

September 17, 2007
FOR PRIVATE CIRCULATION
Equity

	14 Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	15,604	(0.1)	10.3	10.2
Nifty	4,518	(0.2)	10.0	8.3
Banking	8,136	0.7	10.7	9.0
IT	3,530	(0.9)	2.1	(5.2)
Healthcare	3,666	(0.8)	5.1	(3.4)
FMCG	2,073	0.1	14.4	15.9
PSU	7,300	(1.3)	11.6	12.3
CNX Midcap	6,280	(0.9)	11.1	11.1
World indices				
Nasdaq	2,602	0.0	3.9	(0.9)
Nikkei	15,821	0.1	5.6	(10.3)
Hangseng	24,898	1.5	21.8	18.1

Value traded (Rs cr)

	14 Sep 07	% Chg - 1 Day
Cash BSE	6,207.9	24.5
Cash NSE	12,509.4	12.9
Derivatives	47,177.4	13.0

Net inflows (Rs cr)

	13 Sep 07	% Chg	MTD	YTD
FII	(47)	(117)	3,391	38,770
Mutual Fund	80	2.4	150	3,483

FII open interest (Rs cr)

	13 Sep 07	% chg
FII Index Futures	17,821.7	(2.5)
FII Index Options	13,234.4	1.5
FII Stock Futures	28,050.3	(0.2)
FII Stock Options	171.0	(4.8)

Advances/Declines (BSE)

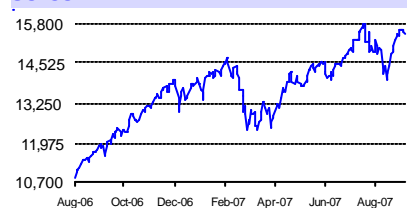
	14 Sep 07	A	B1	B2	Total	% Total
Advances	62	209	321	592	33	
Declines	158	519	494	1,171	65	
Unchanged	-	14	14	28	2	

Commodity

	14 Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	78.6	(0.6)	9.2	15.6
Gold (US\$/OZ)	707.6	(0.1)	8.1	8.5
Silver (US\$/OZ)	12.6	0.3	7.8	(4.6)

Debt/forex market

	14 Sep 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.87	7.89	8.00	8.23
Re/US\$	40.45	40.44	40.70	40.91

Sensex


Source: Bloomberg

ECONOMY NEWS

- Sebi has said that hedge funds are welcome to invest in India, provided they comply with existing regulations for FIIs. (BS)
- For the first time ever, private equity investments in India have crossed the \$10-bn mark in a single calendar year, with four months still to go in 2007. (ET)
- The Civil Aviation Ministry's plan to allow new airlines to operate international services has run into rough weather, with the Defense, Home and the External Affairs Ministries resisting the move. (ET)
- To boost the profitability of exporters, the Government is considering issue of duty-free scrips to offset various state-level taxes like sales tax on petroleum products, central sales tax, electricity duty, octroi, mandi fees, purchase tax, octroi, development tax and toll tax. (ET)
- The Finance Ministry has prepared guidelines on a Budget proposal to allow corporates to issue bonds in the overseas markets convertible with any group company shares and is awaiting the Law Ministry's response before notifying them. (BS)

CORPORATE NEWS

- A US-based buyout fund and diamond industry giant De Beers are learnt to have evinced interest in **Rajesh Exports** for acquiring 51% stake from its promoters. (ET)
- Reliance Gas Transportation Infrastructure Ltd, a Mukesh Ambani-led company, which is implementing the 1,440-km pipeline project from Kakinada to Ahmedabad to transport gas from **RIL's** east-coast fields, expects to complete the project by March 2008. (BL)
- **Wipro** plans to set up its second computer and server manufacturing facility in north India with an initial capacity of 250,000 units per annum. (ET)
- **Cairn India** has received approval from the Government of India granting 'Right of Use', permitting the company and **ONGC** to secure access to the land for building the pipeline from Rajasthan. (BL)
- Within days of approving a price formula for gas to be produced by **Reliance Industries**, the Government has said it will ask RIL to prioritize fuel sales to fertilizer plants, city gas and existing power plants. (ET)
- **Satyam Computers** has set aside \$1 bn (around Rs.41 bn) to buy companies, which it finds attractive. (BS)
- **Ranbaxy Laboratories** is contemplating an investment of \$500-600 mn in healthcare services in Punjab. (BS)
- **JSW Bengal Steel** plans to start construction of its Rs.400-bn mega steel venture in Salboni, West Bengal, by November. (ET)
- **Future Group** is going to list its second company by the year-end. Kishore Biyani, managing director, said the initial public offer would raise around Rs.20 bn, but refused to comment on the nature of the new company. (BS)
- **L&T** has said that its construction unit, in a consortium with Outotec GmbH, has won a Rs.7.62 bn (\$190 mn) contract from Steel Authority of India Ltd. (BL)
- **IVRCL Infrastructures & Projects** has said that full-year profit may rise 40% as India increases spending on public works. (BS)
- **Kingfisher Airlines Ltd** may sell shares to investors after it becomes profitable as it seeks to expand in India and abroad. (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

COMPANY UPDATE

Dipen Shah
dipen.shah@kotak.com
+91 22 66341376

We recommend a HOLD on Subex Azure with a revised price target of Rs.572

SUBEX AZURE LTD.

PRICE : Rs.510

TARGET PRICE : Rs.572

RECOMMENDATION : HOLD

FY08E PE : 13.6x

- The revenue visibility has been impacted by the postponement of a large order of about \$20 mn. Internal issues within the client organization have impacted order flow
- The postponement is not reflective of a deteriorating environment, according to the company. The order may be received/executed in FY09. The company is targeting cost rationalization/control to restrict the impact
- Integration with Syndesis is progressing according to schedule. It is expected to be complete by Q4FY08
- The guidance has been revised to reflect the impact on revenues and profits
- We expect an EPS of Rs.37.6 in FY08. We are reducing our target price to Rs.572. We recommend **HOLD**
- The stock may under-perform in the short-term due to the guidance revision. A sharp deceleration/recession in major user economies and a sharp appreciation in the rupee from our assumed levels are key risks to our call

Key takeaways

- Subex has indicated that a large order worth about \$20 mn has been postponed by one of its major clients. This is because of its internal issues (exact reasons not known), leading to a capex slowdown.
- While the order has been postponed, it has not yet been cancelled. The company continues to work with this client on other annuity projects.
- However, with the order not expected to be received in FY08, the near term revenue visibility has been impacted.
- The impact is likely to be equally felt in both segments - revenue maximization solutions (RMS) and fulfillment and assurance solutions (FAS).
- With lower revenues and a high proportion of fixed costs on the books, margins are also likely to be significantly impacted.
- However, the company plans to restrict the impact on margins through cutting costs and also controlling costs. We expect marketing costs to be under some pressure over the remainder of the year.
- Apart from this order, Subex has not faced any slowdown in its pipeline or in order conversions.
- The company has recently won two major orders for its products from Tier I operators.
- One of the orders is a three-year deal in the revenue assurance space. This indicates that Subex is now engaging in longer-term and larger contracts when compared to its earlier deals.
- The annuity revenues continue to accrue to Subex and are expected to amount to \$50 mn in FY08, including \$22 mn from BT.
- The integration of Syndesis is progressing along expected lines. The company hopes to complete it by Q4FY08.
- Work of about 50 employees has already been shifted to India. The company plans to further shift work of about 70 employees by Q4FY08.
- This is expected to improve the margins in Syndesis to about 22.5% in FY08, according to the company.
- The company plans to provide about \$5 mn during FY08, towards bad and doubtful debts.

Financials					
(Rs mn)	FY06	FY07#	(%) YoY	FY08E\$	(%) YoY
Revenues	1,812.1	3,409.4	88.1	6,148.0	80.3
Expenditure	1,301.8	3,008.3		4,458.7	
EBDITA	510.4	401.2	-21.4	1,689.3	321.1
Depreciation	90.8	125.8		183.1	
EBIT	419.6	275.3	-34.4	1,506.2	447.1
Interest	26.4	87.3		210.9	
Other Income	29.0	389.0		416.6	
Provisions	0.0	0.0		203.0	
PBT	422.2	577.0	36.7	1,508.9	161.5
Tax	30.7	-99.0		189.7	
PAT	391.4	676.1	72.7	1,319.2	95.1
Shares (mn)	34.8	34.8		35.0	
EPS (Rs.)	11.2	19.4		37.6	
EBIDTA (%)	28.2	11.8		27.5	
EBIT (%)	23.2	8.1		24.5	
Net Profit (%)	21.6	19.8		21.5	

Source: Company, Kotak Securities Private Client Research

: Azure's financials consolidated WEF 2QFY07

\$: Syndesis' financials consolidated WEF 1QFY08

- We have revised downwards our estimates for FY08, following the postponement of the order.
- We expect total revenues for FY08 at Rs.6.15 bn. Product revenues are expected to amount to Rs.5.06 bn v/s Rs.6.04 bn, earlier.
- EBIDTA margins for the company are expected at 27.5%.
- We have pegged the interest charge to accommodate the \$180 mn FCCBs raised by the company recently. These entail a cost of 2% per annum. However, in case of conversion of FCCBs, the interest cost is expected to come down.
- After considering tax at 12% of PBT, we arrive at a PAT of Rs.1.32 bn (Rs.1.53 bn earlier), resulting into an EPS of Rs.37.6 (Rs.44 earlier).

Conversion of FCCBs

- We have not assumed the conversion of FCCBs into equity shares. In case these are converted at the conversion price of Rs.656 per share, the diluted number of shares would go up. After adjusting for a lower interest charge, the PAT may go up to Rs.1.48 bn and the EPS on the diluted equity may work out to Rs.30.

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to 40.50 against the US dollar. A sharp acceleration from current levels may impact our earnings estimates for the company.
- Failure/delays in realizing the benefits from acquisitions may impact the overall revenue and profit growth of the company.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
14-Sep	Action Fin	E Lite Sportnet Ltd	B	60,000	29.75
14-Sep	Action Fin	Sudha B.Vithlani	S	60,900	29.77
14-Sep	Advani Hot R	Morgan Stanley And Co Intl Plc			
		Ac Morgan Stanley Mauritius	B	60,000	340.00
14-Sep	Advik Labort	Bhaskar Saharan	B	62,263	10.01
14-Sep	Ajcon Global	Khemka Holdings and Enterpr.	S	26,606	12.13
14-Sep	Albrig Wil C	Dhannalal Premchand Jain Huf	B	30,000	131.00
14-Sep	Albrig Wil C	Upsurge Investment and Fin.	S	32,015	132.55
14-Sep	Ashco Indust	Ankush A Kotwani	S	100,000	30.26
14-Sep	Cerebra Int	T P Anandh	B	200,000	14.81
14-Sep	Commit Cap S	Aap Investments	S	16,200	17.20
14-Sep	Crystal Soft	Richline Finvest Pvt Ltd	B	33,360	7.47
14-Sep	Dhanlak Bank	Somerset Emerging Opp Fund	B	414,500	77.00
14-Sep	Dhanlak Bank	Rajmohan P Rao	S	450,000	77.00
14-Sep	Dollex Indut	Hardik M Mithani	S	38,691	120.25
14-Sep	Dover Securt	Jigyasa Properties Pvt Ltd	B	216,950	21.55
14-Sep	Dover Securt	Lalit Kumar Choudhary	S	25,800	21.55
14-Sep	Ganeshforgin	Bsma Ltd	B	106,634	108.63
14-Sep	Gangotri I&S	Beni Prasad Jain	B	24,026	45.88
14-Sep	Gayatri Proj	Principalpnblongtermeqfund			
		3yrplanseries	B	216,497	294.99
14-Sep	Gayatri Proj	Vishu Enterprise	S	96,474	295.03
14-Sep	Gemstone Inv	Kishorbhai Balubhai Chauhan	B	49,350	22.31
14-Sep	Gemstone Inv	Ankit R. Sanchaniya	B	50,405	21.82
14-Sep	Gemstone Inv	Hemant Madhusudan Sheth	S	19,575	22.45
14-Sep	Goldston Tec	Religare Securities Ltd Panthe	B	75,000	134.00
14-Sep	Gremac Infra	Mahendra P Rathod	B	85,228	214.63
14-Sep	Gremac Infra	Ubs Securities Asia Ltd	B	500,000	214.00
14-Sep	Gremac Infra	Anand Yogesh Shares and Con	S	109,858	214.06
14-Sep	Gremac Infra	Kamlesh Haribhai Chavda	S	161,000	214.09
14-Sep	Ifl Prmoter	Konichiva Builders Ltd.	S	21,000	24.75
14-Sep	Ifl Prmoter	Krishna Infomedia Ltd	S	17,000	24.73
14-Sep	Ind Infoline	T Rowe Price International	B	558,546	807.60
14-Sep	India Cement	Prince Holdings Madras Pvt Ltd	B	6,400,000	273.00
14-Sep	India Cement	Stargate Investments Ltd	S	6,886,625	273.00
14-Sep	Infra Devfin	Ge Equipment Leasing Mauritius	B	23,630,000	128.00
14-Sep	Infra Devfin	State Secretariat For Economic	S	26,600,000	128.00
14-Sep	Iol Chem Ph	Incredible Capital Limited	S	71,680	60.17
14-Sep	It People	Ubs Securities Asia Ltd	B	2,000,000	30.00
14-Sep	It People	Abn Amro Bank N V London	B	2,500,000	30.00
14-Sep	It People	Eit Biz India Ltd	S	900,000	29.80
14-Sep	It People	Cyber It Mall.Com India Ltd	S	2,100,000	30.00
14-Sep	It People	Camp Insurance Ser P Ltd	S	1,300,000	30.03
14-Sep	Iwind Energy	Citigroup Global Markets Mauritius	B	500,000	90.00
14-Sep	Jptsecuritii	Konichiva Builders Ltd.	B	30,000	8.75
14-Sep	Jptsecuritii	Pawar Estates Pvt. Ltd.	B	20,000	8.74
14-Sep	Jptsecuritii	Heena Developers Pvt Ltd	S	70,000	8.75
14-Sep	Jrg Secur	Hsbc Financial Services Middleeast	S	70,545	51.20
14-Sep	Kancha Inter	Kaushalya Chawla	S	25,000	12.92
14-Sep	Kashyap Tec	Mavi Investment Fund Ltd Ac GDR	S	900,000	6.85

Contd...

Trade details of bulk deals

Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
14-Sep	Kashyap Tec	Lotus Global Investments Ac GDR	S	900,000	6.59
14-Sep	Lotus Choc C	Andhra Pradesh Indl Dev. Corp.	S	100,000	14.93
14-Sep	Paras Petrof	Enca Finlease Ltd.	S	1,600,000	1.41
14-Sep	Patel Airtem	Indian Syntans Investments	B	32,500	51.05
14-Sep	Patel Airtem	Aap Investments	S	32,911	49.26
14-Sep	Patel Airtem	Spirit Investment And Finance	S	35,719	48.95
14-Sep	Photoquip In	Sulaxmi Export And Marketing	B	62,205	17.87
14-Sep	Sita Enterpr	Bombay Mercantile And Leasing Co	S	27,500	7.70
14-Sep	Srei Infra	Bsma Ltd	B	2,594,217	101.19
14-Sep	Srei Infra	Deg Deutsche Investitions Und Entwicklungsgesellschaftmbh	S	2,514,900	101.00
14-Sep	Sugal Dam Fi	Manisha Rajiv Udani	S	16,270	38.57
14-Sep	Terasoftware	Subhkam Securities Pvt.Ltd.	B	50,050	80.53
14-Sep	Tourism Fina	Jpmsl Ac Copthall Mauritius Inv Ltd	B	545,665	37.56
14-Sep	Trijal Indus	Shankuntala Mukundrai Gandhi	B	26,000	6.09
14-Sep	Vama Ind	M. H. Shah	B	50,000	22.45
14-Sep	Vertex Secur	Haresh Mohanlal Thobhani	S	49,500	34.67
14-Sep	Vinay Ceme L	Hsbc Financial Services Middleeast	B	100,000	38.83
14-Sep	Vintage Card	M Syed Mubarakali	S	58,055	7.31
14-Sep	Vls Financ L	Astute Commodities And Derivatives	S	174,021	33.90
14-Sep	XI Tel Ene	Bnp Paribas Arbitrage .	B	95,298	199.00
14-Sep	XI Tel Ene	Alexure Securities Pvt Ltd	S	115,000	199.13
14-Sep	Yash Mana Sa	Explicit Finance Ltd.	B	55,092	12.98

Source: BSE

...Contd

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ICICI Bank	906	2.5	4.7	4.4
Sterlite Ind	646	2.9	2.5	2.0
Reliance Ind	2,035	0.4	1.9	2.6
Losers				
Bharti Airtel	830	(1.1)	(3.4)	0.8
Reliance Com	543	(1.4)	(3.0)	3.7
SBI	1,650	(1.5)	(2.4)	1.7

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
17-Sep	Supreme Infrastructure holds press conference to announce IPO; Omnitech holds press conference for expansion plans
18-Sep	Initial Public Offer of Koutons Retail India opens; Initial Public Offer of Consolidated Construction opens
20-Sep	SAIL holds annual shareholders meeting
24-Sep	Pfizer to announce 3rd quarter earnings

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Vinay Goenka	Auto, Auto Ancillary, Sugar	+91 22 6634 1291	vinay.goenka@kotak.com
Saday Sinha	Banking, Economy	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@kotak.com
Rohit Ledwani	Retail	+91 22 6634 1507	rohit.ledwani@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.