

**November 24, 2006**
**FOR PRIVATE CIRCULATION**
**Equity**

	23 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,681	(0.2)	8.4	18.6
Nifty	3,945	(0.2)	7.9	17.1
Banking	7,147	0.3	17.1	38.2
IT	3,560	(0.6)	11.3	26.2
Healthcare	3,720	(0.0)	3.1	6.4
FMCG	1,993	(0.9)	(0.3)	1.5
PSU	6,203	0.5	6.8	14.1
CNX Midcap	5,041	0.6	6.4	18.0
<b>World indices</b>				
Nasdaq	2,466.0	0.5	4.7	15.5
Nikkei	15,914	1.1	(6.5)	(2.9)
Hangseng	19,265	0.1	6.1	14.1

**Value traded (Rs cr)**

	23 Nov 06	% Chg - 1 Day
Cash BSE	5,259	8.7
Cash NSE	8,885	(15.1)
Derivatives	33,021	(0.5)

**Net inflows (Rs cr)**

	22 Nov 06	% Chg	MTD	YTD
FII (21 Nov)	642.3	1,007.4	6,897	37,452
Mutual Fund	184.3	333.8	883	15,107

**FII open interest (Rs cr)**

	22 Nov 06	% chg
FII Index Futures	9,305.8	1.6
FII Index Options	7,002.3	2.9
FII Stock Futures	16,373.4	1.4
FII Stock Options	269.7	(0.1)

**Advances/Declines (BSE)**

	23 Nov 06	A	B1	B2	Total	% Total
Advances	116	259	394	769	46	
Declines	88	370	418	876	52	
Unchanged	1	5	24	30	2	

**Commodity**

	23 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	59.3	0.1	(0.1)	(18.1)
Gold (US\$/OZ)	631.3	0.2	7.9	1.8
Silver (US\$/OZ)	13.1	0.5	11.3	6.4

**Debt/forex market**

	23 Nov 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.44	7.47	N.A.	7.93
Re/US\$	44.70	44.80	45.37	46.53

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The book building process for de-listing of shares from the stock exchanges is proposed to be scrapped by the SEBI, which has put in place an alternative pricing mechanism. The offer price shall be higher than the fixed price, which would be the floor price plus a premium of 25 per cent. (BL)
- Chinese President Hu Jintao proposed a free trade area between China and India and a slew of other measures to expand economic relations, sweep away mistrust and speed up efforts to resolve border disputes. (BS)
- The Cabinet Committee on Economic Affairs approved IPOs of three State-owned power companies - Power Finance Corporation, Power Grid Corporation and Rural Electrification Corporation - through fresh issue of shares. (BL)
- SEBI has allowed HDFC Bank to open new demat accounts. The bank was barred from opening fresh demat accounts after the IPO scam during April this year. (BS)

**CORPORATE NEWS**

- Revenue maximisation solutions provider for telecom operators, **Subex Azure Ltd** on Thursday announced that it would implement a revenue assurance (RA) and fraud management system for a leading mobile operator in the Middle East. (BL)
- **United Phosphorus Ltd** has acquired the global Propanil herbicide business from the US-based Dow AgroSciences LLC for Rs 111.86 crore (BL)
- **Hindustan Zinc** is planning three new projects with an expected capital expenditure of Rs 1,177 crore to consolidate its position in the metal production business as well as to foray into the emerging wind power generation business. (BS)
- The board of directors of **Aditya Birla Nuvo** approved a rights issue of equity share in the ratio of 2:17, i.e every shareholder holding 17 shares will be allotted two rights shares. The shares are proposed to be issued at Rs.793 per share. (BS)
- **Cairn Energy Plc** today announced that Rs 3,700 crore has been raised from pre-IPO private placement of Cairn India Ltd shares. The largest investor in the placement is a wholly owned subsidiary of Petronas, Malaysia. (BL)
- **Siemens Ltd** will divest its 100 per cent stake in subsidiary Siemens Public Communication Networks Pvt Ltd, to Nokia Siemens Networks India Pvt Ltd. (BL)
- The Directorate General of Hydrocarbons (DGH) and the Empowered Committee of Secretaries (ECS) has decided against penalising upstream major **Oil and Natural Gas Corporation (ONGC)** for a poor exploration record and has chosen it to award it 21 blocks. (BS)
- Global software major Microsoft Corporation has signed an agreement with software and services major **Tata Consultancy Services (TCS)** to acquire a 10 per cent stake in the Indian company's Chinese subsidiary, TCS China. (BS)
- **ICICI OneSource**, has been rechristened as Firstsource Solutions, and has filed its papers with Sebi for an initial public offering (IPO) of 95.6 million shares. (BS)
- **BPL Ltd** has decided to transfer the firm's alkaline battery business to a proposed joint venture company. This will be preceded by the business being leased for six months from a date to be decided upon. (BS)
- **Union Bank of India** is being chased by four new life insurance companies to make the Mumbai-based bank a shareholder in their ventures. (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

### INITIATING COVERAGE

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## INDIA CEMENTS (Rs.227, FY08E P/E: 9.4x, BUY)

India Cements, the largest producer of cement in south India, is well set to capitalise on the favorable demand supply scenario in south India. With debt restructuring and upcoming capacity expansion, we expect the company to grow its revenues at a CAGR of 26% and net profits at a CAGR of 251% between FY06-FY08. At current market price of Rs.227, it is trading at undemanding attractive valuations of 12.8x FY07E and 9.4x FY08E PE multiples. On an EV/EBITDA basis it is trading at 9.4x FY07E and 7.1x FY08E estimates. We recommend a BUY with a price target of Rs.293. This provides an upside of 29% over a 12 month time frame.

### Valuation table

Rs mn	FY06	FY07E	FY08E
Sales	15,487	20,913	24,609
Growth (%)	-	35	18
EBITDA	2,679	6,834	8,592
EBITDA margin (%)	17.3	32.7	34.9
Net profit	450	4,078	5,555
Net debt	14,816	12,653	9,628
EPS (Rs)	2.1	17.8	24.2
DPS (Rs)	-	1.0	1.0
ROE (%)	2.5	18.4	20.8
ROCE (%)	5.3	16.8	20.3
EV/Sales (x)	4.3	3.1	2.5
EV/EBITDA (x)	24.9	9.4	7.1
P/E (x)	108.7	12.8	9.4
P/BV (x)	2.4	2.2	1.8

Source: Company & Kotak Securities - Private Client Research

### Key investment highlights

- Favorable demand supply scenario over medium term and rising prices.** Southern India, the largest market in terms of production and consumption, is expected to witness a double digit growth in the cement demand on account of huge infrastructural investments. With likely implementation of VAT from Jan 2007 and consequent demand supply mismatch, we expect cement prices to remain firm for next 1.5-2 years. This is expected to have a positive impact on India Cements with its key markets being Tamil Nadu and AP.
- Market leader in southern region.** India Cements is a market leader in South with 8.8 million tonnes (MT) of capacity (including Visaka cement). With a further capacity expansion of 2 MT, India Cements should be able to maintain its leadership in its key markets. We expect company's despatches to be about 7.5MT and 8.3 MT in FY07 and FY08 respectively.
- Efficient cost control measures and higher realisations to drive profit growth.** With usage of alternate sources of power, firm cement prices and cost control measures, we estimate company to obtain EBITDA/tonne of Rs.915 and Rs.1030 for FY07 and FY08 respectively, as against Rs.367 in FY06
- Reduced balance sheet risks.** Company has refinanced a major portion of its high cost debt and the costs associated with the high debt on company's balance sheet have reduced now. This is expected to result in significant reduction in the interest cost going forward. Company also plans to approach the lenders for exiting from the CDR arrangement. We expect company's debt-equity to reduce to 0.6x in FY07 as compared to 1x in FY06.
- Capex to drive future growth.** Company has earmarked a capex of Rs.3.45bn to increase its capacity by 2 MT. This is expected to get operational by Q4FY08. Hence, we believe that partial impact of increased capacities would be visible in FY08 itself with FY09 financials having full impact of increased capacities which will keep the volume growth momentum sustained.

### Key concerns

- Earlier than expected commissioning of new plants announced by different companies may impact the revenue growth of the company.
- Over exposure to group companies in the form of loans and advances poses a potential risk to the company.

### Valuations and Recommendations

We have valued the company on a standalone basis based on rolling forward valuation multiples like EV/EBITDA, P/EPS and P/BV and arrived at a target price of Rs.293. At our target price, stock would be trading at 8.9x EV/EBITDA 12x P/E and 2.3x P/BV.

**We recommend a BUY on the stock with a price target of Rs.293 (29% upside)**

**EVENT UPDATE**

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**INDO-US NUCLEAR DEAL**

In March 2006, the US and India entered into a landmark agreement by which they agreed to share nuclear reactors, fuel and expertise. This bill has been approved by the US Senate on Friday. Several more critical approvals - by Congress, the International Atomic Energy Agency and the 45-nation Nuclear Suppliers Group - are needed before the agreement can take effect. But the Senate vote means India is getting closer to being able to purchase US nuclear fuel, reactors and related technology.

Under the terms of the deal, India agreed to place its civilian nuclear facilities — but not its nuclear weapons arsenal — under international monitoring and pledged to continue to honor a ban on nuclear testing. In return, it would have access, for the first time, to sensitive U.S. nuclear technology that can be used for meeting civilian energy needs.

**Thrust on nuclear energy driven by significant power supply deficit and need to diversify energy reliance:**

The present total installed power capacity in the country is 127672 MW and on an average about 10,000 MW per year needs to be added in the country to meet the growing demand of electricity. No single source is able to meet this demand. The Indian power sector comprises of State, Central and Private sectors. The contribution of Central sector in all India installed capacity is about 32% with share of 42% in generation. Nuclear Power Projects are Central sector Projects and the share of nuclear power in Central sector generation and capacity are about 7%.

Nuclear power is environment friendly, technologically proven, economically competitive and associated with the advantage of energy security and diversity. Nuclear power is, thus, an important component to complement generation from other sources in near term.

**India's three-stage nuclear Programme:** Taking cognizance of India's nuclear resource profile, Dr Homi Bhabha formulated a three-stage nuclear power programme. PHWRs (pressurized heavy water reactors) were chosen for the first stage of the nuclear power programme. The decision to adopt PHWRs for India's nuclear power programme was based on best utilisation of country's limited uranium resources.

India has meager reserves of natural Uranium but is well-endowed with thorium reserves. In order to utilise thorium, the nuclear power programme in India has to be carried out in three stages, which is time-consuming. The first stage will utilise natural uranium as fuel, producing power and the fissile element plutonium.

The second stage will employ reactors using plutonium as fuel and thorium as fertile material, producing power and converting part of the thorium into U-233.

The third stage will use U-233 with thorium in breeder reactors, so that while electricity is generated, more U-233 is produced than is burnt up in the process. According to certain tentative estimates the cost of generation of electricity in this stage is expected to be lower than in the other two stages. The third stage was envisaged to set the platform for adequate power for the next couple of centuries. These three stages are already under operation.

**Plants under construction**

	<b>Capacity</b>	<b>Completion</b>
kaiga 3&4	2x220	Mar-Sep 07
Kudankulam 1& 2	2x1000	Dec-08
RAPP 5&6	2x220	Feb-08

Source: Nuclear Power Corporation

The unit size of Indian nuclear power plants are low by global standards and have generally been 220 MW and below unit size. The Kudankulam project is of global unit size and the project is coming up with technical assistance from USSR.

**Plan to add 20 Gigawatt through nuclear energy:** VISION-2020 of DAE envisages a nuclear power capacity of about 20,000 MWe. PHWRs and LWRs constitute a major share of 20,000 MWe programme. Future PHWRs will be of 700 MWe unit size and the design work is in advanced stage. In principle approval of the Government of India in respect of sites for four nuclear power projects at Kudankulam in Tamilnadu (adjacent to KKNPP-1&2), Kakrapar in Gujarat (adjacent to KAPS), Rawatbhata in Rajasthan (adjacent to RAPS) and Jaitapur in Maharashtra, totaling a capacity of 6800 MWe, has been received. Pre-project activities on these sites have been taken up.

### Areva is the world leader in Nuclear Power Equipment

The nuclear power project EPC business is basically divided into three segments. The first one is the front-end which is Uranium mining and enrichment. The second segment is the Reactor and services, which comprises of equipment supply of reactors and generators. The third segment is called the back-end which consists of maintenance services. Areva is the largest player in the Nuclear Power Equipment business and is the only fully integrated player present in all the three stages.

#### Revenue from Sale of Reactor and services in 2005

	Euro mn
Areva	3270
FAAE	1322
Westinghouse+ Toshiba	2645
Mitsubishi	1160
Hitachi	1143
GE Nuclear	798

Source: Areva

### Among Indian companies L&T expected to be the biggest beneficiary

At Rs 55-60 mn per MW, the opportunity from Vision-2020 is estimated at Rs 1100-1200 bn. Since the unit size nuclear power in India is relatively lower by global standards, Indian equipment suppliers could face difficulty in bidding for larger unit size orders (1000 MW and above).

L&T is expected to be the biggest beneficiary due to its integrated offering spanning from construction to equipment supply.

#### Companies likely to benefit

Company	Scope of work
L&T and BHEL	Reactors, Steam Generators, Fuel Handling
Alfa Laval, Walchandnagar Industries	Heat exchangers
Walchandnagar, L&T	Calandria (reactor vessel)
Bharat Pumps, KSB pumps, M&P Pumps, Jyoti Ltd	Pumps
KSB Pumps, Audco, BHEL	Valve
Siemens, Areva T&D, ABB, BHEL, Crompton Greaves	T&D equipment
L&T, HCC and Gammon	Civil Construction
Mah Seamless, Ratnamani, Surya Roshni	Pipes and Tubes
TISCO, Jindal and SAIL	Plates and Structural

Source: Nuclear Power Corporation

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
23-Nov	ABG Heav Ind	Pru ICICI Ac Infrastructu	B	85,000	267.01
23-Nov	Abhinav Cap	Antique Stock Broking	B	227,440	41.25
23-Nov	Abhinav Cap	Rajesh Nandu	S	57,000	41.25
23-Nov	Abhinav Cap	Pankaj Damji Nandu	S	57,000	41.25
23-Nov	Abhinav Cap	Priti Rajesh Nandu	S	57,000	41.25
23-Nov	Abhinav Cap	Kesarben Damji Nandu	S	56,440	41.25
23-Nov	Bihar Tubes	Uma Agarwal	S	20,500	109.60
23-Nov	Bihar Tubes	Saket Agarwal	S	20,000	109.50
23-Nov	Bihar Tubes	Gunjan Agarwal	S	20,000	109.50
23-Nov	Bihar Tubes	Hardik M Mithani	S	19,385	109.68
23-Nov	Country Club	BSMA Ltd.	B	50,446	391.38
23-Nov	Dujod Pape C	Sun Investment and Tradin	B	30,340	19.97
23-Nov	Garnet Intl	Polygon Solutions Pvt Ltd	B	50,000	25.00
23-Nov	Garnet Intl	Sanjay M Shah	B	99,000	25.00
23-Nov	Garnet Intl	Morgan Stanley Investment	S	382,895	25.00
23-Nov	ICICI Bank L	CLSA Mauritius Limited	B	9,272,414	880.50
23-Nov	ICICI Bank L	Crown Capital Limited	S	9,272,414	880.50
23-Nov	Infotrek Sys	Paresh N Bhagat	B	25,000	42.70
23-Nov	Infotrek Sys	Shri Vallabh Investment	B	25,000	40.70
23-Nov	Ion Exchange	Merill Lynch Capital Mark	B	150,723	90.00
23-Nov	K S Oils Ltd	Gagan Gupta	B	75,000	208.63
23-Nov	Khaitan Wvg	Vimala M. Jain	S	6,000	59.65
23-Nov	Lyka Labs	Vinod Shridhar Shanbhag	B	200,000	57.99
23-Nov	Lyka Labs	Marshall Wace Llp The Kuv	S	200,000	58.00
23-Nov	Mefcom Agr I	Purshottam Khandelwal	B	19,789	45.90
23-Nov	Prithvi Info	Dinesh Kumar Singhi	S	175,000	390.31
23-Nov	Shrachi Secu	India Capital Fund Limite	B	270,000	64.61
23-Nov	Shrachi Secu	Prism Impex Pvt Ltd	S	53,898	63.07
23-Nov	Shrachi Secu	Windy Investments Pvt Ltd	S	75,000	61.93
23-Nov	Sundarammul	Prism Impex Pvt Ltd	B	600,000	15.78
23-Nov	Sundarammul	Prism Impex Pvt Ltd	S	12,022	17.10
23-Nov	Sundarammul	Jajoo Narendra	S	600,000	15.78
23-Nov	Yashraj Cont	Mathew Thomas	B	30,500	51.98
23-Nov	Yashraj Secr	Bulls And Bears	S	9,050	102.94

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
BHEL	2,518	2.2	2.7	0.6
HDFC Bank	1,113	3.3	2.3	0.4
Suzlon Energy	1,494	2.0	1.7	0.8
<b>Losers</b>				
Bharti Airtel	622	(2.5)	(6.2)	1.3
ONGC	845	(1.3)	(4.9)	1.0
Satyam Computer	462	(3.3)	(2.1)	2.3

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
24-Nov	DCB to consider raising FII limit; Shrenuj & Co to consider fund raising plans; TCS organizes session of Sangam
27-Nov	Tata Power Company to announce half yearly earnings; Dwarikesh Sugar to announce earnings & dividend; Pioneer Embroideries to consider funds raising plans; Sun TV to consider merger of a Satellite TV broadcaster; Mirc Electronics to announce half yearly earnings
28-Nov	Orient Ceramics to consider bonus issue; Zee Telefilms to announce earnings and dividend
2-Dec	Dhampur Sugar Mills to announce earnings and dividend
4-Dec	Nestle India to announce 2nd interim dividend

Source: Bloomberg

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