

June 12, 2006
FOR PRIVATE CIRCULATION
Equity

| | 9 Jun 06 | % Chg | | |
|-----------------------|----------|-------|--------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Indian Indices | | | | |
| Sensex | 9,810 | 5.5 | (21.6) | (7.2) |
| Nifty | 2,866 | 5.2 | (23.0) | (8.4) |
| Banking | 4,423 | 2.7 | (22.0) | (15.0) |
| IT | 2,272 | 3.7 | (19.3) | (8.8) |
| Healthcare | 3,032 | 5.6 | (25.7) | (15.7) |
| FMCG | 1,755 | 5.7 | (24.0) | (11.9) |
| PSU | 4,705 | 5.5 | (27.2) | (18.2) |
| CNX Midcap | 3,727 | 6.9 | (29.5) | (18.7) |
| World indices | | | | |
| Nasdaq | 2,135 | (0.5) | (4.8) | (5.6) |
| Nikkei | 14,751 | 0.8 | (11.4) | (8.7) |
| Hangseng | 15,629 | 1.2 | (8.1) | 0.6 |

Value traded (Rs cr)

| | 9 Jun 06 | % Chg - 1 Day |
|-------------|----------|---------------|
| Cash BSE | 3,284 | (8.9) |
| Cash NSE | 7,101 | (14.8) |
| Derivatives | 20,892.5 | (14.6) |

Net inflows (Rs cr)

| | 8 Jun 06 | % Chg | MTD | YTD |
|---------------------|----------|-------|---------|--------|
| FII | 111.2 | 248.6 | (7,090) | 11,220 |
| Mutual Fund (233.1) | 7.2 | 6,784 | 12,784 | |

FII open interest (Rs cr)

| | 8 Jun 06 | % Chg |
|-------------------|----------|--------|
| FII Index Futures | 8,876 | (4.7) |
| FII Index Options | 1,929 | (2.0) |
| FII Stock Futures | 9,129 | (11.2) |
| FII Stock Options | 83 | (6.4) |

Advances/Declines (BSE)

| | 9 Jun 06 | A | B1 | B2 | Total | % Total |
|-----------|----------|-----|-----|------|-------|---------|
| Advances | 195 | 481 | 332 | 1008 | 80 | |
| Declines | 13 | 81 | 150 | 244 | 19 | |
| Unchanged | 0 | 0 | 10 | 10 | 1 | |

Commodity

| | 9 Jun 06 | % Chg | | |
|--------------------------|----------|-------|--------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US\$/BBL) | 71.6 | 1.8 | 1.3 | 18.5 |
| Gold (US\$/OZ) | 607.5 | (0.9) | (15.3) | 11.9 |
| Silver (US\$/OZ) | 11.2 | (0.1) | (22.5) | 12.1 |

Debt/forex market

| | 9 Jun 06 | 1 Day | 1 Mth | 3 Mths |
|---------------------|----------|-------|-------|--------|
| 10 yr G-Sec yield % | 7.77 | 7.66 | 7.44 | 7.39 |
| Re/US\$ | 45.97 | 45.98 | 44.84 | 44.49 |

Sensex


Source: Bloomberg

ECONOMY NEWS

- SEBI and the government are close to unveiling a set of policy moves aimed at curbing volatility and enhancing liquidity in the stock markets. The proposed package includes allowing short selling by institutional investors, kicking off a revised stock lending, etc. (ET)
- The venture capital fund investment business is now virtually off limits for banks. In the annual monetary policy in April, the RBI included banks' investment in such funds as part of their total capital market exposure and assigned a higher risk weight of 150% to such exposures. (BL)
- The market meltdown has hit equity-type fund raising by India Inc in foreign markets. Corporates are being forced to either put off or scale down their plans to raise funds through FCCBs and the GDRs/ADRs. (ET)

CORPORATE NEWS

- Anil Ambani's **Reliance Communications** has approached the government seeking spectrum in 1800 MHz frequency to start GSM services in the country. (ET)
- The **Aditya Birla Group** and the **Tatas** are close to finalizing the Idea Cellular deal wherein the Birlas are acquiring the 48% stake of the Tatas in Idea. However, the Birla plan to place a part of the stake with financial investors is unlikely to take off simultaneously. The deal is likely to be completed in two stages. (ET)
- The **Reliance SEZ** deal which was supposed to have been signed between RIL chairman Mukesh Ambani and Haryana chief minister Bhupinder Singh Hooda on Monday has now been postponed by at least a week. (ET)
- **TCS** said on Saturday it plans to invest Rs. 5 bn in a new software development center in Pune. The company also said it plans to hire 9,000 people by March 2007 for its existing unit in Mumbai and the one in Pune. (FE)
- Two-wheeler makers **Bajaj Auto** and **TVS Motors** have a competing product strategy for their new base in Indonesia. TVS Motors would only manufacture and market step-thrus in Indonesia, the third largest two-wheeler market in the world. (BS)
- Kolkata-based power utility, **CESC** has expressed its interest to bid for the Rs. 160-bn ultra-mega power project at Sasan in Madhya Pradesh. (ET)
- **ONGC** has put on the backburner its plan to increase its stake in **Mangalore Refinery and Petrochemicals Ltd** to 88.6%. This follows HPCL's refusal to sell its 16.97% stake to ONGC. (BS)
- The auto components manufacturing division of **Ashok Leyland** is exploring the possibilities of entering the Malaysian market. The division, known as the Auto Components Group (ACG) has recently scaled up its operations in Malaysia by supplying its components to several ancillary companies there as well. (BS)
- **Morarjee Textiles (MTL)**, which is refocusing on yarn-dyed shirting and top wear for ladies, is looking for buy-outs of international brands. (BS)

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

SECTOR UPDATE

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Positive outlook on the sector. Top picks are Nagarjuna Constructions, IVRCL, Madhucon Projects and Era Constructions

CONSTRUCTION SECTOR REVIEW POST Q4 AND FY06

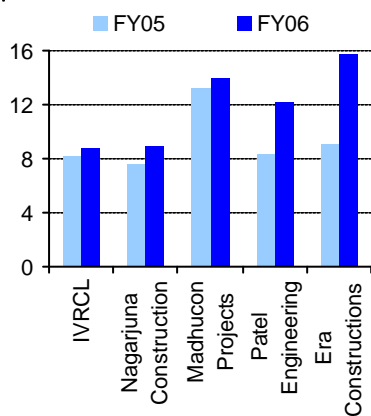
The construction sector has posted an extremely good set of numbers in Q4FY06 and FY06 driven primarily by good order inflows, timely execution of orders and improvement in margins. The companies are well equipped and possess decent order books to be executed over the next two years. Moreover, a significant rise in the order inflows is also expected in their order books. Current valuations of the companies are looking very attractive given the revenue visibility, rise in order book size, improvement in margins and venture into other growing and profitable areas. Our top picks in the sector are Nagarjuna Constructions, IVRCL, Madhucon Projects and Era Constructions.

KEY HIGHLIGHTS OF THE Q4 AND FY06 RESULTS

Robust order books

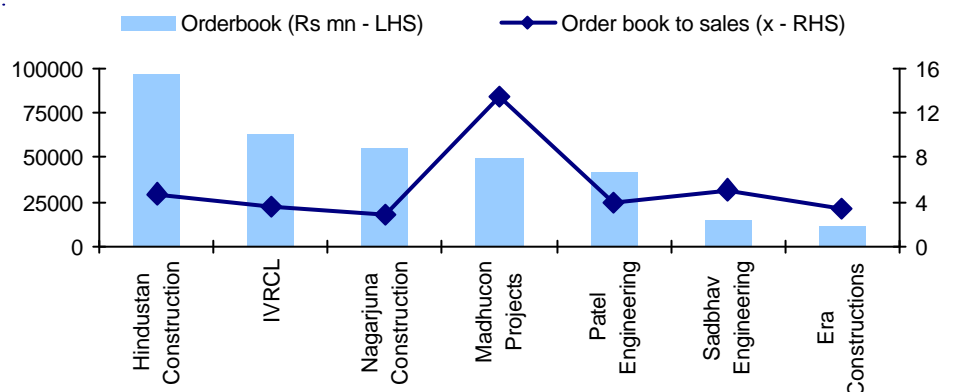
The companies have witnessed a significant increase in their order books vis-à-vis last year. With the continued focus of the government on infrastructure, they are expecting to grow their order books by approximately 30% by the end of next year, thereby providing a visibility for a longer time frame.

OPM (%)



Source: Companies

Order book to sales



Source: Companies

Improving margins

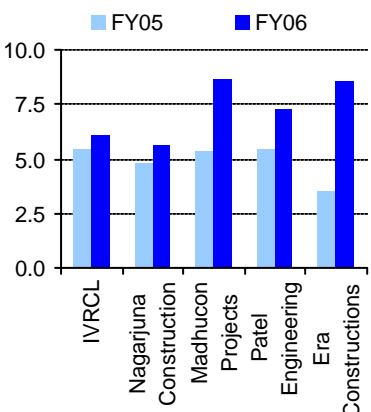
With the help of variable pricing clause, growing order book mix towards higher margin projects and selective bidding, companies have shown an improvement in operating as well as net profit margins and are confident of maintaining these margins at a higher level. With the aid of efficient working capital management and improving margins, the companies have been able to generate good operating cash flows to cater to their increased capital expenditure requirements.

Margin improvements

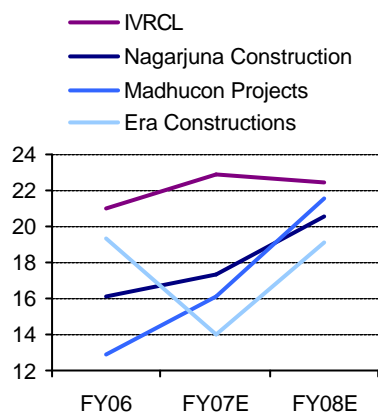
| | OPM (%) | | | NPM (%) | | |
|------------------------|---------|-------|---------|---------|------|---------|
| | FY06 | FY05 | Change | FY06 | FY05 | Change |
| IVRCL | 8.80 | 8.20 | 60bps | 6.10 | 5.40 | 70bps |
| Nagarjuna Construction | 8.90 | 7.60 | 130bps | 5.60 | 4.80 | 80bps |
| Madhucon Projects | 14.00 | 13.20 | 80bps | 8.60 | 5.30 | 330 bps |
| Patel Engineering | 12.10 | 8.25 | 385 bps | 7.25 | 5.41 | 184 bps |
| Era Constructions | 15.73 | 8.98 | 675 bps | 8.50 | 3.50 | 500 bps |

Source: Companies

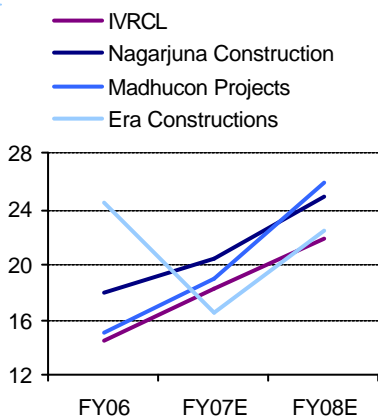
NPM (%)



Source: Companies

RoE (%)

Source: Kotak Securities - Private Client Research; Era Constructions financials are under revision

RoCE (%)

Source: Kotak Securities - Private Client Research; Era Constructions financials are under revision

Improving ROEs and ROCES

Construction companies have undergone different rounds of funding in the form of ADRs, GDRs, FCCBs or warrants to fund their BOT investments and ongoing capital expenditure. They currently have sufficient funds to take care of their current order books. Due to recent fund raisings, the companies will have a small dip in their ROEs and ROCES but that are expected to move upwards as returns from their investments start flowing in.

Subsidiaries

The companies have floated different SPVs for executing their BOT projects as well as venturing into different areas such as real estate, pre-engineered building materials etc. For example, IVRCL is executing real estate projects through IVR Prime Urban Developers and it also holds a 51.4% stake in Hindustan Dorr Oliver Ltd, which specializes in solid liquid separation technologies. Nagarjuna Constructions has floated a separate SPV for each of its BOT projects. Era Constructions is entering into pre-engineered building materials through Era Metals. Some of the subsidiaries or SPVs have started showing decent results and once fully operational they are expected to add to the overall revenue and profit growth for the companies.

Future focus areas

Selective bidding for higher margin projects, venture into real estate projects and bagging projects in international markets would be the key focus areas for the construction companies in the future.

Relative valuations

| | P/E (x) | | | EV/EBITDA | | | Mkt cap (Rs mn) | Price (9 Jun) |
|------------------------|---------|-------|-------|-----------|-------|-------|--------------------|------------------|
| | FY06 | FY07E | FY08E | FY06 | FY07E | FY08E | | |
| Nagarjuna Construction | 25.7 | 15.0 | 10.5 | 13.8 | 8.7 | 6.2 | 26645 | 260 |
| IVRCL | 24.1 | 15.4 | 10.7 | 14.6 | 9.5 | 7.0 | 22470 | 210 |
| Madhucon Projects | 30.3 | 14.4 | 9.0 | 14.9 | 10 | 6.3 | 8966 | 242 |
| Era Constructions | 19.6 | 14.0 | 10.0 | 7.9 | 7.0 | 3.7 | 5182 | 279 |

Source: Kotak Securities - Private Client Research; Era Constructions financials are under revision

We continue to remain positive on the sector and our top picks are Nagarjuna Constructions, IVRCL, Madhucon Projects and Era Constructions.

Bulk deals

| Trade details of bulk deals | | | | | |
|-----------------------------|--------------|---------------------------|--------------|-----------------------|--------------------|
| Date | Scrip name | Name of client | Buy/ Sell | Quantity of shares | Avg. Price (Rs) |
| 9-Jun | Action Fin | Meena Mehta | B | 330,000 | 0.53 |
| 9-Jun | Action Fin | Suman Singhi Trust | S | 330,000 | 0.53 |
| 9-Jun | Apar Indus | Laadki Trading and Inv. L | B | 110,000 | 165.00 |
| 9-Jun | Apar Indus | Ravi Kanaiyalal Sheth | S | 110,000 | 165.00 |
| 9-Jun | Elnet Techno | Krypton Intra Pvt Ltd | B | 22,500 | 69.10 |
| 9-Jun | Elnet Techno | Alltime Projects Ltd | S | 42,817 | 69.11 |
| 9-Jun | Emco Ltd | Reliance Capital Trustee | B | 81,677 | 385.00 |
| 9-Jun | Emco Ltd | Mirae Asset Inv Mgmt Co L | S | 47,000 | 385.01 |
| 9-Jun | Geodinfo Sys | Lloyd George Investment M | B | 595,367 | 146.00 |
| 9-Jun | Geodinfo Sys | Mirae Asset Inv Mgmt Co L | S | 600,000 | 146.00 |
| 9-Jun | Gitanjali Ge | Ashok Gajera | B | 299,044 | 143.58 |
| 9-Jun | Granules Ind | Goldman Sachs And Company | B | 50,000 | 77.96 |
| 9-Jun | Hariyana Sh. | Jagdish Chandra Bansal | B | 25,000 | 20.00 |
| 9-Jun | Hariyana Sh. | Alang Ship Breakers Ltd | S | 25,000 | 20.00 |
| 9-Jun | IOL Broadban | Sumeet Baldev Chopra | B | 100,000 | 45.85 |
| 9-Jun | Kalin Rail N | RS Capital Services Pvt L | B | 40,500 | 84.97 |
| 9-Jun | Kalin Rail N | Param Broking India Pvt L | S | 50,217 | 84.91 |
| 9-Jun | Lakshmi Cot | Capital Care I P Ltd | S | 34,118 | 69.10 |
| 9-Jun | Micro Techn | Magna Umbrella Fund Plc | B | 62,608 | 198.86 |
| 9-Jun | Micro Techn | Jatin Rameshchandra Shah | S | 112,507 | 182.56 |
| 9-Jun | Novartis Ind | Templeton Mutual Fund Ac | B | 209,440 | 422.00 |
| 9-Jun | Novartis Ind | ICICI Bank Ltd Treasury | S | 209,730 | 422.00 |
| 9-Jun | Panjon Limit | Naveen Jand | S | 20,000 | 7.95 |
| 9-Jun | Pruden Pharm | Micro Management Ltd | B | 51,935 | 10.05 |
| 9-Jun | Spicejet Ltd | Jay Investrade Pvt Ltd | B | 1,013,636 | 43.17 |
| 9-Jun | Tantia Cons | Standard Chartered Mutual | S | 79,430 | 113.95 |
| 9-Jun | Vakran Softw | Jay Investrade Pvt Ltd | B | 450,000 | 153.74 |
| 9-Jun | Vakran Softw | Hitesh S Jhaveri | B | 59,049 | 153.89 |
| 9-Jun | Vakran Softw | Hitesh S Jhaveri | S | 52,222 | 151.91 |
| 9-Jun | Vakran Softw | Goldman Sachs Investment | S | 401,621 | 153.74 |
| 9-Jun | Visu Intl | Anil Narandas Solanki | B | 60,423 | 13.60 |
| 9-Jun | Visu Intl | Alltime Projects Ltd | S | 105,000 | 12.56 |
| 9-Jun | Visu Intl | Anil Narandas Solanki | S | 60,423 | 12.69 |
| 9-Jun | Wanbury Ltd | ABN Amro Bank N.V. London | S | 84,752 | 70.67 |
| 9-Jun | Worldw Le Ex | Samir Mukund Lal Shah | S | 14,350 | 35.42 |

Source: BSE

Forthcoming events

| COMPANY/MARKET | |
|----------------|---|
| Date | Event |
| 12-Jun | Unity Infraprojects and Deccan Aviation listing on BSE & NSE |
| 13-Jun | IndusInd Bank to announce annual results |
| 15-Jun | Shipping Corporation of India, Container Corporation to announce earnings and dividend |
| 16-Jun | Exide Industries to consider stock split; Dredging Corporation of India to announce earnings & dividend |
| 22-Jun | ONGC Corporation, Amara Raja Batteries to announce earnings and dividend |
| 27-Jun | Corporation Bank holds shareholders meeting; Reliance Industries holds annual shareholders meeting; Bata India to announce 2nd quarter earnings |
| 30-Jun | State Bank of India holds shareholders meeting; Bharat Electronics to announce earnings and dividend |

Source: Bloomberg

Gainers & Losers

| Nifty Gainers & Losers | | | | |
|------------------------|------------|----------|--------------|-------------|
| | Price (Rs) | % change | Index points | Volume (mn) |
| Gainers | | | | |
| Reliance Ind | 922.8 | 11.8 | 29.0 | 11.3 |
| ITC | 160.5 | 8.7 | 10.4 | 11.4 |
| ONGC | 991.6 | 3.4 | 9.8 | 1.4 |
| Losers | | | | |
| Zee Telefilm | 208.5 | (3.0) | (0.6) | 3.0 |
| Punjab National Bank | 360.9 | (0.8) | (0.2) | 0.9 |
| HPCL | 232.9 | 0.0 | 0.0 | 0.3 |

Source: Bloomberg

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