

June 8, 2007
FOR PRIVATE CIRCULATION
Equity

	7 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,186	(0.5)	3.1	8.7
Nifty	4,180	(0.4)	2.5	11.1
Banking	7,512	(1.1)	11.2	16.2
IT	3,738	1.0	2.3	4.4
Healthcare	3,772	(0.4)	2.0	7.8
FMCG	1,812	(1.7)	0.3	5.5
PSU	6,492	(0.9)	1.3	16.2
CNX Midcap	5,607	(0.0)	7.1	19.8

World indices

	7 June 07	1 Day	1 Mth	3 Mths
Nasdaq	2,541.4	(1.8)	(1.2)	6.4
Nikkei	18,053	0.1	0.6	3.9
Hangseng	20,800	(0.1)	(1.1)	6.8

Value traded (Rs cr)

	7 June 07	% Chg - 1 Day
Cash BSE	4,151	(18.1)
Cash NSE	9,093	(11.1)
Derivatives	42,284.8	4.8

Net inflows (Rs cr)

	6 June 07	% Chg	MTD	YTD
FII (5 Jun)	(38)	(117)	667	17,934
Mutual Fund	(193)	(644)	(93)	(569)

FII open interest (Rs cr)

	6 June 07	% chg
FII Index Futures	14,775	10.1
FII Index Options	6,049	8.5
FII Stock Futures	18,449	1.4
FII Stock Options	34	9.6

Advances/Declines (BSE)

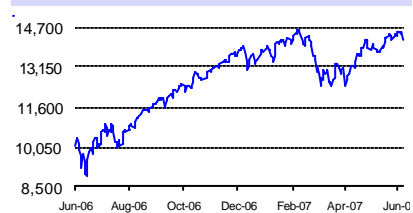
	7 June 07	A	B1	B2	Total	% Total
Advances	71	257	328	656	39	
Declines	136	438	415	989	58	
Unchanged	2	17	27	46	3	

Commodity

	7 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	66.8	(0.3)	7.2	8.3
Gold (US\$/OZ)	659.2	(1.7)	(3.6)	1.5
Silver (US\$/OZ)	13.5	(1.8)	(0.1)	4.1

Debt/forex market

	7 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.18	8.18	8.17	8.00
Re/US\$	40.7	40.7	40.9	44.5

Sensex


Source: Bloomberg

ECONOMY NEWS

- India Inc's fund raising spree for expansion and growth plans has pushed up the figure of loans gathered by companies to a record \$7.3 billion (about Rs 29,600 crore) so far this year. (ET)
- India, seeking ways like China to use its foreign exchange reserves, could invest some in other countries' infrastructure projects to supplement its own needs, according to a government-appointed panel. (ET)
- Textile exporters, hit by the rising rupee, can expect some early relief from the Government, according to the Union Textile Minister. (BS)

CORPORATE NEWS

- **Mahindra and Mahindra (M&M)**, India's largest tractor and utility vehicle maker is looking at acquiring a gearbox company in Italy in a deal valued between 350-400 crore. M&M may merge the gearbox maker with its group company Sar Auto and then list it on the domestic exchanges. (ET)
- Temasek is picking up a 27.74% stake in **First Flight**, India's second largest domestic courier company, in a deal valued at 107.5 crore. As per the deal Temasek would pick up 41.27 lakh shares through multiple tranches through a preferential issue. (ET)
- Two Patni brothers Ashok and Gajendra who own 29% in **Patni Computers** are close to selling 20% of their holdings for around 1,750 crore. A part of the shares is expected to be bought by eldest brother Narendra Patni and a few private equity firms. (BS)
- **Strides Arcolab** has received tentative approvals from USFDA for two anti HIV drugs - Lamivudine/Stavudine and Lamivudine/Zidovudine. (ET)
- **Strides Arcolab** has raised US\$75mn through Convertible debt due 2012 as part of the fund raising as part of the capex program (capacity expansion and new green field project). The management has said that around US\$30-40mn will be used for organic growth while rest will be for Inorganic growth. (Bloomberg)
- **Tata Motors** has cut production of passenger cars to the tune of 20%, to make adjustments for the drop in sales. The launch of the new Indica scheduled for September has also been deferred. (BL)
- **Tata Steel** is increasing the pace of work at the 6-million-tonne integrated steel plant that is coming up at Kalinganagar in Jaipur district of Orissa. (BL)
- **Biocon Ltd** has signed an MoU with Australia's Deakin University for collaboration in research and education. The two will set up the Deakin Research Institute in Bangalore. They will jointly develop a mammalian cell bio-processing facility at Geelong, Victoria. Deakin will undertake research in metabolic diseases on behalf of Biocon. (BL)
- **Oil & Natural Gas Corporation (ONGC)**, the country's biggest explorer and producer of oil and gas, has approved an investment of Rs 1,285 crore to develop marginal off-shore fields located on the north west of Bombay High. (BS)
- State-owned **MTNL** is diversifying its business to venture into developing IT parks. The company, which has prime property in Mumbai and Delhi, will build IT parks and lease this infrastructure to software, BPO and KPO firms. MTNL has also dropped plans to hive off its land bank into a separate company. (ET)

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

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AIA ENGINEERING LTD

PRICE : Rs.1586

RECOMMENDATION : HOLD

TARGET PRICE : Rs.1709

FY09E PE : 15.6x

The results were in line with our expectations. We maintain our HOLD recommendation with a revised price target of Rs.1709 (8% upside potential)

- On a consolidated basis, the company produced 18046 MT in Q4FY07 against 17006 MT in Q4FY06 registering YoY growth of 6.1%. Also, sequentially it grew 3.0%.
- On a consolidated basis, the company sold 66615 MT in FY07, as against 59408 MT in FY06, thereby registering 12.1% YoY growth.

Summary table - Consolidated

(Rs mn)	FY07	FY08E	FY09E
Sales	5,230	8,620	11,778
Growth (%)	28.5	64.8	36.6
EBITDA	1,244	2,086	2,753
EBITDA margin (%)	23.8	24.2	23.4
Net profit	943	1,441	1,911
Net debt	(1,053)	(730)	(1,175)
EPS (Rs)	50.2	76.6	101.7
Growth (%)	80.1	52.7	32.7
DPS (Rs)	3.5	4.0	5.0
ROE (%)	24.8	25.9	26.6
ROCE (%)	30.8	33.6	35.3
EV/Sales (x)	5.5	3.4	2.4
EV/EBITDA (x)	23.1	13.9	10.4
P/E (x)	31.6	20.7	15.6
P/BV (x)	6.1	4.8	3.7

Source: Company, Kotak Securities - Private Client Research

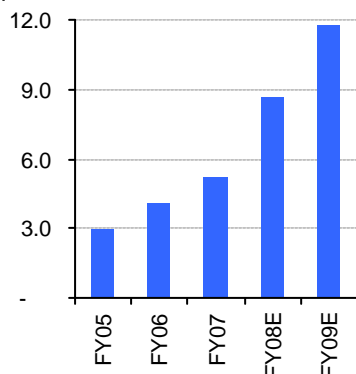
Consolidated Annual performance

(Rs mn)	FY07	FY06	YoY%
Net Sales	5,230	4,070	28.5
Increase / decrease in stock	(217)	(131)	65.1
Raw materials	2,447	1,926	27.1
Staff cost	222	226	(1.9)
Other exp.	1,535	1,234	24.3
Total exp.	3,987	3,254	22.5
EBIDTA	1,244	815	52.6
Other income	164	104	57.6
Depreciation	82	71	15.7
EBIT	1,325	848	56.3
Interest	24	53	(54.3)
PBT	1,301	795	63.6
Tax & deferred tax	346	252	37.1
PAT	956	543	75.9
Minority Interest	12	20	(37.2)
NPAT	943	524	80.1
Equity shares o/s (mn)	18.8	17.8	
Ratios			
Operating profit margin (%)	23.8	20.0	up 380 bps
Raw Materials / Sales (%)	42.6	44.1	
Staff cost / Sales (5)	4.2	5.6	
Other Exp. / Sales (%)	29.3	30.3	
EPS (Rs)	50.2	29.4	70.5
CEPS (Rs)	54.6	33.4	
Qty Produced MT	69,380	62,588	10.9
Tax / PBT (%)	26.6	31.7	

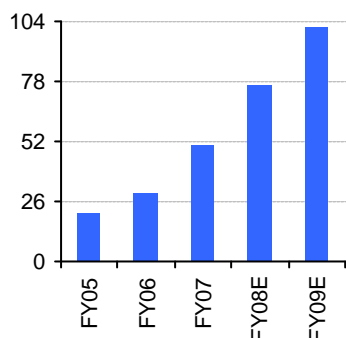
Source: Company

- For FY07, the company reported net sales of Rs.5.2 bn, as against Rs.4.0 bn in FY06 thereby registering 28.5% YoY growth.
- The segmental breakup of the sales of mill internals within India is 56% for cement, 35% for utilities and 9% for the mining industry.
- Exports stood at Rs.267 mn in FY07, which is almost 51% of the total revenues. The mill internals for the cement industry contributed nearly 100% of the exports as sales from the exports of mill internals for the mining sector would start flowing in from Q4FY08, as the expansion of the second phase of 50000 TPA at Chandogar, near Ahmedabad would commence commercial production from December 2007.

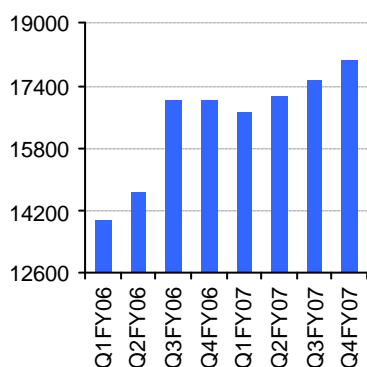
Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)

Source: Company, Kotak Securities - Private Client Research

QTY produced (Metric tons)

Source: Company

- EBIDTA margins during FY07 were up 380 bps on a YoY basis to 23.8% due to higher average realizations and reduction in raw material to sales ratio from 44.1% in FY06 to 42.6% in FY07.
- EBIDTA for FY07 was at Rs.1.2 bn, up 52.6% on a YoY basis.
- Higher depreciation of Rs. 82 mn was provided during FY07. This was higher by 15.7% on a YoY basis due to the ongoing capacity expansion and modernization program.
- The other income of the company went up significantly to Rs.164 mn in FY07 as against Rs.104 mn in FY06. This was primarily due to income from the proceeds of the equity issue, which were invested in short-term fixed deposits and liquid mutual fund schemes, pending deployment in the business.
- PBT for FY07 was up 63.6% on YoY basis to Rs.1.3 bn.
- PAT for FY07 was at Rs.943 mn, up 80.1% on YoY basis, thereby translating into EPS of Rs.50.2 and CEPS of Rs.54.6.

Expansion plans on track

At present, the company has 115,000 TPA capacities on a consolidated basis. The capacity has been expanded by 50,000 TPA in April 2007. The capacity will further be increased by another 50,000 TPA to 165,000 TPA by December 2007. In order to cater to the significant demand of mill internals for the mining segment the company is setting up another 100000 TPA plant for manufacturing high chrome mill internals.

Currently, the company is looking for land for the second phase of expansion in a couple of SEZs around Ahmedabad. The management expects to make it operational by March 2009. Thus, post this expansion the consolidated capacities of the company would go upto 265000 TPA. The expanded capacity would lead to significant growth in revenues and profitability of the company, going forward.

Robust order book

As of March 31 2007 AIA has a robust order book of Rs.4.0 bn. Out of this order book, nearly 40% is for projects and the balance approximately 60% is for replacement. Almost 45% of the order book is for exports. The project orders are mainly for new cement capacities that are being set up in India. AIA has won major contracts to supply mill internals for new cement plants.

Safely hedged against appreciating rupee

As almost 45% of the revenues are expected out of exports, the company has already hedged its positions for exports. Around 10-15% of the exports are already hedged at Rs.46 levels. For the last two months, the company has started making its quotations and contracts on the basis of Rs.40 to the US dollar. Hence, we feel the company is safely placed on the exports front as far as rupee appreciation is concerned.

Valuation and recommendation

- We maintain our earnings estimates and expect the company to report EPS of Rs.76.6 in FY08 and Rs.101.7 in FY09.
- At the current market price of Rs.1586, the stock trades at 4.8x FY08E and 3.7x FY09E to book value.
- It discounts FY08E and FY09E earnings at 20.7x, and 15.6x respectively.
- It discounts FY08E and FY09E cash earnings at 18.9x, and 14.2x respectively.
- We have revised our DCF-based target price upward to Rs.1709, primarily due to rolling forward one quarter in our FY09E estimates.
- We remain positive on the growth prospects of the company. The ongoing expansion plans would keep its position stronger in the future leading to increased revenues and profitability going forward.
- However, due to limited upside potential of 8% from current levels we maintain our **HOLD** on AIA Engineering with an increased price target of Rs.1709.

We maintain HOLD recommendation on AIA Engineering with a revised price target of Rs.1709

RESULT UPDATE

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GSPL

PRICE : Rs.54
TARGET PRICE : Rs.75

RECOMMENDATION : BUY
FY08E P/BV : 2.7x

GSPL reported good set of earnings for FY07, though the numbers have been slightly below our estimates. The company reported net profit of Rs 894 mn compared to our estimate of Rs 947 mn. The disparity has been on account of lower than expected transmitted volumes in Q4 (15.5 mmscmd in Q4 versus 16.3 mmscmd in Q3) due to temporary shut down of PLNG's Dahej terminal. We maintain our DCF based target of Rs 75 and BUY recommendation on the stock.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	31,756	45,149	67,893
Growth %	18.5	42.2	50.4
EBITDA	28,551	39,282	59,446
EBITDA margin %	89.9	87.0	87.6
Net profit	8,937	9,997	14,951
Net cash (debt)	76,845	146,614	122,842
EPS (Rs)	1.7	1.8	2.8
Growth %	91.3	12.0	49.6
DPS (Rs)	0.25	0.25	0.25
ROE %	9.8	9.5	12.8
RoIC%	9.7	7.9	9.3
EV/Sales (x)	11.6	9.7	6.1
EV/EBITDA (x)	13.0	11.2	7.0
P/E (x)	32.8	29.3	19.6
P/BV (x)	2.9	2.7	2.4

Source: Company & Kotak Securities - Private Client Research

Exponential YoY earnings growth...

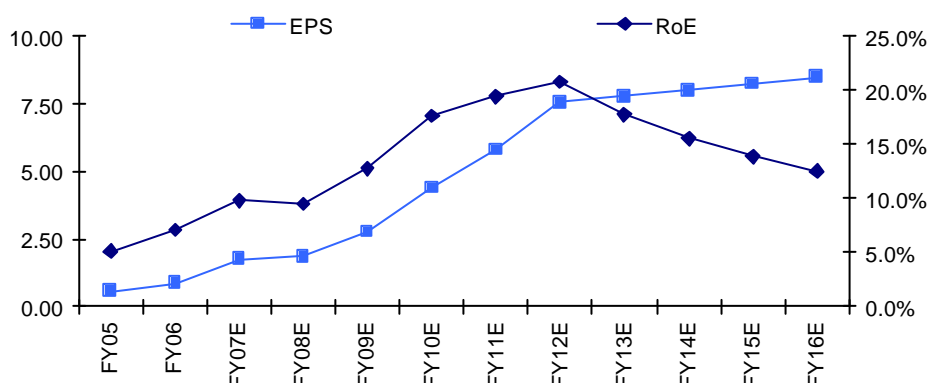
The company reported FY07 net profit of Rs 894 mn compared to FY06 figure of Rs 467 mn. Net sales and profit grew YoY by 21% and 91% respectively. The higher PAT level growth reflects strong operating leverage at capital cost (interest and depreciation) front coupled with improvement in operating margins from 74% to 85%. The improvement in operating margins was result of steep decline in connectivity and gas transportation charges paid to GAIL and Gujarat Gas respectively. The company has set up its own connectivity terminal to PLNG, hence no longer has to pay connectivity charges.

The 21% top line growth was result of 37% increase in volumes to 14.3 mmscmd. The value growth could have been higher but the company's transportation charges declined by 12% Rs 607/tcm.

Sequential decline in quarterly earnings due to steep increase in capital cost...

The company's QoQ net earnings declined by 32% to Rs 193 mn. The decline was primarily because of steep increase in capital cost (interest + depreciation) by 50% to Rs 508 mn. The increase was due to commissioning of couple of trunk pipelines. During the quarter the company commissioned Mora-Vapi (128 km - dia - 30") and Anand Rajkot Morbi (224 km x 24" & 67 km x 18") pipelines. It should be noted the capital cost doesn't corresponds to the net sales, as capacity utilization on these new pipelines is currently negligible.

There was slight decline in QoQ volumes to 15.5 mmscmd from 16.3 mmscmd due to temporarily shut down at PLNG's Dahej terminal. Transmission charges remain stable QoQ to Rs 595 /tcm.

GSPL-Expected Returns/Profit

Source: Company, Kotak Securities - Private Client Research

Financial Front								
(Rs mn)	FY06Q4	FY07Q3	FY07Q4	YoY(%)	QoQ(%)	FY06	FY07	YoY(%)
Sales Turnover	674.7	870.9	831.2	23.2	(4.6)	2,634.7	3,175.6	20.5
Other Income	27.5	39.0	50.0	81.8	28.2	44.7	174.5	290.4
Total Income	702.2	909.9	881.2	25.5	(3.2)	2,679.4	3,350.1	25.0
Employee Cost	5.8	11.4	12.2	110.3	7.0	27.4	39.7	44.9
Gas Transportation Charges	20.5	25.1	(3.2)	(115.6)	(112.8)	192.3	72.0	(62.6)
Connectivity Charges	62.4	31.7	21.6	(65.4)	(31.9)	221.5	130.6	(41.0)
O&M and Admin expense	90.9	48.7	89.9	(1.1)	84.6	250.7	252.7	0.8
Total Expenditure	179.6	116.9	120.5	(32.9)	3.1	691.9	495.0	(28.5)
Operating Profit (EBITDA)	522.6	793.0	760.7	45.6	(4.1)	1,987.5	2,855.1	43.7
EBITDA Margin (%)	74.4	87.2	86.3	16.0	(1.0)	74.2	85.2	14.9
Depreciation	224.7	236.4	344.6	53.4	45.8	790.6	1,026.1	29.8
Interest	123.9	103.5	164.1	32.5	58.6	412.8	456.5	10.6
Profit Before Tax	174.0	453.1	252.0	44.8	(44.4)	784.1	1,372.5	75.0
Tax	66.0	168.8	59.2	(10.3)	(64.9)	317.3	478.8	50.9
Tax rate (%)	37.9	37.3	23.5	(38.1)	(36.9)	40.5	34.9	(13.8)
Net Profit	108.0	284.3	192.8	78.5	(32.2)	466.8	893.7	91.5
PAT Margin	15.4	31.3	21.9	42.3	(30.0)	17.4	26.7	53.1
Equity share capital	5,422.4	5,422.4	5,428.0	0.1	0.1	5,422.4	5,428.0	0.1
EPS (Rs)	0.2	0.5	0.4	78.3	(32.3)	0.9	1.7	91.3
Operational Front								
Gas volumes transported (mmscmd)	8.9	16.3	15.5	75.4	(4.9)	10.5	14.3	36.9
Tariffs (Rs/tcm)	846.7	592.6	594.7	(29.8)	0.4	689.5	607.2	(11.9)

Source: Company

Valuation and Recommendation

We have arrived DCF based price target of Rs 75. Key risk to our analysis is regulation intervention in tariffs to curtail the company's RoE. The company's business being monopolistic in nature might come under regulator scanner post FY10, when its RoE would be 20%, which is above regulated post tax RoE of 14% for gas transmission companies. We have maintained the current operating margins for the company, as at present company's tariffs are competitive and excessive RoE would be result of company's scalability achieved through optimal utilization of resources rather than exercising of monopoly power.

We believe it would be difficult to regulate the company's tariffs as company's infrastructure is combination of trunk and spur pipelines in the grid format rather than single cross country pipeline, which is the case with GAIL. Hence we expect tariffs to be market driven, as regulated tariff might lead to misallocation of resource.

Natural gas transmission is a critical part of the natural gas value chain, as it possesses natural monopoly characteristics. Hence, we expect GSPL to establish its monopoly over gas transmission in Gujarat. We recommend **BUY** with target price of Rs.75 providing 40% upside over CMP.

Key Assumptions

	FY06	FY07E	FY08E	FY09E	FY10E	FY11E	FY12E
Existing Network (mmscmd)	13.4	15.7	20.0	21.9	25.2	27.7	30.5
Network for RIL (mmscmd)	-	-	-	11.0	14.0	16.0	20.0
Total gas volumes (mmscmd)	13.4	15.7	20.0	32.9	39.2	42.5	49.1
Average Tariff (Rs/tcm)	665.8	600.0	612.0	582.5	568.3	567.2	563.5

Source: Company, Kotak Securities - Private Client Research

Assumptions	
WACC (%)	12.4
Terminal growth rate (%)	3.0
PV (FY09-12) (Rs mn)	14182.4
Terminal Value	41160.0
Total Value	55342.4
Net Financial Obligations	14661.4
Equity Value	40681.0
Number of shares (mn)	542.2
Fair Value (Rs)	75.0

Source: Company, Kotak Securities - Private Client Research

Valuation Summary						
(Rs mn)	FY07	FY08E	FY09E	FY10E	FY11E	FY12E
Net Sales	3438.3	4467.6	6800.6	8134.6	9055.3	10389.7
Total Expenses	527.5	586.7	844.6	961.5	1063.2	1191.4
Dept	1095.9	1716.3	2307.1	2404.7	2475.1	2548.1
EBIT	1814.9	2164.6	3648.8	4768.4	5517.0	6650.3
Taxes on EBIT	617.1	736.0	1240.6	1621.3	1875.8	2261.1
NOPLAT	1197.8	1428.7	2408.2	3147.2	3641.2	4389.2
Gross cash flow	2293.7	3145.0	4715.3	5551.8	6116.4	6937.3
Increase in WIP	-3164.6	-656.7	-381.8	19.5	14.1	14.6
Inc. NWC	6.7	8.6	19.4	11.1	7.6	11.1
Capita Expenditure	9904.5	10240.0	1686.5	922.8	961.9	990.1
Gross Investment	6746.5	9591.8	1324.1	953.4	983.6	1015.7
FCF	-4452.8	-6446.9	3391.3	4598.4	5132.8	5921.6

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
7-Jun	Ambica Agarb	Rajesh K Goda	B	86,005	13.49
7-Jun	Ashco Indust	Ayodhyapati Investment Pvt Ltd	S	31,693	45.85
7-Jun	Axon Infotec	Somani Dinesh HUF	S	3,600	330.00
7-Jun	Betala Glo S	Sureshbhai Vaghjibhai Shah	B	7,445	5.09
7-Jun	Bhageri Dyec	Anuradha R Fowkar	B	30,000	15.82
7-Jun	Bhageri Dyec	Rajesh Dinkar Fowkar	S	30,000	15.82
7-Jun	Chan Guide I	Inventure Commodities Ltd	S	30,000	24.00
7-Jun	Chan Guide I	BCB Finance Pvt Ltd	S	30,000	24.50
7-Jun	Chandrik Tra	ABN India Equity Research Limited	B	25,000	3.75
7-Jun	Fedders Llyo	Citigroup Global Mkts Mauritius PLtd.	B	250,000	143.00
7-Jun	Gemstone Inv	Hemant Madhusudan Sheth	B	50,000	21.93
7-Jun	Gemstone Inv	Mala Hemant Sheth	S	50,000	21.94
7-Jun	Kadamb Const	Kehems Consultants Pvt Ltd	B	15,000	22.30
7-Jun	Koff Br Pict	Vasant Meghji Chheda	B	46,786	27.10
7-Jun	Mast Medi Sy	Divya Investments	B	39,769	18.90
7-Jun	Onward Techn	Marshal Asia Capital Limited	S	67,400	41.68
7-Jun	Pruden Pharm	Manbhavan Buildwell P Ltd	B	67,685	17.75
7-Jun	Samkrg Pst R	Planetary Mauritius Ltd	B	50,000	75.00
7-Jun	Shamke Multi	Saraogi Viniyog Private Limited	B	207,165	2.93
7-Jun	Shree Ashta	Raj Investments	B	56,000	235.84
7-Jun	Sumeet Indus	Atmaram Sarda	B	104,650	20.04
7-Jun	Visisth Merc	Sundune Office System Pvt.Ltd	B	20,400	17.85
7-Jun	Visisth Merc	Nishivin Finance and Inves P L	S	13,000	17.85

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Wipro Ltd	545.4	2.5	3.7	1.5
Suzlon Energy	1,373.3	4.8	3.5	1.6
Satyam Computers	481.3	3.7	2.2	4.9
Losers				
Reliance Ind	1,669	(1.3)	(6.0)	2.6
ONGC	854	(1.2)	(4.2)	0.9
SBI	1,361	(2.1)	(3.0)	2.2

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
8-Jun	Roman Tarmat holds press conference to announce IPO
11-Jun	Glenmark Pharma to consider stock split
13-Jun	Wyeth to announce earnings and dividend
15-Jun	Shipping Corporation of India to announce earnings; EIH Ltd to announce earnings and dividend
18-Jun	Tata Motors holds press conference for launch of commercial vehicles
22-Jun	Amara Raja Batteries to announce earnings and dividend; Infosys Technologies holds shareholders meeting in Bangalore
25-Jun	Annual General Meeting of SBI
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol earnings expected

Source: Bloomberg

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