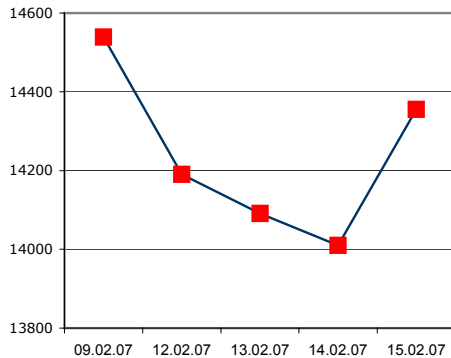


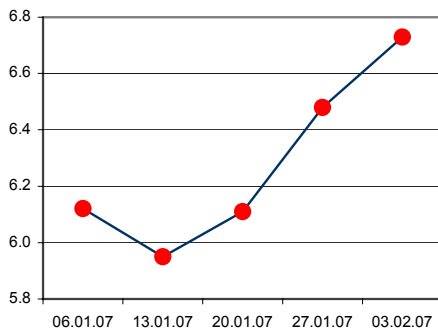
RECAP OF THE WEEK

February 17, 2007

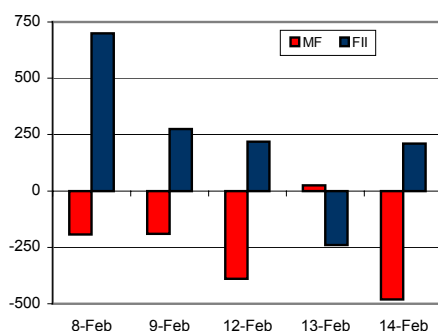
SENSEX



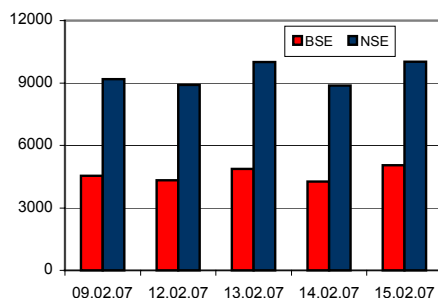
INFLATION (%)



MF/FII-Net Equity Flow (Rs Cr)



BSE/NSE Cash Turnover (Rs Cr)



The much-awaited correction from the market participants finally came in last week, with Sensex shedding as much as 5% at one point in time, before ending 183 points (-1.3%) lower at 14356. The Nifty closed 41 points down at 4146, after touching the low of 3965 (-5.3%). The bulls ceded the strings to bears on Friday itself as volatility mired the traders. On the contrary, the mood in the US markets was quite upbeat with Dow Jones making new highs, on the back of confident testimony of Fed chief Ben Bernanke on inflation front. Asian markets too followed the US markets closing the week with positive bias.

Back home, banking stocks took the most beating with RBI pronouncing 50 bps hike in CRR in two phases to tame the rising inflation. While the finance authority is concerned about the inflation and credit growth, the better than expected industrial output, which rose by 11.1% for the month of December might give some relief to the market participants.

Economy News

Inflation for the week ended Feb 3rd shot up steeply to 6.73% against the expectations of 6.58%. The RBI unexpectedly raised the CRR by 50 bps from 5.5% to 6%. The measure would come in two doses - 5.75% from February 17 and then 6% from March 3.

Corporate News

Suzlon Energy board approved the acquisition, as part of a consortium, of up to 100% shareholding of REpower Systems AG, Germany, which is engaged in the business of design, development, manufacturing and supply of wind turbine generators.

Silverline Tech has entered into One Time Settlement of its Outstanding Loans. As a part of One Time Settlement, DBS has agreed for part cash and part stock of the Company. With the due settlement getting over with DBS, the Company has no banking liabilities and becomes a Zero Debt Company.

ONGC Videsh, the overseas arm of India's Oil and Natural Gas Corp, has picked up a 20% stake in Italian firm Eni's deepwater block in Congo (Brazzaville).

Tata Motors and Fiat formed a new joint venture to make pick-up trucks in Argentina with an investment of about \$80 million.

Gail India formed a Joint Venture Company with the name of "Brahmaputra Cracker and Polymer Ltd" in which the Company holds 70% equity and Numaligarh Refinery Ltd; Oil India Ltd & Govt. of Assam holds 10% equity each.

MARKET INDICATORS

Indices	15.02.07	09.02.07	Change (Pts)	% Change
NIFTY	4146.20	4187.40	-41.20	-0.98
SENSEX	14355.55	14538.90	-183.35	-1.26
BSEMICAP	5953.01	6064.79	-111.78	-1.84
BSESMLCAP	7290.26	7490.10	-199.84	-2.67
BSE-100	7209.65	7337.41	-127.76	-1.74
BSE-200	1702.86	1733.55	-30.69	-1.77
BSE-500	5428.32	5526.80	-98.48	-1.78

SECTORAL INDICES

Indices	15.02.07	09.02.07	Change (Pts)	% Change
BSE BANKEX	7182.71	7560.31	-377.60	-4.99
BSE CAPITAL GOODS	9639.90	9939.61	-299.71	-3.02
BSE METAL	8876.23	9114.05	-237.82	-2.61
BSE AUTO	5635.89	5750.52	-114.63	-1.99
BSE PSU	6188.56	6302.72	-114.16	-1.81
BSE HEALTH CARE	3803.39	3842.94	-39.55	-1.03
BSE FMCG	1892.73	1901.17	-8.44	-0.44
BSE CONS. DURABLES	3939.33	3926.25	13.08	0.33
BSE TECK	3923.29	3899.67	23.62	0.61
BSE OIL&GAS	6705.34	6631.51	73.83	1.11
BSE IT	5565.70	5479.15	86.55	1.58

WEEKLY SENSEX GAINERS & LOSERS

Top Gainers		
Company	Price	Gain %
WIPRO	676.00	5.26
BHARTI AIRTEL	791.75	5.17
SATYAM	485.45	3.62
ONGC	905.40	2.45
HERO HONDA	743.60	2.40

Top Losers		
Company	Price	Loss %
HINDALCO	151.50	-12.55
HDFC	1694.50	-6.71
SBI	1123.15	-6.22
GRASIM	2653.65	-6.13
HDFC BANK	1041.85	-6.13

WEEKLY A GROUP GAINERS & LOSERS

Top Gainers		
Company	Price	Gain %
BAJAJ HIND	160.55	12.16
ESSAR OIL	61.95	10.04
GAMMON INDIA	381.95	9.24
FINANCIAL TECH.	2199.65	8.80
BEL	1734.05	8.47

Top Losers		
Company	Price	Loss %
SUZLON	1039.75	-16.50
VSNL	428.25	-12.62
HINDALCO	151.50	-12.55
BATA INDIA	190.35	-11.67
BF UTILITIES	2411.95	-10.71

ADVANCE-DECLINE

SENSEX	
Positive	11
Negative	19
Unchanged	0
Total	30

A GROUP COMPANIES	
Positive	64
Negative	143
Unchanged	1
Total	208

WORLD INDICES

INDEX	17.02.07	10.02.07	% Change
NIFTY	4146.20	4187.40	-0.98
SENSEX	14355.55	14538.90	-1.26
Dow Jones	12767.60	12580.83	1.48
NASDAQ	2496.31	2459.82	1.48
FTSE	6419.50	6382.80	0.57
NIKKEI	17875.70	17504.33	2.12

MARKETS AT A GLANCE

Indian Markets

Indices	As on 15.02.07	As on 09.02.07	% Change
SENSEX	14355.55	14538.90	-1.26
NIFTY	4146.20	4187.40	-0.98

US Markets

Indices	As on 17.02.07	As on 10.02.07	% Change
Dow Jones	12767.60	12580.83	1.48
NASDAQ	2496.31	2459.82	1.48

BSE 200

Scripts	CMP (Rs)	Weekly % Chg
Gainers		
BAJAJHIND.LT	160.55	12.16
ESSAR OIL	61.95	10.04
GAMMON INDIA	381.95	9.24
FINANCIAL TECH.	2199.65	8.80
BHARAT ELECT	1734.05	8.47
LOSERS		
SUZLON ENERGY	1039.75	-16.50
VIDESH SANCH	428.25	-12.62
HINDALCO	151.50	-12.55
BATA INDIA	190.35	-11.67
BF UTILI	2411.95	-10.71

US Listings

Scripts	Close (\$)	Weekly % Chg
NYSE		
DR REDDY	17.16	3.94
HDFC BANK	72.25	-5.65
ICICI BANK	44.35	-3.36
MTNL	6.68	-3.47
PATNI	22.88	-4.39
SATYAM	23.93	1.96
TATA MOTOR	20.15	-1.23
VSNL	19.35	-10.95
WIPRO	18.32	5.05
NASDAQ		
INFOSYS	59.84	0.67

Institutional Activity (Rs Cr)

	For the week	For the month	For the year
Mutual Funds	-1036.48	-1431.07	-2773.21
FIIIs	464.20	2904.40	3064.40

DERIVATIVES WATCH

Derivative Weekly Summary

Overall open interest increased by 2% from Rs 60,387 Cr to Rs 61,785 Cr week on week to reach the highest level of this month. In terms of no. of shares, Open Interest almost remained at the same level to 138.3 Cr shares from 138.02 Cr shares on weekly basis. Nifty Open Interest PCR has come down to 1.32 level from 1.69 on weekly basis. This fall in PCR is negative for the market and indicates call writing at higher level. However, on Thursday PCR went up to 1.32 level from 1.26 level indicating put writing at lower levels. FII's net sold worth Rs 785 Cr in Index Future and net sold worth Rs 903 Cr in stock future on a weekly basis. We have seen unwinding of positions by the traders during the first two days of the week, leading to a market fall. However, some build up of positions witnessed in the last two days of the week indicates enhanced confidence of the market players.

Among the large caps, Gujarat Ambuja, Satyam, Grasim, Ranbaxy and HDFC Bank have added significant amount of Open interest on a weekly basis while Hindalco, HDFC, ITC, ONGC and NTPC have shed Open interest. We have seen overall rollover of 18% as against 19% last month while in Nifty 30% of the total positions have been rolled over as compared to 19% last month.

Derivative Daily Summary

Open Interest increased by Rs 2,380 Cr or 4% to Rs 61,785 from Rs 59,405 Cr. Open Interest in terms of number of shares went down by 0.14% to 138.3 Cr shares from 138.51 Cr shares. Nifty futures have shed 1% in Open Interest while Nifty future premium increased to 14 points from 11 points. FIIs net bought worth Rs 538 Cr in Index futures and net sold worth Rs 42 Cr in stock futures on Thursday. Nifty Open Interest PCR increased to 1.32 level from 1.26 level.

Nifty March 4200 call added 3117 contracts in Open Interest with reduction in IV's, indicating call writing, so going forward market may face resistance in the region of 4200-4230 level. On the other hand Nifty Feb 4150 put added 5864 contracts with reduction in IV's, so on the down side market may find strong support in the region of 4120-4150 levels.

Weekly Summary

Underlying	Weekly Chg (%)		Open Interest Value (Rs. Cr)				Put/Call Ratio (OI)
	In price	OI (Rs Cr.)	Futures	Call	Put	Total	
NIFTY	-0.98	8.59	14845	6972	9215	31032	1.32
RELIANCE	1.09	0.66	1539	260	70	1869	0.27
TATASTEEL	-2.44	2.34	1281	305	47	1633	0.16
SBIN	-6.42	-5.53	745	167	35	947	0.21
RCOM	-2.03	-3.47	785	106	17	908	0.16
BHARTI	5.50	2.36	708	29	7	744	0.26

FII Activity for the Week (from February 12 to February 15)

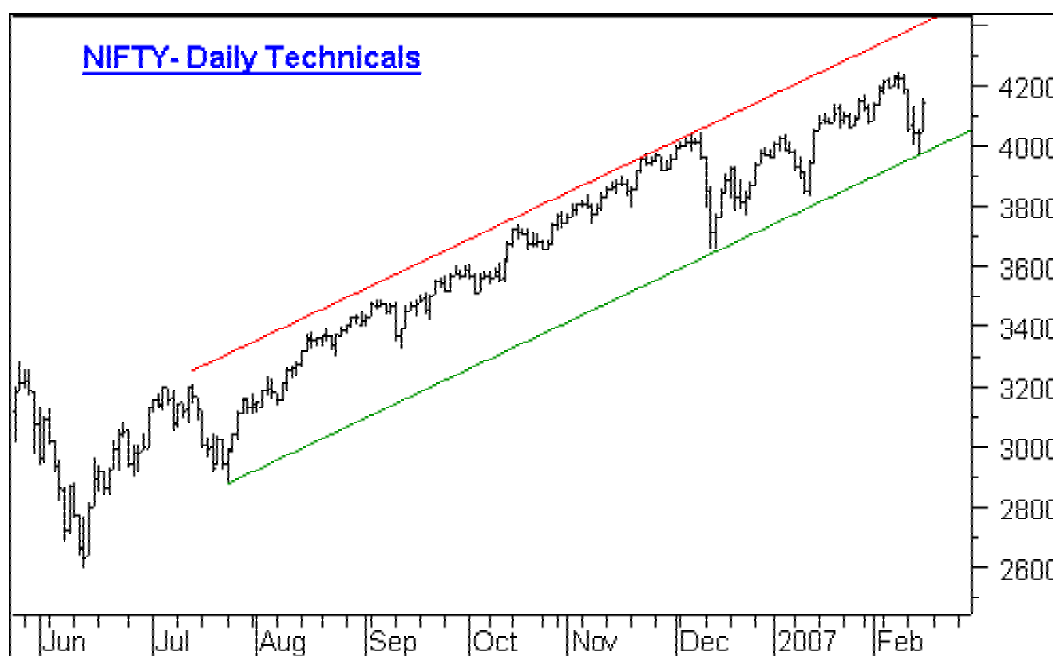
	Contracts Bought		Contracts Sold		Open Interest	
	Nos.	Value (Rs Cr.)	Nos.	Value (Rs Cr.)	Nos.	Value (Rs Cr.)
Index Future	212120	8661	231621	9446	339729	14138
Index Option	50664	2058	53543	2166	191046	7921
Stock Future	121577	4318	147251	5221	534395	18671
Stock Option	16	0	250	9	1152	36

TECHNICAL TALK**Broad Market Trend**

Short-term trend in Nifty has turned up with a support base of 4055-4070. On the upside, nearest target and resistance for the Nifty index is at 4165-4175. In case, the index retraces back sharply from this level, then the support above 4055-4070 can get tested on the downside. A decisive break past the 4165-4175 levels on the upside can trigger a further rally in the market till the far target of 4230-4240. Medium term target for Nifty is at 4285. The best trading opportunities will be in buying select frontline stocks on intra-day declines.

NIFTY Futures (4160)

Nifty Futures Level of 4170 will be decisive for the short-term momentum of the market. A further break past this level will trigger a rally in Nifty Futures till the level of 4225-4230 and 4260-4265. In the other case, a backward retracement from the current levels can see Nifty Futures testing the support of 4065-4075 on the downside. Nifty Futures is expected to sustain above this support in case of any decline and maintain an overall upside bias in the trend, notwithstanding intra-day fluctuations.

Nifty Daily Chart

Technical Picks for the Forthcoming Week

STOCK	RECOMMENDATION	CMP	STOP LOSS (Rs)	TARGETS (Rs)
CROMPTON GREAVES	BUY	209	201	221,234
SAIL	BUY	113	109	120,123
TRIVENI ENGG.	BUY	44.5	42.70	48,54

Review of Stocks Recommended Last Week

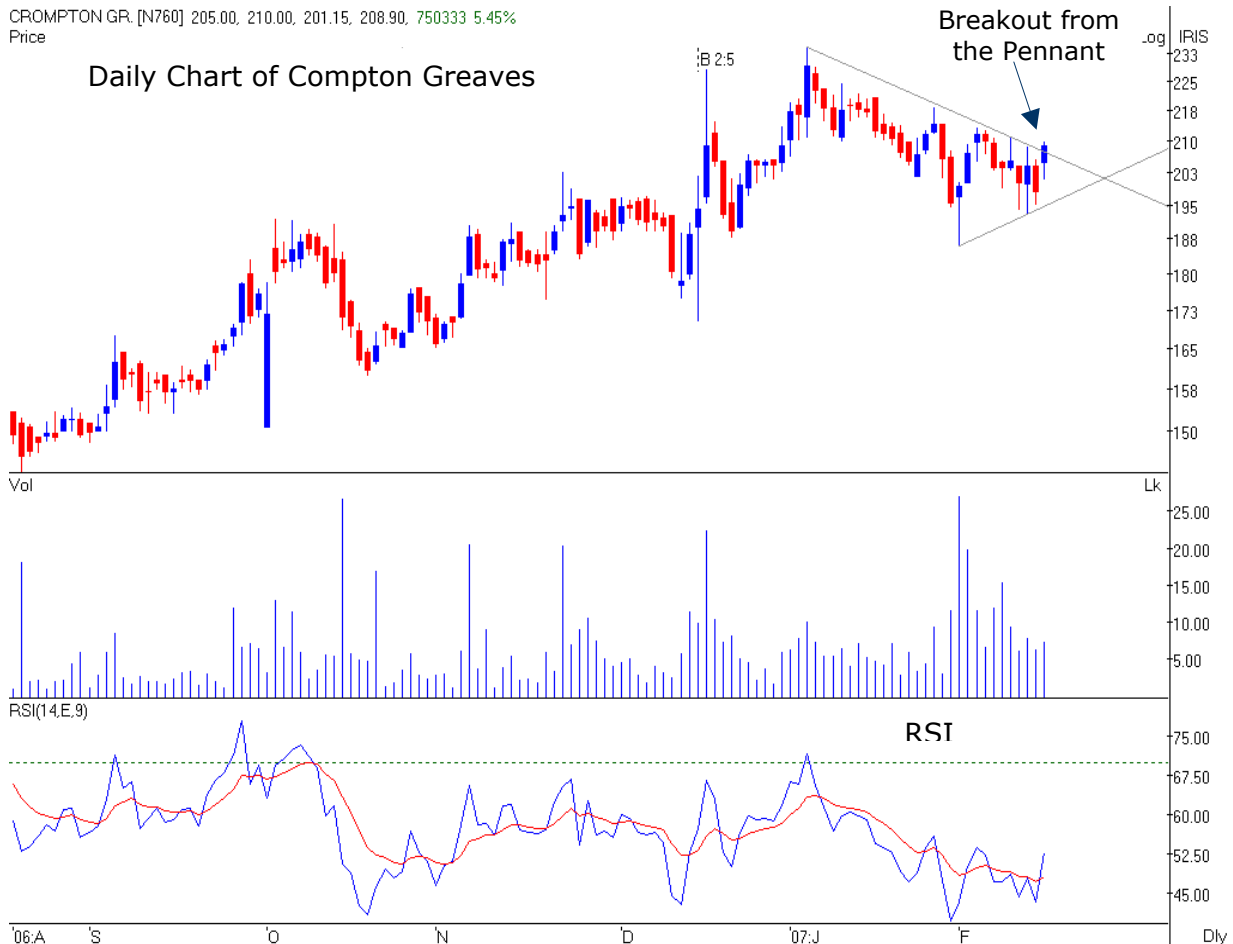
STOCK	RECOMMENDATION	PRICE 03.02.07	STOP LOSS	TARGETS	REVIEW
GSFC	BUY	213.40	205	229, 244	STOP LOSS TRIGGERED
PUNJ LLOYD	BUY	1064.85	1025	1125, 1164	STOP LOSS TRIGGERED

Note: Whenever first target is achieved in any recommendation, the stop loss has to be raised to the original recommended price, unless specified otherwise.

CROMPTON GREAVES (C.M.P. 208.90)
BUY

CROMPTON GR. [N760] 205.00, 210.00, 201.15, 208.90, 750333 5.45%
Price

Daily Chart of Compton Greaves



The Stock is looking bullish on its daily chart, as it has come given the breakout from the pennant pattern with very good volume. The leading indicator RSI (Relative Strength Index) has sustained above the level of 50 and shows the sign of the fresh buying in the stock.

We recommend buying the stock for position trading at current market price for the targets of 221, 234 keeping a stop-loss of 201.

SAIL (113): The counter is consolidating back from lower levels. Nearest support for the stock is at 109. On the upside, the counter is expected to rise up to the targets of 120, 123 over the short to medium term.

Triveni Engg (C.M.P. 44.45)
BUY


The Stock is looking bullish on the chart, as it has made bullish hammer pattern on its weekly chart. On its daily chart Relative Strength Index (RSI) has come out from the oversold zone and it is a sign of fresh buying that is going on in this counter.

We recommend buying the stock for the position trading at current market price for the targets of 48 and 52, keeping a stop-loss of 42.70.

Support-Resistance Levels for the Forthcoming Week (19th Feb to 23rd Feb)

	Close	Pivot Avg.	Res. 1	Res. 2	Support 1	Support 2
BSE SENSEX	14355.60	14230.10	14654.80	14954.00	13930.90	13806.10
NSE NIFTY	4146.20	4099.50	4233.90	4321.50	4011.90	3877.50
ACC	1017.70	1014.10	1042.60	1067.60	989.10	960.60
ADITHYAN BK	85.20	83.20	89.40	93.70	78.90	72.70
ADITHYAN BANK	87.70	81.30	87.70	92.70	76.30	70.00
ADITHYAN	3012.00	3097.40	3289.80	3567.60	2819.60	2627.20
BANK OF BARO	232.10	230.10	242.00	251.90	220.20	208.30
BANK OF IND	178.30	176.10	190.10	201.80	164.40	150.40
BHARAT PETRO	327.90	330.80	344.00	360.20	314.60	301.40
BHARTI TEL FV	793.40	766.20	824.20	855.10	735.30	677.30
BHFL	2385.50	2388.90	2507.60	2629.80	2266.70	2148.00
CANARA BANK	216.50	217.50	231.40	246.30	202.60	188.70
CENTURY TEXT	622.50	603.30	656.60	690.70	569.20	515.90
COI GATE	333.10	335.70	347.30	361.60	321.40	309.80
ESSAR OIL	62.00	59.80	65.60	69.20	56.20	50.40
ESTI	42.90	41.70	44.80	46.80	39.70	36.50
GATI	296.20	297.40	309.80	323.40	283.80	271.40
GIIT AMR CEME	136.80	134.40	141.90	147.10	129.20	121.70
GIIT NARMADA	104.30	104.40	109.80	115.40	98.80	93.40
HERO HONDA	745.50	734.20	765.30	785.20	714.30	683.20
HINDI EVER	206.00	203.00	210.00	214.00	199.00	192.10
HIND PETRO	276.00	281.10	291.90	307.80	265.20	254.50
ICICI BANK	949.60	943.70	996.10	1042.50	897.20	844.80
INDIA CEMENT	204.80	198.90	214.80	224.90	188.80	172.90
INDIAN HOTEL	151.80	149.40	156.60	161.40	144.60	137.50
INDIAN OIL	427.20	437.40	454.70	482.30	409.80	392.50
INFOSYS TECH	2383.00	2353.20	2444.70	2506.50	2291.40	2199.90
IOB	111.70	111.60	119.80	128.00	103.40	95.20
IPCL	273.80	268.30	280.50	287.30	261.50	249.30
ITC	174.30	173.30	178.00	181.80	169.50	164.80
IVRCL INFRAS	378.60	364.80	423.30	468.00	320.10	261.70
ITC	1695.20	1664.70	1755.40	1815.60	1604.50	1513.80
MAH & MAH	902.00	880.60	943.30	984.60	839.30	776.70
MAHANGR TEL F	151.80	148.80	159.90	168.10	140.60	129.50
MARUTI	892.30	894.00	946.90	1001.50	839.40	786.50
MATRIX LABOR	209.90	209.80	218.60	227.20	201.10	192.30
NAGAR FERT	17.70	16.90	18.60	19.50	16.00	14.30
NDTV	308.50	299.80	322.40	336.40	285.80	263.20
NTPC	142.40	143.10	146.60	150.80	138.90	135.50
ONGC CORP	906.30	894.70	929.60	952.90	871.30	836.40
ORCHID CHEM	258.80	253.80	275.50	292.30	237.00	215.30
ORIENT BANK	222.60	225.60	236.90	251.20	211.30	200.10
PNR	465.90	469.40	506.50	547.10	428.80	391.70
POI ARTS SOFT	223.10	214.20	233.80	244.50	203.40	183.80
RANBAXY LAB	393.40	401.40	414.70	436.10	380.00	366.70
RELIANCE	1407.00	1387.60	1433.10	1459.30	1361.40	1315.90
SATYAM COMP	485.60	474.00	499.60	513.60	460.00	434.30
SIFMENS	1162.20	1143.60	1200.10	1238.10	1105.60	1049.10
STATE BANK	1122.60	1137.20	1189.20	1255.80	1070.60	1018.60
STEEL AUTHO	113.70	110.40	117.30	120.90	106.80	99.80
SIIZION	1041.50	1102.50	1184.00	1326.50	960.00	878.50
SYNDICATE BK	73.40	73.30	79.30	85.20	67.40	61.30
TATA CHEM	228.90	226.60	233.10	237.40	222.30	215.80
TATAMOTOR	869.30	877.40	921.90	974.40	824.90	780.40
TATASTEEL	442.30	442.40	458.60	474.90	426.10	410.00
TCS	1292.30	1272.50	1319.80	1347.40	1244.90	1197.60
UNION BANK	109.10	107.60	113.60	118.10	103.10	97.00
WIPRO	677.00	661.40	698.80	720.70	639.60	602.20
ZEE TEL F	268.30	271.00	316.70	365.10	222.50	176.80

Stocks Covered This Week

Company	Price (Rs) 17.02.07	Report Type	Recommendation
TATA ELXSI	280	RESEARCH REPORT	ACCUMULATE
VST TILLERS TRACTORS LTD	145	RESEARCH REPORT	BUY

Review of Stocks Covered 3 Months Back

Company	Price (Rs) 09.02.07	Recommendation	Reco. Price (Rs) 18.11.06	Return (%)
SENSEX	14356		13429	7
JUPITER BIOSCIENCE LTD.	204	ACCUMULATE	119	72
SOBHA DEVELOPERS LTD.	858	BUY	550 - 640*	34

*Return evaluated on Issue Price of Rs 640

RESEARCH REPORT

Tata Elxsi Ltd. (TEL)

CMP: Rs 280

ACCUMULATE

BSE Code	500408
NSE Code	TATAELXI

Key Data

Sensex	14356
52 week H/L (Rs.)	320/147
Jan month H/L (Rs.)	309/262
Market Cap (Rs Cr)	866
Avg. daily volume (6m)	62333
Face Value	10

Source: Capitaline

Shareholding Pattern (%)

Promoters	38.15
Institution	19.43
Foreign holding	4.86
Non-promoter corporate holding	3.49
Public & Others	34.07

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

Analyst: Sukhwinder Singh
sukhwinder.singh@anagram.co.in

Background and Business

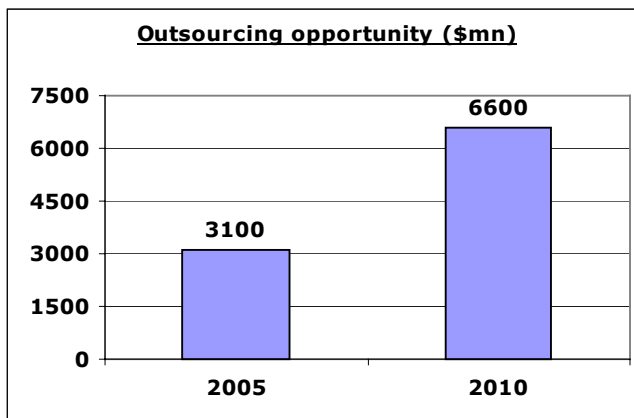
Tata Elxsi, part of the Tata group, is an established player in the niche segment of product design and engineering services. It has successfully transformed itself from a hardware centric system integration company to this niche business. It addresses diverse industries such as automotive, consumer electronic, entertainment, semiconductor and telecom equipment manufacturers. Its business can be broadly classified into two segments: Software Development & Services (SDS) and System Integration support services (SI). The SDS business has three divisions:

1. Product Design Services (PDS)
2. Innovation Design and Engineering services (IDE)
3. Visual Computing Labs (VCL).

Investment Positives

Niche player in the Product Design and Engineering space

The Company is a niche player in the product design and engineering space and has built the required scale with 3 development centers to capture the huge opportunity emerging in this space. In this space, the size of the opportunity for the domestic companies is estimated to more than double from \$3.1 bn in 2005 to \$6.6 bn by 2010.



Strong client relationships associated with large offerings to expand business

PDS would be a growth driver with a growth of 28-30%

IDE and VCL business, although in nascent stages has the potential to push growth

Huge opportunity in the Animation and gaming business

Strong Clientele

The company has a strong relationship with leading global companies (across various industry verticals) like Texas Instruments (semiconductor), Motorola (telecom equipment), Cisco (network management), Canon and Hitachi (industrial and office automation). It has a comprehensive range of services as full lifecycle design expertise, from product specification to design, development and deployment of the same. The company is investing substantially to aggressively expand its delivery capabilities in high-end services like very large-scale integration (VLSI) and chip design.

Product Design Services (PDS)

This segment contributes around 85% of the total SDS revenues (and 67% of the company's Sales) for FY06. It's a relatively high-margin business and is growing at a healthy range of 28-30%. This is a growth driver for the company. It has an advantage over other peers in terms of a portfolio of reusable components and frameworks that can be bundled along with the services to provide a unique value proposition to the customers. Some of the large clients are Cisco, Canon, Motorola, Texas instruments and Hitachi. Considering the growth potential, the product design services business is expected to contribute significantly in the coming quarters.

Innovation Design and Engineering Services (IDE)

It's new business and provides mechanical product design and engineering services to automotive, consumer electronic and fast moving consumer goods companies. The business contributes around 10% of the SDS revenues and less than 9% of the total sales. It is expected to grow at a CAGR of 20% over the next three years.

Visual computing labs (VCL)

TEL offers special effects, animation content and postproduction services to advertisement and film industry through the VCL business division. It employs roughly around 100 professionals and contributes around 5% of the SDS revenues. This division did the pre-visualizing for all the action scenes that appeared in Yash Raj Films' *Dhoom: 2*. For long-term growth, it plans to do alliances with leading studios in the US & Europe.

Strong potential in the Animation and gaming business: The Company has a small presence in the animation & gaming business, which is part of Visual Computing Labs. As per Nasscom report, the Indian animation industry revenues were estimated at \$354 million in 2006, a growth of 24% over 2005 and are estimated to reach \$869 Mln by 2010, representing a CAGR of 25% over 2006-2010.

Aggressive expansion plans reflect revenue visibility

Likewise, the gaming industry, which was estimated at \$48 Mln in 2006, is expected to cross \$424 Mln, registering a CAGR of 72% in the same period. These businesses are small for the company but have the potential to scale up substantially leveraging the opportunity available.

Aggressive expansion plans reflect revenue visibility

TEL is expanding aggressively in terms of infrastructure and employee addition. It has recently set up development center in Chennai and Pune and is expanding the capacity at its center in Bangalore and Thiruvananthapuram. The first phase of Thiruvananthapuram with a capacity of 500 employees would be completed by June 07.

In terms of its employee base, the company is looking at increasing the headcount by 800 employees in the current fiscal to 3000. It has aggressive recruitment plans for FY08 also which would take the employee base to 3800. This aggressive expansion plan and employee addition reflects the management's confidence in the revenue growth visibility going forward.

Financials**Q3FY07 results**

The company reported good set of numbers for the quarter.

Strong Q3FY07 performance aided by growth in the software development business

- Revenue grew 39% to Rs 80.5 Cr in Q3FY07, compared to Rs 57.8 Cr in Q3FY06. This is aided by strong growth in the software development revenue. Net profit for Q3FY07 increased to Rs 13.9 Cr, up 83% from Rs 7.6 Cr in Q3FY06. EPS grew to Rs 4.5 from Rs 2.5 in the same quarter previous year.
- There is a sequential growth in revenues of 7.3% and in Net profit of 17.3%. OPM increased from 21% in Q2FY07 to 22.8% in Q3FY07.
- During the quarter the Software Development revenue increased by 51% to Rs 68.9 Cr (86% of Net Sales) and the system integration revenue declined by 6% to Rs 11.5 Cr (14% of Total Revenue). After the commissioning of the software development center at Chennai, the company has reduced its focus in system integration and has increased its focus to product designing for telecom and consumer electronics companies of the world. The company provides this service from the development centers at Chennai and Bangalore.

Volatility in the quarterly numbers to remain a concern

Attractively priced with earnings growth of +25% for FY08.

Trading at 19x its FY07E EPS of Rs 15.

Investment Concerns

Continues to show volatility in the quarterly numbers

Due to the project-based nature of the business, the company continues to show volatility in quarterly numbers. Also, it has large projects under SDS business, the completion of which impacts the quarterly numbers. Similarly, the system integration business is also non-linear in nature and is highly volatile on a quarterly basis. Thus, the performance needs to be seen over a longer period rather than quarterly for consistency.

Valuation

Being an established player in the niche segment of Product Design and Engineering Services, the company has a competitive edge over other players. Its shift to high margin business of software development services has improved the margins in the past 2 years from 14.8% to 19.8%. This trend is expected to continue and can go upto 22% despite aggressive expansion plans. Growth in revenues for FY07 is expected to be 24% and for FY08, 25%.

At the current price of Rs 280, the stock trades at 19x its FY07E EPS of Rs 15, which is attractively priced. The earnings growth for FY08 is estimated to be above 25%. Considering the growth potential from software development services and the new businesses (animation & gaming), we recommend an Accumulate rating on the stock.

Financial Snapshot

Quarterly Performance

(Rs Cr)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)
Net Sales	80.5	57.8	39.1	75.0	7.3
Total Expenditure	62.2	47.1	32.0	59.4	4.7
Operating profit	18.3	10.7	70.5	15.6	17.2
Interest	0.2	0.1	200.0	0.1	50.0
PBDT	18.2	10.8	68.6	15.7	16.0
Depreciation	2.2	1.7	25.9	2.0	9.5
PBT	16.0	9.0	76.8	13.7	17.0
Tax	1.8	1.0	89.6	1.4	34.8
PAT	14.0	7.6	83.0	11.9	17.3
EPS (Rs)	4.5	2.5		3.8	
Equity	31.1	31.1		31.1	
Margins (%)					
OPM	22.8	18.7		21.0	
NPM	17.4	13.2		15.9	

Annual Performance

(Rs Cr)	FY05	FY06	YoY (%)
Net Sales	185.8	235.6	26.8
Other income	1.1	0.7	-37.0
Total Expenditure	150.0	189.0	26.0
Operating profit	35.8	46.7	30.3
Interest	0.1	0.2	57.1
PBDT	36.8	47.1	28.2
Depreciation	5.0	6.7	34.1
PBT	31.7	40.4	27.3
Tax	4.7	4.1	-12.8
PAT	26.3	34.3	30.6
EPS (Rs)	8.4	11.0	
Equity	31.1	31.1	
Margins (%)			
OPM	19.3	19.8	
NPM	14.2	14.6	

RESEARCH REPORT

VST Tillers Tractors Ltd (VST)

CMP: 145
BUY

BSE Code	531266
NSE Code	NA

Key Data

Sensex	14,356
52 week H/L (Rs.)	174/65
Jan H/L (Rs.)	170/133
Market Cap (Rs cr)	84
Avg. daily vol. (6m)	65012
Face Value	10

Source: Capitaline

Shareholding Pattern (%)

Promoters	55.72
Institution	0.07
Public & Others	44.21

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

Analyst: John Jose Perinchery
john.perinchery@anagram.co.in

Background and Business

Incorporated in 1967, VST is a Bangalore based farm equipment manufacturer of power tillers, low horsepower (HP) tractors (*sub 20 HP*) and diesel engines. VST's power tiller business accounts for two third its total sales, while the low HP tractor and diesel engines form the rest. Power tiller is the two-wheeled version of the tractor costing almost 1/3rd of the tractor cost and is ideal for farmers with smaller land holdings who generally cannot afford expensive tractors. VST's products find application in dry tilling, cultivating, water pumping, ploughing, ridging, wet puddling and transportation of goods. VST has three factories located at Bangalore, Mysore and Hosur and has financial and technological tie – up with Mitsubishi Heavy Industries, which holds around 3% stake in the company.

Investment Positives

The Indian Economy is expected to grow by a robust 9% making it one of the fastest growing large economies in the world. Agriculture is one of the vital sectors of the Indian economy contributing more than 20% to GDP and the growth of the agricultural sector depends on farm mechanization. Tractors and power tillers remain the crucial linkage in the commercialization of agricultural products. Studies on crop yield have shown that increase in mechanization generally leads to an increase in crop yield per hectare. Large part of cultivation land is not yet mechanized and the current penetration of 12 tractors per thousand hectares is also low compared to world average of 19 tractors per thousand hectares. While India is already ranking at the top in producing major agricultural items, its current productivity levels are very low. Recognizing this gap, during last few years, successive governments have formulated programmes, which address all the key concerns of the farm sector. Initiatives are being targeted towards raising food grain output to 310 Mln tons and horticulture production to 300 Mln tons over next 7-8 years. All these plurals would impact the entire agricultural value and income chain, directly benefiting the tractor and power tiller demand going forward.

Cheaper Farm credit and Governmental initiatives is expected to boost farm equipment growth.

VST has been importing tillers in the completely knocked-down (CKD) form from China (about 20% cheaper), assembling and marketing them under the brand, Dragon Power Tiller

Favorable policy measures to boost agriculture sector

The growth of the power tiller and tractor industry has a fairly high correlation to the GDP growth. The government policy on agriculture and the introduction of the Bharat Nirman Programme is also expected to directly benefit the demand for VST's products. Favorable monsoons coupled with easier and cheaper credit availability to farmers is expected to have a positive influence on the power tiller and tractor industry as more than 80% of the farm equipment sales are on credit. VST's tillers are low cost units and qualify under subsidy schemes. With the Central and State Government expected to give top priority to agriculture and rural development in the forthcoming budget (2007-08) by providing subsidies to small and marginal farmers, we foresee VST to record substantial jump in revenues as almost 70% of the power tillers sold by VST are through government schemes.

Low cost strategies to open new market segments.

Though the imports from China accounted for around 20% of the industry's sales, their poor quality and lack of after-sales service had affected their widespread acceptance. To tap this lower-end tiller market, VST has been importing tillers in the completely knocked-down (CKD) form from China, assembling and marketing them under the brand, Dragon Power Tiller, through its marketing and distribution network. Along with the imported tiller, which is about 20% cheaper than normal tillers, VST also offers its own indigenously designed products with a longer life span on the same platform. Thus, instead of just treating Chinese products as a threat, it is capitalizing on the opportunity by opening a new market segment.

Investment Concern

Since 80% of farm equipment purchases are funded by credit, any squeeze on availability of credit would also adversely impact the farm equipment industry.

Issues such as monsoon-dependant nature of India's agriculture, management of procurement prices, the large stock of food grains with Government, existing level of subsidies would pose challenges for the policy makers. These factors directly affect and add to the volatility in farm income and consequently have a bearing on farm equipment demand.

VST is a zero debt company consistently paying dividends for the last 14 / 15 years.

Available at a PE of 7X as compared to the industry average of over 23X

Result Analysis (Q3FY07)

- Net Sales increased to Rs 41 Cr in Q3FY07 from Rs 33 Cr in Q3FY06 (Growth of 23 % YoY, -0.4 % QoQ)
- VST improved its operating margin by 410 basis points to 14.5% in Q3FY07 as compared to 10.4% in the corresponding period of the previous year.
- The growth in turnover together with the enhanced operating margins resulted in a strong 72% increase in the operating profits to Rs 5.9 Cr as compared to Rs 3.4 Cr during the corresponding quarter of the previous year.
- Net Profits also rose by 94% YoY to Rs 3.6 Cr, inline with the increasing turnover as well as rising operating margins. Sequentially, net profits were up by 33.7%.

Valuation

VST is virtually a zero debt company and has been consistently paying dividends for the last 14-15 years. VST is currently utilizing only 70% of its total capacity for the combined tiller and tractor business and hence any incremental demand can be easily met through its current capacity. VST is expected to close FY 2007 with an EPS of Rs 20 which discounts its CMP of Rs 145 by 7x as compared to the industry average multiple of over 23x.

Considering the huge potential for the growth of the farm equipments over the next few years, we believe that the current valuations of VST are extremely attractive and recommend a buy on the scrip.

Financial Snapshot

Quarterly Performance

Rs Cr	Q3 FY07	Q3 FY06	YoY (%)	Q2 FY07	QoQ(%)
Net Sales	40.5	32.9	23.3	40.7	-0.4
Total Expenditure	34.7	29.5	17.6	36.1	-3.9
Operating Profit	5.9	3.4	72.4	4.7	26.2
Interest	0.0	0.0	0.0	0.0	0.0
PBDT	6.3	3.5	82.6	5.2	21.4
Depreciation	0.7	0.6	14.5	0.7	9.2
Tax	2.0	1.0	104.1	1.8	7.6
PAT	3.6	1.9	94.1	2.7	33.7
Equity	5.8	5.8		5.8	
EPS	6.3	3.2		4.7	
Margins (%)					
OPM	14.5	10.4		11.4	
NPM	8.9	5.7		6.6	

Annual Performance

Rs Cr	9m FY07	9m FY06	Var(%)	FY06	FY05	Var(%)
Net Sales	115.7	90.0	28.6	130.0	110.3	17.8
Other Income	1.6	0.7	123.9	1.5	2.3	-36.5
Total Income	117.3	90.7	29.4	131.5	112.7	16.7
Total Expenditure	101.3	80.8	25.4	115.8	99.2	16.8
Operating Profit	14.4	9.2	56.7	14.2	11.1	27.2
PBIDT	16.0	9.9	61.6	15.6	13.5	16.2
Interest	0.3	0.8	-61.9	1.4	1.7	-19.9
PBDT	15.7	9.1	73.0	14.3	11.8	21.4
Depreciation	2.0	2.1	-1.9	2.7	3.0	-9.4
Tax	5.1	2.5	100.8	4.1	2.9	42.8
PAT	8.5	4.5	92.1	7.4	5.9	26.6
Equity	5.8	5.8		5.8	5.8	
EPS (Annualized)	14.8	7.7		12.9	10.2	
Margins (%)						
OPM	12.5	0.1		0.1	0.1	
NPM	7.4	4.9		5.7	5.3	

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Hold Expected to remain in a narrow range

Avoid Expected to depreciate up to 10% over a 12-month period

Exit Expected to depreciate more than 10% over a 12-month period

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