

January 16, 2008

FOR PRIVATE CIRCULATION

Equity

	15 Jan 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	20,251	(2.3)	1.1	6.3
Nifty	6,074	(2.1)	0.4	7.2
Banking	12,258	(2.4)	8.1	22.9
IT	3,624	(2.6)	(5.6)	(10.7)
Healthcare	4,165	(0.8)	(3.3)	8.1
FMCG	2,354	(2.3)	4.0	10.2
PSU	10,304	(2.1)	2.2	12.8
CNX Midcap	8,973	(0.8)	0.4	25.8
World indices				
Nasdaq	2,418	(2.4)	(8.3)	(12.5)
Nikkei	13,973	(1.0)	(10.8)	(19.2)
Hangseng	25,838	(2.4)	(9.9)	(14.3)

Value traded (Rs cr)

	15 Jan 08	% Chg - 1 Day
Cash BSE	7,716	12.7
Cash NSE	19,204	8.0
Derivatives	65,569	23.1

Net inflows (Rs cr)

	14 Jan 08	% Chg	MTD	YTD
FII	174	53	2,036	2,036
Mutual Fund	(551)	101	469	469

FII open interest (Rs cr)

	14 Jan 08	% chg
FII Index Futures	25,987	4.0
FII Index Options	11,151	1.5
FII Stock Futures	57,723	(2.0)
FII Stock Options	228	1.0

Advances/Declines (BSE)

	15 Jan 08	A	B1	B2	Total	% Total
Advances	59	198	242	499	33	
Declines	159	456	398	1,013	66	
Unchanged	1	6	9	16	1	

Commodity

	15 Jan 08	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	91.7	(0.2)	0.5	4.7
Gold (US\$/OZ)	888.1	(1.8)	13.0	18.0
Silver (US\$/OZ)	15.9	(2.9)	16.4	18.2

Debt/forex market

	15 Jan 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.56	7.56	7.88	7.91
Re/US\$	39.27	39.29	39.55	39.31

Sensex



Source: Bloomberg

ECONOMY NEWS

- Trai has accused the Government of misinforming the courts on the issue of subscriber-linked spectrum allocation norms. (ET)
- A comprehensive review of foreign investment norms may be taken up by the Cabinet. The review seeks to raise investment caps to 49% in commodity exchanges and PSU oil refineries. (ET)
- Oil prices were nearly flat after climbing more than \$1 a barrel in the previous session as forecasts for colder weather in the US raised expectations of increased fuel demand. (ET)
- Prices of electronics goods like LCD TVs, home-theatre systems and high-end mobile phones may fall 8-10%, according to early indications of the 2008 Budget exercise. The MoF is inclined to reducing duties on consumer electronics to 12% from 16% now. (ET)

CORPORATE NEWS

- The **GAIL** Board has given an in-principle approval for laying Rs.25- bn gas pipeline from Dabhol in Maharashtra to Bangalore. (ET)
- The rift between **Bhel** and **NTPC** over supply of 800 MW super critical thermal plants may be heading for a negotiated truce. (ET)
- **Vedanta Resources** is planning to enter the Indian steel sector with a 5 MT plant at an investment of about Rs.240 bn in Keonjhar district of Orissa and envisaging its commissioning by 2012-13. (ET)
- **Tata Motors** is planning to reorganize its manufacturing operation through different hubs, a clear departure from the established manufacturing model at the company. (ET)
- **Great Offshore** has acquired UK-based SeaDragon Offshore for \$1.4 bn. The transaction is subject to satisfactory completion of confirming due diligence. (ET)
- **NIIT** has signed a share purchase agreement to acquire 47.87% stake in Noida-based Evolv Management Services, a provider of English language and communication training, with 100 employees and pan-India presence and delivery capability. (BS)
- Essar Energy Overseas, an **Essar Oil** subsidiary, has signed an agreement to acquire 50% stake in Mombassa-based Kenya Petroleum Refineries, a 4 MT refinery. (ET)
- In a development that may lead to **Ranbaxy** selling a generic version of Pfizer's blockbuster drug Lipitor sooner than expected in the US market, the US patent office has made an initial rejection of Pfizer's claim on the basic patent on Lipitor. (BS)
- **HCL Infosystems** has launched 'MiLeap' India's first full functional, ultra portable range of laptops that promises to offer mobile internet computing experience at a price point starting from Rs.13,990. (ET)
- **IOC, HPCL** and **BPCL** face the prospect of losing the prestigious navratna tag. (ET)
- **Apollo Tyres** has reported a 77% rise in Q3FY08 at Rs.621.7 mn when compared with Rs.350.7 mn in Q3FY07. Revenue at Rs.9.74 bn was up 13.6% from Rs.8.58 bn for the quarter ended December 31 2006. (BS)
- **Sunil Hitech** plans to raise funds worth Rs.1 bn via QIPs. (BS)
- **Blue Star** has bagged a Rs.380 mn order for airconditioning India's first indigenously designed 500 MW fast breeder reactor from Nuclear Power Corporation of India for the Kalpakkam project. (BS)
- **Torrent Power** has invited bids from domestic and global developers for setting up a 400 MW gas-based power plant in the Dahej SEZ. (ET)

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

FROM OUR RESEARCH TEAM

RESULT UPDATE

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GEOMETRIC LTD

PRICE : Rs.79

RECOMMENDATION : HOLD

TARGET PRICE : Rs.85

FY09E PE : 10x

The Q3FY08 results of Geometric Ltd were below our estimates. The seasonal impact seen in revenues, which grew 1% QoQ, was only despite 8% QoQ growth in billed man-months. EBIDTA margins have improved, slightly beyond our expectations. Modern has posted lower loss QoQ. Lower-than-expected other income component (Rs.26 mn v/s expected Rs.70 mn) takes net profit below our estimates. Clarity on auto OEM prospects will emerge by the next quarter. We are revising our FY09 earnings estimates downwards to Rs.8.1 per share (Rs.8.9 earlier) considering the uncertain US economic scenario and reduced other income expectation. We have revised our price target to Rs.85. We continue to recommend HOLD. We opine that the stock may likely underperform till further visibility on the US business

We recommend HOLD on Geometric with a price target of Rs.85

Q3FY08 results

- Geometric's Q3FY08 results were lower than our expectations.
- Revenues at Rs.1.24 bn were up 1% QoQ and profits at Rs.68 mn were down 25% QoQ. EBITDA margins at 11.6% were marginally higher than our expectations.

Quarterly performance

(Rs mn)	Q3FY08	Q2FY08	QoQ (%)	Q3FY07*	YoY (%)
Income	1,239.6	1,225.2	1.2	1,067.5	14.8
Expenditure	1,096.4	1,098.5		897.4	
Operating profit	143.2	126.7	13.0	170.1	-25.5
Depreciation	51.0	47.8		56.7	
EBIT	92.2	78.8	16.9	113.4	-30.5
Interest	16.6	16.1		16.2	
Other inc	25.8	53.0		49.0	
PBT	101.4	115.7	-12.3	146.1	-20.9
Tax	19.4	10.3		21.9	
PAT	82.1	105.3		124.2	
Minority Interest	14.1	14.5		18.8	
PAT after M I	68.0	90.8	-25.1	105.5	-13.9
EPS (Rs)	1.1	1.5		1.7	
Margins (%)					
Operating Profit	11.6	10.3		15.9	
EBIT	7.4	6.4		10.6	
Net Profit	6.6	8.6		11.6	

Source : Company * - Includes Modern Engineering WEF November 2006

Revenues

- While product revenues grew about 11% QoQ (albeit, on a small base of Rs.76 mn), services revenues grew just 1% QoQ.
- Within services, revenues from software services (ex-engineering services) grew 2%, sequentially. On the other hand, revenues from engineering services de-grew about 2% sequentially.
- In our opinion, the seasonally lower number of billable days in the quarter was partly responsible for the continued impact on revenue growth.
- The number of billed man-months increased 8% QoQ. However, because of the relatively lower number of working days, there was a 5.6% reduction in effective billed realization during the quarter.
- On a like-to-like basis, Geometric continued to get higher billing rates from existing as well as new clients.
- Some OEMs, which have had management changes, are in the process of re-assigning work flow to vendors like Modern. Some of the delays are from auto OEM customers in the US, which are experiencing a lean patch.
- The management has indicated that it sees an improvement in work flow visibility on a QoQ basis. Greater clarity is expected to emerge only in Q1FY09.
- Product revenues grew 11% after consistently falling for the four quarters. However, this growth was due to the calendar year closing of several customers. To that extent, is not representative of the demand.
- During Q3FY08, Geometric entered into new verticals like apparel PLM and oil and gas PLM. In the enterprise/interoperability space, the company is witnessing traction in the aerospace and defense verticals.

Margins-up QoQ

- At the consolidated level, margins were higher by about 121 bps. This was despite the company losing revenues due to lower number of billing days and the rupee appreciation.
- There was some improvement in margins as Geometric Engineering posted a lower loss of \$97,000 (v/s \$0.47 mn in Q2FY08) at the EBIDTA level.
- We believe this improvement in margins also came on the back of billing rate increases achieved during the quarter, higher proportion of offshore revenues and greater control on costs.
- The company recorded a lower-than-expected other income of Rs.26 mn, on the back of reduced forex gains of about Rs.6.5 mn. We had expected other income of Rs.70 mn for the quarter.
- On the back of this, the company's net profit fell 25% to Rs.68 mn.

Assimilation of Modern, higher offshore volumes and ramp up in new/existing clients to be vital for margins...

- 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 plans to improve profitability through greater offshore content in revenues especially in the Modern-led business.
- The offshore proportion in Modern's revenues is currently 5%. The company will have to improve this significantly, going forward, to improve margins.
- Better utilization of its sales infrastructure and better leverage on SG&A expenses are expected to help further improve margins.

Future Prospects					
(Rs mn)	FY07E*	FY08E	YoY (%)	FY09E	YoY (%)
Income	3,830.7	4,899.8	27.9	6,144.5	25.4
Expenditure	3,180.7	4,385.5		5,350.2	
EBDITA	650.0	514.4	-20.9	794.4	54.4
Depreciation	202.9	209.9		231.0	
EBIT	447.1	304.5	-31.9	563.4	85.0
Interest	31.4	57.3		34.8	
Other inc	91.5	242.1		129.0	
PBT	507.1	489.3	-3.5	657.6	34.4
Tax	68.2	54.9		92.1	
PAT	438.9	434.4		565.6	
Minority Int	64.4	63.4		71.0	
PAT after M I	374.5	371.0	-0.9	494.6	33.3
EPS (Rs)	6.1	6.1		8.1	
Margins (%)					
EBDITA	17.0	10.5		12.9	
EBIT	11.7	6.2		9.2	
Net Profit	11.5	8.9		9.2	

Source: Kotak Securities - Private Client Research * - Includes Modern's financials WEF November 2006

Financials

- Based on Q3FY08 numbers and looking at the uncertain macro scenario in the US, we have revisited our estimates.
- We expect revenues to grow to Rs.6.14 bn by FY09. EBIDTA margins are expected to improve in FY09 over FY08 because of expected improvement in engineering business margins and cost control initiatives.
- For FY08, we expect profits to remain flattish at Rs.371 mn, an EPS of Rs.6.1.
- In FY09E, we expect profits to grow 33% to Rs.495 mn, leading to an EPS of Rs.8.1 (Rs.8.9 earlier).

Recommendation

- At our DCF-based price target of Rs.85, our FY09E earnings will be discounted by about 11x. We note that the company is facing challenges in ramping up current/new client accounts, in its products business and also in assimilating Modern.
- We continue to recommend a **HOLD** on the stock with a price target of Rs.85. This is consistent with our premise of backing larger companies to counter multiple headwinds of an appreciated rupee, ability to attract mid-level employees and a currently uncertain macro scenario.
- Further visibility on FY09 ramp up and/or faster than expected integration of acquisition could bring about recommendation upgrades.

Concerns

- Rupee appreciation beyond our assumed levels of Rs.38.5 per US dollar by FY09 end could provide a downward bias to our earnings estimates.
- A steep deceleration/recession in major global economies could impact the growth prospects of Geometric.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
15-Jan	A V Cottex I	Pegasus Stocks and Shares Pvt Ltd	B	38,500	31.68
15-Jan	Allied Comp	Jignesh Vaghjibhai Shah	S	103,334	45.00
15-Jan	Allied Comp	Accord Capital Markets Ltd	S	100,000	45.05
15-Jan	Aries Agro	Bhandari Rakhi Kalpesh	S	88,512	237.95
15-Jan	Artson Engin	Sunita Devi	S	60,000	85.73
15-Jan	Artson Engin	Ramesh Kumar Jain	S	65,000	87.53
15-Jan	Aurobindo Ph	Goldman Sachs Investments Mau	B	324,445	464.65
15-Jan	Autolite Ine	Amrabathi Investra Pvt Ltd	B	48,000	164.93
15-Jan	Axon Infotec	Agrawal Brokerage Pvt. Ltd.	B	34,500	71.90
15-Jan	Axon Infotec	Uniflex Carrying Co. Pvt. Ltd.	B	25,000	72.25
15-Jan	Axon Infotec	Pushpak Commercial Finance	S	12,000	72.25
15-Jan	Axon Infotec	Binod Resources Pvt. Ltd.	S	18,000	72.25
15-Jan	Axon Infotec	Sheth Commercial Pvt. Ltd.	S	9,000	71.90
15-Jan	Axon Infotec	Sheth Impex Pvt. Ltd.	S	12,000	71.90
15-Jan	Bharat Seats	Hafeez S Contractor	S	100,000	20.71
15-Jan	Ceekay Diaki	Shilpa Ketan Shah	S	35,000	133.74
15-Jan	Chd Dev Ltd	JMP Securities Pvt. Ltd.	S	441,598	31.17
15-Jan	Conart Engin	Hafeez S Contractor	S	18,000	42.36
15-Jan	Dolat Inv Lt	Pankaj D Shah	S	1,522,581	21.09
15-Jan	Empower Inds	Growth Capital	B	29,359	22.95
15-Jan	Empower Inds	Nutan S Shah	S	29,359	22.95
15-Jan	Fiem Inds	Anubandh Fin Services P Ltd	S	73,836	100.23
15-Jan	Goldston Tec	B R International	B	192,535	262.19
15-Jan	Gulsha Sug C	Landmark Capital Markets Ltd.	B	100,000	71.97
15-Jan	Gulsha Sug C	Prism Impex Pvt Ltd	S	75,000	72.00
15-Jan	Indiabulls	Sonata Capital Private Limited	S	1,500,690	880.06
15-Jan	Jenson & Nic	JMP Securities Pvt. Ltd.	B	216,001	18.20
15-Jan	Jindal Cap.	Hitesh Shashikant Jhaveri	S	25,000	84.01
15-Jan	Jindal Cap.	JMP Securities Pvt. Ltd.	S	72,910	82.23
15-Jan	Krypton Indu	Chainroop Surajmal Dugar	S	21,625	67.24
15-Jan	Mah Ind Leas	Rajendrabhi Natverlal Patel	S	20,000	59.95
15-Jan	Manap Gen Fi	GMO Emerging Illiquid Mauritius	B	434,800	180.00
15-Jan	Manap Gen Fi	Vijayakumar.K.B	S	200,000	182.69
15-Jan	Manap Gen Fi	K.M.Dharmarajan	S	200,000	180.00
15-Jan	Manap Gen Fi	Balu .C. P	S	100,000	180.05
15-Jan	Marg Constru	CLSA Mauritius Ltd	B	138,000	508.66
15-Jan	Modern Daire	Amas India Investments Mauritius	B	100,000	85.00
15-Jan	NRB Bearing	ICICI Prudential Life Insurance Co	B	500,000	85.50
15-Jan	NRB Bearing	Morgan Stanley Mau Co Ltd	S	513,894	85.53
15-Jan	Ocean Infrst	H.R.Javeri	B	135,415	10.56
15-Jan	Parekh Alum	Sangita Prakash Doshi	B	44,380	241.70
15-Jan	Seasons Text	Santosh Sharma	B	50,000	20.96
15-Jan	Seasons Text	Shalani Dhoop Private Ltd	B	81,271	19.45
15-Jan	Speciality	Anil Gurmukh Bhagwani Nre	S	30,000	95.45
15-Jan	Sumedh Fisca	Pratik H. Parekh	B	38,714	23.23
15-Jan	Sumedh Fisca	Dheeraj Kumar	B	74,191	22.85
15-Jan	Sumedh Fisca	Richa N. Shah	S	47,093	22.88
15-Jan	Sybly Indusr	R S Dua HUF	B	69,627	10.38
15-Jan	Tribhvan Hsg	John Vas	B	100,000	32.15
15-Jan	Triumph In F	Sunidhi Con.S.P. L. Investments	S	64,375	11.33
15-Jan	Vakran Softw	Rba Finance and Investment Co	B	138,000	238.89
15-Jan	Vas Anima En	Sanjay Jagdish Poddar	B	82,876	122.25
15-Jan	White Lion A	Varsha Sanjay Mahatputra	S	45,383	20.72

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Tata Steel	852	1.7	1.8	1.8
Idea Cellular	147	1.0	0.6	8.7
Tata Power	1,548	1.1	0.6	1.6
Losers				
Bharti Airtel	858	(5.5)	(16.4)	10.7
NTPC	274	(3.7)	(15.3)	18.9
Reliance Ind	3,166	(1.7)	(14.0)	3.8

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
16-Jan	Tata Consultancy Services, Petronet LNG, Chambal Fertilizers, Allahabad Bank, MRPL; India Cements, Infotech Enterprises, Welspun Gujarat, LIC Housing Finance earnings expected; Cords Cable holds press conference to discuss on IPO
17-Jan	Reliance Industries, Ranbaxy Laboratories, Reliance Energy, Biocon, NDTV, HCL Tech; Orchid Chemicals & Pharmaceuticals, KPIT Cummins Infosystems, Gondrej Consumer Products, IDBI, Indiabulls Financial Services, Financial Technologies (India) Ltd, Reliance Natural Resources earnings expected
18-Jan	HDFC, Power Finance, ITC, Wipro, Hindustan Construction, Everonn Systems India Ltd, Gujarat Alkalies, BASF India, Nicholas Piramal, IFCI, Wockhrdt earnings expected
19-Jan	ICICI Bank, Idea Cellular, IPCA Laboratories, Ultratech Cement earnings expected
21-Jan	ONGC, Satyam Computer Services, Neyveli Lignite, Glenmark, Titan Industries, Centurian Bank of Punjab, Finolex Industries, HDFC Bank, Jindal Stainless, Canara Bank, Kotak Mahindra Bank, Thomas Cook India, Edelweiss Capital, Religare Enterprises, Bharat Forge earnings expected
22-Jan	Balaji Telefilms, Tech Mahindra, Pidilite Industries, Zandu Pharmaceutical, Tamil Nadu Newsprint & Papers, Bank of India, Lupin, Corporation Bank, Tata Elxsi, United Spirits, Grasim Ind, Punjab Tractors, Asahi India Glass, I-flex Solutions, Sesa Goa earnings expected

Source: Bloomberg

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