

November 21, 2006

FOR PRIVATE CIRCULATION

Equity

	20 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,431	0.0	5.4	16.7
Nifty	3,856	0.1	4.9	14.6
Banking	6,996	(1.8)	13.0	34.7
IT	3,485	2.3	8.1	23.5
Healthcare	3,665	(1.1)	0.4	3.1
FMCG	1,990	(0.8)	(1.8)	0.4
PSU	6,065	(1.2)	3.7	11.1
CNX Midcap	4,894	(1.5)	3.2	13.9
World indices				
Nasdaq	2,452.7	0.3	4.7	14.2
Nikkei	15,726	(2.3)	(5.2)	(1.1)
Hangseng	18,955	(1.2)	5.1	11.9

Value traded (Rs cr)

	20 Nov 06	% Chg - 1 Day
Cash BSE	4,042	(4.5)
Cash NSE	9,629	10.4
Derivatives	34,812	19.3

Net inflows (Rs cr)

	17 Nov 06	% Chg	MTD	YTD
FII (14 Nov)	1,523.8	95.8	4,794	35,268
Mutual Fund	85.8	(76.3)	1,169	15,287

FII open interest (Rs cr)

	17 Nov 06	% chg
FII Index Futures	8,842.7	0.7
FII Index Options	5,768.4	3.6
FII Stock Futures	15,393.0	(0.9)
FII Stock Options	216.0	11.0

Advances/Declines (BSE)

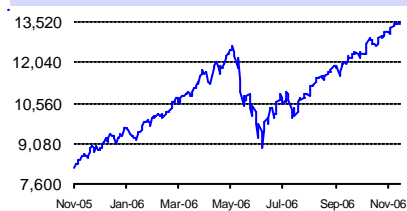
	20 Nov 06	A	B1	B2	Total	% Total
Advances	61	166	324	551	33	
Declines	145	467	450	1062	64	
Unchanged	0	8	28	36	2	

Commodity

	20 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	58.8	(0.3)	3.5	(17.3)
Gold (US\$/OZ)	622.9	0.2	5.5	(0.6)
Silver (US\$/OZ)	12.8	(0.3)	7.5	3.2

Debt/forex market

	20 Nov 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.48	7.52	7.66	8.03
Re/US\$	44.98	44.91	45.33	46.46

Sensex

ECONOMY NEWS

- India may consider lifting a ban on sugar exports as the country is likely to witness a record production of the sweetener this year. (BL)
- In April-September 2006, the country received FDI inflows (only equity component) of \$4.4 billion, which is a 100 per cent increase over the \$2.2 billion received in the same period last year. (BL)
- The country's manufacturing sector grew by 12.1 per cent in the first six months of the current fiscal against 9.5 per cent in the same period last year. (BL)
- Japan will extend 'special economic partner' status to India during Prime Minister Manmohan Singh's visit next month, a move that will help in mobilising investment from Asia's largest economy in a big way. (BS)
- The government is likely to take a view on an amendment to TRIPS agreement to make life easier for drug companies looking at exporting copies of MNC drugs to countries incapable of legitimately making them during a health emergency. (ET)

CORPORATE NEWS

- **Jain Irrigation Systems** has signed an agreement to purchase majority interest in US-based Cascade Specialties Inc (BS)
- **Development Credit Bank (DCB)** plans to raise Rs.225cr, hikes FII limit to 49% (BS)
- **Flag Telecom**, a fully owned subsidiary of **Reliance Communications**, is divesting 15-20 per cent of its equity stake to strategic and financial investors. (BS)
- **Bharat Electronics** has received an order to supply 2 lakh set top boxes (STBs) to Zee (BS)
- **Tata Steel** board is to meet on Thursday to discuss options, including the possibility of a revised offer for Corus. (ET)
- **RIL** is keen to take over the Dabhol power plant to fulfil its ambition of having a liquefied natural gas (LNG) import facility on the west coast. (ET)
- **Apollo Tyres** plans to invest Rs 600 crore in the next four years for capacity expansion through organic and inorganic route. The company is eyeing certain international companies for acquisition; the company recently acquired the Dunlop plant in South Africa. (BL)
- **Sun TV** plans to merge satellite television broadcasting companies Gemini TV & Udaya TV, with itself, according to information provided by the company to the Bombay Stock Exchange. (BL)
- **NCL Industries** has decided to increase its cement capacity by 8.25 lakh tons per annum with an investment of Rs 213 crore by setting up a 1,800 tonnes per day (tpd) Clinker Plant at its existing cement plant. (BL)

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

Vinay Goenka
vinay.goenka@kotak.com
+91 22 66341291

BALRAMPUR CHINI MILLS (BCML) (Rs.89, FY08 P/E: 8.2x, BUY)

The company has changed its accounting year from March to September. Hence, it has reported 18 months financials for FY06.

Balrampur Chini Mills (BCML) has registered an overall revenue growth of 35% in Q6FY06 as compared to Q2FY06. The sugar business, which comprised approximately 90% of total revenues in this quarter, was the key driver with increased sugar sales volumes coupled with better realizations in this segment. Realizations have improved in the sixth quarter at Rs.17,640 per ton against Rs.17,010 per ton in Q2 FY2006. The capacity expansion plan of the company is on schedule and for the current year (FY07E) it would have a total crushing capacity of 55,500 tons crushed per day (tcd).

Summary table

(Rs mn)	FY06 (18M)	FY07E (12M)	FY08E (12M)
Sales	18984	15684	17275
Growth (%)		-17%	10%
EBITDA	4665	3953	4733
Net profit	2915	2227	2728
EPS	12.2	9.0	11.0
DPS (Rs)	1.6	1.6	1.6
ROE (%)	29.1	25.8	16.4
ROCE (%)	29.2	26.7	19.3
EV/Sales (x)	1.3	1.4	1.2
EV/EBITDA (x)	5.0	5.7	4.2
P/E (x)	7.3	10.0	8.2

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q6FY06	Q2FY06	YOY (%)
Net Sales	3882	2875	35
Other Income	20	4	
Total Income	3902	2879	36
Total Expenditure	3292	2314	42
Operating Profit	590	561	5
OPM (%)	15.2	19.5	
Interest	70	37	88
Depreciation	144	86	67
Profit before Tax	396	441	(10)
Provision for Tax	44	84	
Deferred Tax	31	10	
Profit after Tax	322	347	(7)
Equity Capital	248	232	
EPS (Rs)	1.3	1.5	(13)

Source: Company

Key performance highlights

- During Q6 FY2006, the turnover increased by 35% to Rs. 3.8 bn as compared to Rs. 2.8 bn.
- The sugar division's contribution remained high with a revenue share of nearly 90% while it contributed nearly 77% in profitability. The cogen division, on the other hand, delivered impressive results where income increased to Rs.181mn and profitability to Rs.61mn. Higher bagasse availability would ensure higher profitability going forward from the power division.
- Discontinuation of sales from bottling of country liquor dragged down the revenues from the distillery division. However, the thrust on ethanol, with all the larger oil companies as clients, raises the prospect for the company in the future. We remain quite positive on the expansion plans and its future prospects for the distillery division of the company.
- During the quarter, co-generation segment presented 48 salable million units as compared 18 million units in the previous period, increasing significantly by 166.4%.
- By the 2007-08 sugar season, BCML's total co-generation capacity will increase to 164 MW (Saleable: 116 MW), which should add significantly to the company's net profit due to stable realizations with added benefits of tax-free income and carbon credits.

- Depreciation charge and interest cost during the quarter increased by 67% and 88% due to new capacities and plants going on stream. The rise in interest cost is also attributed to an increase in working capital requirement.
- The Mankapur plant with 8,000 tcd crushing capacity, 34 MW power and 100 klpd of distillery was commissioned during the year. Furthermore, the company is implementing two more greenfield integrated sugar complexes totaling 16,000 tcd that will be commissioned by October 2007. These planned expansions would enhance the company's total crushing capacity to 71,500 tcd, total saleable co-generation capacity to 116 MW and distillery operations to 320 KLPD.
- The company has changed its accounting year from March to September. Hence, it has reported 18 months financials for FY06. We have, therefore, calculated our estimates based on FY07E (Sept) estimates.

BCML's capacity overview

	Sugar (TCD)	Distillery (Klpd)	Saleable power (MW)
Season 2005-06	47500	220	63
Season 2006-07	55500	320	85
Season 2007-08	71500	320	116

Source: Company

Sector Outlook

The production during the sugar season 2006-07 in the country is estimated to be at approximately 23 mn MT. The sharp increase in the production in the country is attributable to good monsoon across the country as well as a very remunerative cane price to farmers on timely basis. Given the consumption of around 19.5-20mn MT the country is expected to have surplus sugar inventory for the coming sugar season.

The Govt of India banned sugar exports in the month of July 2006 to curb the rising inflation. Besides the sugar prices in the international market has also declined sharply in the back drop of rising sugar production in Brazil, India and Thailand and owing to lower diversion of sugar cane crop for ethanol production in Brazil with the cooling off of oil prices. The untimely and sudden ban on exports coupled with the fall in international sugar prices has led to decline in domestic sugar prices.

In view of normal consumption growth domestically and sharp rise in the production and surplus sugar stock expected both domestically and globally, sugar prices in India are expected to remain subdued in the short to medium term. In the near term the government is expected to lift the ban on sugar exports (with some strings attached) providing some respite to the domestic prices. However given the lower international prices we don't expect the removal of the export ban to significantly influence the sugar prices in the domestic market. On the other hand sugar cane price is expected to rise which would create further margin pressures on Indian manufacturers. This is especially valid for mills based in Uttar Pradesh with the state elections due next year. We expect the sugar prices to remain around Rs.17,000 per ton going forward given the government's eagerness to check inflation unless sugar production is significantly lower than market estimates.

The Govt of India has recently issued directives to the oil marketing companies to blend ethanol with petrol to the extent of 5 percent. The Oil marketing companies have revised the ethanol rate to Rs. 21.50 per ltr from 18.75 per ltr (plus 16% Modvat). This will enhance viability of distillery business in long run given the three year period of the contracts. Thus better visibility from the distillery segment coupled with higher revenues from the sugar and cogeneration segments would benefit the integrated sugar companies like BCML.

Valuation

We are lowering our sugar price assumption to Rs.17,000/ton (a cut of 6%) for FY07 and increasing the ethanol price realizations to Rs.24.9 (including Modvat). Based on the change in our assumptions we have revised our financials for FY07E. We expect net sales of Rs. 15.6 bn by FY07 with a net profit of Rs. 2.2bn resulting into an EPS of Rs. 9.0. Although the sugar margins would be adversely impacted going forward due to lower sugar realizations, improved realizations from the by-products would partially offset the impact.

**We maintain BUY with a
reduced price target of
Rs.110**

The stock is currently valued at 8x on price-earning basis for FY08 and a multiple of 4x on EV/EBIDTA basis. We have factored an average sugar realization of Rs.17,000 per ton for FY07 in our revised estimates and based on that arrive at a revised target price of 110 (earlier target Rs140) over a 12-month horizon. The stock has corrected sharply in the recent months and is currently trading at a price of Rs. 89. Historically the stock has traded at an average PE multiple of 10x in the last five years and hence the downside from the current levels looks limited. The key risks to our current valuations would be further decline in sugar prices in the domestic market. The stock offers an upside of 23% from the current levels and we maintain **BUY** with a reduced price target of Rs.110.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
20-Nov	Aftek Ltd	Peanence Commercial	B	450,000	50.47
20-Nov	Asian Tea Ex	Chirag Singal	B	45,000	34.83
20-Nov	Bihar Tubes	SaketAgrawal	S	20,000	93.28
20-Nov	Champagn Ind	Citigroup Global Markets	B	74,587	439.18
20-Nov	Champagn Ind	Atom Finvest Private Limited	S	72,590	438.93
20-Nov	Hanung Toys	DSP Merrill Lynch Capital	B	150,000	108.68
20-Nov	IL&FS Invtsm	Bank Of New York Ac Etrad	B	3,365,023	202.00
20-Nov	IL&FS Invtsm	Fidelity Mgmt and Researc	S	3,365,000	201.99
20-Nov	Karuturi.Com	Raj Investments	B	41,500	184.10
20-Nov	Karuturi.Com	Shradha Tradelinks P. Ltd	B	25,632	187.42
20-Nov	Liberty Phos	Dharmendra J Madhani	B	24,075	18.35
20-Nov	Lok Housi Co	Parvest India	S	105,135	330.96
20-Nov	Madhav Mar G	Volga International Ltd	B	68,500	114.35
20-Nov	Madhav Mar G	Jhawar Commodities Pvt Ltd	B	50,000	120.01
20-Nov	Madhav Mar G	Kalpesh Sheth	S	105,622	112.35
20-Nov	Mcleod Rusel	Capital International	B	270,000	106.00
20-Nov	Mefcom Agr I	Cosmo Coporate Services Ltd	S	39,300	39.75
20-Nov	Pace Elec(P)	Prakash Bohra	S	88,000	38.59
20-Nov	Richa Knits	CSB Capital Limited	B	89,862	19.68
20-Nov	Shrachi Secu	Accord Capital Markets Ltd	B	169,150	51.48
20-Nov	SREI Infra	Bsma Ltd	B	1,000,000	47.26
20-Nov	SREI Infra	Merill Lynch Capital Mar	S	1,000,000	47.25
20-Nov	Yashraj Secr	Ashok Pamani	B	7,210	114.95
20-Nov	Zenith Birla	Mit Gopalbhai Shah	B	580,000	50.89
20-Nov	Zenith Birla	Amam Shreyans Shah	B	300,000	50.13

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Bharti Airtel	605	4.2	9.2	1.7
Infosys Tech	2,254	3.1	7.5	2.4
TCS	1,118	2.1	4.5	1.3
Losers				
ICICI Bank	859	(2.0)	(3.1)	3.9
ITC	178	(1.9)	(2.7)	10.5
HDFC Bank	1,087	(3.6)	(2.5)	0.7

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
21-Nov	Larsen & Toubro holds analysts cum media meet; Ansal Housing & Construction to consider funds raising plans; General Motors holds conference for ground breaking ceremony; Kovilpatti Lakshmi Roller Flour holds press conference for public offer; Syndicate Bank to announce interim dividend for FY07
22-28 Nov	Public offer of Gulshan Sugars and Chemicals opens
22-Nov	Apollo Hospitals Enterprises to announce earnings
23-Nov	Siemens to announce earnings; Thomas Cook (India) to announce 4th quarter results
23-29 Nov	Initial Public Offer of Shobha Developers and Ruchira Papers opens
24-Nov	DCB to consider raising FII limit
27-Nov	Tata Power Company to announce half yearly earnings; Dwarikesh Sugar to announce earnings & dividend

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Mid Cap, Power	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Vinay Goenka	Auto, Auto Ancillary, Sugar	+91 22 6634 1291	vinay.goenka@kotak.com
Saday Sinha	Economy, Banking	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

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