

August 9, 2007
FOR PRIVATE CIRCULATION
Equity

	8 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	15,308	2.5	1.7	11.1
Nifty	4,462	2.4	1.0	9.4
Banking	8,076	1.9	(1.3)	17.9
IT	3,747	3.1	(2.8)	2.8
Healthcare	3,672	1.2	(4.5)	(0.8)
FMCG	1,954	0.9	5.9	8.3
PSU	7,177	2.4	3.9	11.8
CNX Midcap	6,128	1.8	1.3	16.5
World indices				
Nasdaq	2,613	2.0	(2.1)	1.4
Nikkei	17,029	0.6	(5.6)	(2.9)
Hangseng	22,537	2.9	(0.4)	9.0

Value traded (Rs cr)

	8 Aug 07	% Chg - 1 Day
Cash BSE	4,523.7	1.1
Cash NSE	10,148.1	8.2
Derivatives	42,084.8	28.8

Net inflows (Rs cr)

	7 Aug 07	% Chg	MTD	YTD
FII	(124)	(89)	(2,499)	40,407
Mutual Fund	(5)	(111)	146	(772)

FII open interest (Rs cr)

	7 Aug 07	% chg
FII Index Futures	18,943.6	(4.4)
FII Index Options	12,944.5	2.8
FII Stock Futures	28,981.3	3.3
FII Stock Options	213.1	10.3

Advances/Declines (BSE)

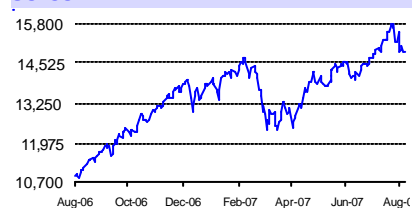
	8 Aug 07	A	B1	B2	Total	% Total
Advances	188	535	642	1,365	74	
Declines	24	180	252	456	25	
Unchanged	2	11	18	31	2	

Commodity

	8 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	72.2	(0.4)	(0.9)	15.9
Gold (US\$/OZ)	674.8	0.4	1.9	(1.1)
Silver (US\$/OZ)	13.1	0.2	3.0	(2.0)

Debt/forex market

	8 Aug 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.70	7.79	7.91	8.11
Re/US\$	40.5	40.4	40.4	40.8

Sensex


Source: Bloomberg

ECONOMY NEWS

- ❑ A controversial cross-holding cap, which prevents a telecom company from holding more than 10% stake in two operators in the same circle, is set to be raised or done away with altogether. Trai is likely to recommend the 10% cross-holding ceiling be scrapped. (ET)
- ❑ The Finance minister has ruled out any more sops for exporters hit by the rising rupee. He asked exporters to get used to the stronger currency as dollar inflows would continue to grow. (ET)
- ❑ The Government is examining a proposal which will enable public sector banks to split their stock. (ET)
- ❑ A day after the Government curtailed overseas borrowings by companies, the Finance Minister said there were no plans to regulate participatory notes. (BS)
- ❑ The hike in prices of petrol and diesel seems to have been put on the backburner with the price of the basket of crude oil that Indian refiners buy falling by over \$5 over the last week to \$68.39 a barrel on Tuesday. (BS)
- ❑ Cement, sugar and steel sectors would not be required to pay the busy season surcharge of 15% on freight cost. Railways would continue mini trains even beyond the lean season without any surcharge. (ET)

CORPORATE NEWS

- ❑ **Reliance Industries** is in negotiations to expand its downstream business in new geographies like Central America. RIL is exploring options of setting up a refinery in Central America, most likely in Guatemala. (ET)
- ❑ The **Tata Group** is examining a number of acquisition targets in the US beverage market. Topping the list is AriZona Beverages, in which the Tatas have been interested for almost three years now. (ET)
- ❑ The Government has said it has extended by one year the in-principle approval to **Reliance Industries'** Maha Mumbai SEZ but asked the promoters to cut the size of the zone to 5,000 hectares in line with the new rules. (BS)
- ❑ **Tata Power Company** could enter the nuclear power arena provided the Union Government gives the approvals. (BL)
- ❑ Low-cost carrier **SpiceJet** has chalked out plans to raise up to \$60-80 mn through a mix of equity dilution and debt. (ET)
- ❑ **GAIL (India) Ltd** is likely to join forces with Reliance Industries for setting up petrochemical projects abroad. (BL)
- ❑ US-based investor George Soros along with six other investors have taken a 5% stake in Reliance Telecom Infrastructure, the tower business of **Reliance Communications**, for Rs.14 bn. (BS)
- ❑ **Strides Arcolab** said it has received its first ANDA approval from Canadian regulator Health Canada for its advanced anti-nausea drug, Ondansetron injection 2 mg/ml. (BL)
- ❑ Making its entry into the last-mile retail space, Kishore Biyani-promoted **Future Group** has said it would set up 1,500 new format fair price shops over the next two years. (BS)
- ❑ **Maruti Udyog** has revised its export target for the current fiscal to 55,000 units as compared to about 50,000 units that it had said earlier. (BL)
- ❑ **L&T** is set to invest Rs.1 bn in Mysore-based Rangsons Electronics for a 40% stake. Rangsons Electronics is a Rs.700 mn electronic manufacturing solutions provider and one of the preferred suppliers for L&T's electrical & electronics division. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

POST RESULT UPDATE

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CONSTRUCTION SECTOR REVIEW POST Q1FY08

The construction sector posted a decent set of numbers for Q1FY08 marked by a remarkable improvement in operating margins for some companies. However, the revenue growth of the companies was slightly less than our estimates due to slower order inflow momentum. An improvement in margins was brought about by diverse project mix, economies of scale and increase in the average order size. Increased focus towards real estate projects is also expected to scale up the business of the companies in the longer run. We continue to remain positive on the infrastructure sector due to increased revenue visibility and improvement in profitability.

KEY HIGHLIGHTS OF Q1FY08 RESULTS

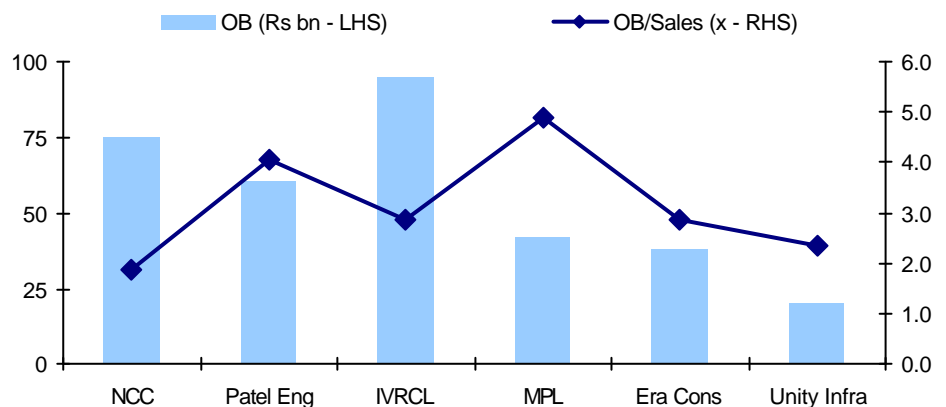
Robust and diverse order books

Construction companies have witnessed a very healthy growth in their order books on a year-on-year basis. With the continuous thrust of the government on infrastructure development across all segments such as roads, water, irrigation, buildings, oil and gas, etc, we expect companies to witness a similar trend in their order books in the coming years. Order book diversification towards international projects was also seen in some companies to tap the growing opportunities in foreign markets. Patel Engineering and Nagarjuna Construction are aggressively looking to tap opportunities in foreign markets.

Order book (Rs bn)			
Company	Q1FY08	Q1FY07	% YoY
NCC	75	63	19.0
Patel Eng	60	45	33.3
IVRCL	95	70	35.7
MPL	42	47	-10.6
Era Cons	38	13	192.3
Unity Infra	20	12	66.7

Source: Companies

Order book / sales



Source: Companies

Diverse trend in operating margins

Operating margins of the companies have shown a mixed trend with companies like Nagarjuna Construction, Madhucon Projects, Era Constructions showing remarkable improvement in margins while for IVRCL, Patel Engineering and Unity Infraprojects, a slight decline was witnessed. Though margins are dependent on projects executed in the current quarter, for the full year the companies are confident of maintaining or improving the margins from current levels due to higher ticket size of orders and diverse mix of order books. Net profit margins of the companies are not comparable with Q1FY07 due to higher tax rates for the companies on account of removal of Section 80IA benefits.

OPM (%)			
Company	Q1FY08	Q1FY07	Inc/Dec (bps)
NCC	10.4	8.4	200
Patel Eng	10.9	11	-10
IVRCL	8.9	9.5	-60
MPL	14.5	13	150
Era Cons	18.1	17.8	30
Unity Infra	12.6	13	-40

Source: Companies

Real estate projects progress in full swing

Real estate projects of the companies are progressing according to schedule. IVRCL plans to develop 2478 acres through its subsidiary IVR Prime Urban developers. Nagarjuna Constructions has given a guidance of Rs.2.5 bn through its real estate arm in this financial year. Patel Engineering is planning to commence operations of phase I by the next quarter. Era Constructions plans to develop 32 mn sq ft across all its projects in the next three to four years through its subsidiary Era Landmarks (India) Ltd. Unity Infraprojects has commenced construction work in hotel project in Pune and retail malls in Nagpur. These projects, though in the initial stages, are going to provide significant upsides in the longer run due to the low cost of land acquisition.

Strong balance sheets

Companies, apart from Nagarjuna Constructions, are not looking to raise funds since they have sufficient funds available currently for investing in different BOT/BOOT projects for the next 1-1.5 years. IVRCL had raised \$125 mn through a QIP issue last year. Era Constructions has raised \$75 mn through an FCCB issue, along with a warrants issue raising approximately Rs.2.34 bn. Patel Engineering and Unity Infraprojects still have the balance proceeds from their FPO/IPO done in the last financial year. Nagarjuna Constructions plans to raise \$180 mn through a QIP issue for increasing its net worth and for equity participation in large sized projects.

Fund raising (mn \$)			
	FY07	FY08E	Status
NCC	-	180	Proposed
Patel Engg	94	-	Completed
IVRCL	75	-	Completed
MPL	-	-	Nil
Era Cons	75	58.4	Completed
Unity Infra	41	-	Completed

Source: Companies

Outlook and Recommendation

Companies have identified several new areas for future growth such as real estate, oil and gas, international markets, thermal and hydro power, airport modernization etc. We continue to maintain our positive bias on the sector given the revenue visibility, improvement in margins and venture into other growing and profitable areas. Our top picks in the construction segment remain Patel Engineering, Nagarjuna Constructions and Unity Infraprojects.

Valuation

	Price on 8th Aug 07	P/E (x)		EV/EBITDA (x)		Target (Rs)
		FY08E	FY09E	FY08E	FY09E	
NCC	197	20.8	16.3	10.9	8.8	210
Patel Eng	440	24	19.1	11.7	9.5	485
IVRCL	382	28.3	20.6	14.6	10.5	-
MPL	252	18.8	12.2	9	6.8	250
Era Cons	579	10.3	11.7	5.9	2.9	544
Unity Infra	607	13.4	10.9	7	5.6	636

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)
8-Aug	Axon Infotec	Lotus Invesments	S	5,000	600.12
8-Aug	Baba Arts	Sandeep Patel	B	57,676	64.93
8-Aug	C G Impex	Daxa V Shah	S	34,073	48.80
8-Aug	Cinemax Ind	Merill Lynch CapMkts Espana Sasvb	B	260,000	141.00
8-Aug	Cinemax Ind	BSMA Ltd	S	260,000	141.00
8-Aug	Crazy Infote	Manoj Daga	B	50,000	192.80
8-Aug	Dynamic Indu	Ankit Rajendra Sanchaniya	B	19,000	49.00
8-Aug	Dynamic Indu	Hemant Madhusudan Sheth	S	19,000	49.00
8-Aug	Empower Inds	AR Murugappan HUF	B	34,045	16.11
8-Aug	Gemstone Inv	Hemant Madhusudan Sheth	S	15,000	27.45
8-Aug	Genus Over E	UBS Securities Asia	B	160,000	426.92
8-Aug	Genus Over E	BSMA Ltd	S	155,348	424.81
8-Aug	Grabal Alok-Pms	Sonata Investments	B	357,000	127.00
8-Aug	Grabal Alok-Pms	Elara Capital Plc F C C B	S	357,453	127.00
8-Aug	Grabal Alok-Pms	Aarti Sunil Gandhi	S	69,999	129.09
8-Aug	Hinafil (I)	Sunita Mehta	B	319,418	0.98
8-Aug	Hinduja Tmt	Reliance Capital Trustee Co	B	105,000	396.31
8-Aug	IKF Techno	Rajkishore Agarwal	S	1,449,865	7.18
8-Aug	Ishit Drug I	BDS Share Brokers	B	19,703	9.93
8-Aug	Kalptaru	Ashlesh Gunvantbhai Shah	S	31,201	61.95
8-Aug	Mah Ind Leas	Pradeep Bhat	B	24,788	42.26
8-Aug	ProtoInfosy	Sanrachna Impex	S	592,607	3.56
8-Aug	ProtoInfosy	K H Infodot Private Limited	S	242,603	3.64
8-Aug	Pruden Pharm	Mercury Fund Mgmt Co Ltd	S	70,000	27.00
8-Aug	Ram Informai	Diamant Investment and Finance	S	56,653	25.14
8-Aug	Rohit Pulp P	Sheetal Rajesh Jain	B	25,000	23.29
8-Aug	Sarang Chemi	Yogesh Kumar	B	20,000	2.05
8-Aug	Solitair Mac	Achyuta Nanda Rath	S	30,934	17.65
8-Aug	Steel Exch	Swarupa Rani B	S	43,000	26.88
8-Aug	Steel Exch	Koteswara Rao B	S	47,000	26.95
8-Aug	Steel Exch	Mohan Gandhi V V B	S	50,000	26.62
8-Aug	Sujana Metal	Goldman Sachs Mauritius Investmts	S	270,000	30.04
8-Aug	Suryachakra	Kirti Shantilal Shah	B	904,661	20.21
8-Aug	Suryachakra	Vijay Y Nanvare	B	750,000	20.21
8-Aug	Suryachakra	Kirti Shantilal Shah	S	904,661	20.07
8-Aug	Suryachakra	Merrill Lynch CapMkt Espana SASV	S	4,000,000	20.25
8-Aug	Suryachakra	Vijay Y Nanvare	S	750,000	20.18
8-Aug	Tribhvan Hsg	Jayshree Shankar Bhosle	B	30,000	56.31
8-Aug	Upsurge Invs	Alken Management and Financial S	B	50,000	10.17

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	1,875	3.6	17.4	3.3
Infosys Tech	1,967	4.7	9.7	3.1
TCS	1,153	3.9	8.1	1.0
Losers				
Cipla	186	(0.7)	(0.2)	1.7
DRL	630	(0.8)	(0.2)	0.2
Tata Motors	659	0.2	0.1	1.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
9-Aug	ICICI Prudential holds press meet to discuss on Asian markets; Omaxe Ltd hosts listing ceremony
13-Aug	Indian Hotels to consider raising funds including Rights Offer
23-Aug	HCL Infosys to announce earnings and final dividend
24-Aug	Cipla holds annual shareholder meeting
29-Aug	Tata Steel holds annual shareholders meeting

Source: Bloomberg

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