



## Economy News

- ▶ With the Reserve Bank of India (RBI) maintaining its current monetary policy stance, tight liquidity conditions are expected to continue for some more time. (BL)
- ▶ The Centre has favoured a single unified goods and service tax (GST), a stand counter to the one taken by the empowered panel representing states, which has mooted separate goods and services taxes. (ET)
- ▶ Public sector banks (PSBs), cooperative banks and regional rural banks (RRBs) are likely to get their first round of reimbursement for the farm debt waiver scheme only after the first supplementary demand for grants for 2008-09 are passed by Parliament. (BL)
- ▶ Insurance regulator IRDA has banned payment of any charges by insurers to agents and brokers who bring business so as to prevent the companies from paying more commission to these intermediaries than what rules allow. (ET)
- ▶ The cement industry's plans to add 110 million tonnes (mt) of capacity with a total outlay of Rs 50,000 crore by financial year 2010 is likely to be delayed due to constraints in sourcing equipment and non-availability skilled labour. (BL)

## Corporate News

- ▶ **Mahindra & Mahindra** is reportedly in talks with Italian motorcycle and scooter maker Malaguti Moto for a possible takeover. Malaguti has some top-end products in the 250cc range which could be of interest to M&M for its moto foray. (ET)
- ▶ **Sun Pharma's** \$454-million proposal to acquire Israeli-drug company Taro Pharmaceutical received a shot in the arm, with the Tel-Aviv District Court rejecting Taro's contention that Sun should conduct a 'special tender offer' under the Israeli law. (BL)
- ▶ **Zandu Pharmaceutical's** petition on the takeover moves by Emami Ltd has been dismissed by the Company Law Board (CLB), saying that the Board had no jurisdiction on the issue & issues to be decided by the SEBI. (BL)
- ▶ **Punjab Lloyd**, plans to bid for Singapore's Liquefied Natural Gas (LNG) terminal for which it has tied-up with an Italian company. This LNG terminal in Singapore is a maiden one for the country. The cost of the project is estimated at \$1 billion and is to be commissioned by 2011. (BS)
- ▶ China Harbour Engineering has joined the race for \$1.3 billion dredging work at **Reliance Industries**-owned Rewas Port as a prospective bidder. The company may make its bid once the tender is floated. (ET)
- ▶ **NTPC Ltd** has entered the power distribution business and is on course to take up retail distribution of electricity in upcoming industrial parks in Kerala. (BL)
- ▶ **Trent Ltd**, the retail arm of the Tata group, is likely to invest around Rs 2,000 crore in the next five years for rolling out 50 Star Bazaar supermarket stores. (ET)
- ▶ Mid-sized pharma firm **Marksans Pharma** has acquired UK's leading generic drug marketing company Relonchem for Rs 100 crore. (ET)
- ▶ **Pyramid Saimira Theatres** is close to acquiring UK's oldest theatre chain Reel Cinema (earlier Associated British Cinemas or ABC) for around Rs 200 crore. (ET)

## Equity

		% Chg		
	27 Aug 08	1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
BSE Sensex	14,297	(1.3)	(0.4)	(13.5)
Nifty	4,292	(1.0)	(0.9)	(12.7)
BSE Banking	6,715	(2.1)	(0.7)	(15.4)
BSE IT	3,892	(0.1)	7.9	(14.8)
BSE Capital Goods	11,755	(1.2)	(1.3)	(6.5)
BSE Oil & Gas	9,656	(1.2)	0.0	(10.4)
NSE Midcap	5,633	(0.6)	0.5	(14.4)
BSE Small-cap	6,860	(0.8)	(0.8)	(16.7)
<b>World Indices</b>				
Dow Jones	11,503	0.8	3.3	(8.7)
Nasdaq	2,382	0.9	5.2	(4.2)
FTSE	5,528	1.0	4.1	(8.9)
Nikkei	12,753	(0.2)	(4.4)	(6.9)
Hangseng	21,465	1.9	(6.3)	(12.3)

## Value traded (Rs cr)

	27 Aug 08	% Chg - Day
Cash BSE	3,604	(1.1)
Cash NSE	8,769	1.2
Derivatives	47,535	(4.5)

## Net inflows (Rs cr)

	26 Aug 08	% Chg	MTD	YTD
FII	(506)	(639)	(1,726)	(29,230)
Mutual Fund	87	545	(788)	9,759

## FII open interest (Rs cr)

	26 Aug 08	% Chg
FII Index Futures	15,994	0.5
FII Index Options	23,632	0.9
FII Stock Futures	18,294	(1.1)
FII Stock Options	945	0.1

## Advances / Declines (BSE)

	27 Aug 08	A	B	S	Total	% total
Advances	50	690	165	905	37	
Declines	151	1040	255	1,446	59	
Unchanged	3	65	25	93	4	

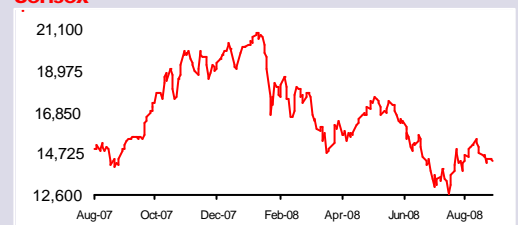
## Commodity

			% Chg		
	27 Aug 08	1 Day	1 Mth	3 Mths	
Crude (NYMEX) (US\$/BBL)	118.5	0.3	(5.0)	(9.6)	
Gold (US\$/OZ)	826.9	0.2	(10.7)	(7.7)	
Silver (US\$/OZ)	13.5	(0.7)	(22.2)	(21.7)	

## Debt / forex market

	27 Aug 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	9.04	9.11	9.25	8.12
Re/US\$	43.74	43.87	42.50	42.94

## Sensex



**ANNUAL REPORT UPDATE**

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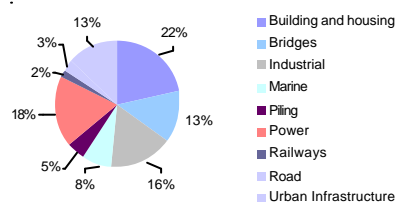
**SIMPLEX INFRASTRUCTURES****PRICE: Rs.471****TARGET PRICE: Rs.689****RECOMMENDATION: BUY****FY10E P/E: 11.1x**

**We recently spoke to the management and have also gone through the annual report for the financial year 2008. Following are the our key takeaways -**

**Annual report highlights****Summary table**

(Rs mn)	FY08	FY09E	FY10E
Sales	28,121	39,988	51,010
Growth (%)	65.0	42.0	28.0
EBITDA	2,675	4,199	5,866
EBITDA margin (%)	9.5	10.5	11.5
Net profit	901	1,564	2,350
Net debt	6,261	6,833	8,634
EPS (Rs)	18.1	28.4	42.6
DPS (Rs)	1.4	1.3	1.3
ROE (%)	17.5	16.9	19.4
ROCE (%)	18.5	19.2	21.7
EV/Sales (x)	1.1	0.8	0.7
EV/EBITDA (x)	11.0	7.7	5.7
P/E (x)	26.0	16.6	11.1
P/BV (x)	3.1	2.4	2.0

Source: Company, Kotak Securities - Private Client Research

**OB break up (%)**

Source: Company

**De-risked business model**

Simplex infrastructure has a de-risked business model diversified across various verticals as well as geographies. Increasing contribution of overseas orders emphasizes company's capability to bag and execute orders in different geographies as well as hedges the company against a slowdown in any particular geography.

- Contribution of overseas orders in the total order book has enhanced from 26.6% in FY08 to 33% in Q1FY09 and is expected to move up further. Company envisages huge opportunity in the oil rich Middle East region such as UAE and Qatar and is well positioned to capitalize on the upcoming opportunities in these regions.
- Domestically, Simplex infra is expected to benefit from the investments planned in the power, railways, road, industrial and urban infrastructure. Having significant expertise in executing projects across several verticals, company is expected to continue its growth momentum.

**Strong order book**

Simplex has an order book close to Rs.100 bn diversified across piling (5%), power (18%), marine (8%), industrial (16%), roads (3%), railways (2%), urban infrastructure (13%), bridges (13%) and building and housing (22%). Increasing contribution from the private sector has also resulted in better working capital management for the company. Along with this, increase in the average ticket size has resulted in a rapid growth in the order book. Order inflow in the current fiscal till date has been to the tune of Rs 20.5 bn and company expects to close the order book at nearly Rs.120-130 bn by March 2009.

**Industry scenario**

Higher inflationary pressures, increasing interest rates as well as high crude prices have impacted the overall growth of the economy till date. However, company has not witnessed any slowdown in terms of order inflows in its segments apart from the building contracts. Simplex has reduced its focus on the domestic building projects while increased its focus on the building segment in overseas projects. Along with this, with \$494 bn investment proposed in the eleventh plan period, company expects huge construction order inflows to come up in the next five years. With its expertise in executing large sized and complex projects, Simplex is well poised to tap the opportunities in power, railways, road, industrial, marine and urban infrastructure.

**Working capital improvement**

Working capital of the company has also shown an improvement in FY08. Company attributes it to the larger proportion of overseas projects where working capital management is highly effective. Average debtor days have shown a reduction of 20 days while the number of days of customer advances has shown an improvement as compared to last year, resulting in improving the overall working capital days. With increasing proportion of overseas contracts, we expect working capital to improve going forward. Thus, we have incorporated better working capital management going forward in our estimates.

### Operating margin scenario

Given the current scenario of high commodity prices, company has hedged its order book with a larger proportion of variable pricing contracts. Out of the total order book, fixed price contracts constitute around 15% while those linked to WPI constitute 27% while 25% of the contracts gets direct supply of raw material from clients. Remaining 33% of the contracts have a complete pass through clause. Thus, company is adequately hedged against steep increases in the commodity prices going forward. With increase in the average ticket size as well as presence across various verticals, we expect operating margins to witness an improvement going forward.

### Financial outlook

- With a robust order book of Rs.100 bn, expect revenues to grow at a CAGR of 35% between FY08-FY10.
- We maintain our assumptions for the improvement in operating margins going forward due to increase in the average ticket size as well as higher proportion of variable pricing contracts. We thus expect operating margins to be around 10.5% and 11.5% for FY09 and FY10 respectively.
- We have incorporated the improvement in the working capital based on the last year performance. Along with this, we have also increased the planned capex for the current fiscal for the company.
- We expect net profits to grow at a CAGR of 62% between FY08-FY10

### Valuation and recommendation

**We recommend BUY on Simplex Infrastructures with a price target of Rs.689**

At the current price of Rs.471, the stock is trading at very attractive valuations of 16.6x and 11.1x its FY09 and FY10 P/E multiples, respectively, on a fully diluted base (assuming QIP as well as warrant dilution). On an EV/ EBITDA basis, it is trading at 7.7x and 5.7x its FY09 and FY10 estimates, respectively. We continue to maintain our positive bias for the company and maintain our **BUY** recommendation on the stock with a price target of Rs.689 based on sum-of-the-parts methodology.

### Sum of the parts valuation

	Rs per share	Methodology
Core business	646	Valued at 15x FY10 estimated EPS
Oil rigs business	18	At DCF of the expected cash flows in next 3 years and then terminal growth rate
Real estate business	25	Discounted cash flows of Ranchi, Kolkata and Hyderabad project
<b>Total</b>	<b>689</b>	
Current price	471	
% upside	47	

Source: 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)
27-Aug	G.S. Auto	Prashanth Raghunath Deshpande	B	17,000	100.68
27-Aug	G.S. Auto	Shakti Hotels India Private Ltd	S	100,000	96.26
27-Aug	G.S. Auto	Bihar Strips Private Ltd	S	57,400	96.01
27-Aug	Geekay Finan	Gopala Pillai Vijayakumar	B	100,000	55.00
27-Aug	Intens Tech	Citigroup Global Markets Mauritius	S	123,541	15.22
27-Aug	Koff Br Pict	Deepal Corporation	B	26,501	30.60
27-Aug	Mtz Polyfilm	Shree Anandeya Inv Pvt Ltd	B	450,000	1.92
27-Aug	Mtz Polyfilm	Marilink Holdings Limited	S	450,000	1.92
27-Aug	Rayban Sun O	Ratnabali Capital Markets Ltd	B	182,557	135.90
27-Aug	Sanra Softw	Imtiyaz Ibrahimibhai Desai	B	160,000	62.24
27-Aug	SEL Manuf	Nirmal N Kotecha	B	81,739	281.40
27-Aug	Tainwa Che P	Shobha Tainwala	B	662,698	16.00
27-Aug	Tainwa Che P	Lajwanti B. Melwani	S	150,120	16.00
27-Aug	Tainwa Che P	Ashok B. Melwani	S	163,810	16.00
27-Aug	Tainwa Che P	Bhagwandas H. Melwani	S	361,570	16.00
27-Aug	Utv Software	Arrow Webtex Ltd	S	151,000	789.70
27-Aug	Vintage Card	Profit Planet Comsec Pvt Ltd	B	3,001	124.10
27-Aug	Vintage Card	Dvijay K Sharma	S	10,010	124.12
27-Aug	Vintage Card	Sailaja Kasibhatta	S	4,000	124.12

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
SAIL	152	1.5	1.6	9.0
Infosys Tech	1,708	0.6	1.0	1.4
Hindalco Ind	139	2.7	0.7	3.0
<b>Losers</b>				
Reliance Ind	2,148	(1.4)	(7.5)	3.7
DLF Ltd	479	(3.9)	(5.4)	3.1
SBI	1,331	(2.9)	(4.2)	1.3

Source: Bloomberg

## Forthcoming events

## Company/Market

Date	Event
28-Aug	Ballarpur Industries to announce earnings and dividend Cipla, Tata Steel holds annual shareholders meeting
29-Aug	Gillette India, Procter & Gamble to announce earnings and dividend Larsen & Toubro holds annual shareholders meeting
2-Sep	HCL Infosystems to announce earnings and final dividend

Source: Bloomberg

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