January 8, 2008 **FOR PRIVATE CIRCULATION**

Equity

	7 Jan 08	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	20,813	0.6	4.2	19.0
Nifty	6,279	0.1	5.1	23.5
Banking	12,192	2.4	7.2	35.7
IT	3,864	(1.2)	(0.2)	(0.6)
Healthcare	4,353	(0.9)	8.6	17.4
FMCG	2,504	3.3	15.0	19.9
PSU	10,988	(0.9)	11.3	36.9
CNX Midcap	9,655	0.2	13.9	44.7
World indices				
Nasdaq	2,499	(0.2)	(7.6)	(10.3)
Nikkei	14,501	(1.3)	(9.4)	(15.3)
Hangseng	27,179	(1.2)	(4.3)	(0.6)

Value traded (Rs cr)

	7 Jan 08	% Chg - 1 Day
Cash BSE	9,762	(4.1)
Cash NSE	23,321	(1.5)
Derivatives	70,005	4.2

Net inflows (Rs cr)

	4 Jan 08	% Chg	MTD	YTD
FII	508	(29.8)	1132	1132
Mutual Fund	617	25.8	1585	1585

FII open interest (Rs cr)

	4 Jan 08	% chg
FII Index Futures	24,133	5.9
FII Index Options	9,565	8.3
FII Stock Futures	60,243	4.0
FII Stock Options	165	32.9

Advances/Declines (BSE)

7 Jan 08	A	B1	B2	Total	% Total
Advances	81	319	425	825	50
Declines	137	377	313	827	50
Unchanged	-	-	4	4	0

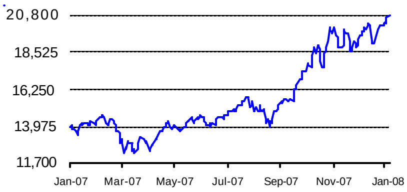
Commodity

	7 Jan 08	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	95.6	0.6	8.3	21.0
Gold (US$/OZ)	858.2	(0.2)	8.4	17.7
Silver (US$/OZ)	15.1	(0.9)	6.2	15.0

Debt/forex market

	7 Jan 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.66	7.74	7.87	7.85
Re/US$	39.29	39.32	39.41	39.46

Sensex



Source: *Bloomberg*

ECONOMY NEWS

- The Prime Minister has expressed concern at the rise in international oil prices and said that all possible options, including a fuel price hike and duty cuts, will be considered to deal with the situation. (ET)
- Capital gains invested in dedicated infrastructure funds (DIF) may be eligible for exemption from long-term capital gains tax. The Government is considering a proposal to this effect. (ET)
- Private cement manufacturers have agreed to take a decision to reduce cement prices before February 10, following Tamil Nadu government's warning to take over cement factories in the state, if they fail to contain the rising cement price. (ET)
- The maximum retail price (MRP) of liquor may soon be uniform across the country. States have arrived at a consensus to bring about a uniform duty structure under the four heads - excise, CVD, sales tax, license fees and label registration fees. (ET)
- The Supreme Court has ruled that the benefit given to the staff of a company under the ESOPs scheme cannot be considered as taxable income and the company was not obliged to deduct tax at source. (BS)
- About a third of the retail fuel sales comes from the category of premium branded fuels, which are outside the price controls and for which, consumers readily pay a premium price. (BS)

CORPORATE NEWS

- **L&T** has said it has received an order worth more than Rs.13 bn ($330 mn) from **Cairn India**. (BL)
- **Suzlon Energy** has said its European and Latin American marketing arm Suzlon Wind Energy A/S has bagged an order from Spain. (ET)
- The Gitanjali Group has bought Nakshatra, the premium brand of jewellery promoted by Diamond Trading Company, for a total value of approximately Rs.1bn, through its Dubai-based subsidiary, Gitanjali Ventures. (ET)
- **Parsvnath Developers** has bagged a contract valued at Rs.900 mn for the construction of Sai Ashram at Shirdi in Maharashtra. (ET)
- **Indiabulls Financial Services** has said its board has approved raising up to $1 bn in the overseas markets through issue of equities and convertible bonds. (BL)
- **Advanta India** has acquired Unicorn Seeds (Unicorn), the seeds business of the Unicorn Group, for Rs.650 mn. (BS)
- **Cranes Software International** has announced the acquisition of US-based specialized auto consulting and product development company Engineering Technology Associates through its subsidiary Cranes Software Inc. (BS)
- **Satyam Computer Services** has formed a partnership with Greenplum, a leading provider of database software for business intelligence. (BL)

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

MANAGEMENT MEET UPDATE

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EVEREST KANTO CYLINDERS LTD

PRICE : RS.360 **RECOMMENDATION : BUY**
TARGET PRICE : RS.450 **CONS. FY10E PE : 15.3X**

Reason for report: Introduction of FY10E estimates and upward revision of price target to Rs.450. We are upgrading the stock from HOLD to BUY with 25% upside potential.

Introduction of FY10E numbers

We recently met the management of EKC and are positive about the growth prospects of the company. We have also taken stock of its expansion plans. We are introducing our FY10E estimates on increased earnings visibility due to successful ramp up of the Gandhidham and Dubai expansions and expected production from the China plant by March 2008. We have also incorporated Indian expansions with a cushion of three months for any further delays. In FY10E, we expect EKC to report net sales of Rs.12.7 bn, EBIDTA margins of 27.5% and PAT of Rs.2.5 bn, thereby translating into an EPS of Rs.23.6 and CEPS of Rs.27.0.

Consolidated summary table

(Rs mn)	FY08E	FY09E	FY10E
Sales	5,248	8,676	12,735
Growth (%)	23.5	65.3	46.8
EBITDA	1,550	2,474	3,507
EBITDA margin (%)	29.5	28.5	27.5
Net profit	1,062	1,624	2,492
Net cash (debt)	(164)	558	951
EPS (Rs)	10.5	15.4	23.6
Growth (%)	48.0	52.9	53.5
CEPS	12.7	18.4	27.0
DPS (Rs)	4.0	1.0	1.3
ROE (%)	29.5	21.1	28.6
ROCE (%)	24.7	27.9	34.6
EV/Sales (x)	7.0	4.3	2.9
EV/EBITDA (x)	23.6	15.2	10.6
P/E (x)	34.3	23.4	15.3
P/Cash Earnings	28.4	19.6	13.3
P/BV (x)	7.8	5.1	3.9

Source: Company & Kotak Securities - Private Client Research

Capacity increases to lead to 44.2% CAGR growth in revenues from FY07 to FY10E

- The company has an annual consolidated capacity of 700,000 cylinders as of March 2007. The second unit of Dubai commenced commercial production in Q2FY08 while the China unit is expected to commence commercial production in March 2008.
- With expansions in Dubai, China and India, the capacity would expand to 1 mn cylinders by March 2008. It would further rise to 1.7 mn cylinders by March 2009 and 1.9 mn cylinders by March 2010.
- Such aggressive capacity expansion is expected to lead to a CAGR of 44.2% in revenues and 51.4% in net profits over next three years, that is, from FY07 to FY10E.

Successful ramp up of second unit at Dubai

- In Q2FY08, EKC had commissioned the second unit at Dubai with the capacity to produce 96,000 cylinders per annum. The plant has successfully ramped up its operations. It is already operating at peak capacities.
- The average realizations in Dubai are typically 25-30% higher than that in India as it produces only CNG cylinders. Also, Dubai operations enjoy superior operating margins of 32-33% as against 28-29% for Indian operations. Thus, this unit is likely to significantly improve the overall profitability of the company, going forward.
- We expect the second unit in Dubai to produce 48,000 cylinders in FY08E. Going forward, we expect it to achieve 100% capacity utilization during the next two years.

Further expansion at Gandhidham

- EKC commenced commercial production at the Gandhidham plant in December 2005. In FY07, the company produced 112416 cylinders. In the first half of FY07 the company produced approximately 90000 cylinders. The company is likely to end the year with 200,000 cylinders moving up to 250,000 cylinders in FY09E and further to 275,000 cylinders in FY10E.

Small industrial cylinders plant

- EKC is setting up a small industrial cylinder plant in Gujarat with a capacity of 200,000 cylinders per annum. In this plant, the cylinders will be manufactured by billet piercing method that is different from its existing plants. This will lead to lower raw material cost and higher profitability. The total project cost is Rs.350 mn. The plant is expected to commence commercial production by January 2009 and achieve full scale of production by March 2009. We expect it to produce 20000 industrial cylinders in FY09E moving up to 100,000 cylinders in FY10E.

CNG cylinders for exports

- EKC is also setting up a cylinder plant to exclusively make CNG cylinders in an SEZ in Gujarat. This is focused towards the booming OEM exports market of Asia and West Asia. The plant would have the capacity to manufacture 300,000 cylinders per annum. The total project cost is Rs.1.2 bn. The plant is expected to commence commercial production by March 2009 and achieve full scale of production by Q2FY10. We expect it to produce 15000 CNG cylinders in FY09E moving up to 150,000 CNG cylinders in FY10E.

Potential expansion of China plant from 200,000 to 1.5 mn cylinders over next 4 years

- EKC is looking to ramp up the China plant from 200,000 to 1.5 mn cylinders per annum over a period of four years. The demand for CNG cylinders in China is expected to go up significantly due to the government mandating conversion of buses in certain cities to CNG. Also, there has been an aggressive ramp up of gas stations in China from current levels of 400 to approximately 2000 CNG stations in two to three years.
- The China plant is at an advanced stage of development. All critical machineries have already arrived and are being installed in the factory at this point in time. The plant is already certified for CNG cylinders production. Prototype testing is expected to be carried out in February 2008.

China plant to commence commercial production by March 2008

- Finally, the plant is expected to commence commercial production by March 2008 with the first line having capacity of 200,000 cylinders per annum. This will be ramped up to 400,000 cylinders per annum in FY09E and further to 600,000 cylinders in the second half of FY10E. We expect the unit to produce 15,000 cylinders in FY08E, moving up to 150,000 cylinders in FY09E and 300,000 cylinders in FY10E.

Volume breakup - Cylinders

Plant Location	FY06	FY07	FY08E	FY09E	FY10E
Aurangabad	127600	112939	110000	110000	110000
Tarapur	130400	149601	151000	154000	154000
Gandhidham	0	112416	200000	250000	275000
Dubai	103500	117213	163200	206400	201600
China	0	0	15000	150000	300000
Small Cylinders Industrial	0	0	0	20000	100000
CNG SEZ	0	0	0	15000	150000
Jumbo Cylinders India	0	0	0	1000	3000
Jumbo Cylinders China	0	0	0	2250	3750
Total Production	361500	492169	639200	908650	1297350
% Growth		36.1	29.9	42.2	42.8

Source: Company, Kotak Securities - Private Client Research

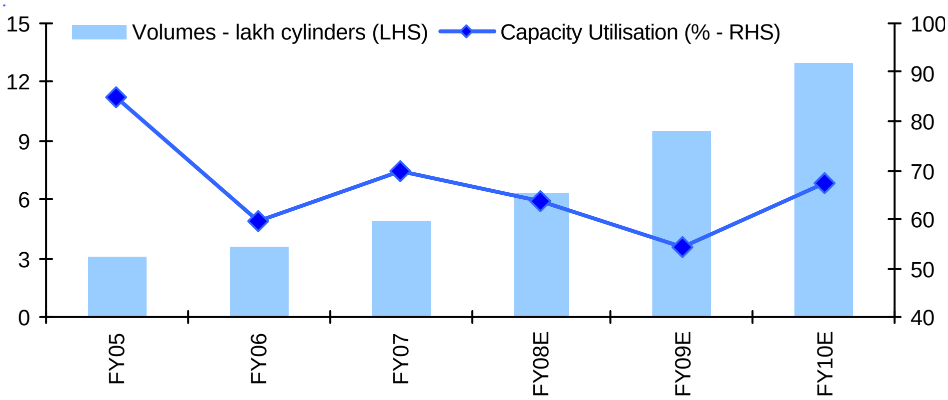
Newer orders - increase in capacity utilization

- EKC is continuously developing some new high capacity special products for the aerospace and other high growth industries. One such example is jumbo cylinders. These are typically used to transport gas over long distances by trailers where gas pipelines are not available. Typically these act as gas stations and are used in western countries.
- The company is also likely to tie up with existing trailer manufacturers. EKC would deliver a complete set of jumbo cylinders fitted on a trailer. This is value addition. As such, jumbo cylinders would enjoy superior operating margins of greater than 30%.

Jumbo cylinders

- EKC is setting up two jumbo cylinder plants, one in India and another in China. This is just an example of the various opportunities for the company. Going forward, we feel the company is likely to get new orders, which would further improve its capacity utilization and profit margins.

Capacity utilization



Source: Company, Kotak Securities - Private Client Research

Improving margins

On the margins front, EKC is able to fully pass on the hike in raw material prices, thereby keeping its margins intact. The company is actually passing on higher price increases than the rise in prices of raw materials, thereby generating incremental operating margins. Also, higher capacity utilization is leading to greater operational efficiency leading to lower cost per unit and increasing profitability.

De-risking by reducing over dependence on Tenaris

EKC, which was almost greater than 85% dependent on a single supplier, that is, Tenaris has successfully negotiated contracts with other suppliers of seamless steel tubes from China and Japan. With this, the dependence on Tenaris has already reduced to around 65%. Going forward, it is further likely to reduce thereby giving comfort on raw materials sourcing front.

Issue of preferential shares and FCCB - we have assumed full conversion

Preferential issue of 3.5 mn shares @ Rs.250

- Recently, EKC has issued 3.5 mn shares on a preferential basis @ Rs.250 per share including premium of Rs.248 per share of face value Rs.2 each. Out of 3.5 mn shares, 3.2 mn shares would be issued to M/s TVG India Investment Holdings Ltd, a subsidiary of a fund advised by TVG Capital Partners Ltd. The balance 340,000 shares was issued on preferential basis to M/s Brightwill Ltd, a subsidiary of a fund managed by CLSA Private Equity Management Ltd.
- EKC has also allocated $35 mn FCCB that would be due by 2012. The bonds are zero coupon, with yield to maturity of 7.25% per annum. FCCBs have a conversion price of Rs.303.36 per equity share. The FCCBs also carry a mandatory conversion feature at the option of the issuer on or at any time after three years, that is, October 2010.

FCCB Conversion

Mn $	35
Exchange rate Rs.	40
INR mn	1400
Issue price Rs.	303.4
Mn sh to be issued	4.6
Current sh. mn	101.1
New sh. Mn	105.8
Dilution %	4.6

Source: Company, Kotak Securities - Private Client Research

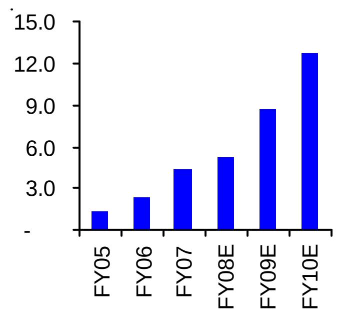
- Looking at the current market price, that is almost 20% higher than conversion price we have assumed full conversion of FCCB into our estimates in FY09E. It would involve issue of 4.6 mn shares @ Rs.303.36 per equity share of face value Rs.2 each and lead to 4.6% dilution. Thus, the equity of the company would go up from Rs.195.2 mn in FY07E to Rs.211.5 mn in FY09E.
- The money already raised through preferential issue and FCCB would be used for pursuing the capex plans of the company regarding import of plant and machinery for its operations in India, for making investments in its subsidiaries/ joint ventures outside India, working capital requirements and also for potential acquisitions outside India.
- The company plans to incur a capex of Rs.1.7 bn each in FY08E and FY09E and Rs.1 bn in FY10E. We feel that combination of money raised, debt and internal accruals would be sufficient to meet the planned capex till FY10E.

Change in Estimates

	Old		Revised		
(Rs mn)	**FY08E**	**FY09E**	**FY08E**	**FY09E**	**FY10E**
Net sales	5,840	9,469	5,248	8,676	12,735
EBIDTA (%)	27.5	27.0	29.5	28.5	27.5
PAT	965	1,610	1,062	1,624	2,492
Equity	202	202	202	212	212
EPS (Rs)	9.5	15.9	10.5	15.4	23.6
CEPS (Rs)	12.3	19.5	12.7	18.4	27.0

Source: Kotak Securities - Private Client Research

Net sales (Rs bn)

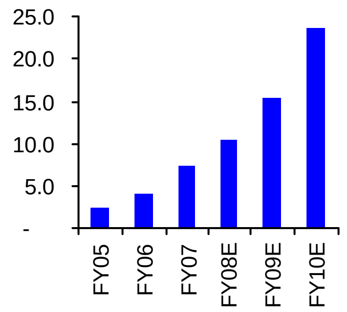


Source: Company, Kotak Securities - Private Client Research

Upward revision in earnings estimates

- We estimate the company will report lower net sales of Rs.5.2 bn in FY08E, as against our earlier estimate of Rs.5.8 bn. It will report Rs.8.6 bn in FY09E as against our earlier estimate of Rs.9.4 bn on account of a couple of months delay at China and new Indian expansions. Also, we have factored in the rupee appreciation against the US dollar as its sales from overseas units are in US dollar terms.
- However we expect EKC to report higher EBIDTA margins of 29.5% in FY08E and 28.5% in FY09E, as against our earlier estimate of 27.5% and 27.0%, respectively. This is mainly due to the ability of the company to pass on the entire price hike in raw material to its customers. Also, going forward, we see strong growth in user industries, thereby keeping product prices strong.
- Accordingly we expect EKC to report higher PAT of Rs.1.06 bn in FY08E and Rs.1.6 bn in FY09E as against our earlier estimate of Rs.965 mn and Rs.1.6 bn, respectively.
- Hence, we expect the company to report EPS of Rs.10.5 for FY08E and Rs.15.4 for FY09E. We estimate the revised CEPS at Rs.12.7 and Rs.18.4 for FY07E and FY08E, respectively,
- For FY10E, we expect EKC to report net sales of Rs.12.7 bn, EBIDTA margin of 27.5% and PAT of Rs.2.5 bn, thereby translating into an EPS of Rs.23.6 and CEPS of Rs.27.0.

EPS (Rs)

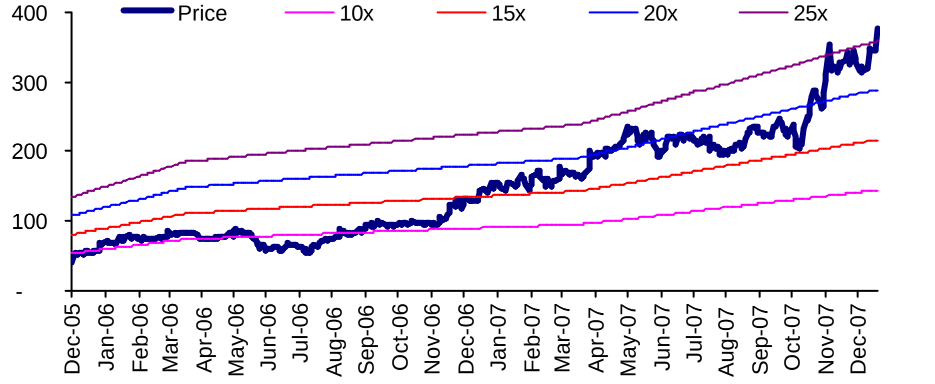


Source: Company, Kotak Securities - Private Client Research

Valuation & Recommendation

- At Rs.360, the stock trades at 3.9x book value, 15.3x earnings and 13.3x cash earnings based on FY10E.
- Based on the changes in earnings estimates and introduction of FY10E numbers we are revising our price target upwards to Rs.450.
- The price target is based on average of DCF value of Rs.430 and PE based value of Rs.470 that gives average of Rs.450 per share.
- DCF based price target is based on WACC of 12.7% and terminal growth rate of 4%.
- In CY07, EKC has consistently traded between 15 and 25x one-year forward earnings estimates. Looking at expected three year (FY07-FY10E) CAGR of 44.2% in revenues and 51.4% in net profits we have assigned a multiple of 20x FY10 earnings estimate of Rs.23.6 that gives PE based price target of Rs.470.

EKC – one-year forward rolling PE



Source: Capitaline, Kotak Securities - Private Client Research

We upgrade EKC to BUY with a price target of Rs.450 (25% upside)

- Accordingly, we are upgrading the stock from HOLD to BUY with a price target of Rs.450 that provides 25% upside potential from current levels.

Key Risks

- Any delay in commencement of the expansion of China and other domestic expansions would lead to flat or marginal growth for the company.
- Seamless steel is the main raw material for making cylinders. Thus, any increase in prices, which the company is unable to pass on to its customers, or disruption in its availability could impact the profitability of the company.

EVENT UPDATE

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PANACEA BIOTEC LTD

PRICE : RS.412
TARGET PRICE : RS.474

RECOMMENDATION : HOLD
FY09E PE : 15.6X

WHO pre-qualification for combination vaccines

Panacea gets WHO pre-qualification for 2 combination vaccines

Panacea Biotec has received pre-qualification from WHO for supplying its innovative combination vaccines for pediatric immunization - EasyFour (DTP+Hib) and Ecovac (DTP+Hep B). The WHO, through a notification, has advised the UN procuring agencies regarding the acceptability of these vaccines worldwide. The company is now awaiting pre-qualification for its key combination vaccine EasyFive (DTP+Hib+Hep B).

We believe, with this pre-qualification by WHO, the company would be able to participate in a large global market of combination vaccines for pediatric immunization. The combined demand for all combination pediatric vaccines worldwide was valued at US$600 mn in 2005. This is expected to rise to US$1.6 bn by 2012. We estimate the total market size to be around US$700 mn in 2008 (200 mn dosage at US$3.5 per dose), of which Panacea is likely to capture around US$50 mn in FY09. However, we have modeled US$30 mn sales from combination vaccines in FY09.

Panacea Biotec is already a pre-qualified supplier of oral polio vaccines (OPV) and Hepatitis-B vaccine to UN agencies. The company has built an innovative portfolio of the world's first fully liquid combination vaccine under the brands like Easy Four and Easy Five. This has enabled it to achieve a leadership position in just about two years of its launch in India. The company has partnered with WHO and Unicef with a mission to support the cause of maximizing coverage of vaccines under the Expanded Program on Immunization (EPI) for more than a decade.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Revenues	8,424	8,710	11,182
Growth (%)	55.5	3.5	28.4
EBITDA	2,250	2,177	3,075
EBITDA margin (%)	26.7	25.0	27.5
Net profit	1,476	1,291	1,877
Net Margin (%)	17.5	14.8	16.8
EPS diluted (Rs)	22.4	18.1	26.3
Growth (%)	116.6	(19.3)	45.4
DPS (Rs)	1.0	1.0	1.0
RoE (%)	37.8	18.6	19.9
RoCE (%)	27.8	21.6	23.0
EV/Sales (x)	3.1	3.1	2.3
EV/EBITDA (x)	11.5	12.6	8.5
P/E (x)	18.4	22.7	15.6
P/BV (x)	4.7	3.4	2.8

Source: Company & Kotak Securities - Private Client Research

Institutional vaccines business remains solid; however, rising rupee a concern

Panacea is the largest supplier of OPV to Unicef for their requirements in India. In FY06, the company also started export of OPV to Unicef for their international requirements and registered export turnover of Rs.267 mn. In FY07, the export of OPV to Unicef further grew to Rs.1.35 bn, thereby indicating large demand for OPV in the international market. In the domestic market, also the demand for OPV is expected to increase in the wake of recent increase in the number of polio cases in India. This has increased from 66 in 2005 to 676 in 2006 and 500 until December 25 2007. Considering the increasing number of polio cases, we believe the polio eradication program will continue at least for the next four to five years. However, rising rupee against the dollar remain a concern as the company gets realization in dollar currency.

Combination vaccines to drive growth in FY09

The company has now received WHO pre-qualification for three of its combination vaccines. The process for WHO pre-qualification for EasyFive (DTP+Hib+Hep B) is in an advanced stage. Due to regulatory delays in pre-qualification form WHO, we do not expect any revenue from combination vaccines in FY08. We now expect US$30 mn sales from combination vaccines in FY09, on the back of supplies to UN agencies for their global requirements.

NDDS-based products for international markets - another growth driver

At present, the company is exporting its branded formulations to several countries in the CIS regions, African region and SEA region. The exports have grown 55% in FY07 to Rs.257 mn against Rs.166 mn in FY06. According to Panacea, it is in the process of registering its existing branded formulations in several countries in these regions and plans to launch Panimun Bioral (Cyclosporin) NDDS formulations in the Brazilian market by FY09. We have assumed that Panimun Bioral could yield revenues of US$5 mn in FY09 and US$10 mn in FY10. Further, formulations exports in other developing countries are expected to yield around US$5 mn in FY08 and US$10 mn in FY09.

Strategic collaborations for new innovative vaccines to benefit in medium-to-long-term

Panacea Biotec has entered into several strategic collaborations and tie-ups with various global institutions for developing, manufacturing and marketing innovative vaccines for launch over the next few years. These collaborations are of long-term nature and are likely to turn out to be one of the growth drivers in the medium-to-long term.

Sign agreement with Family Vaccines to supply combination vaccines in Philippines

The company has also entered into an MoU with Family Vaccines, Philippines to supply its range of combination vaccines. According to the agreement, Panacea Biotec will provide access to value added combination vaccines under the umbrella of "Easy Vaccines" to the people in Philippines through a chain of 50 immunization clinics, run by Family Vaccines. The management has indicated that commercial supplies may be in the range of US$3-5 mn per annum.

We believe this agreement is part of the company's endeavor to launch its combination vaccines in the global markets especially in emerging economies. Panacea has started with Philippines and other countries on the company's radar are likely to be Turkey, Israel and Mexico. However, it is difficult to time.

Ultra-modern vaccine facility ready for commercial production

Panacea has commissioned its ultra modern vaccine production facility at Baddi (Himachal Pradesh) to cater to domestic and global markets. The greenfield facility, constructed at an investment of approximately US$25 mn, has a capacity of more than 1 bn doses per annum. With the commissioning of this latest state-of-the-art facility, the total capacity to produce vaccines would be doubled to 2 bn doses per annum. The commercial production is expected to commence by Q1FY09.

Financial outlook

We have fine-tuned our revenue and earning estimates for FY08 and FY09 to reflect the impact of rupee appreciation against the dollar and delay in pre-qualification from WHO for combination vaccines. This delay in pre-qualification has led to a delay in supplies of combination vaccine to UN agencies. The company has increased its billing rate for polio vaccine by around 10% in the last quarter. We believe this will offset the lower realization due to a strong rupee in the coming quarters.

We now expect revenue growth of 3.5% and 28.4% to Rs.8.7 bn and Rs.11.2 bn in FY08 and FY09, respectively. Profit at net level is expected to decline by 12.6% to Rs.1.29 bn in FY08, mainly due to rupee appreciation, higher depreciation and lower other income. However, in FY09 the same is likely to grow by 45.4% to Rs.1.9 bn.

Valuations and recommendation

Panacea posted EPS of Rs.22.4 in FY07. We expect EPS of Rs.18.1 and Rs.26.3 in FY08 and FY09, respectively. In H1FY08, it has posted EPS of Rs.12.1, which is 67% of our full year estimate. At the current market price of Rs.412, the stock is trading at 22.6x FY08 and 15.6x FY09 fully diluted earning estimates.

We remain positive on the growth prospects in Panacea's key businesses, driven by collaboration for anthrax vaccine for the US stockpiling program, WHO pre-qualification for combination vaccines, progress on NDDS project and cyclosporine NDDS approval for Brazil.

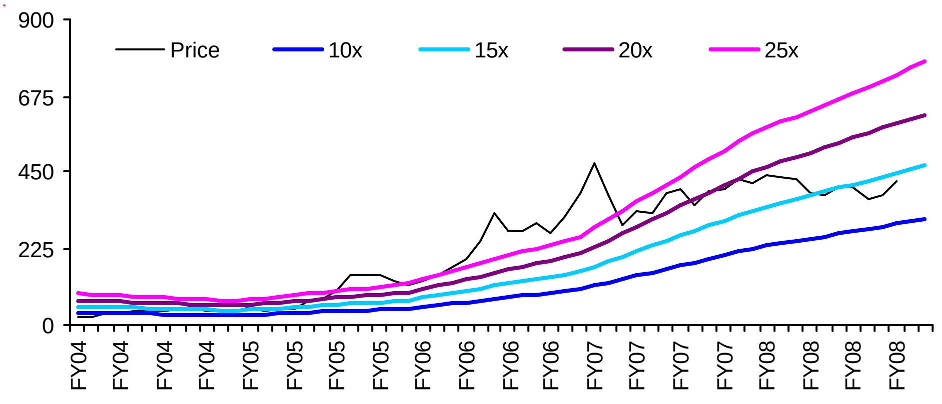
We recommend a HOLD on Panacea Biotec with a price target of Rs.474

We are revising our target price to Rs.474 from the earlier Rs.513. Our target price of Rs.474 is based on our target multiple of 18x FY09 earning estimates. We recommend **HOLD.**

Key risks

- Appreciation of rupee against the US dollar
- Price cut and/or potential slowdown in the domestic formulation market and risk of failure in NDDS research initiatives
- Timely execution risk - Panacea is working on several new combination vaccines and proprietary products. Any delay in execution of new business segment could roll over the revenue to farther period
- Potential delays in regulatory approvals for combination vaccines, Panimun Bioral (Cyclosporin), Sitcom (piles management) and other NDDS-based formulation products
- Separation risk: The company has entered into several collaborations and tie-ups/JVs. Premature break-up of these long-term relationship would impact revenues directly

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

RESULTS PREVIEW

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Q3FY08E RESULTS PREVIEW - CEMENT SECTOR

Demand in the cement sector till date has grown below our estimated growth of 10%, resulting in very marginal hikes in cement prices in the current quarter. Though cement manufacturers had taken price hikes in October, sustainability of these price hikes seems difficult in the event of impending oversupply situation as well as government intervention.

A series of events such as MRTPC accusing cement companies of cartelization, the Tamil Nadu government threatening to take over cement factories if prices are not cut and correspondingly cement companies agreeing to take some decision on price cuts by February 10 in Tamil Nadu, may restrict further upward movement of cement prices. Along with this, rising fuel as well as freight expenses may impact the net profits of companies negatively.

With an expected oversupply situation by mid FY09, restricted cement price increases and rise in expenses, profitability of cement companies are expected to be impacted negatively. Thus, we continue to maintain our cautious stance on the cement sector.

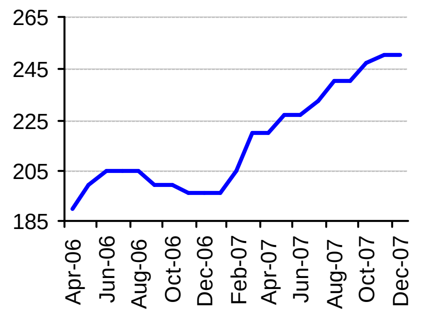
Cement price movements

During the quarter, cement prices have moved up marginally/remained stable across regions.

Following are the pricing patterns of different regions -

South. Strong demand from infrastructure activities have resulted in much higher increase in cement prices in the southern region as compared to other regions. Prices have continued to stay stable despite the monsoon season in the current quarter.

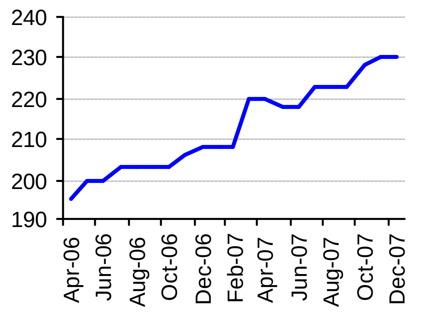
Price trend - South (Rs/bag)



Source: CMA

North. Cement manufacturers in the northern region have increased prices by Rs.5 per bag in October and post that prices have increased only marginally.

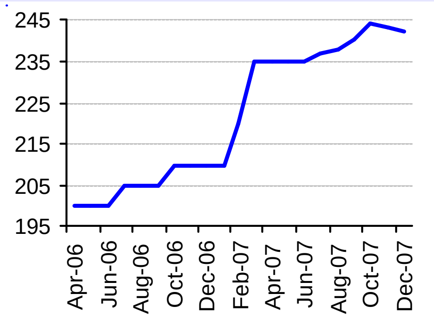
Price trend - North (Rs/bag)



Source: CMA

West. Demand in the western region was impacted by elections in Gujarat resulting in almost stable prices in the western region after October.

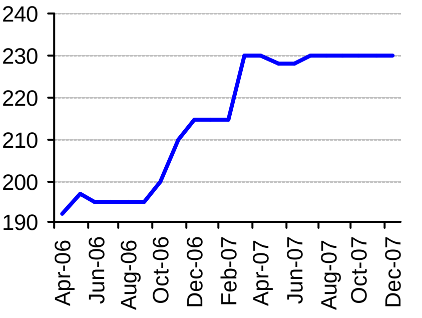
Price trend - West (Rs/bag)



Source: CMA

East. Prices have remained constant in the eastern region in the third quarter of this fiscal and demand growth is much less than our estimates.

Price trend - East (Rs/bag)



Source: CMA

ACC

Volume growth for ACC for Q4CY07 is expected to be better than Q4CY06. We expect prices to be slightly better than Q3CY07 due to marginal price hike taken by the company in different regions. We expect operating margins to be around 30.5%, resulting in EBITDA/ton of Rs.1069 for Q4CY07 as compared to Rs.966 for Q4CY06.

UltraTech Cements

Volume for UltraTech Cements for Q3FY08 is expected to be 4.4 MT. We expect pricing to be slightly better than Q2FY08 since cement companies have taken marginal price hikes in October as well UltraTech has exposure in Southern region also where cement prices have seen an uptrend. Though costs are also expected to increase, operating margins are expected to be in the range of 31.2%, resulting in EBITDA/ton of Rs.1029 as compared to Rs.846 for Q3FY07.

Shree Cements

Volume growth for Shree Cements for Q3FY08 is expected to be exceptionally good as compared to Q3FY07 owing to its new capacity expansion of 1.5 MT, which got operational in March 2007. We expect pricing to be slightly better than Q2FY08 but with increase in costs, we expect operating margins of approximately 42.6% for Q3FY08. This translates into EBITDA/ton of Rs.1370 as compared to Rs.1238 for Q3FY07.

India Cements

Volume growth for India Cements for Q3FY08 is not comparable with Q3FY07 due to merger of Visaka Cement with India Cements. Cement prices have increased in southern region in Q3FY08 also, translating in operating margins of approximately 40.3% resulting into EBITDA/ton of Rs.1392 as compared to Rs.770 for Q3FY07.

Results preview for Q3FY08E

(Rs mn)	Revenues			Operating profits			Net profits		
Company	Q3FY08E	Q3FY07	YoY (%)	Q3FY08E	Q3FY07	YoY (%)	Q3FY08E	Q3FY07	YoY (%)
ACC*	17371	15923	9%	5293	4685	13%	4645	3585	30%
UltraTech Cements	14520	12605	15%	4528	3802	19%	2573	2125	21%
India Cements	7988	4724	69%	3215	1331	142%	2231	798	180%
Shree Cements	4988	3645	37%	2123	1601	33%	913	1041	-14%

*Source: Kotak Securities - Private Client Research; * Estimates are for Q4CY07*

RESULTS PREVIEW

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Q3FY08 RESULTS PREVIEW: CONSTRUCTION SECTOR

Construction sector companies are expected to post healthy revenue growth in Q3FY08 driven by robust order books as well as timely implementation of orders. Construction companies have ventured into several high growth segments as well as regions. These diversifications coupled with variable pricing clauses are expected to result in sustainability of margins.

Order inflows are expected to gather pace with simplification of model concession agreement as well as continued focus of the government on infrastructure. Companies are also in the process of raising funds at the SPV level for executing real estate, BOT or power projects. Higher than expected valuations are expected to provide further re-rating to the stocks. We, thus, continue to maintain our positive stance on the construction sector.

Strong revenue growth to continue

Robust order books of the companies provide visibility for the next two to three years in the revenues of the companies. We have seen excellent order inflows for companies like NCC, IVRCL and Unity Infraprojects in the current quarter. Era constructions is witnessing diversification across oil & gas and the healthcare sector in order inflows. The pace of order inflows is expected to increase in the last quarter of FY08.

Order inflows in Q3FY08

Company	Order inflow Amount(Rs mn)
Nagarjuna Constructions	8770
IVRCL	14370
Era Constructions	1430
Unity Infraprojects	5210

Source: BSE, Companies

Operating margins expected to remain stable/improve

In H1FY08, we have seen an improvement in the operating margins for most construction companies as compared to last year. Though margins for construction companies depend on projects executed in the quarter, we expect operating margins to be maintained or improve with diversified portfolio mix and variable pricing clauses, for the full year.

Results Preview for Q3FY08

(Rs mn)	Revenues			OPM (%)			Net profits		
Company	Q3FY08E	Q3FY07	YoY (%)	Q3FY08E	Q3FY07	YoY (bps)	Q3FY08E	Q3FY07	YoY (%)
NCC	9000	6998	29	11.00	11.50	-50	429	449	-4
IVRCL	7940	5223	52	11.00	10.65	35	451	322	40
Unity Infraprojects	2451	1560	57	13.00	14.00	-100	175	136	29
Madhucon Projects	1967	1205	63	15.00	13.90	110	130	98	33
Era Infra	3568	2052	74	17.00	18.55	-155	327	199.5	64

Source: Kotak Securities - Private Client Research;
** *PAT growth for construction companies in Q3FY08 is not comparable with Q3FY07 due to higher tax rates in FY08.*

Net profit growth not comparable due to higher tax rate

Robust order books and improvement in margins are expected to drive excellent growth in profitability at the PBT level. However, post the removal of Section 80IA benefits, net profit growth as well as net profit margins appears to be subdued. We have incorporated full tax rate in our assumptions for construction companies.

Future growth drivers

Construction companies have successfully diversified across segments such as metals, mining, oil & gas, building, real estate, power etc from being plain vanilla road contractors a few years ago. Coal mining as well as international markets are expected to be the next growth triggers. These high growth projects are executed by companies under separate SPVs and companies are in talks with strategic investors for unlocking value in these SPVs.

We continue to remain positive on the construction industry given high revenue visibility, stable margins scenario, and venture into large number of profitable segments as well as geographies and value unlocking potential from SPVs.

RESULTS PREVIEW

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Q3FY08 RESULTS PREVIEW: BANKING SECTOR

Outlook: Positive

Credit growth showing some signs of pick-up

Credit growth has shown some sign of pick-up during Q3FY08 as compared to H1FY08. On YTD basis, it grew at 9% whereas on QoQ basis it grew 3%. The moderation in credit growth has come on the back of tightening by central bank through successive CRR hike of 250 bps since December 2006.

With the Indian economy on the robust path, we expect credit growth to be 22-23% in FY08 and FY09. We believe credit growth is likely to be driven by demand from the corporate sector because of the following factors...

1) According to the estimate of the Planning Commission, we need around $350 bn in the next five years for our infrastructure developments, which is about 75% of total outstanding advances by the banking sector at the end of FY07 (at the end of FY07, gross bank credit stood at Rs.18419 bn).

2) ECB restrictions by RBI will indirectly fuel the demand for funds from domestic sources. The borrowings through ECB route have tightened because of two factors -

   a. RBI has disallowed ECBs above $20 mn for rupee expenditure.

   b. RBI has also reduced the all-in-cost ceiling to six-month Libor plus 150 bps and 250 bps for borrowings with tenure below and above five years, respectively. Earlier, it was six-month Libor plus 200 bps and 350 bps for the same tenure, respectively.

Deposit growth improving

The deposit growth has improved to 24% and since March, 2007 it has increased by 13%. The C-D ratio for the industry has remained stable QoQ at around 71%, although it is down from 74% at the end of FY07. Many bankers believe credit offtake would further improve in Q4FY08.

Margin stable-to-improving...

We believe margins of banks are likely to improve from Q2FY08. The recent pick up in credit growth will offset some margin pressures with margins estimated to improve over previous quarter. However, margins would be lower than Q3FY07 due to the lower-than-expected credit growth and hike in reserve requirements.

We have been concerned about the pace of increase in funding costs for banks. However, in recent times banks have reduced their dependence on bulk deposits, which we believe helps banks in improving their margins.

Banks like ICICI Bank, HDFC Bank and Axis Bank may expand due to the recent capital raising done by these banks.

Quarterly estimates

(Rs mn)	Net Interest Income			Pre-Provisioning Profit			Net Income		
	Q3FY08E	Q3FY07	YoY (%)	Q3FY08E	Q3FY07	YoY (%)	Q3FY08E	Q3FY07	YoY (%)
Axis Bank	5,956.3	4,158.4	43.2	4,539.1	3,586.3	26.6	2,650.6	1,846.1	43.6
HDFC Bank	12,332.2	9,286.3	32.8	9,572.6	6,969.1	37.4	3,907.4	2,956.4	32.2
ICICI Bank	19,450.5	14,847.0	31.0	19,630.0	17,520.3	12.0	11,729.5	9,099.7	28.9
IOB	6,929.5	6,051.2	14.5	5,282.6	4,915.5	7.5	2,914.8	2,467.7	18.1
J&K Bank	2,152.3	1,950.8	10.3	1,652.7	1,441.5	14.7	958.5	838.9	14.3
PNB	13,786.6	13,698.6	0.6	10,384.1	9,566.6	8.5	5,471.0	4,298.7	27.3

Source: Company, Kotak Securities - Private Client Research

MTM hit on Investment book...

In the last quarter, 10-Year government bonds have fallen 10 bps since Q2FY08, 1-year yield has gone up by 31 bps. The two-year G-secs yield has fallen by 3 bps during this quarter. The decrease in yields would mean some release on MTM provisions done earlier. Apart from this, fall in yields also implies rise in the bond prices and so we can see banks having some treasury profits. There are few banks like Canara Bank and OBC, which have higher proportion of AFS in their total investment book are expected to release some MTM provisions in this quarter.

Close watch on asset quality...

Lending rates in the last year have gone up 300-500 bps, which may lead to higher NPLs and, therefore, higher provisioning requirement. We will keep a close watch on asset quality trends in the coming quarters as hardening of interest rate in recent times may reverse the asset quality cycle. Higher delinquencies and resultant increase in NPA provisioning can act as a negative surprise for Q3FY08E earnings.

Quality rather than quantity would matter...

We maintain our long-term positive stand on the banking sector, as we believe credit growth will pick up in H2FY08. We are likely to witness credit growth for FY08 in the range of 22-23%. This is based on our belief that we are almost on the top of interest rate cycle. Going forward, this is expected to move southwards.

In our view, 22-23% of credit growth on a high base would be very healthy for the banking sector. Moreover, banks that would focus more on quality rather than quantity of assets and have a strong resource base are expected to outperform their peers.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy / Sell	Quantity of shares	Avg. Price (Rs)
7-Jan	Action Fin	Amar Jayesh Dave	S	69,050	38.73
7-Jan	Action Fin	PKJ Share Broker Ltd	S	66,000	38.02
7-Jan	Action Fin	Shilpa Manish Mehta	S	42,000	38.71
7-Jan	Action Fin	Alka Ashok Karia	S	62,097	43.10
7-Jan	Adarsh Pla P	Fortune Gilts Private Limited	B	50,000	48.50
7-Jan	Adarsh Pla P	Prabha Patni	S	110,000	48.18
7-Jan	Advik Labort	Beta Stock Brokers	S	102,500	16.51
7-Jan	Anil Product	Chetan Sabharwal	B	100,000	542.09
7-Jan	Axon Infotec	T Rajesh	B	4,000	83.02
7-Jan	Basant Agrot	Apex Securities	B	40,293	114.15
7-Jan	Bella Ste Al	JMP Securities Pvt. Ltd.	B	3,060,000	14.39
7-Jan	Brushman Ind	Lionhart Investments Limited Ac Photon Mauritius Ltd	B	150,000	99.26
7-Jan	Cat Vision P	Shalani Dhoop Pvt Ltd	B	24,245	20.74
7-Jan	Ceekay Diaki	Shilpa Ketan Shah	S	85,000	144.68
7-Jan	Control Prin	MVM Securities Pvt Ltd	B	40,400	100.64
7-Jan	Crystal Soft	Surya Mahal Properties Pvt Ltd	S	72,650	12.94
7-Jan	CS Software	Sharad K Shah	B	51,000	112.94
7-Jan	DMC Inter	Parag Jayesh Shah	S	20,000	43.10
7-Jan	DMC Inter	Shalani Dhoop Pvt Ltd	S	38,716	45.48
7-Jan	DMC Inter	Seble Tools And Allied Industries	S	18,500	44.00
7-Jan	Dollex Indut	Pranjivan Nanji Chheda	S	45,650	99.46
7-Jan	Dynamic Indu	Ankit Rajendra Sanchaniya	S	26,000	45.40
7-Jan	Gemstone Inv	Ankit Rajendra Sanchaniya	S	37,400	31.18
7-Jan	Gitanjali Ge	Sophia Growth	B	500,000	445.00
7-Jan	Gravity Ind	Samir Rasiklal Thakkar	S	72,536	13.59
7-Jan	Gremac Infra	Merrill Lynch Capital Markets Espana S.A. S.V.	S	200,000	475.00
7-Jan	Gulsha Sug C	Kamal Kumar Dugar And Co	B	102,221	59.71
7-Jan	Inca Finleas	Global Film And Bord Casting Ltd	B	22,200	147.44
7-Jan	ISMT Ltd	Indian Seamless Enterprises Ltd	B	800,000	130.00
7-Jan	ISMT Ltd	Klapa Investments Pvt Ltd.	S	800,000	130.00
7-Jan	Jay Ushin Lt	PKJ Shares Broker Ltd	B	26,795	107.22
7-Jan	Jay Ushin Lt	Raj Kumar Kedia	S	25,485	107.15
7-Jan	Khaitan Wvg	Kamna Commercial Private Ltd	S	5,000	80.00
7-Jan	Kilburn Offi	Indl Development Bank Of India	S	35,000	17.05
7-Jan	Krypton Indu	Rohish Narayan Hegde	B	27,512	88.85
7-Jan	Lincoln Phar	JMP Securities Pvt. Ltd.	S	478,854	20.45
7-Jan	Madhucon Pro	Morgan Stanley Inv.Mgt.Inc.	B	301,000	623.84
7-Jan	Madhucon Pro	Goldman Sachs Investments Mau	S	384,190	625.00
7-Jan	Mah Ind Leas	Shah Samir D	B	95,429	48.14
7-Jan	Manoj Hou Fi	Girish Mukund Gupta	S	38,608	18.38
7-Jan	Marson Ltd	Ishwar Dass	B	139,247	15.49
7-Jan	Mast Medi Sy	Mavi Investment Fund Ltd	B	33,568	70.52
7-Jan	Moschip Semi	Shreekant Varun Phumbhra Huf	B	400,000	50.50
7-Jan	Moschip Semi	Astute Commodities and Deriv	S	280,085	49.11
7-Jan	Nitinspinner	Latin Manharlal Sec Pvt Ltd	B	209,295	25.40
7-Jan	Nitinspinner	JMP Securities Pvt. Ltd.	S	356,937	25.42
7-Jan	Northgate Te	Vinamra Universal Traders	B	220,000	560.00
7-Jan	Northgate Te	Bhaskara Reddy Kunareddy	S	100,000	560.00
7-Jan	Northgate Te	Uma Kunareddy	S	120,000	560.00
7-Jan	Nutraplus Pr	Raj Arvind Chheda	B	22,554	20.66
7-Jan	Parenter Dru	Amita Ravi Sheth	S	83,018	186.59

Trade details of bulk deals

Date	Scrip name	Name of client	Buy / Sell	Quantity of shares	Avg. Price (Rs)
7-Jan	Pasari Spin	Pasari Export Ltd	S	75,000	22.20
7-Jan	Pioner Embro	Minal D Desai	B	54,000	308.79
7-Jan	Priya Spin L	Jag Par Securities Ltd	B	55,585	25.89
7-Jan	Punj Alk Che	JMP Securities Pvt. Ltd.	B	177,980	64.30
7-Jan	Punjab Chem	Superline Trading Company Pvt.Ltd.	B	30,000	247.75
7-Jan	RTS Power Co	HKB Shares Stock Broking Pvt	S	57,076	248.24
7-Jan	Satnam Overs	Sudhir Jain	B	150,000	127.97
7-Jan	Sayaj Hotels	Ruane Cunniff Goldfarb Inc Ac Acacia Partners Lp	B	135,356	95.00
7-Jan	Sayaj Hotels	Clearwater Capital Partners Cyprus	S	200,000	95.00
7-Jan	Seasons Text	Shalani Dhoop Pvt Ltd	B	74,414	15.63
7-Jan	Shalima Pain	Ankush Saluja	S	34,065	506.00
7-Jan	Simmond Mars	Clover Technologies Private Limited	B	10,563	151.00
7-Jan	Simran Farms	Rajni Darak	S	45,844	17.74
7-Jan	Sirpur Pap	Rare Enterprises	B	50,000	132.22
7-Jan	South Asiape	JMP Securities Pvt. Ltd.	S	1,008,942	39.42
7-Jan	Sujana Metal	Param Capital Research Pvt Ltd	B	300,000	45.44
7-Jan	Sujana Metal	Sanjay Jagdish Poddar	B	460,000	44.29
7-Jan	Sujana Metal	BSMA Ltd	S	503,571	45.06
7-Jan	Sujana Metal	Goldman Sachs Investments Maur	S	627,500	43.79
7-Jan	Sujana Metal	Blackstone Asia Advisors Ll..	S	2,500,000	44.45
7-Jan	Sujana Metal	Merrill Lynch Capital Markets Espana S.A. S.V.	S	741,919	44.98
7-Jan	Sujana Metal	Minivet Limited	S	405,000	44.22
7-Jan	Sujanatower	K S B Holdings Pvt Ltd	B	278,935	198.33
7-Jan	Sujanatower	Sundaram Bnp Paribas Mutual Fund	B	826,587	210.00
7-Jan	Sujanatower	UTI Bank Ltd	B	200,000	210.77
7-Jan	Sujanatower	Blackstone Asia Advisors Llc Acct The India Fund Inc	S	630,000	201.90
7-Jan	Sujanatower	Live Star Marketing Pvt Ltd	S	1,324,525	208.84
7-Jan	Swastik Inv	Hitesh Jhaveri	B	25,000	76.60
7-Jan	Terasoftware	Melchior Indian Opportunities Fund	S	50,000	110.64
7-Jan	Thana Ele Su	Mita N Mehta	B	16,650	50.10
7-Jan	Tribhvan Hsg	Devki Leasing and Finance Limited	S	63,600	40.67
7-Jan	Tyche Periph	Krihsna Kumari G	S	67,000	110.90
7-Jan	Uniflex Cabe	Astute Commodities and Derivatives	S	90,021	64.66
7-Jan	Vikram Therm	Vimlaben Dhirajbhai Patel	S	15,000	44.34
7-Jan	Vipul Dye Ch	Vijay Bhandari	B	22,865	25.98
7-Jan	Welspun Syne	JMP Securities Pvt. Ltd.	B	830,000	17.75
7-Jan	White Lion A	Pradeep Bhat	S	30,000	20.60
7-Jan	Yashraj Cont	Minal D Desai	B	50,000	111.58
7-Jan	Yashraj Cont	Anisha Chhabra	B	52,000	111.91
7-Jan	Yashraj Cont	Top City Mercantile Co Pvt Ltd	S	121,000	111.73
7-Jan	Yashraj Cont	Supersun Trading Co Pvt Ltd	S	50,000	110.65
7-Jan	Yashraj Cont	Pacific Corporate Services Ltd	S	124,513	111.43-

Source: BSE

Gainers & Losers

Nifty Gainers & Losers	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ICICI Bank	1,363	5.9	14.6	7.3
Reliance Com	790	3.9	10.6	8.4
ITC	231	5.5	7.8	16.8
Losers				
ONGC	1,299	(3.3)	(16.5)	2.0
Infosys Tech	1,637	(3.4)	(5.8)	1.7
TCS	976	(2.9)	(5.0)	0.9

Source: Bloomberg

Forthcoming events

COMPANY / MARKET

Date	Event
8-Jan	Manaksia Ltd listing on BSE & NSE; Supreme Industries earnings expected
9-Jan	Mastek, iGate Global, Axis Bank, South Indian Bank earnings expected
10-Jan	Motilal Oswal, Rajesh Exports earnings expected
11-Jan	Infosys Technologies earnings expected
12-Jan	Aban Offshore Ltd, Indian Bank, Jaiprakash Associates earnings expected
14-Jan	State Bank of India to consider proposal of rights issue; IDFC, Exide Industries, Geometric, CMC, Triveni Engineering earnings expected

Source: Bloomberg

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