Emkay
PCG Recommendations

EMKAY MARKET VISION

June 2006

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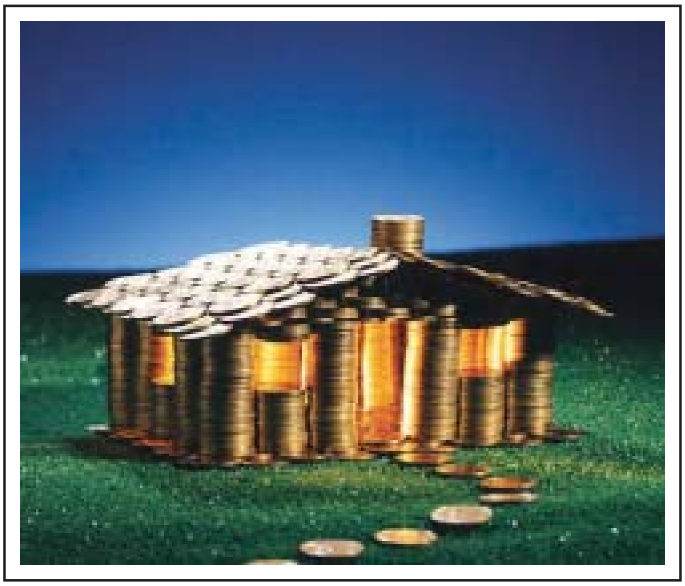

Our timely and effective Research is a step towards serving our Clients.

The following are our recommendations for June2006...

HEG (CMP 172)

HEG Limited, part of LNJ Bhilwara group, is a leading graphite electrodes manufacturer and exporter. The company has three major segments of operations viz; Graphite Electrodes, Sponge Iron/Steel Billets and Captive Power Plant. HEG has total installed capacity of 52000MT of Graphite Electrodes and 120,000MT capacity of Sponge Iron as on date. The capacity has been expanded by 22000MT in FY06 and has started commercial production in Q3FY06 in the case of Graphite Electrodes. The company is envisaging a further capacity expansion by 12500MT after the full stabilization of current expansion and tie-up for needle coke is in place. Graphite Electrodes find single biggest use in the Electric Arc Furnaces (EAF) used in steel plants to melt scrap. Exports for the company have been around 75% of overall volumes. The current expansion will cater to the rising demand in the international market. The company has 3 Captive power plants, which is self sufficient to the tune of 90% and the balance 10% it has to buy from outside market.

HEG is on a strong footing post expansion as the realizations for graphite electrodes are touching new highs. Absence of capacity addition (Greenfield/Brownfield) except for India (Graphite India & HEG) and steady demand growth of the company's products have resulted in 12% CAGR in average realization for the company from $2200/MT in FY04 to $3050/MT for FY07E contracts. We expect the company to post 37% CAGR in revenues for next two years to Rs5203mln in FY06 and Rs8504mln in FY07 and further to Rs10390mln in FY08 factoring in further expansion by 12500MT. Improvement in overall EBIDTA margins to 21.2% in FY06 and 26.9% in FY07 as compared to 17.4% in FY05 will be achieved on back of higher realization (outperforming the rise in raw material cost like needle coke) and cost savings from the power plants due to reduction in the consumption level per ton of product. With improvement in realization, capacity expansion will help company to grow over the years to come. Plus the company is beneficiary of reduction in import duty on needle coke and increase in import duty on metal scrap.

Year end (in mln)	Sales	EBITDA %	PAT	EPS	P/E
FY05	4550	17.4	423.4	10.5	16.3
FY06	5253	21.2	388.2	8.3	8.1
FY07E	8504	26.9	1070.1	22.8	7.5
FY08E	10390	27.2	1406.1	30.0	5.7

Sunil Hi tech Engineers (CMP 120)

Sunil Hitech is a Nagpur based company engaged in niche segment of execution of labour, installation, testing to overhauling and maintenance of thermal power plants. The company has good cliental which includes big names like NTPC, BHEL, Jindal steel, Sterlite, SEPCO and major state electricity boards .The company in the past has grown at a rapid pace with its turnover increasing at CAGR of 90% between FY03 and FY06 from Rs 354 mln to Rs1330 mln and net profit multiplying from Rs 4.19 mln to Rs 55.9 mln over the same period. With strong power sector reforms and additional 100000 MW capacities to be added by 11th plan, the company expects to grow in excess of 50% in years ahead. In order to tap this future demand in power sector, the company has forayed into manufacturing of transmission line towers with initial investment of Rs 100 million. The company has also set up spare part plant (expected to commence in Aug 06) with an investment of Rs 50mln which is expected to add Rs 300-350 mln to top line in FY07.The company has also forayed into setting up galvanized plant at Butibori, Nagpur which will be commissioned in November 06 for total investment of around Rs100 mln and its full benefit will be enjoyed from FY08 onwards. At present unexecuted order book of the company stands at Rs 1500 mln. It has bid for orders worth approx Rs 15 bn and is expected to get 35-40%of the same, which will be executed in FY08 and FY09. Based on this we expect the company to grow at high rates in FY07 and FY08. We expect the revenue of the company to improve to Rs 2010 mln in FY07 and further to Rs 3100 in FY08 and EPS to improve to Rs 10.7 in FY07 and further to Rs 16.6 in FY08.

Year end (in mln)	Sales	EBITDA %	PAT	EPS	P/E
FY05	682	9.9	23	3.5	34.2
FY06	1331	9.8	56	5.6	21.4
FY07E	2010	11.2	106	10.6	11.3
FY08E	3100	10.9	166	16.6	7.2

Rajratan Global Wire (CMP 123)

Rajratan Global Wire (RGW) is one of the leading manufacturers of High Carbon Steel Wires in India. It manufactures Tyre Bead Wire and Prestressed Concrete Wire and Strends. It enjoys the pride of being the largest manufacturer of tyre bead wire (capacity: 30,000 MT) under one roof in India. The function of bead wire is to hold tyre on the rim and is crucial link through which the vehicle load is transferred from rim to tyre. Hence quality is the key, though value of bead wire in a tyre is only about 3%. There is no substitute for bead wire. Pre-stressed concrete wires and strends find applications in various construction activities and mass products like railway sleepers, electric poles amongst others. RGW in Dec 05 has expanded its tyre bead wire capacity from 25000 to 30000 MT and in FY07 it is expected to further increase capacity to 36000 MT to capture growing demand from the domestic manufacturers and international giants both for their Indian and overseas operations. Going ahead we expect topline CAGR of 30.6 % during FY06-08, operating profits CAGR at 37.4% and net earnings CAGR at 58.6%.

Year end (in mln)	Sales	EBITDA %	PAT	EPS	P/E
FY05	931	10.8	46.0	10.5	11.7
FY06	990	12.0	59.7	13.5	9.1
FY07E	1320	13.0	83.0	19.1	6.2
FY08E	1689	13.3	130.5	30.0	4.1

FAG Bearing (CMP 565)

FAG bearings is a subsidiary of German bearing major Kugelfischer George Schaefer AG, with the parent holding 51.33% stake in the company. The company is the 2nd largest supplier of bearings in India. It's is one of the key suppliers of bearings to the automobile sector. The OEM and replacement market sales bifurcation for the company is 50:50. Such high sales contribution from the replacement market has enable the company in maintaining good operating margins as compared to its peers. With strong technical support from the parent, FAG India is looking at a good volume growth both in domestic as well as export market. The company has declared excellent March quarter results. The company registered sales of Rs.1221.1 mln for the quarter ended March 2006 against Rs.898 million for the same period in the previous year (a growth of 36% YoY). Operating profit increased to Rs.294.7 mln

from Rs.160.5 mln for the quarter ended March 2005. (Growth of 83.6% YoY). Operating margin improves to 24.13% for the current quarter from 17.87% for the same period last year. The yearly margins for year ended 2005 stood at 20.1% (which was a growth of 15% over year ended 2004). The improvement in margins is attributed to better productivity, better product mix and better management of expenses. The expenses for the quarter increased by 25.46% over the same period last year. EPS for the quarter stood at Rs.10.85 (this translates to an annualised

EPS of Rs.43.4). The company declared strong yearly results for the year ended 2005. Sales stood at Rs.4083 mln against a sale of Rs.3231 mln for the year ended 2004 (registering a growth of 26.37% YoY). Exports for the year grew by 70% over pervious year (exports being 17% of total turnover). For the year 2006 company expects exports to be 22% of the total turnover. EPS for the year ended 2005 stood at Rs.28.8 against Rs.18.6 for year 2004. We expect the company to earn an EPS of 44. For the year 2006 the company has maintained the growth outlook

similar to 2005. For this the company has planned a capacity expansion by around 25% for which the company shall incurr a capital expenditure of Rs.800 mln (totally funded by internal accruals). This is strongly supported by excellent Q1 results.

Year end (in mln)	Sales	EBIDTA %	PAT	EPS	P/E
CY04	3231.2	17.4	308.8	18.6	30.3
CY05	4083.2	20.1	478.9	28.8	19.6
CY06E	5300.0	23	732.2	44.1	12.8
CY07E	6360.0	23.0	897.7	54.0	10.5

ESAB India (CMP380)

It is a part of the Charter plc Group, which is listed on the London Stock Exchange. ESAB India Limited is owned 37.31% by ESAB Holdings limited (a company registered in UK). The company manufactures welding consumables like welding electrodes, continuous electrodes / copper coated wires and welding fluxes and equipments like gas and electric welding and cutting equipment, gas cylinder valves and medical equipment. ESAB India has established itself as one of the leading suppliers of welding and cutting products in the country. The company has recently ventured in higher margin business of consumables reclamation, which is primarily related with repairs and maintenance for renewing the life of a worn out welding or cutting consumables and equipment.

The company caters to segments like automobiles, engineering, construction, etc which are growing at a very fast pace. In lieu of the continued growth in customer industry segments and the fact that ESAB is a pioneer in welding and cutting equipments and consumables, the company is expected to continue the growth rate as registered in 2005. In order to cater to the growth in the industry, the company has launched a project for commissioning a new manufacturing facility at Irungattukottai near Chennai for manufacture of welding and cutting equipment at an approximate cost of 150 mln. The plant is expected to be commissioned by December 2006. The company's board has also approved an investment of Rs 5 mln in a joint venture proposed to be set up with the ESAB group for engineering services.

The company's operating margins had reduced drastically in the last quarter of 2005 mainly due to rise in prices of raw materials, which the could not be passed on to the customers. The company has announced a price hike effective April 1, 2006 which will enable company improve its margins and would boost the bottom line for the last 3 quarters of 2006. The company over the next 2-3 years plans to introduce technologically superior welding and cutting equipments, which are expected to contribute around 15-20% to the net sales of the company. The company enjoys the benefit of technology support from the parent company and is hence in a beneficial position vis-à-vis its competitors for new generation welding and cutting equipments.

The company at current price of Rs.380/- is trading at 13.1x CY06E earnings and 10.6x CY07E earnings.

Year end (in mln)	Sales	EBITDA %	PAT	EPS	P/E
CY04	1878.79	18.75	203.50	13.2	28.7
CY05	2381.63	22.35	397.10	22.9	16.5
CY06E	2800.43	23.05	444.12	28.9	13.1
CY07E	3318.50	23.50	548.66	35.6	10.6

Subhash Projects (CMP 180)

\Subhash projects is an infrastructure engineering company with a strong base in projects in the infrastructure sector including electrical distribution, hydro power generation, water management and highways across different states. The current order book position of the company is Rs 175bln (7.6 times of its FY05 revenue) to be executed in next 24 months, this includes Rs 6500 mln water and EPC contracts, Rs 6500 mln Rural electrification contracts, Rs 4000 mln irrigation contract and Rs 1500 mln other projects. Subhas Projects is betting big on reforms in power sector to achieve Rs 100 bln turnover by 2006-07. The company has bagged transmission and distribution project for rural electrification, which will deliver electricity to over 3,000 villages in West Bengal, Bihar and Uttar Pradesh. There are certain projects for which company has formed SPV like Waste management project and Car parking project in Delhi which will help company to improve its financial for a longer period. This project will be commissioned in FY06-07.Current networth of the company is Rs 650mln which acts as a limitation for the company to bid for large size project. So equity expansion can be a mode to increase the net worth of the company. The company is entering into power generation also, from its core area of construction of power projects. It has floated six special purpose vehicles (SPV's) for six hydel power projects in Himachal Pradesh and Karnataka. The total capacity is 30 MW and will be in operational in 3-4 years.

Subhash Projects has reported a rise of 56% in sales to Rs.874.7 mln over the sales of Rs.559.6 mln during the corresponding quarter previous year. Net Profit during the quarter increased by Rs.46.1 mln to Rs.52.6 mln. For

9MFY06 company reported 54% growth in sales to Rs 2216.3 mln and 450% jump in net profit to Rs 82. mln With Govt focusing on Infrastructure, Power this company will get a major boost in years ahead and soon its performance deliverable will fetch company's price to a new height.

Year end (in mln)	Sales	EBITDA %	PAT	EPS*	P/E
FY05	2300	5.9	37.5	1.2	139.0
FY06E	3300	7.8	137.2	4.4	37.9
FY07E	7000	8.5	420.5	13.4	12.4
FY08E	10000	8.5	600.0	19.2	8.6

** We have assumed same equity of Rs 62.3 mln*

Cosmo Films (CMP90)

It is the largest player in Bi-axially Oriented Polypropylene (BOPP) Films segment of the flexible packaging industry in India with a market share of 35%. CFL is one of the lowest cost BOPP and Thermal films producer in the world. It enjoys around 40% cost benefit against its European competitors and a significant margin in cost efficiency against its Asian peers. This gives the company a huge competitive edge against its global competitors and enables it to register impressive growth is export sales. CFL's current manufacturing capacity is 71000 MT; this includes 8000 MT capacity for thermal films. The company is planning to further enhance its thermal films capacity by 8000 MT at an expected cost of Rs.400 mln. The new facility is expected to commission by July 2006. The worldwide distribution channels of the Company are quite strong and a major increase of sales in this segment is expected in the year 06 – 07. To meet the growing demand for BOPP films in the domestic and international markets, the company also plans to expand its BOPP films capacity by 30000 MT at an expected cost of Rs.900 mln. This expansion is likely to be commissioned by September 2007. The expansions will be funded partly through debt and partly through internal accruals. The planned expansion and growth in the flexible packaging industry is expected to significantly increase the top line and bottom line of the company. The company declared a dividend of Rs.4 per share in FY2006, which translates into an attractive dividend yield of 4.3% at current levels. With the company performing extremely well vis-à-vis its globally peers and registering a good growth on a YoY basis the stock looks pretty attractive at current levels. At CMP of Rs.92, the stock discounts its FY08E earnings by 5.5x, which makes it quite attractive at current levels.

Year end (in mln)	Sales	EBITDA %	PAT	EPS	P/E
FY05	3,907.2	13.2	105.8	5.9	15.2
FY06	4,219.9	13.0	127.4	6.6	13.6
FY07E	5,170.5	13.2	237.4	12.2	7.3
FY08E	6,278.6	12.8	324.2	16.7	5.3

Nahar Industrial Enterprises (CMP 180)

Nahar Industrial Enterprises (NIEL), an integrated textile player is poised to capitalize from the emerging trends in the textile industry: (1) bargaining power shift in favour of large processed fabric manufacturers (2) high growth in branded retailing (3) RoE improvement – Impact of leveraging with low-cost TUF loans and (4) composite mills back in favour due to regulatory changes. Value of surplus land could be icing on the cake. Compelling valuations – NIEL stock trading at 8.4x and 5.9x its FY07E and FY08E EPS, respectively. We expect the stock to get re-rated as earnings growth and shift in product mix gather traction. Capex of Rs 8.14 bn to drive revenue growth of 34% CAGR over FY06- 08.. For the full year FY06, revenues were up by 14 % to Rs 6,941 mln and reported PAT was up by 91% to Rs 698 mln.

Year end (in mln)	Sales	EBITDA %	PAT	EPS	P/E
FY05	6070	16.7	362	11.7	15.3
FY06	6941	20.4	698	19.5	9.2
FY07E	9774	22.6	1080	21.4	8.4
FY08E	12783	25.3	1537	30.5	5.9

Rallis India (CMP323)

Rallis India Ltd is India's no. 2 agrochemical player with a robust product pipeline, strong international alliances (like FMC, Syngenta, Nihon Nohyaku, Dupont and Nuziveedu) and a geographical reach to India's 80% of districts. 60% of the Indian population is in one or the other way dependent on agriculture sector which contributes 25% to the GDP. India's usage of agrochemicals of 580 gms per hectare is one of the lowest in the world. Rallis, as the no. 2 player, is a pure play on India's agrochemical story. Cotton constitutes 30%-40% of the agrochemical market. which is expected to rise upto 80% by FY09. This translates into an acreage of 12m in FY09 from 3.2m at present ,thus there lies a big opportunity for Rallis to encash. The year FY06 was was a very difficult year for the Indian agrochemical industry in which size of the industry shrunk by 15%. However, Rallis suffered much lesser as compared to the industry and in fact the company's net sales improved by 5.2% during FY06 with a growth of 24% in exports. In a difficult period, Rallis has restructured its balance sheet and repaid its borrowings (and thereby reduced its interest costs).In FY07 we expect (a) the industry will show an improvement of at least 10% inFY07 as against 15% fall in the industry size in FY06;(b) the acreage under cotton is likely to increase by 5% in FY07E and at the same time the share of legal BT cotton is estimated to improve from 41% at present to 80% in FY09; (c) the company's strategic alliances will help it roll out new products in future; (d) A stake in Advinus Therapeutics (which is promoted by TATA group and led by Dr Rashmi Barbhaiya- the ex-Ranbaxy R&D Head) is working very aggressively and the value of Rallis' stake would reach to a decent value in the time to come.Considering all the above factors we believe Rallis India will be a stock to watch in FY07.

Year end (in mln)	Sales	EBITDA %	PAT	EPS	P/E
FY05	5845.6	9.4	267.8	16.0	20.1
FY06	6151.5	8.9	317.7	20.2	15.9
FY07E	6884.3	9.4	386.5	25.9	12.4

Performance of our May 06 Recommendations

May was bad month for our recommendations with weighted average return of negative (-) 10.7%. Month started well with stocks like FAG Bearing, India Infoline, HEG, Cosmo Films, Sunil Hitech etc appreciating significantly from the recommended price in the first half of the month. However towards the second half of the month, markets became extremely weak with most of the stocks gave up all the gains. Cosmo Films was one exception and ended the month with gain of 8.4%. Of the stocks recommended at the beginning of the month we have changed our view on India Infoline and Aksh Optifibre. Though we like business model of India Infoline very much and are bullish on long-term prospects of the company, we feel as its business is directly related to situation in stock market, in the short run share price may not do well. Also in case of Aksh Optifibre we have got some new facts and based on that we are less enthusiastic on it than we were before. On all other stocks we are comfortable.

Company	Price 29/4/06	Price 31/5/06	% Change
Aksh Optifibre	74	64	(13.5)
Andhra Paper	142	112	(21.1)
Cyber Media	102	79	(22.5)
Cosmo Films	83	90	8.4
HEG Ltd.	184	172	(6.5)
Sunil Hitech	143	121	(15.4)
Rajratan Gus	125	123	(1.6)
FAG Bearings	635	565	(11.0)
India Infoline	185	161	(13.0)
Weighted Average			**(10.7)**

Emkay Model Portfolio May 2006

Co Name	Recommended Price	Weight %	Sector	Month end price#	% Change
Dena Bank	35	8	Banking & Fin Services	35	0.0
India Infoline	185	7	Banking & Fin Services	161	(13.0)
FAG Bearing	635	7	Bearing	565	(11.0)
Finolex Cables	350	5	Cables	350	0.0
Aksh Optifiber	74	5	Cables	64	(13.5)
Greaves	419	7	Capital Goods	390	(6.9)
ITC	204	8	FMCG	165	(19.1)
I-Flex	1227	8	IT	1133	(7.7)
Infosys	3182	8	IT	2908	(8.6)
Cosmo Films	83	5	Packaging	90	8.4
TNPL	126	7	Paper	108	(14.3)
Orchid Chemicals	346	8	Pharma	226	(34.7)
Reliance Commun	320	8	Telecom	268	(16.3)
Total		**91**			**-10.2**
Cash		**9**			

 # Month End price are last traded price on BSE on May 31, 2006

May was the disasterous month for the market. The BSE Sensex fell by 13.6% from 12042 to 10399 levels. Our portfolio also did badly, but it fell by 10.2% compared to fall in sensex of 13.6%. Orchid Chemicals was the worst performing stock in our portfolio, it fell by 34.7%. This happened because of general market conditions and also because the company announced that it wants to raise further money by issue of fresh equity, after firmly indicating in the past that equity dilution may not be required. We feel one should get out of Orchid on bounceback at around Rs 270 level. As markets become weak, we have changed our view on India Infoline and Aksh Opti and are removing the same from our portfolios. And have also increased overall cash levels.

Emkay Model Portfolio June 2006

Co Name	Price#	Weight %	Sector	Target Price	% Change
Dena Bank	35	8	Banking & Fin Services	50	43
FAG Bearing	565	7	Bearing	750	33
Finolex Cables	350	5	Cables	450	29
Sunil Hitech	121	7	Capital Goods	200	65
Greaves	390	7	Capital Goods	460	18
ITC	165	8	FMCG	210	27
I-Flex	1133	8	IT	1500	32
Infosys	2908	8	IT	3600	24
Cosmo Films	90	5	Packaging	134	49
TNPL	108	7	Paper	135	25
Reliance Commun	268	8	Telecom	325	21
Total		**78**			
Cash		**22**			

 # Prices are as of May 31, 2006 at close on BSE

Note:

This portfolio is for investors with Normal Risk Profile having atleast 12-18 month outlook.

Changes Made Over Last Month

- Removing Orchid Chemicals from Portfolio (Existing Investors sell on bounceback at around Rs 270).
- Removing India Infoline from Portfolio as its business has direct corelation with present weak stock markets.
- Removing Aksh Opti from portfolio as we gather some new facts about industry.
- Adding Sunil Hitetch to Portfolio.
- We have rasied our cash levels from 9% to 22%.
- We have revised the target price downward in most cases to adjust for present weak market condition.

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Goregaon
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J B Nagar
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Malad (W)
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Vile Parle
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Nagpur
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Sitabuldi
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Nashik
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