automotive components and is an integrated automotive component manufacturer with facilities for forgings, machining and subassemblies in locations in India, the United States and Europe. AAL is a Tier I supplier of auto components to major automobile majors like Maruti, Hyundai, M&M, Ford, Tata Motors, General Motors, Hero Honda, Bajaj Auto, HMSI (Honda Motorcycles and Scooters India) and many others. We expect AAL's focus on integration of its subsidiaries with itself would improve its EBITDA margins to 20.6% in FY09E from 19.3% in FY06A. We also expect AAL's export revenue to grow at a CAGR of 43% for the period of FY06-FY09E mainly because of its strong product line and strong relationships with the global OEMs. AAL is sitting on a cash chest of Rs14.9bn (Rs107 per share) which we expect would be utilized for further inorganic growth and expansion opportunities which could give a further boost to the revenue and profitability of the company in the near future.

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Financial Estimates –

We are revising our EPS for FY07E & FY08E upwards

Year Ended	Old Estimates			New Estimates		
	June 07E	June 08E	June 09E	June 07E	June 08E	June 09E
Net Sales (Rs Mn)	40,441	49,407	57,957	40,441	49,407	57,957
EBITDA (Rs Mn)	7,529	9,637	11,929	7,955	9,980	11,929
EBITDA (%)	18.6	19.5	20.6	19.7	20.2	20.6
PAT (Rs Mn)	3,166	4,591	6,121	3,778	4,687	6,121
EPS (Rs)	22.8	28.1*	37.5*	27.3	28.7*	37.5*
P/E (x) At Rs.405	17.7	14.4	10.8	14.8	14.1	10.8

*Source: Emkay Private Client Research, * Fully diluted equity*

We continue to recommend BUY with a target price of Rs510

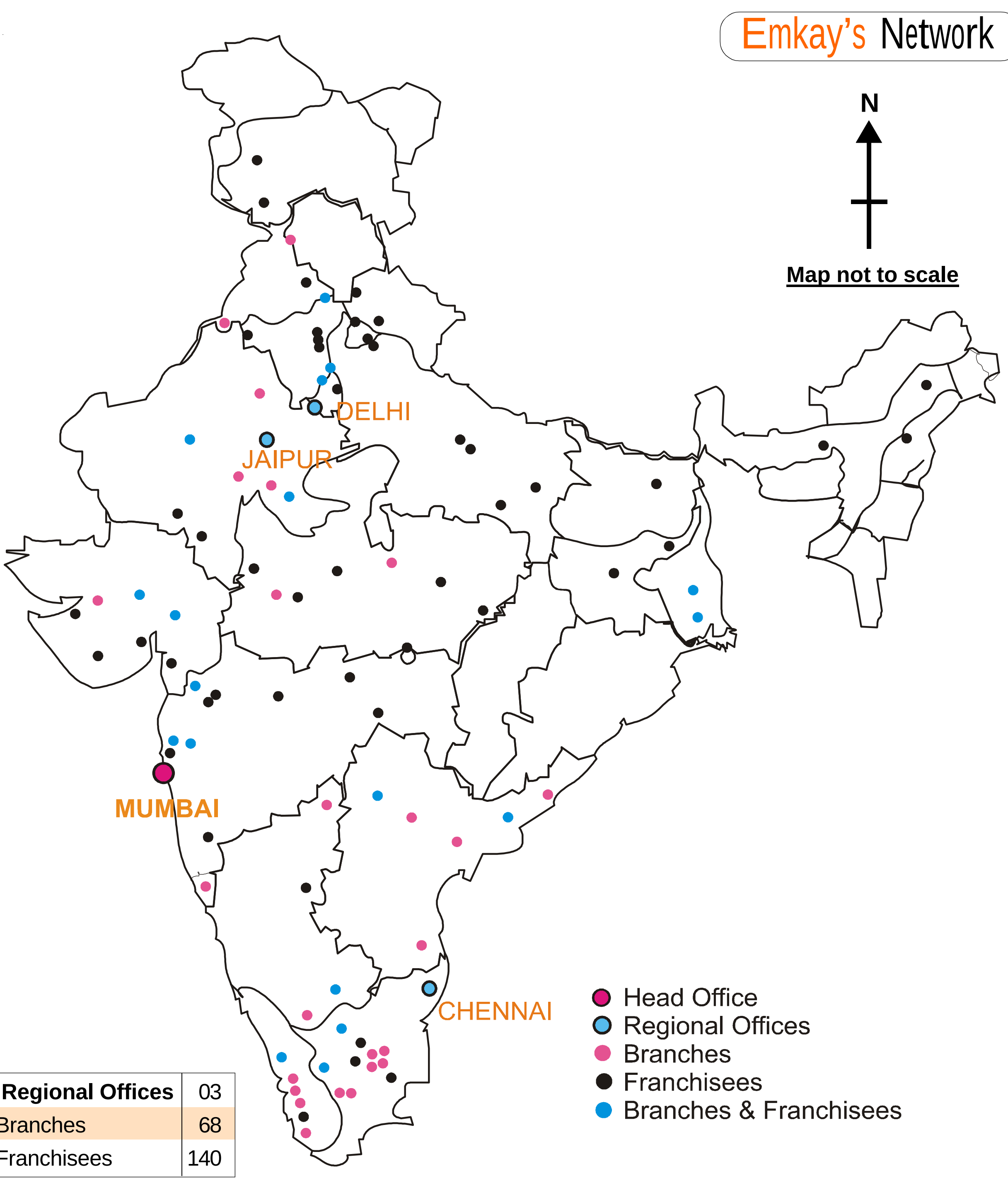
Considering the better performance of AAL, we are revising our FY07E and FY08E earnings upwards. We remain positive on the long term prospects of AAL. At current market price of RS405 the stock is trading at a PE multiple of 18x, 14x and 11x on FY07E, FY08E & FY09E consolidated earnings respectively. We maintain a BUY with a target price of Rs. 510.

Stock Recommendations from Emkay PCG

Name of the Company	Reco Date	Reco Price (Rs)	Target Price (Rs)	52 Week high/low (After Rec. Date)	CMP (Rs)	Appreciation % (As on 31 May 07)
NESCO Ltd #	27-Dec-05	394 X/B	1,000.0	2249.85 / 612.00	1,185.0	200.8
Praj Industries Ltd #	02-Jan-06	192.0	325.0	517.30 / 123.90	487.2	153.7
Ratnamani Metals and Tubes	19-Sep-06	358.0	944.0	890.00 / 265.65	889.8	148.5
NIIT Technologies Ltd	08-Nov-06	246.0	678.0	638.00 / 131.35	603.0	145.1
Tech Mahindra Ltd	04-Oct-06	619.0	1,794.0	2049.80 / 520.60	1,492.1	141.1
Thermax	24-Jul-06	242.0	450.0	509.00 / 206.00	502.0	107.4
Paradyne Infotech Ltd.	20-Nov-06	68.0	195.0	137.40 / 41.85	124.8	83.5
RPG Transmission	13-Sep-06	137.0	223.0	242.40 / 74.90	234.2	70.9
Kirloskar Oil Engine	31-Jul-06	182.0	329.0	305.00 / 154.00	276.4	51.9
Sunil Hitech	02-Aug-06	87.0	140.0	142.75 / 67.10	131.6	51.2
Iflex Solutions	01-Nov-06	1,515.0	2,000.0	2545.00 / 840.00	2,198.8	45.1
Tata Elxsi Ltd.	15-Nov-06	242.0	368.0	364.70 / 147.00	346.5	43.2
Sujana Metals	08-Feb-07	109.0	215.0	154.80 / 36.30	149.2	36.9
M&M	28-Jul-06	577.0	1,025.0	1002.00 / 488.00	758.2	31.4
Ahmednagar Forgings	30-Aug-06	186.0	335.0	299.80 / 133.50	240.0	29.0
Unity InfraProjects Ltd	24-May-07	407.0	609.0	679.00/317.00	525.0	29.0
Automotive Axles	26-Jul-06	441.0	724.0	675.00 / 331.00	564.9	28.1
ISMT	09-Aug-06	69.0	139.0	94.00 / 62.00	86.5	25.4
Subros	25-Jul-06	184.0	350.0	285.00 / 150.20	230.0	25.0
Cinemax India Ltd	13-Apr-07	126.0	193.0	204.45 / 101.00	155.2	23.1
Dynamatic Technologies	03-Oct-06	1,066.0	1,386.0	1509.75 / 671.00	1,306.0	22.5
Global Vectra Helicorp Ltd.	15-Dec-06	218.0	334.0	327.00 / 155.25	264.2	21.2
KPIT Cummins	02-Nov-06	113.8	178.0	740.00 / 114.00	137.4	20.7
Ashok Leyland Ltd	20-Jul-06	31.0	51.0	51.15 / 30.50	37.3	20.2
BL Kashyap & Sons Ltd.	09-Nov-06	1,303.0	1,964.0	1675.00 / 755.00	1,515.0	16.3
Taj GVK	22-Feb-06	196.0	157.0	258.00 / 152.00	164.7	16.0
Amtek Auto	15-Jan-07	351.0	510.0	434.80 / 243.30	404.7	15.3
Royal Orchid Hotels Ltd	28-Sep-06	176.0	243.0	220.00 / 96.30	202.0	14.8
Bharati Shipyard	22-Jan-07	416.0	554.0	499.45 / 248.00	476.4	14.5
Jindal Drilling & Industries	29-Jan-07	535.0	786.0	702.00 / 242.65	606.2	13.3
Shree Cements	11-Oct-06	1,097.0	1,200.0	1592.15 / 650.00	1,240.1	13.0
HCL Technologies	18-Oct-06	304.5	405.0	715.00 / 271.05	344.2	13.0
Pratibha Industries Ltd	16-Oct-06	195.0	270.0	296.00 / 132.85	219.7	12.6
Patel Engineering	26-Feb-07	361.0	513.0	489.00 / 222.00	403.5	11.8
Paper Products Ltd	16-Aug-06	65.2	95.6	436.00 / 69.70	72.9	11.7
Bharat Forge	01-Aug-06	300.0	416.0	396.00 / 221.00	327.9	9.3
Satyam Computers	27-Oct-06	431.0	590.0	864.00 / 396.00	469.6	9.0
Tata Consultancy Services	18-Oct-06	1,114.0	1,518.0	1920.00 / 900.00	1,208.6	8.5
Bosch Chassis Systems Ltd	18-Sep-06	952.0	1,150.0	1103.80 / 671.00	1,029.8	8.2
Maruti Udyog	05-Jul-06	785.0	1,020.0	991.40 / 670.00	824.0	5.0
Tata Motors	27-Jul-06	726.0	932.0	974.80 / 650.50	757.5	4.3
Tanla Solutions	10-Jan-07	395.0	613.0	453.65 / 269.80	408.1	3.3
Peninsula Land Ltd	15-Feb-07	410.0	600.0	754.80 / 285.85	423.3	3.2
Cosmo Films	19-Jul-06	88.0	100.0	123.00 / 70.00	90.5	2.8
Great Offshore	19-Jan-07	753.0	1,153.0	905.00 / 501.55	768.5	2.1
Hero Honda	06-Feb-07	730.0	800.0	809.00 / 565.00	732.4	0.3
GMM Pfaudler	20-Sep-06	135.0	209.0	950.00 / 107.00	132.0	(2.2)
Infosys Technologies	12-Oct-06	1,981.0	2,616.0	3400.00 / 1572.10	1,920.3	(3.1)
Wipro Ltd	30-Oct-06	562.0	676.0	690.00 / 383.00	544.6	(3.1)
Ultratech Cement Ltd #	20-Oct-06	867.0	800.0	1204.95 / 500.50	827.0	(4.6)
TTK Prestige	19-Jan-07	132.0	201.0	151.00 / 72.80	125.2	(5.2)
Madhucon Projects	29-Aug-06	221.0	305.0	409.00 / 160.00	205.0	(7.2)
NRB Bearings	03-Jul-06	101.0	118.6	598.00 / 82.50	92.5	(8.4)
Kamat Hotels	24-Jan-07	190.0	230.0	198.70 / 110.10	169.5	(10.8)
Hotel Leelaventure Ltd.	27-Nov-06	65.0	84.0	358.95 / 48.20	57.8	(11.1)
ACC Ltd #	26-Oct-06	974.0	770.0	1192.00 / 677.05	855.6	(12.2)
Gabriel India Ltd	27-Sep-06	34.0	52.0	39.30 / 22.30	29.6	(13.1)
Suprajit Engineering Ltd	07-Jul-06	187.0	227.0	272.00 / 147.05	161.0	(13.9)
Rajratan Global Wire Ltd	17-Aug-06	94.0	150.0	133.50 / 70.00	79.2	(15.7)
Bajaj Auto Ltd	17-Jul-06	2,644.0	3,238.0	3175.00 / 2085.00	2,224.4	(15.9)
Chettinad Cement Ltd	20-Feb-07	480.0	575.0	650.00 / 290.00	399.7	(16.7)
Hyderabad Industries	28-Dec-06	236.0	360.0	432.00 / 139.20	185.8	(21.3)
Federal Mogul Goetze India Ltd	01-Nov-06	329.0	467.0	449.40 / 216.00	251.5	(23.6)
TVS Motors #	11-Jul-06	90.0	92.0	129.70 / 53.30	65.7	(27.0)
Mangalam Cements Limited#	27-Nov-06	208.0	142.0	259.00 / 115.50	139.1	(33.1)
Manugraph India Ltd	27-Sep-06	231.0	294.0	289.00 / 131.50	144.5	(37.4)

Sell/Book Profit Call

Emkay's Network



Total Regional Offices	03
Total Branches	68
Total Franchisees	140

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