

June 9, 2006

FOR PRIVATE CIRCULATION

**Equity**

	8 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	9,296	(4.7)	(25.4)	(11.5)
Nifty	2,724	(4.8)	(26.2)	(12.6)
Banking	4,305	(6.6)	(23.4)	(16.4)
IT	2,191	(4.3)	(22.1)	(11.5)
Healthcare	2,871	(6.0)	(29.9)	(20.5)
FMCG	1,661	(4.6)	(28.7)	(16.5)
PSU	4,458	(4.9)	(30.2)	(22.0)
CNX Midcap	3,488	(8.1)	(34.0)	(23.6)
<b>World indices</b>				
Nasdaq	2,145	(0.3)	(8.3)	(4.6)
Nikkei	14,633	(3.1)	(15.1)	(9.0)
Hangseng	15,450	(2.3)	(9.7)	(0.2)

**Value traded (Rs cr)**

	8 Jun 06	% Chg - 1 Day
Cash BSE	3,604	13.6
Cash NSE	8,333	7.3
Derivatives	24,463.1	(3.5)

**Net inflows (Rs cr)**

	7 Jun 06	% Chg	MTD	YTD
FII	31.9	(62.4)	(7,202)	11,109
Mutual Fund (217.6)	15.6		7,017	13,017

**FII open interest (Rs cr)**

	7 Jun 06	% Chg
FII Index Futures	8,876	(4.7)
FII Index Options	1,929	(2.0)
FII Stock Futures	9,129	(11.2)
FII Stock Options	83	(6.4)

**Advances/Declines (BSE)**

8 Jun 06	A	B1	B2	Total	% Total
Advances	5	14	48	67	5
Declines	203	548	433	1184	94
Unchanged	1	0	7	8	1

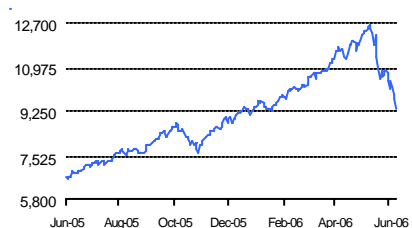
**Commodity**

	8 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	70.4	(0.7)	0.8	17.2
Gold (US\$/OZ)	613.3	(2.1)	(13.2)	11.5
Silver (US\$/OZ)	11.2	(5.6)	(22.5)	13.2

**Debt/forex market**

	8 Jun 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.66	7.67	7.41	7.38
Re/US\$	45.98	45.97	44.83	44.48

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- The Indian equities market came close to wiping off most of the gains it had made in the past six months. On Thursday, the Sensex ended down 4.7%, or 460.95 points, at 9295.81, while the Nifty declined 4.7% to 2724.35. (ET)
- The RBI has decided to hike the repo and reverse repo rate by 25 basis points. The reverse repo - the rate at which RBI borrows from banks - is now 5.75%, while the repo rate - the rate at which RBI lends to banks - has been raised to 6.75%. (ET)
- A committee of CEOs of the promoter institutions of National Securities Depository (NSDL) will soon take a final view on the course of action to be taken against its management following directions issued by Sebi. (ET)
- The draft civil aviation policy is ready and could be taken up by the Union Cabinet for approval this month, civil aviation minister Praful Patel said on Thursday. Comments on the policy from all ministries concerned and agencies have already been received, he said. (ET)

**CORPORATE NEWS**

- **Thomas Cook** is close to buying LKP Forex, a wholly-owned subsidiary of LKP Merchant Financing. The deal, understood to be in the region of Rs. 2.5 bn, involves a cash payment and transfer of 15% stake in Thomas Cook - post-merger - to LKP shareholders. (ET)
- The open offer made by EDS for acquiring majority stake in **Mphasis BFL** has been oversubscribed, though the \$19.8bn IT giant will only retain the required tendered shares for getting 51.54% stake. This decision may see some of the institutional investors like Baring India retaining a certain percentage of the stake in Mphasis. (ET)
- **Ranbaxy Laboratories** said it has got approval from the Romanian Competition Council for acquiring a 96.7% stake in Terapia. Ranbaxy last month announced acquisition of Terapia, a leading generics company in Romania, for \$324m. (ET)
- **GSPC** has discovered more gas and this time also oil from its KG Deen Dayal block well no 17. The new find is at 3,500 metre depth and from a crater, which is spread in 60 to 90 sq km area. (BS)
- **Reliance Industries** has hiked its retail prices of petrol and diesel by Rs. 4 and Rs. 2 per liter, respectively, exactly the same amounts by which prices of these products were hiked for the public sector oil companies two days ago.
- **L&T** on Thursday declared a 1:1 bonus issue. The last time the company declared a bonus was 20 years ago in the ratio of 3:5. However, the bonus announcement failed to cheer the sentiment at the L&T counter on a bearish BSE. (BS)
- **Indian Hotels Company (IHCL)** has recorded an 86% rise in net profit for the quarter ending March 31, '06 to Rs 788 mn from Rs 421 mn. The net profit for the full year saw a 74% rise to Rs 1.84 bn. (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

**Sanjeev Zarbade**  
sanjeev.zarbade@kotak.com  
+91 22 6634 1258

## CUMMINS INDIA (Rs.163, FY07 PE: 14.2x; BUY)

Cummins' fourth quarter numbers are largely in line with our expectations. The stock has corrected significantly by 40% from its high and valuations are attractive. Cash generation continues to be robust and the stock is also attractive from a dividend yield point of view. In view of this, we maintain a **BUY** recommendation on the stock with a price target of Rs. 210.

#### Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	17,751	21,619	25,395
Growth (%)	20.7	21.8	17.5
EBITDA	3,058	3,609	4,220
EBITDA margin (%)	17.2	16.7	16.6
Net profit	1,836	2,281	2,709
Net cash (debt)	1,237	1,187	1,187
EPS (Rs) (consolidated)	9.3	11.5	13.7
Growth (%)	37.7	24.2	18.8
CEPS	11.2	13.7	15.9
DPS (Rs)	4.7	4.7	4.7
ROE (%)	22.7	24.8	25.1
ROCE (%)	31.2	33.9	34.1
EV/Sales (x)	1.8	1.4	1.2
EV/EBITDA (x)	10.2	8.6	7.4
P/E (x)	17.7	14.2	12.0
P/Cash Earnings	14.5	11.9	10.3
P/BV (x)	3.8	3.3	2.8

Source: Company & Kotak Securities - Private Client Research

#### Quarterly performance

(Rs Mn)	Q4FY06	Q4FY05	% change
<b>Net Sales</b>	<b>3,877</b>	<b>3,168</b>	<b>22.4</b>
Other Income	197	200	-1.4
<b>Total Income</b>	<b>4,074</b>	<b>3,368</b>	<b>21.0</b>
Raw material costs	2,596	2,117	22.6
Staff costs	255	197	29.0
Other exp	443	389	13.8
Total Expenditure +	3,293	2,704	21.8
<b>PBIDT</b>	<b>583</b>	<b>464</b>	<b>25.7</b>
Interest	4.77	7.0	-34.4
<b>PBDT</b>	<b>776</b>	<b>657</b>	<b>18.1</b>
Depreciation	82.20	87	-6.0
<b>PBT</b>	<b>694</b>	<b>569</b>	<b>21.8</b>
Tax	153	105	44.8
<b>Adjusted Profit After Tax</b>	<b>541</b>	<b>464</b>	<b>16.6</b>
Equity	396	396	
RM cost to sales%	67.0%	66.8%	
PBDIT %	15.0%	14.6%	
Tax rate %	22%	19%	

Source: Company

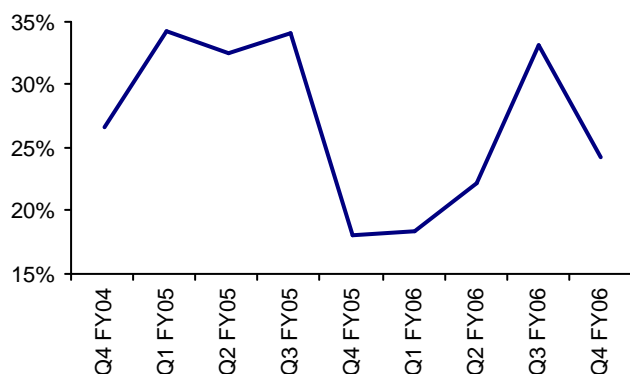
### Result Highlights

**Strong revenue growth:** At the beginning of the year, Cummins had given a guidance towards a revenue growth in the range of 18-20%. However, on the back of robust growth in exports, the company has managed to outperform its revenue guidance.

The power generation segment primarily drove domestic sales growth. Industrial sales were dampened by the downturn in the water well drilling business.

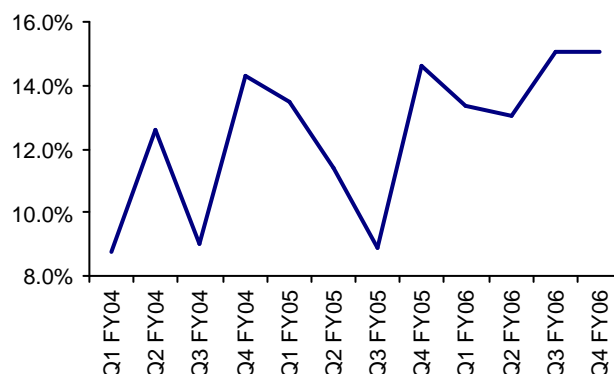
**Operating margins continue to expand:** Margin expansion has remained stable during the quarter.

#### yoy growth in quarterly revenues (%)



Source: Company

#### Quarterly trend in operating margins (%)



Source: Company

### Our outlook and recommendation

The Cummins' management has given guidance towards a 17-20% CAGR growth in exports and a 12-15% CAGR growth in domestic sales over the next three to four years timeframe. Earnings should grow faster in view of the stable to increasing margins outlook.

Free cash generation should be higher in the current year as the company brings down its' working capital cycle. This should also boost the chances of higher dividend payouts in the coming years.

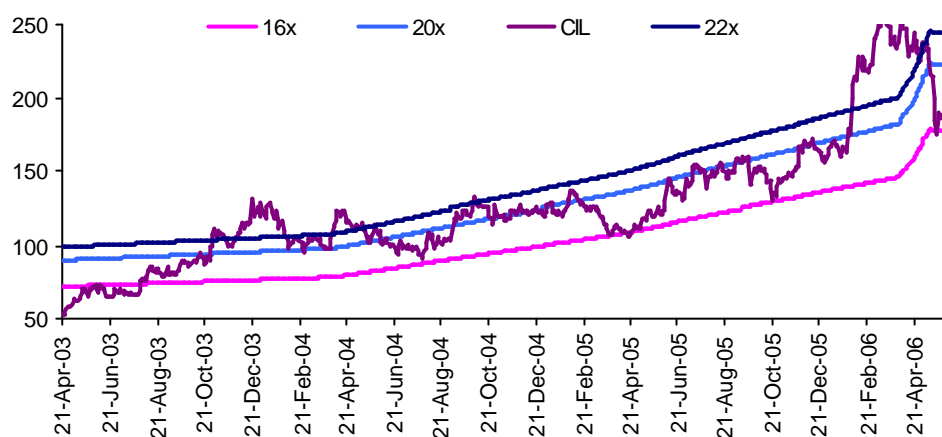
We are maintaining our profit estimates for the stock for FY07 and introducing FY08 estimates. We are expecting a consolidated EPS of Rs. 11.5 per share and Rs. 13.7 per share in FY07 and FY08, respectively. The stock discounts the FY06 and FY07 earnings by 14.2x and 12.0x, respectively. Dividend yield is attractive at 2.4%.

Over the last two years, the Cummins' stock has traded in a price band of 22-16x forward earnings. The stock, as seen from the PE band, is now trading at below the 16x PE band and hence makes for a good entry point into the stock.

We maintain our BUY on Cummins with a target price of Rs. 210.

**Maintain BUY with a price target of Rs.210**

#### PE band



Source: Kotak Securities - Private Client Research

**EVENT UPDATE**

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

**Saurabh Gurnurkar**  
saurabh.gurnurkar@kotak.com  
+91 22 66341273

## **WIPRO LTD**

### **(Rs.420, FY08E PE: 18x; BUY)**

#### **Yet another acquisition: Wipro acquires European wireless design services company, Saraware**

Wipro Technologies has signed an agreement to acquire the Finland-based Saraware Oy in an all cash deal. The cost of the acquisition is approximately euro 25 mn. This includes upfront cash payment and a debt takeover. In addition, there are earn-outs on achieving targeted financial conditions over an 18-month period. The cost of acquisition for Wipro works out to be around 1.6x of sales of euro 15 mn registered by Saraware in 2005, in comparison the other recent acquisition came at multiples of 1.3x to 1.4x of sales.

According to available information, Saraware is a 21-year old company and a leading provider of design and engineering services to telecom companies with close to 200 specialists on its rolls. Saraware, currently, has four development centers in Finland. The company has not given out any details regarding the profitability of Saraware. We believe the profitability levels of Saraware will be lesser than those enjoyed by Wipro currently and could have a marginally dilutive impact on earnings.

#### **Where this one fits in for Wipro...**

In addition to organic growth, Wipro has also pursued the inorganic route to develop and consolidate domain expertise in select verticals. This is the third acquisition made by Wipro in FY07. Earlier in FY06, Wipro acquired three other companies as a part of the company's strategy to add capabilities and services through the inorganic route.

Besides access to Saraware's design centers in Finland, the acquisition will bring niche skills in development of base station controllers and mobile communication platforms. In our opinion, this acquisition combined with Wipro's existing competencies in the engineering design and services domain, could help Wipro penetrate into high growth segments like secure communications and lend the capability to handle complete outsourcing deals in the evolving GSM, 3G and tetra markets.

We are of the opinion that this acquisition is aimed at strengthening its competence in the vertical by adding service offerings in addition to expanding Wipro's geographical footprint within Europe. This acquisition will give Wipro a local presence in Finland and put it in the Nordic belt of Europe. Major players, who are based in the Nordic region, dominate close to 50% of the global market share in the wireless infrastructure domain.

Overall, in our opinion, this acquisition is consistent with Wipro's strategy of acquiring smaller companies that augment/add service offerings in existing verticals or to the company's geographical footprint. The full benefits of the recent acquisitions concluded by Wipro are expected to accrue going forward.

#### **Valuation & recommendation**

The Saraware acquisition is not expected to have a significant impact on our earnings estimates. Consequently, we expect the company to report an EPS of Rs. 19.1 in FY07 and Rs. 23.6 in FY08. At the current price levels, the stock is quoting at 22x FY07E and 18x our FY08E earnings.

We are of the opinion that declines in stock price could be used to own this stock from a longer-term perspective. We continue to recommend a BUY on Wipro with a price target of Rs. 578 that provides an upside of 37% from the current levels.

At the target price, the stock will be valued at 30x our FY07E and 24.5x our FY08E earnings. We recommend a BUY on Wipro with a price target of Rs. 578.

<b>Future prospects</b>							
<b>(Rs.mn)</b>	<b>FY05</b>	<b>FY06</b>	<b>% chg</b>	<b>FY07E</b>	<b>% chg</b>	<b>FY08E</b>	<b>% chg</b>
<b>Turnover</b>	<b>81,676</b>	<b>106,259</b>	<b>30.1</b>	<b>140,498</b>	<b>32.2</b>	<b>178,631</b>	<b>27.1</b>
Expenditure	61,067	80,655		106,205		135,605	
<b>EBIDTA</b>	<b>20,609</b>	<b>25,603</b>	<b>24.2</b>	<b>34,293</b>	<b>33.9</b>	<b>43,027</b>	<b>25.5</b>
Depreciation	2,458	3,097		3,571		4,055	
<b>EBIT</b>	<b>18,151</b>	<b>22,507</b>	<b>24.0</b>	<b>30,722</b>	<b>36.5</b>	<b>38,972</b>	<b>26.9</b>
Interest	-796	-1,272		-1,330		-1,630	
<b>PBT</b>	<b>18,947</b>	<b>23,779</b>	<b>25.5</b>	<b>32,052</b>	<b>34.8</b>	<b>40,602</b>	<b>26.7</b>
Tax	2,750	3,391		5,289		7,511	
	16,197	20,388	25.9	26,763	31.3	33,090	23.6
Share of profit	175	288		480		590	
Minority interest	-88	-1		0		0	
<b>PAT</b>	<b>16,284</b>	<b>20,675</b>	<b>27.0</b>	<b>27,243</b>	<b>31.8</b>	<b>33,680</b>	<b>23.6</b>
EPS (Rs)	11.6	14.50		19.09		23.59	
EBIDTA(%)	25.2	24.1		24.4		24.1	
EBIT (%)	22.2	21.2		21.9		21.8	
Net Profit (%)	19.8	19.2		19.0		18.5	

Source : Company, Kotak Privat Client Research

We expect the company to report revenues of Rs.140.5bn and Rs.178.6bn in FY07 and FY08, respectively.

While the number of employee in the GITSP business to grow to 89,600 as compared to 53,742 at the end of FY06. We expect the rupee to appreciate to 43 per US dollar by FY08 end. EBIDTA margins are likely to be maintained despite salary hikes, mainly due to higher offshore component and improving profitability in the BPO business.

Profits are expected to grow to Rs. 33.68 bn by FY08, leading to an EPS of Rs.23.6.

### Concerns

Rupee appreciation beyond our assumed levels of 43 per US dollar by FY08 end could provide a downward bias to our earnings estimates.

A steep deceleration in major global economies could impact the revenue growth of domestic vendors.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
8-Jun	Abbott India	HDFC Long Term Equity Fun	B	130,000	485.00
8-Jun	Abbott India	Birla Dividend Yield	S	133,926	485.13
8-Jun	Allianz Secu	Dilipkumar Vishindas Lakh	B	101,000	21.55
8-Jun	Ind-Swift Lt	Goldman Sachs and Company	B	200,000	26.98
8-Jun	Liberty Phos	Mahan Industries Ltd	S	34,575	13.65
8-Jun	Micro Techn	Winstar E.Com Pvt.Ltd	S	48,000	182.25
8-Jun	Rathi Udyo L	Capital Care India P.Ltd	B	28,000	32.23
8-Jun	TRC Finan Se	Gyan Sagar	B	28,900	1.48

Source: BSE

## Forthcoming events

COMPANY/MARKET	
Date	Event
9-Jun	Wyeth, Neyveli Lignite Corporation to announce earnings and dividend; Larsen & Toubro Infotech holds press conference
11-Jun	Castrol India holds press conference to launch new product
12-Jun	Unity Infraprojects listing on BSE & NSE
15-Jun	Shipping Corporation of India, Container Corporation to announce earnings and dividend
16-Jun	Exide Industries to consider stock split
22-Jun	ONGC Corporation, Amara Raja Batteries to announce earnings and dividend
27-Jun	Corporation Bank holds shareholders meeting; Reliance Industries holds annual shareholders meeting; Bata India to announce 2nd quarter earnings
30-Jun	State Bank of India holds shareholders meeting

Source: Bloomberg

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Maruti Udyog	718.1	0.4	0.2	1.7
MTNL	143.3	0.2	0.0	7.4
Shipping Corp	127.1	0.4	0.0	0.7
<b>Losers</b>				
Reliance Ind	825.7	(7.5)	(20.1)	11.9
ONGC	959.5	(3.4)	(10.5)	2.5
Bharti Airtel	328.5	(6.9)	(9.9)	1.2

Source: Bloomberg

## Research Team

Name	Sector	Tel No	E-mail id
Jay Prakash Sinha	Economy, Banking, FMCG, Agro-Industry	+91 22 6634 1207	jay.sinha@kotak.com
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, Mid Cap, Power	+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
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

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