

April 17, 2007

FOR PRIVATE CIRCULATION

Equity

	16 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,696	2.3	10.2	(3.1)
Nifty	4,013	2.5	11.2	(1.5)
Banking	6,723	1.2	10.1	(10.4)
IT	3,717	2.2	8.3	(0.1)
Healthcare	3,726	1.1	7.7	(5.1)
FMCG	1,820	2.6	12.0	(4.8)
PSU	6,225	2.1	14.4	0.2
CNX Midcap	5,099	1.5	10.9	(4.2)
World indices				
Nasdaq	2,518.3	1.1	6.1	1.6
Nikkei	17,628	1.5	5.5	2.4
Hangseng	20,758	2.0	9.1	3.1

Value traded (Rs cr)

	16 Apr 07	% Chg - 1 Day
Cash BSE	4,011	(12.8)
Cash NSE	8,951	(8.1)
Derivatives	29,443	(11.4)

Net inflows (Rs cr)

	13 Apr 07	% Chg	MTD	YTD
FII	476	762	1,527	8,685
Mutual Fund	200	(1,051)	(2)	(3,260)

FII open interest (Rs cr)

	13 Apr 07	% chg
FII Index Futures	15,102	5.4
FII Index Options	6,868	11.5
FII Stock Futures	17,117	3.9
FII Stock Options	79	15.5

Advances/Declines (BSE)

16 Apr 07	A	B1	B2	Total	% Total
Advances	185	535	565	1,285	71
Declines	26	167	279	472	26
Unchanged	1	15	29	45	2

Commodity

	16 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	63.6	(0.0)	11.4	24.2
Gold (US\$/OZ)	690.3	0.7	5.5	9.1
Silver (US\$/OZ)	14.1	(0.1)	6.9	9.8

Debt/forex market

	16 Apr 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.13	8.14	8.05	7.79
Re/US\$	41.9	42.5	44.1	44.3

Sensex


Source: Bloomberg

ECONOMY NEWS

- Indian subsidiaries of multinational corporations, which offer their employees stock options in the parent companies abroad will have to foot the fringe benefit tax bill for the option they give their employees to acquire stocks in the parent company. (ET)
- The Government's plan to provide free medicines to cancer patients and subsidized drugs to all through drug banks across the country is set to take off this fiscal. (ET)
- Higher interest rates, slower exports growth and sluggish capital inflows are expected to pull down the country's 2007-08 economic growth to 8.3% from an estimated 9.2% in 2006-07, National Council for Applied Economic Research has said. (ET)
- The country's annual monsoon rains are expected to be close to 100% of the long-term average this year, a senior weather department official has said. (ET)
- India has offered a new set of concessions to the 10-member Association of South East Asian Nations (Asean), during the negotiations in the last two months for a proposed free trade agreement. (BS)
- The pharmaceutical exporters of the country may find the benefits of the 'Focus Market Scheme' of the Commerce ministry extended to the CIS region in the forthcoming annual supplement of the Foreign Trade Policy. (BS)

CORPORATE NEWS

- **National Thermal Power Corporation** is planning to set up a 1,950 MW thermal power plant at Kayamkulam in Kerala with an investment of Rs.76.13 bn. (ET)
- Engineering, procurement and construction firm **Punj Lloyd** has said it has bagged a Rs.5.3 bn contract from Oman Gas Company for construction of pipelines. (ET)
- The **ONGC-BG-Reliance Industries** consortium has decided to raise the output from Panna-Mukta-Tapti fields from 13-mn metric standard cubic meter per day (mmscmd) to 17 mmscmd, with an investment of \$520 mn. (ET)
- Global handset and equipment major Motorola has withdrawn its case filed over five months ago with the Delhi High Court challenging its disqualification for the \$4.8 bn tender by state-owned telephony major **Bharat Sanchar Nigam (BSNL)**. (BS)
- Engineering and power major **Bhel** has emerged as the first original equipment manufacturer from India in the field of gas insulated substations (GIS), with applications in power stations. (BL)
- **Petronet LNG Ltd (PLL)** has diverted LNG sourced for Ratnagiri Gas and Power Pvt Ltd, the erstwhile Dabhol project, to other customers in the absence of a pipeline to transport the gas. (BL)
- Indiabulls Real Estate (IREL), which was spun off from **Indiabulls Financial Services**, is planning to raise nearly \$600 mn (nearly Rs.25 bn) through a GDR issue to fund its projects. It is likely that the company would raise the funds through the Luxembourg Stock Exchange, sources said. (BS)
- The **Lanco group** has received clearance for the proposed \$1-bn IT special economic zone planned near Hyderabad. Lanco Hills Technology Park has been notified as an SEZ by the Ministry of Commerce and Industry, Department of Commerce, and has come into effect from April 10. (BL)
- The **Tata group** may have to rework plans of setting up a special economic zone in Maharashtra, following the Center's recent policy intervention. The Tatas were on the verge of finalizing its second SEZ at Sinnar near Nashik. (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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Maintain BUY with a price target of Rs.1427

TATA CONSULTANCY SERVICES LTD (TCS)

PRICE : Rs.1,280
TARGET PRICE : Rs.1,427

RECOMMEDATION : BUY
FY08E PE(x) : 24x

Highlights

- Q4FY07 revenues and EBIT were in line with expectations. Margins were flat at 28.3% QoQ. The credible YoY recovery in margins is in line with expectations.
- The management re-iterates the positive outlook on volume growth and billing rates. No major impact of US slowdown seen on business, yet.
- We expect an EPS growth of 27% YoY for FY08. The ability to counter rising wage costs and exchange rate fluctuations will be key margin determinants to be followed closely.
- We maintain BUY on TCS with broadly unchanged estimates and a price target of Rs.1427, implying a P/E of 26.6x on our FY08E earnings estimates.

Q4FY07 results

Revenue and profit growth of 5.9% and 6.2% QoQ were in line with our expectations. Revenue growth in Q4FY07 was driven by growth in the Europe geography, which grew above the company's growth rates.

Quarterly performance

(Rs. mn)	Q3FY07	Q4FY07	QoQ %	4QFY06	YoY %
Turnover	48,605	51,464	5.9	37,234	38.2
Expenditure	34,852	36,896		27,404	
EBIDTA	13,753	14,568	5.9	9,830	48.2
Depreciation	1,080	1,395		865	
EBIT	12,673	13,173		8,965	
Other Income	300	898		-40	
PBT	12,972	14,070	8.5	8,925	57.7
Tax	1,828	2,188		898	
PAT	11,144	11,882	6.6	8,027	48.0
Minority interest	115	158		103	
Share of profit	17	4		33	
Adjusted PAT	11,047	11,728	6.2	7,958	47.4
EPS (Rs)	11.3	12.0		8.1	
EBIDTA (%)	28.3	28.3		26.4	
Net Profit (%)	22.9	23.1		21.6	

Source: Company

Revenue growth driven by newer service lines

- The 5.9% revenue growth came on the back of a 6.4% rise in volumes, 0.89% beneficial impact of pricing and a 0.44% positive impact of revenue mix and productivity.
- The 1.8% average appreciation in the rupee v/s the US dollar pulled down revenue growth during the quarter.
- The highlight of the revenue growth was the growing contribution of newer services like consulting, infrastructure services, assurance and BPO that have grown consistently at greater than company rates over FY07. These now contribute close to 18% of revenues vis-à-vis 10% in the last fiscal.

- The healthy revenue growth led to a rise in the employee utilization rate (without trainees) from about 78.2% to 79.6% QoQ. The management is confident of optimizing utilization levels around the current figures in succeeding quarters.
- Revenue analysis points to modest growth within the BFSI vertical and ADM service line, a growth of 1-1.5% QoQ. The management believes this is a quarterly phenomenon and is due to older clients nearing work completion and newer clients awaiting a ramp up. The management has reiterated its outlook of a conducive demand environment and a healthy volume growth, going ahead.
- Billing rates were marginally changed, in our view, and continue to have an upward bias. The rates were positively impacted also in part due to a better mix of offerings towards the higher end of the value chain and as the company provided integrated services to clients.

Margins stay flat QoQ due to rupee appreciation

- TCS' EBIDTA margins remained flat QoQ at 28.3%. This came in the backdrop of the appreciation in the rupee by an average of about 1.8% over Q3FY07. A 1% appreciation in the rupee impacts EBIDTA margins by 30-50bps.
- We believe TCS was able to protect margins on account of its higher employee utilization rate and also scale efficiencies that led to better cost efficiency.
- The offshore contribution for the company was steady at 41.3% of revenues. The company expects to raise the offshore proportion in order to protect margins in succeeding quarters.
- Thus, the absolute EBIDTA and EBIT came in very much in line with our estimates.

Other income and higher depreciation

- TCS earned a one-time income of close to Rs.660 mn from the SITEL transaction that boosted the other income component for the company. (Other income at Rs.897 mn v/s Rs.300 mn QoQ)). We had assumed other income of Rs.350 mn.
- On the other hand, the company also provided for higher-than-expected depreciation (Rs.1.39 bn v/s Rs.1.08 bn QoQ) due to newer facilities coming on stream.
- After accounting for these, PAT worked out to Rs.11.73 bn, in line with our estimate of Rs.11.73 bn.

Levers for margin protection

- In view of the steep rupee appreciation and also consistent salary hikes, protecting margins is of prime importance. We see a few levers available to TCS.
- The company sees more headroom in increasing offshore revenue contribution, which is currently at 41.3%. We opine this could be vital for margin protection in FY08. New services like assurance, testing, infrastructure management and BPO, which have grown well over FY07, are also amenable for higher offshoring.
- TCS has outlined a favorable outlook towards pricing. According to the company, new clients continue to come in at 5-7% higher rates and existing clients are also giving 3-4% increases on renewals. TCS also hopes to build in efficiencies of scale in its model that is expected to bring about cost optimization, going forward.
- Large contracts won by the company, which are currently at lower margin levels, are expected to improve in profitability, as and when they become more mature and higher utilization in GDCs is expected to sustain margins in the future.
- We believe each of these levers are vital for TCS' margin sustenance in FY08 and need to be watched closely.

**TCS's margin protection
levers need to be watched**

Macro trends intact, for TCS too...

- The management indicated it has not witnessed any slowdown in demand from its clients due to the macroeconomic changes in user economies. However, we believe a sharp deceleration or a recession in major economies can impact revenue growth for Indian vendors.
- TCS is pursuing about 10 large contracts, each in the range of \$50 mn plus that translate into a healthy pipeline, going forward. The company has seen success with its full service offering and expects the new deals to involve work across its newer offerings like consulting, assurance services etc. This is expected to lead to continued growth, going forward, for the company.
- Also, during Q4FY07, TCS closed three deals in the \$35-mn plus bracket, two being \$50 mn plus, indicating sustained demand for its services and positioning till date.

Future prospects

Rs. mn	FY06	FY07	YoY %	FY08E	YoY %
Turnover	132,550	186,333	40.6	248,113	33.2
Expenditure	95,543	135,703		181,577	
EBIDTA	37,008	50,630	36.8	66,536	31.4
Depreciation	2,806	4,184		5,450	
EBIT	34,202	46,446		61,086	
Other Income	257	1,943		1,550	
PBT	34,459	48,389	40.4	62,636	29.4
Tax	4,984	6,700		9,546	
PAT	29,475	41,688	41.4	53,090	27.3
Minority interest	280	417		700	
Share of profit	16	44		120	
Adjusted PAT	29,211	41,315	41.4	52,510	27.1
EO items	243	0		0	
EPS (Rs)	29.6	42.2		53.7	
EBIDTA (%)	27.9	27.2		26.8	
Net Profit (%)	22.2	22.4		21.4	

Source: Company, Kotak Securities - Private Client Research

- We have made changes to our FY08E estimates in view of the Q4FY07 numbers and the appreciation in the rupee.
- The rupee has already appreciated to beyond Rs.43 per US dollar and we have made changes accordingly. As compared to our earlier assumption of the rupee appreciating to Rs.43 per US dollar by the end of FY08, we have assumed average rate of Rs.43 per US dollar for FY08.
- Based on the existing share capital, we arrive at an EPS of Rs.53.7 for FY08, broadly unchanged from our previous estimates for the company.

Valuations

- We have valued TCS based on the P/E method and its relative valuation to Infosys. We have accorded a valuation of about 27x FY08E earnings and believe this is fair, based on the revenue and earnings visibility, margins and the 26% profit growth we forecast in FY08 (on a larger base).
- At about 27x FY08E earnings, the price target works out to Rs.1427, implying an upside of 12% from the current levels. We maintain BUY on TCS.

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to Rs.41.85 v/s the US dollar. This is higher than our assumed levels of about Rs.43 per US dollar in FY08. While we expect the rupee to stabilize at about Rs.43 per US dollar for FY08, a sharp acceleration from the current levels may impact our earnings estimates for the company.

RESULT UPDATE

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GUJARAT AMBUJA EXPORTS LTD.**PRICE : Rs.30****TARGET PRICE : Rs.42****RECOMMEDATION : BUY****FY08E PE(x) : 5.6x**

Result slightly below expectations on the profitability side. Maintain FY08E earnings estimates and continue to recommend BUY with unchanged price target of Rs. 42 (40% upside).

Summary table

(Rs mn)	FY06	FY07	FY08E
Sales	12,932	14,099	18,538
Growth (%)	15.8	9.0	31.5
EBITDA	762	1,030	1,711
EBITDA margin (%)	5.9	7.3	9.2
Net profit	303	464	748
Net debt	2,074	3,102	4,757
EPS (Rs)	2.2	3.3	5.4
Growth (%)	12.6	53.0	61.3
DPS (Rs)	0.2	0.2	0.2
ROE (%)	12.2	16.3	22.0
ROCE (%)	12.8	13.8	17.5
EV/Sales (x)	0.5	0.5	0.5
EV/EBITDA (x)	8.2	7.1	5.2
P/E (x)	13.8	9.0	5.6
P/BV (x)	1.6	1.4	1.1

Source: Company & Kotak Securities -
 Private Client Research

- Net Sales for Q4 FY07 was at Rs 3.6 bn up by 1.1% on yoy basis largely due capacity addition in the maize processing and cotton yarn business, which grew by 3.1% and 22.0% respectively. However the net sales were down 9.6% on sequential basis as the company was unable to import the crude palm oil due to high prices prevailing in the global markets, which resulted in lower net sales by approximately Rs. 1 bn.
- For FY07 the company reported net sales of Rs. 14.1 bn thereby registering 9% yoy growth.
- EBITDA margin during Q4 FY07 was up by 20 bps at 5.4% on yoy basis. This was primarily due to improvement in the margins of cotton yarn business of the company. Also the raw material to sales ratio declined from 85.3% in Q4FY06 to 81.9% in Q4FY07 mainly due to higher price realizations and better capacity utilisation of the cotton yarn plant. However the EBITDA margins are down on sequential basis due to higher cotton and corn prices, which resulted in higher raw materials to sales ratio.
- For FY07 the company reported EBITDA margin of 7.3% as against 5.9% in FY06.
- The depreciation is down 51.3% on sequential basis to Rs. 37.7 mn as it is on single shift basis for the solvent extraction plants.
- Interest cost declined substantially to Rs. 1.3 mn in Q4 FY07 as the company got reimbursement of Rs. 15 mn towards the TUF loans taken by the company for the expansions in the cotton yarn business. Also the interest on the new Uttaranchal plant of Rs. 19 mn is capitalized leading to lower interest being charged in the P&L account.
- PAT for the Q4 FY07 was up by 72.8% on yoy basis to Rs 112.1 mn translating into a quarterly EPS of Rs. 0.8 and quarterly CEPS of Rs. 1.1.
- PAT for the FY07 was up by 53.0% to Rs 463.8 mn translating into full year EPS of Rs. 3.3 and CEPS of Rs. 5.2.

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

GAEL has got the SEBI approval for the buy back of Equity shares of face value of Rs 2/- each to the aggregate level of 10% of paid up capital and free reserves of the Company as on 31/3/2006. 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. The buyback is to be executed by the open market operations from the BSE and NSE between 16th April 2007 and 15th January 2008. The maximum price for the buyback is fixed at Rs. 38 per share and hence the company has the option to buyback upto Rs. 38 per share from the open market.

At the buy back 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. Assuming the average buyback price of Rs. 35 the company could buy back upto 7.5 mn shares, which constitute 5.4% of the total outstanding shares of the company as on today. We see this step as positive as buy back of shares would result in lower equity with same level of profits thereby increasing the EPS of the company proportionately

Quarterly performance

Rs mn	Q4 FY07	Q4 FY06	YoY (%)	Q3 FY07	QoQ (%)	FY07	FY06	YoY (%)
Net Sales	3,559	3,519	1.1	3,939	(9.6)	14,099	12,932	9.0
Inc / decin stock	22	(276)	(108.0)	(285)	(107.7)	(211)	(241)	(12.5)
raw materials	2,892	3,277	(11.7)	3,241	(10.8)	11,307	10,868	4.0
staff cost	53	53	0.8	57	(6.9)	208	201	3.2
other exp.	401	282	42.0	594	(32.5)	1,764	1,342	31.5
total exp.	3,368	3,336	0.9	3,607	(6.6)	13,069	12,171	7.4
EBIDTA	191	183	4.2	332	(42.6)	1,030	762	35.2
Other income	8	0	13,300.0	1	607.7	12	5	138.5
Depreciation	38	57	(33.8)	77	(51.3)	264	238	11.3
EBIT	161	126	27.9	256	(37.0)	778	529	46.9
Interest	1	27	(95.2)	41	(96.8)	86	74	15.8
PBT	160	99	61.9	215	(25.7)	692	455	52.0
Tax & deferred tax	48	34	40.9	73	(34.6)	228	152	50.1
PAT	112	65	72.8	142	(21.1)	464	303	53.0
Equity Rs. mn	279	279		279		279	279	-
Ratios								
Op profit margin (%)	5.4	5.2	+20bps	8.4		7.3	5.9	+140bps
Raw Mat/Sales (%)	81.9	85.3		75.0		78.7	82.2	
Staff cost /Sales (%)	1.5	1.5		1.5		1.5	1.6	
Other Exp. /Sales (%)	11.3	8.0		15.1		12.5	10.4	
EPS (Rs)	0.8	0.5		1.0		3.3	2.2	
CEPS (Rs)	1.1	0.9		1.6		5.2	3.9	

Source: Company

Segmental Revenue

Rs mn	Q4FY07	Q4FY06	YoY (%)
Cotton Yarn	442.8	363.1	22.0
Maize Processing	294.0	285.3	3.1
Other Agro Processing	2,812.1	2,865.8	(1.9)
Wind mill	9.7	5.0	94.1

Source: Company

Segmental PBIT

Rs mn	Q4FY07	Q4FY06	YoY (%)
Cotton Yarn	26.0	1.9	1,259.9
Maize Processing	46.8	73.5	(36.3)
Other Agro Processing	89.9	79.0	13.8
Wind mill	5.4	3.4	60.2

Source: Company

PBIT Margins

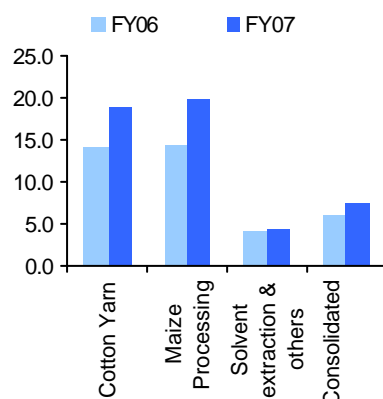
Rs mn	Q4FY07	Q4FY06	YoY (%)
Cotton Yarn	5.9	0.5	1,015.0
Maize Processing	15.9	25.8	(38.2)
Other Agro Processing	3.2	2.8	16.0
Wind mill	55.3	67.0	(17.5)

Source: Company

Improvement in EBIDTA margins

	FY06	FY07	YoY (%)
Cotton Yarn	14.1	18.8	33.5
Maize Processing	14.4	19.7	37.3
Solvent extraction & others	4.2	4.3	2.4
Consolidated	5.9	7.3	23.7

Source: Company

Improvement in EBIDTA margins

Source: Company

Couple of months delay in expansion plans

- 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 is also at an advanced stage of completion. However there is little delay of couple of months on account of late arrival of machineries. However the first phase of the plant is expected to commence commercial operations by July 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. However the management first wants to focus on the Uttaranchal plant and hence also there is couple of months delay for the Nashik plant. The first phase of the project is expected to start commercial production by December 2007 and achieve full scale of operations in the first half of FY09E.
- 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 on schedule and is expected to commence commercial production by September 2007.
- However the delay of the maize processing plant expansion is not expected to impact our FY08E estimates as we have already factored in lower capacity utilisations for the Uttaranchal and Nashik plants. The impact of delayed expansion is expected to be offset by the expected higher capacity utilisations once it starts its operations.

Recommendation and Valuation

- We maintain our earnings estimates for FY08E and expect the company to report EPS of Rs. 5.4.
- At Rs. 30, the stock trades at 1.4x for FY07 and 1.1x FY08E to book value.
- It discounts FY07 and FY08E earnings at 9.0x and 5.6x, respectively.
- The stock looks very attractive on cash earnings basis. It discounts FY07 and FY08E cash earnings at 5.7x and just 3.7x, respectively.
- We remain positive and reiterate our BUY on GAEL with unchanged price target of Rs. 42, which provides upside potential of 40% from the current level. We recommend **BUY**.

**We maintain BUY with
unchanged price target of
Rs.42 (40% upside)**

RESULT UPDATE

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HONEYWELL AUTOMATION**PRICE : Rs.1,648**

RECOMMEDATION : REDUCE
CY07E PE(x) : 19.8x

Honeywell Automation (HAIL) has reported a subdued set of numbers for Q1CY07. Operating margins are lower on account of higher raw material costs and employee costs. The stock is trading at 20x CY07 earnings and we do not see any meaningful upside from these levels. In view of this, we are revising our recommendation to REDUCE.

Highlights

- Order backlog of Rs.7.0 bn, equivalent to ten months of sales.
- Honeywell expects to grow its revenues at 20-22% accompanied by stable margins
- Capex of Rs.300 mn over the next two years

Summary table

(Rs mn)	CY05	CY06	CY07E
Sales	4930	6439	8100
Growth %	75.5	30.6	25.8
EBITDA	563.1	858.0	1079.2
EBITDA margin %	11.4	13.3	13.3
Net profit	400.1	580.0	734.4
Net cash (debt)	-484.8	-303.4	-52.0
EPS (Rs)	45.3	65.6	83.1
Growth %	105.2	45.0	26.6
CEPS	51.0	77.1	96.1
DPS (Rs)	10.0	11.9	14.3
ROE %	29.7	31.8	30.2
ROCE %	25.0	39.5	37.3
EV/Sales (x)	3.1	2.3	1.8
EV/EBITDA (x)	26.7	17.3	13.5
P/E (x)	36.4	25.1	19.8
P/Cash Earnings	32.3	21.4	17.2
P/BV (x)	10.8	8.0	6.0

Source: Company & Kotak Securities -
Private Client Research

Quarterly performance

	Q1CY07	Q1CY06	% Change
Net Sales	1,890	1550	22
Other Income	5	4	25
Total Income	1,895	1554	22
Raw material cost	1,154	911	27
Staff costs	276	212	30
Other expenditure	237	215	10
Total Expenditure	1,667	1338	25
PBIDT	223	212	5
Interest	1	5	-80
PBDT	227	211	8
Depreciation	24	27	-11
PBT	203	184	10
Tax	45	47	-4
PAT adjusted	158	137	15
RM costs to sales (%)	61	59	
Staff costs to sales (%)	15	14	
Other costs (%)	13	14	
OPM (%)	11.8	13.7	
Tax rate (%)	22	26	

Source: Company

Result Highlights

- Revenue for the quarter has risen 22% YoY to Rs1.9 bn. Demand for the Honeywell's products and services are driven by an increasing share of automation in the Indian industry. Also, fresh capex in core sector industries like oil and gas and power, among others, are also resulting in healthy growth in revenues.
- Operating margins for the quarter have declined 190 bps to 11.8%. Margin contraction has been on account of higher material cost pressures and wage costs. Margin contraction is partly on account of higher revenues from Building Solutions, which has relatively lower margins.

Outlook

We are maintaining our earning estimates for the company. At the current price, the stock is trading at 19.8x CY07 earnings of Rs.83.1 per share. Given our target price of Rs.1800 on the stock and limited upside therein, we are revising our call to a **REDUCE**.

RESULTS PREVIEW

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Q4FY07E RESULTS PREVIEW - MEDIA**Outlook: Positive****Revenue Growth Momentum To Stay Intact**

We expect sustained revenue momentum for the media sector in Q4FY07 on the back of a conducive macro environment coupled with rising consumerism. We expect the positive macro factors to lead to greater discretionary spend and possibly higher wallet share for media and entertainment companies, going forward. On a sequential basis though, the numbers could be muted on account of a high base in Q3 due to the seasonality effect.

HT is expected to benefit from the increasing proportion of print in the advertising spends of advertisers. HT could also benefit from better yields on account of the decent roll out in Mumbai that raises its footprint and attractiveness to advertisers.

A pure content player like Balaji is expected to see higher attention as addressability evolves, increasing the importance of specialized content that has a loyal target base. For Q4FY07 we do not expect the impact of KBC/WC 2007 to be very significant on BTL. Note the continued popularity of BTL's programs within their target markets.

Radio players like ENIL are expected to see continued revenue momentum with listenership dominance expected to translate into higher ad revenues. The company opened its Patna station during the quarter and is expected to benefit from the growing radio market and its strong positioning therein.

The past year was a successful one for the Indian film industry with overseas and domestic revenues increasing impressively. Movie production/distribution houses like UTV are expected to benefit from projects like Don, HatTrick (released in Q4). Revenue recognition of successful international releases like Namesake are likely to be deferred to the first quarter of FY08 due to accounting reasons.

With an active line up of movie releases slated, the whole value chain of content producers and exhibitors is expected to attract attention, going forward. Multiplex players like Inox and PVR are expected to see revenue growth as new properties come on stream but would continue to struggle to increase profit margins given the execution and competitive risks.

Margin Outlook

We expect overall margins to largely remain stable or improve on a sequential basis. On a YoY basis, we expect significant improvement in margins as companies draw on the benefits of scale and maturing of past investments.

For HT Media, losses from the launch of business paper Mint are expected to mute EBITDA margin improvement expected across other editions. Apart from Mint, the re-launch and promotion expenses in HT Mumbai, that are one-time in nature, are expected to impact margins in the current quarter. Newsprint prices, given their current trend, are expected to impact the financials of print companies positively in the first quarter of FY08.

ENIL is also expected to benefit from economies of scale with the recently launched stations resulting in sustained profitability coupled with healthy revenue momentum. In line with its plan, ENIL is expected to roll out a further 21 stations over the succeeding quarters (11 existing), which is expected to impact margins in the first half of FY08.

Though margin expectations are more company specific, the increased profitability of Awaaz is expected to impact operating margins positively for TV18. This has, however, been compensated to an extent by investments in its internet businesses. For BTL, YoY margins are expected to improve significantly on the back of a higher share of the profitable commissioned slots. Margins are expected to go down sequentially (due to one-time components in the third quarter).

Profit Growth

On a YoY basis, we expect healthy profit growth for HTML, ENIL, BTL and TV18 on the back of healthy revenue momentum in the business. ENIL and HTML are expected to report impressive YoY PAT growth on the back of leverage kicking in from the maturity of different businesses and healthy ad revenue momentum.

Multiplex players are expected to report decent profit growth sequentially as additional capacities and a favorable pricing environment are expected to reflect in the financials.

Things to look for...

Advertising revenue momentum is expected to be healthy and gain traction during the second half of FY08. We will look for management comments on the pricing power of media companies and their expectations on the outlook for advertising revenues in the print, radio and broadcasting segments.

Management comments on the evolving CAS scenario and their outlook on the nascent subscription revenue stream will also be of interest to us. The impact of CAS rollout, thus far, and companies' outlook on further plans to extend the same will attract attention.

Execution schedules of multiplex players will be watched as players have experienced delays in bringing new screens on line due to mall availability and/or regulatory reasons.

Top Picks: Balaji Telefilms & ENIL

Quarterly estimates - Media (Jan - Mar 07)

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)				
	Q4FY07E	Q3FY07	QoQ (%)	Q4FY06	YoY (%)	Q4FY07E	Q3FY07	Q4FY06	Q4FY07E	Q3FY07	QoQ (%)	Q4FY06	YoY (%)
HT Media	2,858	2,752	3.9	2,219	28.8	17.4	17.8	14.9	260	336	(22.6)	32	710.0
ENIL	448	411	9.1	-	-	33.7	34.2	-	102	124	(17.7)	-	-
TV18	770	648	18.9	535	43.9	46.0	45.4	47.0	203	163	24.5	127	59.9
UTV Software	490	435	12.6	836	(41.4)	9.2	7.6	10.1	35	18	93.1	66	(47.3)
PVR	468	395	18.5	246	90.3	14.6	13.4	9.2	25	17	49.6	9	180.1
Inox Leisure	464	423	9.9	276	68.0	23.9	22.6	28.3	63	48	29.9	44	43.4
Balaji	819	850	-3.7	700	17.1	36.0	40.1	32.2	186	218	(14.5)	155	19.9
Adlabs	850	830	2.4	343	147.6	46.4	44.8	25.0	245	225	8.9	81	202.5

Source: Companies, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
16-Apr	Broadcast	Vinod Nanalal Doshi	B	98,161	67.83
16-Apr	Broadcast	A.A.Doshi Share and Stock	B	117,752	70.71
16-Apr	BSEL Infra	Merrill Lynch Capital Mar	B	500,000	72.00
16-Apr	BSEL Infra	Lotus Global Investments	S	532,488	71.97
16-Apr	BSL Limited	Lend Lease Company India	B	84,576	24.10
16-Apr	BSL Limited	Mackertich Consultancy Se	B	84,575	24.10
16-Apr	BSL Limited	Magnus Capital Corporatio	S	169,151	24.10
16-Apr	Ccap Ltd	Amit Jain	B	19,525	28.64
16-Apr	Garnet Const	Aap Investments	B	45,000	64.90
16-Apr	Gremac Infra	Amam Shreyans Shah	S	231,160	90.00
16-Apr	ICRA	Vinod Nanalal Doshi	B	96,385	941.05
16-Apr	Jagjanani	Harsiddh Online	B	354,670	22.49
16-Apr	Jagjanani	Hiren Kumar Parshottam Bh	B	600,000	23.99
16-Apr	Jagjanani	Kamlesh Haribhai Chavda	B	285,545	23.66
16-Apr	Jagjanani	Harsiddh Online	S	354,670	23.49
16-Apr	Jagjanani	Nilesh Navinchandra Shah	S	730,500	20.58
16-Apr	K S Oils Ltd	Kotak Mahindra UK Limited	B	117,000	291.89
16-Apr	Mah Ind Leas	Rashel Agrotech Ltd.	B	19,950	71.85
16-Apr	Osian Lpg Bo	Vijay Kumar Vohra	S	49,000	10.18
16-Apr	RadhaMadhav	Sweet Investment	B	185,888	74.17
16-Apr	SMIFS Cap Ma	Doyen Marketing P Ltd	B	50,000	32.50
16-Apr	SMIFS Cap Ma	Magnus Capital Corporatio	S	50,000	32.50
16-Apr	Spectra Indu	Mukeshkumar K Varma	S	40,209	26.70
16-Apr	Subhkam Cap	Maru Securities Pvt Limited	B	50,000	214.00
16-Apr	Subhkam Cap	Arti R Kathotia	S	50,000	214.00
16-Apr	Sumeet Indus	Master Finlease Ltd	S	112,686	16.60
16-Apr	Usher Agro	Prakash Baliram Bandarkar	B	94,587	25.25
16-Apr	Usher Agro	Rikesh R Shah	B	96,022	25.18
16-Apr	Usher Agro	Balkrishna Oza	S	100,073	25.25
16-Apr	Usher Agro	Taib Bank Ac TSML	S	94,509	25.09
16-Apr	Visu Intl	M Sivakumar Reddy	S	642,000	14.20
16-Apr	Yes Bank	Merrill Lynch Capital Mar	B	2,038,950	153.60
16-Apr	Yes Bank	Citicorp International Fin	S	2,042,000	153.60

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	1,458	3.2	12.5	1.7
ONGC	900	3.2	11.6	0.9
Bharti Airtel	802	2.7	7.7	1.0
Losers				
Siemens India	1,126	(1.8)	(0.7)	0.8
HDFC Bank	975	(0.6)	(0.4)	0.3
Satyam Computers	479	(0.4)	(0.3)	6.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
17-Apr	UTI Bank to announce earnings and dividend; HCL Technologies holds press conference; General Motors holds press conference for new launch; Tata Steel holds press conference
18-24 Apr	Initial Public offer of Hilton Metal Forging opens
18-25 Apr	Initial Public offer of Bhagwati Banquets and Hotels opens
18-Apr	Praj Industries to announce earnings & bonus; Aban Offshore earnings expected; ABL Bio Technologies to consider right offer
19-Apr	ACC, Biocon, Essel Propack, National Fertilizers, Sterling Biotech earnings expected
20-Apr	Exide Industries, Satyam Computers, Merck, Gujarat Ambuja Cements, Wipro, IDBI to announce earnings and dividend; Mahindra & Mahindra to consider funds raising plans
21-Apr	Titan Industries to announce earnings and dividend; Zee Entertainment earnings expected
23-Apr	Power Finance Corporation, Rolta India, Bank of India earnings expected
24-Apr	Hexaware Technologies, MTNL earnings expected; Maruti Udyog to announce earnings and dividend; Sun TV to consider bonus issue.

Source: Bloomberg

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