

April 24, 2007

FOR PRIVATE CIRCULATION

Equity

	23 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,928	0.2	4.8	(1.3)
Nifty	4,085	0.0	5.8	(0.1)
Banking	6,882	(0.5)	0.9	(6.8)
IT	3,732	0.2	2.9	0.3
Healthcare	3,740	(1.4)	4.6	(1.7)
FMCG	1,782	(1.6)	5.5	(8.5)
PSU	6,349	(0.1)	8.0	1.9
CNX Midcap	5,165	0.1	6.4	(1.6)
World indices				
Nasdaq	2,523.7	(0.1)	3.1	2.3
Nikkei	17,455	0.0	(0.9)	(1.1)
Hangseng	20,557	(0.0)	4.1	(1.5)

Value traded (Rs cr)

	23 Apr 07	% Chg - 1 Day
Cash BSE	3,972	(4.4)
Cash NSE	7,695	(13.1)
Derivatives	33,405	(8.7)

Net inflows (Rs cr)

	20 Apr 07	% Chg	MTD	YTD
FII	749	(1,120)	3,530	11,438
Mutual Fund	192	(846)	(55)	(3,313)

FII open interest (Rs cr)

	20 Apr 07	% chg
FII Index Futures	16,881	(1.1)
FII Index Options	8,732	0.3
FII Stock Futures	17,543	1.3
FII Stock Options	104	11.9

Advances/Declines (BSE)

	23 Apr 07	A	B1	B2	Total	% Total
Advances	95	310	375	780	44	
Declines	114	389	419	922	53	
Unchanged	3	11	37	51	3	

Commodity

	23 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	65.9	2.8	5.8	19.7
Gold (US\$/OZ)	689.2	(0.4)	4.6	6.0
Silver (US\$/OZ)	14.0	0.6	6.1	5.5

Debt/forex market

	23 Apr 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.12	8.10	7.96	7.85
Re/US\$	41.7	41.8	43.6	44.2

Sensex



Source: Bloomberg

ECONOMY NEWS

- The RBI has signaled that the monetary tightening course it has adopted to tame inflation may not be eased in a hurry. The RBI said it had decided to defer operationalization of a more liberal policy on foreign borrowings for banks announced in October last year. (ET)
- The Civil Aviation minister has said the Government is open to review of policies relating to FDI in aviation. The minister stressed the country is looking at liberalizing policies related to the sector to attract investment. (ET)
- The GDP growth in 2006-07 was 9.2%, driven by growth in manufacturing and services sector, according to the statement from the RBI on macroeconomic and monetary developments in 2006-07, put out a day ahead of its annual credit policy announcement. (BL)
- With its wheat procurement certain to fall short of the target of 15 MT, the Government is putting together plans to import up to 3 MT of wheat this year. (BS)
- There are early signs of a slowdown in the manufacturing sector, especially in consumer durables and the automobile industry. The profitability of the services sector has already seen moderation, the CII said in its quarterly report on the 'State of the Economy'. (BS)

CORPORATE NEWS

- AV Birla group's telecom arm **Idea Cellular** is set to become a billion-dollar company. On the back of expanded operations and increased subscriber base, the 11-circle operator is expected to earn over Rs.43 bn in revenues during FY07. (ET)
- Swiss cement major Holcim has purchased 1.84% stake in **Gujarat Ambuja Cement** for around Rs.3 bn, raising its holding in the Indian company to 30.3% from the earlier 28.5%. (ET)
- **Tata Motors** may soon set up a car manufacturing unit in Egypt, North Africa. The car major is said to have held talks with an eight-member high-level delegation from Egypt, which is here on an investment and tourism promotion drive. (BS)
- Mumbai-based tyre maker **Ceat** has posted a net profit of Rs.234.1 mn for the quarter ended March 31, 2007, up 375% as against Rs.49.3 bn for the corresponding quarter in the previous year. (BS)
- **Bhagyanagar India Ltd** has informed the BSE that the company has acquired a 50-acre land in a multi-product special economic zone near Chennai, which has received an in-principle approval from the Government. (BL)
- **Ranbaxy Laboratories** is investing more than \$20 mn (over Rs.830 mn) in its Romanian subsidiary, Terapia Ranbaxy. The move is a part of the company's strategy to make the subsidiary its hub for Europe and Commonwealth of Independent States countries. (BS)
- Japanese electrical giant Matsushita Electric Works has bought 80% stake in Mumbai-based electrical accessories major **Anchor Electricals** for Rs.20 bn. This is the biggest-ever deal by a Japanese company in India. (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

SIEMENS INDIA

PRICE : Rs.1062

TARGET PRICE : Rs.1250

RECOMMEDATION : BUY

FY08E PE : 22x

While Siemens' second quarter earnings may look disappointing and are well below Street estimates, the numbers are not as bad as they look. At the operating level, profits have grown by 38% YoY despite a 280 bps contraction. Other income is sharply down by Rs.362 mn in absolute terms and has been largely responsible for lower profit growth. We believe other income is lower primarily due to the absence of dividends/lower dividend payout from SISL. On a consolidated basis, the impact of lower other income should be taken care of.

Upgrading the stock to BUY

We had downgraded the stock to a HOLD post FY06 results. Since then, the stock has underperformed the market. At the current levels, the stock provides an 18% upside to our target price. Operationally, we believe that margins have bottomed out and should improve from here as the ramp up of its transformer and motor factory should improve profitability. Hence, we are upgrading the stock to a BUY with a reduced target price of Rs.1250.

Highlights

- Revenue growth ahead of expectations
- Operating profit up 38% despite margin contraction
- Lower dividend from subsidiaries pulls down other income
- Siemens acquires 77% stake in iMetrex, which is a Rs.1.6 bn company in the business of building technology

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	60,586	89,167	119,231
Growth %	62.8	47.2	33.7
EBITDA	6,417	9,147	12,877
EBITDA margin %	10.6	10.3	10.8
Net profit	3,829	5,812	8,014
Net cash (debt)	6,719	4,322	8,993
EPS (Rs) (standalone)	21.8	30.3	41.6
EPS (Rs) (cons)*	23.1	35.1	48.4
Growth %	23.8	51.8	37.9
ROE %	34.6	39.1	42.9
ROCE %	12.1	15.4	16.4
P/E (x) consolidated	46.0	30.3	22.0

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

	Q2FY07	Q2FY06	% chg	Q1 FY07	QoQ
Net sales	21292	11149	91	16269	31
Other operating income	60	185	-67	62	-3
RM costs	17152	8348	105	13265	29
Staff costs	987	700	41	850	16
Other costs	1536	1073	43	984	56
Total expenditure	19675	10121	94	15100	30
PBDIT	1677	1213	38	1231	36
Interest	105	79	34	126	-17
Depreciation	109	81	35	103	6
Other income	57	419	-86	152	-62
PBT	1731	1630	6	1406	23
Tax	650	452	44	425	53
PAT	1081	1177	-8	981	10
RM costs to sales (%)	80.6	74.9		81.5	
Other costs to sales (%)	7.2	9.6		6.1	
OPM (%)	7.9	10.7		7.5	
Tax rate (%)	38	28		30	

Source: Company

Strong execution but margin pressures continue

Siemens has reported a 91% growth in revenues, mainly led by strong order execution in the power and industrial solutions projects segment, where the company is executing large orders from Qatar and Torrent. The automation solutions and products and building technology divisions have shown healthy revenue growth as well.

Segment revenues Rs mn

	Q2FY07	Q2FY06	% chg	Q1 FY07	% chg
Automation and drives	4385	3211	37	3164	39
Power	11888	4743	151	9887	20
Healthcare	1586	997	59	766	107
Industrial soln	2713	1215	123	1638	66
Transport	796	630	26	584	36
Information and comm	489	367	33	352	39
RealEstate	124	102	21	113	10
Automotive	281	304	-8	289	-3
Building tech	252	167	51	248	2
Total	22514	11738	92	17040	32

Source: Company

Margin erosion across most segments

Automation and power are the prime revenue drivers and account for 75-80% of revenues. These divisions have reported a decline in margins. Margins in the power segment have reported a sequential decline. We believe margins in these segment could be lower due to the disproportionate share of the projects business in revenues (projects business have higher import and bought-out content).

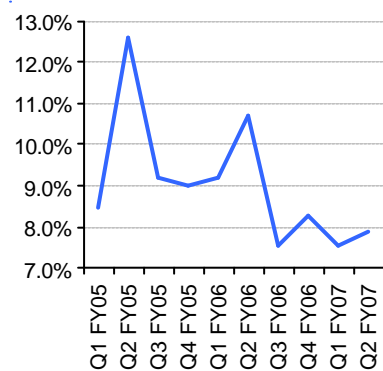
Other divisions that witnessed a margin decline are the transport and information and communication business.

Segment margin (%)

	Q2FY07	Q2FY06	Q1FY07
Automation and drives	8.2	10.8	4.4
Power	5.9	8.5	7.2
Healthcare	2.9	-0.6	8.7
Industrial soln	10.7	14.7	11.3
Transport	3.4	11.2	9.5
Information and comm	8.9	12.6	7.1
RealEstate	68.5	63.1	64.2
Auto	0.3	6.6	48.7
Building systems	8.2	7.7	4.8
Total	7.0	9.7	8.3

Source: Company

EBIDTA margin

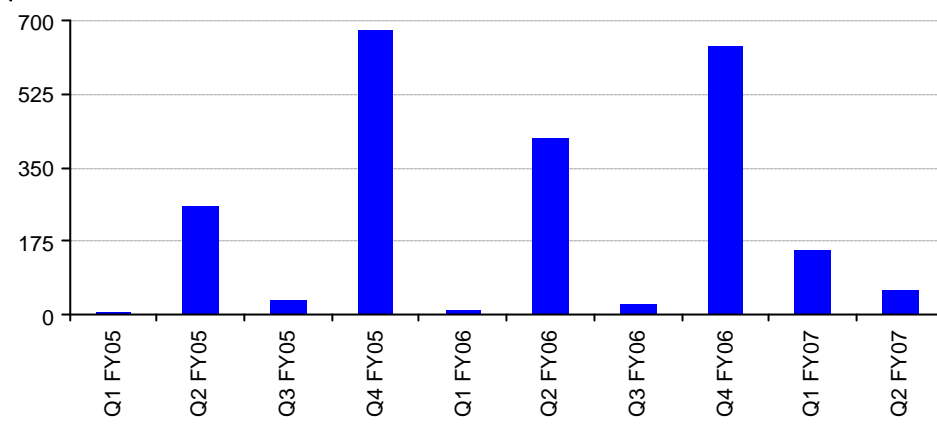


Source: Company

Lower other income impacted profit growth

Typically, the second quarter and the fourth quarter are heavy on other income as the company's subsidiary SISL declares dividend. However, during the quarter, dividend payout has been much lower thus impacting other income.

Other income (Rs mn)



Source: Company

Acquires 77% stake in iMetrex technologies

Siemens approved the purchase of 77% of the share capital of iMetrex in the same line of business as the 'Building Technologies' division, with the right to acquire the balance 23% at a future date. At the same time, the Board approved the sale and transfer of the 'Building Technologies' segment of the company to the newly acquired company, subject to approval of the shareholders by postal ballot. The transaction is likely to be completed during the financial year 2007.

The Board has approved the integration of its Building Technologies business (SBT) into the newly acquired company, which is likely to be known as Siemens Building Technologies Ltd. This new company will be a subsidiary of Siemens Ltd. Based out of Chennai, iMetrex operates within the domain of electronic security, safety & building automation systems. Besides direct operations in India, Ireland, UK, Singapore and Hong Kong, distributors and partners in many countries in Europe and North America represent the company. iMetrex has a turnover of Rs.1.61 bn and employee strength of 620. As part of this agreement, Siemens will also acquire the company's manufacturing unit in Pondicherry and the R&D center in Chennai.

Sale of automotive business to Parent Siemens AG

The Board of Directors of the company at its meeting held on April 23, 2007 approved in principle the sale and transfer of the 'Automotive' division to a 100% subsidiary of the parent company Siemens AG, Germany. The automotive business' contribution to profits in FY06 was very low.

Robust order intake continues: New orders intake stood at Rs.19.48 bn as compared to Rs.15.91 bn in the corresponding period of the previous year, registering a rise of 22%. The company's unexecuted order value position as of March 31, 2007 was Rs.108 bn, a rise of 43%.

Valuation

We raise our revenue estimates, reduce our margins but maintain EPS at same level. We are maintaining consolidated EPS of Rs.35.1 and Rs.48.4 in FY07 and FY08, respectively. At the current price, Siemens is trading at 30.3x and 22.0x FY07 and FY08 earnings, respectively. We upgrade the stock to a **BUY** with a price target of Rs.1250.

We upgrade to BUY on Siemens with a price target of Rs.1250

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
23-Apr	Asian Oilfie	Aap Investments	B	100,000	49.38
23-Apr	Asian Oilfie	Pratap Bhan Arora	S	60,000	48.46
23-Apr	Crazy Infote	Prem Mohanlal Parikh	B	45,000	77.54
23-Apr	Empower Inds	Beni Prasad Jain	B	47,210	13.52
23-Apr	Empower Inds	Pradeep Bhat	S	30,000	13.70
23-Apr	Evinix	Hiren Kumar Parshottam Bh	B	137,824	95.85
23-Apr	Fiem Inds	Anil Mabulal Vedmehta	B	79,976	119.94
23-Apr	Fiem Inds	Sanjay Patodia HUF	S	70,000	120.14
23-Apr	Garnet Const	Vora Mukesh Jitendra	B	43,064	74.21
23-Apr	Gemstone Inv	Supreme India Cottex Pvt	B	50,000	20.99
23-Apr	Gemstone Inv	Sushila Premchand Shah	S	50,100	21.00
23-Apr	Gremac Infra	Hiren Kumar Parshottam Bh	B	108,000	120.60
23-Apr	Gremac Infra	Kamlesh Haribhai Chavda	S	102,000	120.06
23-Apr	Guj Ambuja Cem	Holderind Investments Lim	B	27,962,323	115.00
23-Apr	Intern Diamo	Rajender B	B	30,000	10.18
23-Apr	Jagjanani	Mala Hemant Sheth	B	100,000	23.80
23-Apr	Karut Net L	Piyush Prafulchandra Avla	S	40,000	303.89
23-Apr	Madhav Mar G	M V Radhika	B	50,000	92.35
23-Apr	Madhav Mar G	M Ravinder	B	50,000	92.97
23-Apr	Madhav Mar G	Emerging Capital Advisors	S	150,000	92.50
23-Apr	Maharashtra	Mukesh Kumar	B	44,000	128.66
23-Apr	Mefcom Agr I	Sunita Investments	S	28,881	20.55
23-Apr	Mohit Indust	Mala H Sheth	B	25,100	39.60
23-Apr	Mohit Indust	Supreme India Cottex Pvt	S	25,000	39.60
23-Apr	Phoenix Mill	Rhodes Diversified	B	135,000	1,575.00
23-Apr	Phoenix Mill	Ashok Apparels Pvt.Ltd.	B	601,580	1,590.14
23-Apr	Phoenix Mill	Bharat R.Ruia	S	100,474	1,590.00
23-Apr	Phoenix Mill	B R International	S	484,824	1,590.00
23-Apr	Phoenix Mill	Atul Ashokkumar Ruia	S	135,000	1,575.00
23-Apr	Tricom India	Emerging Capital Advisors	S	60,199	93.00
23-Apr	Tripex Over	Nimesh Mehta	B	125,000	46.27
23-Apr	Tripex Over	Shivkumar Agarwal	S	110,000	46.24
23-Apr	Tripex Over	Tejas Shah	S	59,056	46.37
23-Apr	Visu Intl	Lilac Farms Pvt. Ltd.	S	215,283	13.05
23-Apr	Zenith Birla	Satra Properties India	S	210,625	33.33

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	936	1.6	6.0	1.1
Reliance Com	466	1.9	3.5	6.4
Reliance Ind	1,554	0.8	3.5	2.5
Losers				
Sun Pharma	1,048	(11.4)	(5.1)	0.9
ITC Ltd	156	(2.6)	(3.0)	7.6
Suzlon Energy	1,145	(3.8)	(2.5)	0.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
24-Apr	Hexaware Technologies, MTNL earnings expected; Maruti Udyog to announce earnings and dividend; Sun TV to consider bonus issue; HDFC Bank to announce earnings and dividend
25-Apr	Godrej Consumer to announce earnings and dividend; IDFC, Grasim, Glenmark Pharma, Alfa Laval India, Maharashtra Seamless, Nalco, Idea Cellular, IL&FS, Thomas Cook earnings expected; Reliance Energy, Dena Bank to announce earnings and dividend
26-Apr	ABB Ltd, Cipla, Motor Industries, SKF India, Wockhardt, Nicholas Piramal, Escorts earnings expected
27-Apr	Earnings expected: Ranbaxy, CRISIL, Bharti Airtel, GlaxoSmithkline Consumer, GlaxoSmithkline Pharma, Dredging Corp, Raymond Ltd, PTC India, SSI Ltd, Polaris Software, Fertilizers and Chemicals Travancore, Concor, HCC, Videocon Industries, Jubilant Organosys and HCL Infosys
28-Apr	Sesa Goa, Bank of Baroda, ICICI Bank, Oriental Bank, Corporation Bank, Micro Inks, Ingersoll Rand India earnings expected
30-Apr	Hindustan Lever, Procter & Gamble, Andhra Bank, Gujarat Gas Co, Bharat Electronics, Nestle India, Mphasis Ltd, CESC, Reliance Communications, Aftek, United Spirits, BHEL, Alstom Prrojects earnings expected.

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	Economy, Banking	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@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.