

August 23, 2007

FOR PRIVATE CIRCULATION

Equity

	22 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,249	1.9	(9.4)	(0.8)
Nifty	4,153	1.9	(10.1)	(2.2)
Banking	7,388	0.9	(11.6)	(2.7)
IT	3,422	1.9	(12.1)	(7.4)
Healthcare	3,426	(0.1)	(9.8)	(8.8)
FMCG	1,842	2.4	(1.6)	(2.9)
PSU	6,574	1.3	(8.9)	(2.4)
CNX Midcap	5,563	0.8	(12.1)	(0.3)
World indices				
Nasdaq	2,553	1.2	(5.1)	(0.9)
Nikkei	15,901	(0.0)	(9.3)	(8.0)
Hangseng	22,347	2.8	(1.8)	10.3

Value traded (Rs cr)

	22 Aug 07	% Chg - 1 Day
Cash BSE	4,260.3	(9.3)
Cash NSE	10,533.8	(2.3)
Derivatives	51,749.7	13.8

Net inflows (Rs cr)

	21 Aug 07	% Chg	MTD	YTD
FII	(10)	(100)	(8,992)	33,914
Mutual Fund	(17)	(102)	1,824	907

FII open interest (Rs cr)

	21 Aug 07	% chg
FII Index Futures	15,700.0	4.4
FII Index Options	14,868.2	4.1
FII Stock Futures	27,072.0	1.1
FII Stock Options	207.4	0.0

Advances/Declines (BSE)

	22 Aug 07	A	B1	B2	Total	% Total
Advances	142	308	270	720	40	
Declines	75	414	553	1,042	58	
Unchanged	2	10	30	42	2	

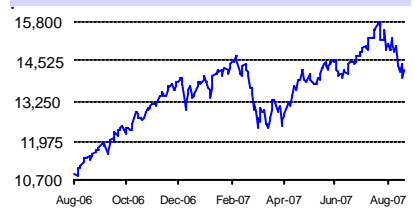
Commodity

	22 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	69.5	0.4	(7.1)	5.7
Gold (US\$/OZ)	660.8	0.5	(2.9)	-
Silver (US\$/OZ)	11.6	0.3	(11.3)	(9.8)

Debt/forex market

	22 Aug 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.90	7.81	7.70	8.17
Re/US\$	40.92	41.13	40.29	40.60

Sensex



Source: Bloomberg

ECONOMY NEWS

- Indian banks have registered a sharp increase, as high as 265%, in the capital they have to set aside for non-performing assets and doubtful debts in 2006-07 over 2005-06. (ET)
- Drug makers who intentionally make derivatives of a price-controlled drug to escape regulatory attention will soon face a tougher price regulator. (ET)
- India and Japan have agreed to sign a basic bilateral agreement on currency swap, which will add to a regional network of such accords designed to provide emergency financial liquidity to either or both parties in times of currency market or other turbulence. (ET)
- Sebi has said it is considering a waiver of the entry load for direct applications received by asset management companies. (BL)
- Ruling out any change in India's sovereign rating due to a political standoff over the Indo-US nuclear deal, Moody's said the crisis was not serious enough to dent the country's economic policy framework. (ET)
- The IT and Communications Minister has said the Government will announce the spectrum policy before the end of the year, and consult telecom operators to explore the possibility of number portability for consumers. (BS)

CORPORATE NEWS

- Actis, which holds 18% in **Swaraj Mazda**, may not participate in the firm's forthcoming rights issue in a move that signals an end to the more than two-year old dispute between the private equity fund, **Punjab Tractors** and the Japanese giant Sumitomo. (ET)
- **Tata Motors** has informed the Calcutta High Court that it would pay West Bengal Industrial Development Corporation an amount in the region of Rs.10 bn in a phased manner for the Singur land lease of 90 years for its small car project. (BL)
- **Wipro Technologies** will be setting up a global development centre in Egypt targeting the IT export services for West Asia and global markets. (BS)
- Deepak Parekh, Chairman of **HDFC** said the Indian banking system is unlikely to be affected by the subprime lending crisis in the US, but banks may face problems on account of rising domestic property prices. (BL)
- **ITC** has said it would set up new small format stores in rural areas on the lines of its existing hypermarket chain, Choupal Sagar, by early next year, even as it plans to ramp up its retail operations. (BS)
- **DLF** has said it has bagged Durgapur Township Project in West Bengal, a public-private partnership model that would attract investment up to Rs.40 bn. (BL)
- **Nicholas Piramal** plans to enter into production of narcotic codeine, used in various drugs, after its first quarter results were dented because of its non-availability. (BL)
- **Dr Reddy's Laboratories** has received approval from the USFDA for cholesterol-lowering simvastatin tablets, the regulator's website showed. (BL)
- **Gujarat Heavy Chemicals** has announced plans to enter the Indian retail arena. The company is expected to enter the home textiles segment through the franchisee model.
- **Orbit Corp** has said it would sell land with commercial office space for Rs.8.07 bn to **JSW Steel Ltd**, JSW Power Trading Co Ltd and JSW Investments Pvt Ltd. (BL)

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

COMPANY UPDATE

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PATEL ENGINEERING

PRICE : Rs.398

TARGET PRICE : Rs.485

RECOMMENDATION : BUY

FY09E PE : 17.3x

We spoke to the management of Patel Engineering about the progress of order inflows as well as execution status. We maintain our positive bias on the company. We expect order inflows to register an increase of 20% as compared to last year, leading to 30% CAGR in revenues between FY07-FY09. Due to the recent correction in the stock price, we upgrade the stock to BUY from HOLD with a price target of Rs.485

Key highlights of the company

■ **Robust order book.** Patel Engineering has a current order book of approximately Rs.50 bn spread across hydropower (55%), irrigation (28%), road and microtunneling projects (17%). The company's major thrust area is hydropower EPC projects. Patel would continue to remain focused on this. It has also diversified its order book towards road BOT projects as well as irrigation projects in India and other countries.

The company expects to benefit from the Government's focus on increasing the contribution of hydropower to the total power generated in the country. It is already L1 in Rs.4 bn worth of orders.

■ **Stable margin scenario.** Patel Engineering enjoys very good margins as compared with other construction players due to its focus on the higher margin hydropower construction projects. Hydropower projects have operating margins in the range of 17-22% while irrigation projects have margins in the range of 7-15%. Road projects have relatively lower operating margins of 5-7%. Portfolio diversifications, larger scale of operations and variable pricing clauses have enabled the company to hedge against any kind of margin decline.

For a particular quarter, margins depend on the specific projects executed in the corresponding period. However, we expect the company will be able to maintain operating margins in the range 13.5% for the full year, going forward.

■ **Venture into thermal IPP project.** The company has signed an MoU with the Government of Gujarat to set up a thermal power plant of 1200 MW, entailing an investment of Rs.50 bn. The electricity generated will be sold to power traders, captive consumers and state governments. The company is currently in the process of land acquisition, tying up coal linkages outside India and getting clearances from the Government. We do not expect returns from the thermal IPP project to come in the near term. However, this foray is likely to result in enabling the company to emerge as an independent power producer in the long run. Details of the project are as follows:

Details

Project size	1200MW
Location	Bhavnagar, Gujarat
Investment	Rs.50 bn
Debt:Equity	80:20
Development phases	3 phases (400MW *3)
Stake of strategic partner	30-40%
Phase 1 equity requirement from Patel Eng	1.5-1.8bn

Source: Company

Summary table			
(Rs mn)	FY07	FY08E	FY09E
Revenues	11,036	14,951	18,597
% change YoY		35.5	24.4
EBITDA	1,512	2,026	2,517
% change YoY		34.0	24.2
Other Income	80	80	80
Depreciation	273	393	450
EBIT	1,319	1,713	2,147
% change YoY		29.9	25.3
Net interest	109	150	184
Profit before tax	1,210	1,563	1,964
% change YoY		29.2	25.6
Tax	129	469	589
as % of PBT	10.6	30.0	30.0
Profit after tax	1,081	1,094	1,375
Net income	1,081	1,094	1,375
Shares outstanding (m)	59.7	59.7	59.7
EPS (reported) (Rs)	18.1	18.3	23.0
P/E	22.0	21.7	17.3
EV/EBITDA	13.8	10.4	8.5

Source: Company & Kotak Securities - Private Client Research

Value unlocking through real estate

The company has a land bank of 500 acres and it acquired this land at a very low cost in the past. This land bank is spread across Mumbai, Hyderabad, Bangalore, Chennai, Mysore, Panvel etc. The company intends to develop this land bank in different phases. The first phase will start with the development of a 0.75 mn sq ft property in Mumbai and an IT park and residential complex on 3-5 mn sq ft in Bangalore. The first phase is expected to be launched soon after Diwali. We have valued the land based on the NPV methodology taking into account phased development of all its properties. We have arrived at an NPV of Rs.121 per share.

Valuation and recommendation

With a current order book of approximately Rs.50 bn, we expect the company to grow its revenues at a CAGR of 30%. At the current market price of Rs.398, the stock is trading at 21.7x and 17.3x on P/E multiples on FY08 and FY09 estimates, respectively. Adjusted with the subsidiary and land bank valuations, it is trading at 14.3x and 11.4x on P/E multiples on FY08 and FY09 estimates, respectively. This is very attractive.

We recommend a BUY on Patel Engineering with a price target of Rs.485

We maintain our estimates and upgrade the stock to **BUY** from **HOLD** with a price target of Rs.485. Our price target is based on the sum of DCF value of the core business, subsidiary valuation and land development valuations arrived through NPV methodology on FY09 estimates. Our target price provides an upside of 22% from the current levels.

Target price table

Target price based on FY09	Rs	Methodology
Core business valuation	350	DCF and one yr forward P/E
Subsidiary valuation	14	Relativevaluation
Land development valuation	121	NPV
Total (Rs)	485	

Source: Kotak Securities - Private Client Research

COMPANY UPDATE

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EVEREST KANTO CYLINDER LTD.

PRICE : Rs.199
TARGET PRICE : Rs.266

RECOMMENDATION : BUY
CONS. FY09E PE : 13.1x

The EKC stock has become ex-split as the face value of the shares has been reduced from Rs.10 to Rs.2 per share. Hence, we are adjusting our price target to Rs.266. The EKC stock has corrected in the recent volatile markets. However, the fundamentals remain intact. We continue to maintain BUY on EKC with 34% upside potential from current levels.

We have gone through the EKC annual report for FY07. The following are our key takeaways:

Booming CNG cylinders market

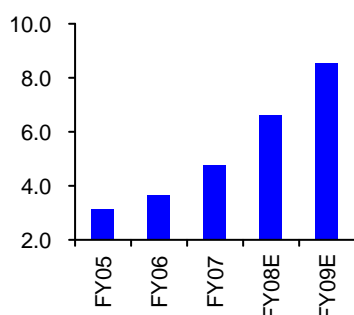
- The company is the largest domestic manufacturer of high-pressure seamless gas cylinders. EKC is the largest producer and industry leader for CNG cylinders in Asia. Primarily, the company manufactures high-pressure seamless cylinders both for industrial users and CNG storage for automobiles. EKC also makes CNG cylinder cascades. All three products have excellent growth prospects.
- The CNG cylinders market in India is still at a nascent stage of development vis-à-vis some other countries. However, India is on the threshold of witnessing a robust growth in usage of CNG cylinders in automobiles. Some of the major triggers for raising the CNG penetration in India are cost economics, rising awareness, improving refueling infrastructure, need for a cleaner environment and visibility of gas supplies.
- Also, the Supreme Court has mandated 28 cities in India to shift to CNG. As of date, many cities are yet to comply with the Supreme Court mandate. They are expected to do so in the coming years when gas availability and infrastructure creation for gas distribution improves.
- There has also been a surge in demand for CNG cylinders globally. Globally, there are approximately 8 mn CNG vehicles, which are expected to go up to 50 mn by 2020. This augurs well for the international operations of the company.
- The demand for CNG cascades is also expected to be robust, going forward, as more states are announcing plans to make the gas available for automobiles by creating the necessary infrastructure. This is likely to push the demand for CNG cascades in India in the future.

Summary table - Consolidated

(Rs mn)	FY07	FY08E	FY09E
Sales	4,251	5,840	9,469
Growth %	80.5	37.4	62.1
EBITDA	1,145	1,607	2,557
EBITDA margin %	26.9	27.5	27.0
Net profit	718	976	1,651
Net cash (debt)	(231)	106	(766)
EPS (Rs)	7.4	9.0	15.2
Growth %	106.0	36.0	69.1
CEPS	45.9	11.6	18.6
DPS (Rs)	4.0	4.0	1.0
ROE %	0.3	0.2	0.2
ROCE %	0.4	0.3	0.3
EV/Sales (x)	4.6	3.7	2.4
EV/EBITDA (x)	17.2	13.4	8.8
P/E (x)	27.1	22.1	13.1
P/Cash Earnings	21.7	17.2	10.7
P/BV (x)	6.9	3.5	2.8

Source: Company & Kotak Securities - Private Client Research

Cylinders volume (lakh nos)



Source: Company, Kotak Securities - Private Client Research

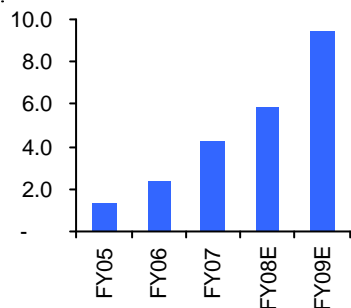
Expansion

The company has an annual consolidated capacity of 700,000 cylinders as of March 2007. The second unit of Dubai would be operational in September and the China unit would commence commercial production by December 2007. With expansions in Dubai, China and in India, the capacity would expand to 1 mn cylinders by March 2008. It would further rise to 1.9 mn cylinders by March 2009. This is expected to lead to a significant rise in revenues and profitability for the company, going forward.

Product development

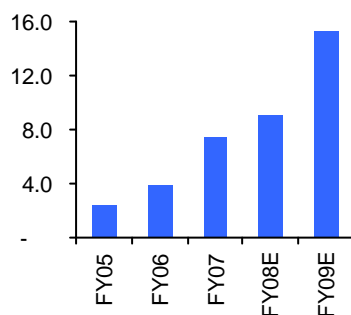
The company continues to develop cylinders for various applications in defense, scientific research and aeronautics. The rapid indigenization programs initiated by the Government to reduce dependence on imports are providing fillip to the usage of such cylinders.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)

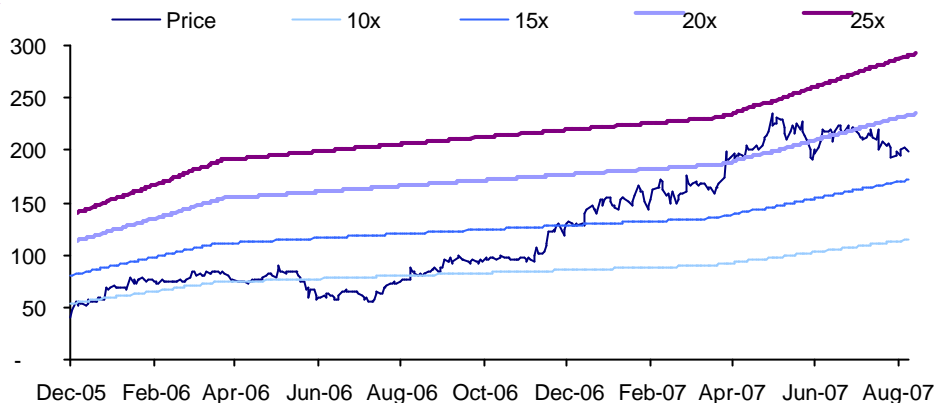


Source: Company, Kotak Securities - Private Client Research

Recommendation and Valuation

- Going forward, we expect the revenues of EKC to grow at 49.2% CAGR for the next two years. More importantly, the net profit is likely to grow at 51.7 % CAGR for the next two years, that is, from FY07 to FY09E.
- We maintain our earnings estimates for EKC. We expect it to report an EPS of Rs.9.0 in FY08E, moving up to Rs.15.2 in FY09E on diluted and ex-split basis.
- With the recent volatile markets, EKC has corrected by 17.5% from its high of Rs.241, thereby making it attractive from current levels. Also, it is trading at the lower band of the 15 to 25x one-year forward estimates. This makes it attractive at current levels.

One-year forward rolling P/E band



Source: Kotak Securities - Private Client Research, Bloomberg

We recommend a BUY on EKC with a price target of Rs.266

- The current market price of Rs.199 discounts FY09E earnings by 13.1x. We believe this is very attractive considering the clear growth prospects of the company, going forward. This is due to overseas capacity expansion and strong demand for the products of the company.
- We remain positive on EKC and maintain **BUY** with ex-split adjusted price target of Rs.266, which provides 34% upside potential from current levels.

Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
22-Aug	Aurang Pap M	Vishal Agarwal	S	67,543	7.43
22-Aug	Axon Infotec	Bakliwal Investment	B	4,000	585.00
22-Aug	Baba Arts	Sandeep Patel	B	74,804	57.78
22-Aug	Cat Technol	Lilac Farms Private	B	54,655	8.02
22-Aug	Choksi Imag	Dheeraj Kumar	S	23,520	22.56
22-Aug	Coven Coilom	Ashok Kumar Mehta	B	55,050	25.54
22-Aug	Cupid Ltd	Mahendrapal R Bahl	B	50,000	32.69
22-Aug	Cupid Trade	Anukaran Commercial Ent	S	11,000	20.85
22-Aug	Dhanlaxm Fab	Shripal Shares and Securities	S	60,000	35.33
22-Aug	Euro Ceramic	BSMA Ltd	B	300,000	158.00
22-Aug	Euro Ceramic	Ramesh Ramchandani	S	300,000	158.00
22-Aug	Gemstone Inv	Hemant Madhusudan Sheth	B	21,213	23.51
22-Aug	Gemstone Inv	Bhavesh Prakash Pabari	S	20,000	23.90
22-Aug	Geodinfo Sys	Deutsche Securities Mauritius	B	1,629,401	235.75
22-Aug	Gulsha Sug C	Micro Management	B	92,414	23.03
22-Aug	Indo Green P	Yashpal Agarwal	B	83,000	35.70
22-Aug	Indo Green P	Chandni Nirmal Malhotra	S	67,477	35.70
22-Aug	Kushagra So	Mohd Jamal Noorani	S	147,895	3.65
22-Aug	Marson Ltd	Thomas Thomas Maliyil	S	133,823	4.32
22-Aug	Novgol Petr	Pro Leasing and Finance	B	29,900	5.61
22-Aug	Novgol Petr	Sangita Ben	S	82,500	5.61
22-Aug	Novgol Petr	Chandrika D Patel	S	55,510	5.61
22-Aug	Pasari Spin	S P J Stock Brokers Pvt. Ltd.	S	59,780	14.02
22-Aug	Pioner Embro	Jayshree Shriprakash Sardesai	S	53,500	123.93
22-Aug	Saboo Sod Ch	Swati Goel	B	50,000	32.24
22-Aug	Sanguine Md	Chandan T Sidhwani	B	50,000	42.33
22-Aug	Saven Techno	Chander Mohan Bhatia	B	53,784	14.23
22-Aug	SEL Manuf	Latin Manharlal Sec Pvt Ltd	B	77,535	169.27
22-Aug	Srini Sh Pro	Chandra Fin. Serv. Pvt. Ltd	B	373,000	111.22
22-Aug	Srini Sh Pro	Maruti Securites Ltd	S	175,000	111.10
22-Aug	Sunil Hitech	Anjali Naresh Gupta	S	60,000	198.83
22-Aug	Vertex Secur	Vishesh Shahra	B	100,000	38.20
22-Aug	Vertex Secur	Thomas Alappatt	S	50,000	38.20
22-Aug	Vertex Secur	Prakash Surajmal Shah	S	35,000	38.22
22-Aug	Woolite Merc	Apurva Ajay Jhaveri	B	13,349	25.09
22-Aug	Yashraj Secr	Diamant Investment and Finance	B	41,746	45.83
22-Aug	Yashraj Secr	Maru Securities	S	15,872	44.13
22-Aug	Yashraj Secr	Mittal Securities Finance	S	33,390	43.95
22-Aug	Yashraj Secr	Diamant Investment and Finance	S	75,968	44.19

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Bharti Airtel	848	4.2	12.3	1.0
ONGC	809	2.4	7.9	0.9
BHEL	1,674	5.3	7.9	1.6
Losers				
PNB	460	(4.0)	(1.1)	1.4
Tata Motors	620	(2.3)	(1.1)	2.5
Sun Pharma	921	(2.5)	(0.9)	0.2

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
23-Aug	DBS Bank holds press meet to announce earnings and future plans; HCL Infosystems to announce earnings and final dividend; Vikas WSP holds press conference to announce future plans; Primavera Systems & CADD Centre holds press conference
24-Aug	Cipla holds annual shareholder meeting; Procter & Gamble, Gillette India to announce earnings and dividend
29-Aug	Tata Steel holds annual shareholders meeting; Ballarpur Industries to announce earnings and dividend

Source: Bloomberg

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