

December 20, 2006

**FOR PRIVATE CIRCULATION**
**Equity**

	19 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,382	(2.5)	(0.4)	10.5
Nifty	3,832	(2.5)	(0.6)	9.4
Banking	6,912	(2.1)	(1.2)	22.5
IT	3,489	(2.8)	0.1	16.7
Healthcare	3,682	(1.5)	0.5	2.1
FMCG	1,904	(2.3)	(4.3)	(6.9)
PSU	5,880	(2.3)	(3.0)	3.7
CNX Midcap	4,939	(1.4)	0.9	9.7
<b>World indices</b>				
Nasdaq	2,429.6	(0.2)	(0.9)	7.8
Nikkei	16,777	(1.1)	7.7	7.7
Hangseng	18,965	(1.2)	1.3	9.6

**Value traded (Rs cr)**

	19 Dec 06	% Chg - 1 Day
Cash BSE	3,814	8.5
Cash NSE	9,066	10.3
Derivatives	43,871	26.6

**Net inflows (Rs cr)**

	18 Dec 06	% Chg	MTD	YTD
FII	(182.7)	(297.2)	(1,738)	38,131
Mutual Fund	45.5	163.4	(1,151)	13,234

**FII open interest (Rs cr)**

	18 Dec 06	% chg
FII Index Futures	10,536.7	(0.4)
FII Index Options	6,075.4	0.2
FII Stock Futures	16,095.2	1.3
FII Stock Options	171.8	(7.0)

**Advances/Declines (BSE)**

19 Dec 06	A	B1	B2	Total	% Total
Advances	32	171	355	558	33
Declines	177	463	464	1104	65
Unchanged	1	14	29	44	3

**Commodity**

	19 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	63.3	(0.3)	7.6	4.7
Gold (US\$/OZ)	623.0	1.1	0.0	8.0
Silver (US\$/OZ)	12.7	1.5	(0.3)	16.7

**Debt/forex market**

	19 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.59	7.60	7.48	7.64
Re/US\$	44.75	44.64	44.98	46.08

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The Government is actively considering extending the Software Technology Parks of India scheme beyond March 31, 2009. The scheme, introduced in 1999, offers a complete waiver of income tax on export earnings. (ET)
- DoT is likely to recommend a single levy regime for telecom service providers in its Budget recommendations to the finance ministry. Currently, the operators pay license fee, spectrum charges, USO charges etc., separately. (ET)
- There are no signs of overheating in the economy and the dip in IIP numbers will not affect GDP growth target, C Rangarajan, chairman of the Prime Minister's economic advisory council has said. (ET)
- The country will have its first power exchange for electricity trading by the middle of next year, sector regulator Central Electricity Regulatory Commission has said. (BS)
- The income-tax department here has started issuing orders to IT and ITes captive companies relating to transfer pricing norms leading to revenue adjustments of around Rs.10 bn. (BL)

**CORPORATE NEWS**

- European telecom giant Vodafone may join the race for picking up Hutchison's stake in **Hutchison Essar Ltd** directly or through its Hong Kong company. Vodafone already has a 10% equity stake in **Bharti Airtel**, which it picked up for \$1.5 bn last year. (BS)
- The UK's Takeover Panel has set a deadline of January 30, 2007, for the two suitors, **Tata Steel** and Brazil's CSN, to announce revised offers. This is likely to stretch the bidding war for another month. (ET)
- **Essar** and **Reliance** have come together to lift themselves out of the loss making oil retailing business. The companies have entered into a product exchange agreement that allows them to exchange petroleum products without direct selling or buying. (ET)
- **Bharat Petroleum** will pick up a 25% participating interest in blocks 48 1B and 2C in the Southern gas basin of the North Sea. BPCL joins a consortium led by Australian firm Encore Oil and UK company Norwest for a consideration of about Rs. 550 mn. (ET)
- **Tata Power** has said it plans to raise Rs.90 bn overseas by August 2007 for setting up the 4000 MW coal-fired Mundra Ultra Mega Power Project in Gujarat. The company is in talks for importing coal for power project from various countries. (BS)
- **ONGC** and **Reliance Industries** may tie up to build a common gas-processing unit as the two firms have discovered huge reserves in the Krishna-Godavari basin. Setting up such an offshore gas-processing unit involves an investment of around Rs.50 bn. (BS)
- **ITC** has said that it planned to expand its fruits and vegetable retail and wholesale business, Choupal Fresh, by opening 54 new outlets over the next three years. The company currently has a handful of Choupal Fresh outlets in Hyderabad and Pune. (BL)
- **Lupin** has said it received USFDA tentative approval for Trandolapril tablets, used in the treatment of hypertension. USFDA has granted tentative approval for Lupin's ANDA for Trandolapril tablets of 1mg, 2mg and 4mg. (ET)
- **AIA Engineering** has raised Rs.1.25 bn through qualified institutional placements to qualified institutional buyers. (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

### COMPANY UPDATE

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## JAMMU & KASHMIR BANK (RS.636, P/ABV: 1.4X, HOLD)

We had initiated coverage on Jammu and Kashmir bank with a **BUY** rating and a target price of Rs.614 based on P/ABV valuation method. Although the stock has achieved our price target, we recommend a **HOLD** on this stock, as this is a strong candidate for re-rating.

### Background

Jammu & Kashmir Bank (JKB) is one of the fastest growing banks in India with a network of 517 branches spread across the country. It is unique in terms of its structure vis-à-vis other banks. It is banker to the Jammu and Kashmir (J&K) government and has a virtual monopoly in J&K. It is functionally distinct by virtue of being a government owned private sector bank.

We are recommending a **HOLD** on the stock without raising its target price on the belief that this is a strong candidate for re-rating because of the following reasons...

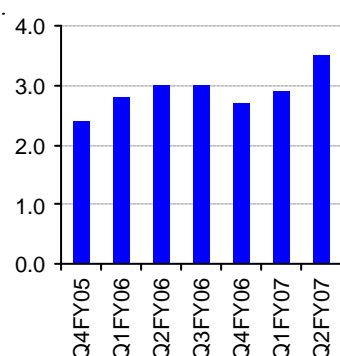
- In our original report (dated October 10), we had assumed that NIMs would be 2.9% and 3.4% in FY07E and FY08E, respectively, but in Q2FY07 itself, NIMs increased to 3.5% from 2.9% in Q1 FY07. This was accomplished due to redemption of high cost deposits in favour of low cost deposits and also due to the change in strategy of sourcing more low-cost deposits from within the state than out of the state. Deposits from within J&K are up 23% YoY in Q2FY07.
- We had also assumed ROEs for FY07E and FY08E at 14.6% and 17.6% levels, respectively, but in Q2FY07 it achieved 17.27% and for H1FY07 15.05%. Similarly, we had assumed ROA at 1.0% and 1.3% for FY07E and FY08E, respectively, but in Q2FY07 it achieved 1.44% and for the H1FY07 1.26%
- The bank is realigning its strategy to lend more within the state where it enjoys higher margins and thus plans to improve its overall margins. The bank's strategy is to shift the ratio of business mix within J&K and outside J&K from 40:60 to 50:50.
- This change in strategy will provide a cushion against falling margin of the bank during rising interest rates regime, falling returns on investment portfolio and increasing liability costs.

### Key data

(Rs bn)	FY06	FY07E	FY08E
Interest income	17.06	20.13	22.68
Interest expense	10.43	12.21	12.72
Net interest income	6.64	7.92	9.96
Other income	1.33	1.44	1.55
Gross profit	4.52	5.56	7.32
Net profit	1.77	2.81	3.9
Gross NPA (%)	2.5	2.2	2.3
Net NPA (%)	0.9	0.6	0.7
Net interest margin (%)	2.6	2.9	3.4
RoE (%)	10.2	14.6	17.6
RoAA (%)	0.7	1	1.3
Dividend Yield (%)	1.3	1.3	1.3
EPS (Rs)	36.4	57.9	80.3
Adjusted BVPS (Rs)	343.5	398.1	461.2
P/E (x)	13.4	11	7.9
P/ABV (x)	1.9	1.6	1.4

Source: Company & Kotak Securities - Private Client Research

### Trend in NIMs over last 7 quarters (%)



Source: Company

### Financials

(Rs mn)	H1 FY07	H1 FY06	% Change
Int. on advances	6397.9	5294.3	21
Int. on investments	2566.5	3015.0	-15
Int. on RBI/Other balances	202.8	136.5	49
Total interest earned	9167.2	8445.8	9
Other income	675.9	491.2	38
<b>Total income</b>	<b>9843.1</b>	<b>8937.0</b>	<b>10</b>
<b>Net interest income</b>	<b>3719.2</b>	<b>3140.6</b>	<b>18</b>
Employee cost	1076.5	931.0	16
Other operating exp	660.5	671.0	-2
Interest expenses	5448.0	5305.3	3
<b>Total expenses</b>	<b>7185.0</b>	<b>6907.3</b>	<b>4</b>
<b>Operating profit</b>	<b>2658.2</b>	<b>2029.8</b>	<b>31</b>
Provisions	594.1	609.4	-3
Taxes	600.0	386.2	55
<b>Net profit</b>	<b>1464.1</b>	<b>1034.2</b>	<b>42</b>
<b>EPS, Rs</b>	<b>30.20</b>	<b>21.33</b>	<b>42</b>

Source: Company

The Management had set an internal target of achieving healthy growth in NII, improvement in net interest margins (NIM) along with enhancement in CASA by the end of FY07. However, they have accomplished this milestone two quarters in advance. Now, the bank is poised to move from a stage of 'margin led growth' to a new stage of 'volume led growth'.

In our estimate, we have assumed an EPS of Rs. 57.9 for FY07, whereas in H1FY07 it has reached Rs.30.20. As of now, we are recommending our investor to hold this stock without raising its target price. We will update you further on future development post-Q3 results.

## EVENT UPDATE

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## Summary table - consolidated

(Rs mn)	FY06	FY07E	FY08E
Sales	4,070	5,392	8,369
Growth (%)	38.6	32.5	55.2
EBITDA	815	1,340	1,881
EBITDA margin (%)	20.0	24.9	22.5
Net profit	543	978	1,294
Net debt	300.7	66.3	(32.9)
EPS (Rs)	29.5	52.0	68.9
Growth (%)	96.6	86.8	32.3
DPS (Rs)	2.5	2.5	2.5
ROE (%)	29.0	30.5	30.0
ROCE (%)	36.4	36.5	38.4
EV/Sales (x)	5.9	4.4	2.8
EV/EBITDA (x)	29.6	17.8	12.7
P/E (x)	43.0	24.4	18.4
P/BV (x)	8.7	6.5	4.8

Source: Company & Kotak Securities -  
Private Client Research

## Price performance relative to Sensex



Source: Capitaline

**We recommend BOOKING  
PROFITS at current levels**

## AIA ENGINEERING (Rs.1268, FY08E PER: 18.4, BOOK PROFITS)

### Issue of 1.02 mn shares through QIP

AIA has issued 1.02 mn shares @ Rs.1225 per share (including premium of Rs.1215) through the QIP route and raised Rs.1.25 bn. The issue has resulted in equity dilution of 5.7%. The equity capital of the company has gone up from Rs.177.8 mn to Rs.187.9 mn.

### Utilization of funds to be raised

- The resources raised from the issue of shares are likely to be used for further greenfield/ brown-field expansion and backward integration plans.
- The company has been very successful in the initial trial of the mill internals for the mining segment. The company has received a positive response from the Brazil, North American and South African markets. Thus, the management has felt that the currently planned expansion of 104000 TPA would not be sufficient to meet the global mining demand. Hence, the company is planning another 100000 TPA greenfield/brown-field plant for the manufacture of high chrome mill internals to be set up at a strategic location.
- Further, in order to secure the supply of its main raw material, that is ferrochrome, which constitutes almost 25-30% of the total raw material cost, the company is also planning backward integration by setting up or acquiring a ferrochrome manufacturing facility of 50000 TPA capacity.
- The above plans are estimated to require a capital outlay of Rs.1.5 bn including the working capital requirements. Thus, the company has raised Rs.1.25 bn out of the QIP issue and we feel the combination of the money raised and internal accruals would be sufficient to meet the capex requirements of the company.

### Valuation and recommendation

- Currently, the management wants to focus on the first phase of expansion and final plans for the additional expansions are likely to be made by January 2007. Also, it would then take approximately 15 months to commence commercial production. Hence, we do not see any impact on FY08E number also. Any benefit out of the second phase of expansion would materialize only in FY09E.
- On the contrary, based on equity dilution due to issue of shares we are reducing our EPS estimates from Rs.55 to Rs.52 for FY07E and from Rs.72.8 to Rs.68.9 for FY08E.
- We are reducing our CEPS estimates from Rs.59.5 to Rs.56.3 for FY07E and from Rs.80.1 to Rs.75.8 for FY08E.

### Change in Estimates

(Rs mn)	Old		Revised	
	FY07E	FY08E	FY07E	FY08E
Revenues	5,392	8,369	5,392	8,369
EBITDA %	24.9	22.5	24.9	22.5
Profit	978	1,294	978	1,294
EPS	55.0	72.8	52.0	68.9
CEPS	59.5	80.1	56.3	75.8
Equity	178	178	188	188

Source: Kotak Securities - Private Client Research

- At the current price of Rs.1268 the stock is trading at 24.4x FY07E and 18.4x FY08E earnings estimates.
- We remain positive on the growth prospects of the company. However, since our target price is below the current price we recommend Booking Profits at current levels.
- However, long-term investors with more than two years investment horizon can continue to **HOLD** the stock to take advantage of the potential upsides from the commissioning of the 30 MW power plant, additional 100000 TPA capacity expansion and backward integration plans of the company.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
19-Dec	Anil Sp Stel	Mayank Jain	B	50,000	15.00
19-Dec	Anil Sp Stel	Rajesh Bhatia	S	83,267	15.09
19-Dec	Ashco Indust	Priti Anil Gandhi	B	100,000	37.20
19-Dec	Ashco Indust	Flash Sec.Pvt Ltd	S	100,000	37.20
19-Dec	Asia Cerc In	SFV Selvaraj	B	51,548	147.51
19-Dec	Axtel Indusr	Ajay Nalin Parikh	B	79,009	11.50
19-Dec	Bihar Tubes	Motilal G Sharma	B	50,000	106.73
19-Dec	Chokhani Sec	Chokhani Fin and Invest	B	140,000	11.08
19-Dec	Chokhani Sec	R R Chokhani Stock Broke	S	140,000	11.08
19-Dec	Control Prin	IDBI Ltd	S	55,000	57.90
19-Dec	Crew Bos	Volga International Ltd	S	67,084	237.08
19-Dec	DMC Vaults	Suman Kohli	B	50,000	33.95
19-Dec	Geekay Finan	S K Pandey	B	40,000	13.25
19-Dec	Gemstone Inv	Bhavesh Prakash Pabari	B	35,000	11.24
19-Dec	Gemstone Inv	Mradula Vijaykumar Shah	S	50,000	11.25
19-Dec	Innocorp L	N.C.Jain	B	42,587	23.31
19-Dec	Innocorp L	Ruby Ladha	B	45,000	24.32
19-Dec	Khaitan Wvg	Nutan Hasmukh Mehta	S	4,600	58.50
19-Dec	Kotawala(I)	Kiran Darak	B	100,000	55.05
19-Dec	Madhav Mar G	V and U Caplease Pvt Ltd	S	90,000	140.63
19-Dec	Madhucon Pro	Sundaram BNP Paribas Mutu	B	741,980	303.00
19-Dec	Madhucon Pro	BSMA Limited	B	350,000	316.99
19-Dec	Madhucon Pro	Merrill Lynch Capital Mar	S	444,139	303.02
19-Dec	Madhucon Pro	Passport India Inv	S	375,000	316.48
19-Dec	Maikaa Fibre	Shalini Jalan	S	90,000	10.50
19-Dec	Nandan Exim	Pilot Consultants Ltd	S	1,225,426	7.13
19-Dec	Osian Lpg Bo	Kirit Shantilal Gandhi	B	27,600	17.51
19-Dec	Pantaloon In	Payash Securities Pvt. Ltd	B	191,615	375.50
19-Dec	Pantaloon In	Shilodaya Invest and Fina	B	34,950	379.29
19-Dec	Pantaloon In	Jhawar Commodities Pvt Ltd	B	40,118	376.50
19-Dec	Pantaloon In	Vivek Mehrotra	B	50,000	376.00
19-Dec	Pantaloon In	Chartered Traders Pvt.Ltd	B	193,255	375.35
19-Dec	Pantaloon In	Laxmi S. Mankekar	S	180,000	275.29
19-Dec	Pantaloon In	Akash Bhanshali	S	191,615	375.50
19-Dec	Pantaloon In	Ajay Upadhyaya	S	31,500	379.00
19-Dec	Peerles Ab F	Ruby Ladha	B	75,000	18.86
19-Dec	PTC India	UBS Securities Asia Ltd	B	801,000	51.53
19-Dec	Rock Hard Pe	Bholabhai Patel	B	42,289	8.32
19-Dec	RPG Transm	BSMA Limited	B	104,497	165.00
19-Dec	RPG Transm	Top City Mercantile Co Pv	S	71,770	165.18
19-Dec	RPG Transm	Pacific Corporate Service	S	75,000	165.02
19-Dec	Sanguine Md	Neil Information Technolo	B	50,500	42.50
19-Dec	Shivaji Secu	Sonia Ajay Goyal	S	74,000	62.15
19-Dec	Tricom India	Volga International Ltd	B	64,000	155.75
19-Dec	Uniro Text I	Hitesh Jhaveri	B	30,595	7.63
19-Dec	Uniro Text I	Ashwani Kumar	B	65,129	7.46
19-Dec	Vamshi Rubbe	Shreenath Finstock Pvt Ltd	B	25,000	10.80
19-Dec	Vimal Oil Fo	Pilot Consultants Ltd	B	30,494	46.25

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Hero Honda Motors	754	0.4	0.1	0.2
Zee Telefilm	273	0.2	0.0	4.0
DRL	802	(0.3)	(0.1)	0.6
<b>Losers</b>				
Reliance Ind	1,254	(2.8)	(9.9)	4.2
TCS	1,142	(3.3)	(7.7)	0.9
Infosys Tech	2,158	(3.0)	(7.5)	2.2

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
20-Dec	Sobha Developers listing on NSE & BSE GAIL India to announce interim dividend; MRF to announce earnings and dividend Hindustan Petroleum Corp to announce interim dividend; Four Soft to consider fund raising plans; Tanta Constructions to consider funds raising plans; Spanco Telesystems to consider funds raising plans; Canara Bank, Syndicate Bank & Vijaya Bank signs MOU with IIFCL
21-Dec	Tata MF holds press conference to announce its new initiatives
22-Dec	Indian Oil Corp to announce interim dividend
23-Dec	ONGC to announce interim dividend
26-Dec	Bharat Petroleum Corp to announce interim dividend; Glenmark to announce interim dividend

Source: Bloomberg

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