

June 20, 2006
FOR PRIVATE CIRCULATION
Equity

	19 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	9,998	1.1	(8.6)	(7.9)
Nifty	2,917	0.9	(10.2)	(9.8)
Banking	4,370	(0.4)	(12.8)	(17.7)
IT	2,334	0.9	(7.6)	(9.4)
Healthcare	3,090	1.3	(12.0)	(14.4)
FMCG	1,820	1.5	(9.6)	(10.6)
PSU	4,785	0.9	(14.6)	(18.4)
CNX Midcap	3,768	1.9	(17.7)	(18.7)
World indices				
Nasdaq	2,110	(0.9)	(3.8)	(8.8)
Nikkei	14,860	(0.1)	(8.3)	(10.9)
Hangseng	15,769	(0.5)	(4.3)	(2.0)

Value traded (Rs cr)

	19 Jun 06	% Chg - 1 Day
Cash BSE	2,594	(34.9)
Cash NSE	5,745	(35.5)
Derivatives	19,549.2	(29.6)

Net inflows (Rs cr)

	16 Jun 06	% Chg	MTD	YTD
FII	659.5	371.4	(6,129)	12,181
Mutual Fund	(79.6)	(773.7)	5,772	11,772

FII open interest (Rs cr)

	16 Jun 06	% Chg
FII Index Futures	8,824	(2.6)
FII Index Options	2,940	4.6
FII Stock Futures	8,970	1.0
FII Stock Options	116	12.6

Advances/Declines (BSE)

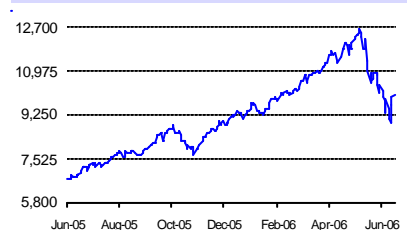
19 Jun 06	A	B1	B2	Total	% Total
Advances	147	482	504	1133	67
Declines	58	164	284	506	30
Unchanged	2	16	28	46	3

Commodity

	19 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	69.0	(1.3)	0.7	9.9
Gold (US\$/OZ)	565.3	(2.7)	(14.2)	1.6
Silver (US\$/OZ)	9.9	(3.3)	(21.2)	(4.2)

Debt/forex market

	16 Jun 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.86	7.77	7.55	7.41
Re/US\$	45.93	45.84	45.57	44.40

Sensex


Source: Bloomberg

ECONOMY NEWS

- The yield on the benchmark 10-year Government paper rose by 10-11 basis points on Monday to touch 7.91 per cent, which is said to be the highest in three years. (BL)
- The country's trade deficit increased marginally to \$3.83 billion during May from \$3.62 billion in the same period last year, despite close to 30 per cent growth in merchandise exports to \$9.35 billion. (BS)
- Continuing with its 20 per cent plus growth momentum, the country's exports surged 28.35 per cent in April-May 2006 to \$17.70 billion compared to \$13.79 billion recorded in the corresponding period last year. (BL)
- The Securities and Exchange Board of India is proposing to make the depositories responsible for securities issued in excess of listed capital and pre-listing gray market securities during IPOs. (BS)
- Negotiations between India and Asean over the proposed Free Trade Agreement are deadlocked, with the latter now asking India to prune its list to just 60 items on which it will offer no tariff cuts. (BS)

CORPORATE NEWS

- **Reliance Industries** and the Haryana government on Monday formally inked a joint venture agreement to set up a new SEZ project. The Rs 40,000-crore project, comprising a cargo airport and a 2,000-MW gas-based power plant, will be spread over about 25,000 acres in the Gurgaon and Jhajjar districts of the state. (ET)
- Chennai-based **GV Films Ltd** has decided to acquire Ahmedabad-based multiplex operator Safroni Entertainment Ltd for Rs 15 crore (BL)
- **Geometric Software Solutions** has signed an agreement with IBM to jointly provide services assisting clients in accelerating the deployment of product lifecycle management (PLM) solutions (BS)
- **ONGC Mittal Energy, (OMEL)** has acquired two blocks - OPL 212 and 209 - in Nigeria, estimated to have reserves of about 500m barrels each (ET)
- An arm of **Bajaj Hindusthan (BHL)** - Pratappur Sugar & Industries will mop up Rs 730 crore through a Rs 230-crore preferential issue to BHL and another Rs 500 crore via issue of shares to outsiders (ET)
- After the global launch of its one-tonne mini-truck Ace in Sri Lanka in May, commercial vehicle major **Tata Motors** is readying for exports of the vehicle to other overseas markets such as Bangladesh, Africa, South Korea, West Asia (Gulf) and CIS countries. The launch in some of these markets is expected to take place by 2008. (BS)

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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We recommend BUY on the stock with a target price of Rs.644

INFOTECH ENTERPRISES LTD (Rs.452, FY08 PE: 9x; BUY)

We recently spoke to Infotech to get an insight into the latest developments within the company. We remain bullish on the long-term prospects of the company and see the recent fall in the share price as a good opportunity to own the stock.

Significant client wins in the recent past have increased revenue visibility for Infotech over the medium-to-long term and, more importantly, provided the reference value to bid for other large projects.

The company, in the recent past, has intended to acquire new clients and deepen relationships with existing ones. In our opinion, Infotech has met with a degree of success in its efforts and built up a strong client base, which we believe, should provide good referral value and also sustainable growth in the future.

We maintain our earnings estimates for FY07E and FY08E. We expect the company to report an EPS of Rs. 40.3 per share and Rs. 50.2 in FY07E and FY08E, respectively. However, we have reduced our DCF-based price target from Rs. 703 to Rs. 643 in light of the relatively higher beta attracted by the stock in the recent past.

At the target price the stock will be valued at 16x our FY07E and 12.8x our FY08E earnings. We now recommend a BUY on Infotech Enterprises with a price target of Rs. 643, a 42% upside from the current levels.

The main takeaways are as under:

- Pratt and Whitney (P&W), the largest client of and a stakeholder in Infotech, has identified manufacturing vendors in India and Infotech, which is a design partner for P&W, is expected to start working with these manufacturing partners closely.
- These associations, if successful, will bring in more design work for Infotech by allowing an even better appreciation of P&W's requirements.
- Infotech has also started getting projects from other P&W repair locations like Norway and New Zealand.
- The Bombardier relationship in China has also expanded along expected lines and, currently, Infotech has a total of more than 250 employees working for Bombardier.
- Infotech is executing projects for Alstom Transport from its new engineering design facility in Bangalore and currently has about 50 employees for Alstom.
- The project for Swisscom Fixnet (in association with GE Energy) has also got underway with about 30 employees working on it. We believe this relationship can scale up to about 300 employees over the next two years.
- Vargis, the US based subsidiary, had faced problems of cost escalations in a couple of projects in 4QFY06. These projects are likely to be completed in 1QFY07 and the impact on profitability is expected to recede with this completion.
- The company has increased salaries with effect from April 2006. While the offshore hike is expected to average 17%-18%, the on-site hike should be at about 3%, on an average. The impact is already accounted for in our projections.

Future prospects					
Rs mn	FY06	FY07E	YoY (%)	FY08E	YoY (%)
Income	3,625	4,953	36.6	6,349	28.2
Expenditure	2,952	4,048		5,196	
EBDITA	673	905	34.4	1,153	27.4
Depreciation	186	246		299	
EBIT	488	659		854	
Interest	11	6		6	
Other income	21	42		46	
PBT	498	695	39.5	894	28.6
Tax	94	139		197	
PAT	404	556		697	
Share of Profit	101	86		102	
Adj PAT	505	642	27.1	799	24.5
EPS (Rs)	31.7	40.3		50.2	
Margins (%)					
EBDITA	18.6	18.3		18.2	
EBIT	13.4	13.3		13.4	
PAT	13.9	13.0		12.6	

Source: Company, Kotak Securities - Private Client Research

We maintain our FY07 and FY08 earnings estimates. We expect the company to report revenues of Rs. 4.95 bn and profits of Rs. 642 mn, which would translate into an EPS of Rs. 40.3 per share for FY07. In FY08, we expect revenues to grow to Rs. 6.34 bn and profits to grow to Rs. 799 mn, translating into an EPS of Rs.50.2 for FY08E.

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 revenue growth of Indian vendors.

RESULT UPDATE

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EASUN REYROLLE

(Rs.610, FY07 PE: 10.9x; BUY)

Easun Reyrolle's has maintained its earnings growth momentum in Q4 as well. However, reported profits are below our expectations due to higher interest charges, lower other income and higher tax outgo. We remain convinced about the company's ability to sustain profit growth in the medium-term and maintain our BUY on the stock with a price target of Rs 1000.

Quarterly performance

(Rs mn)	Q4FY06	Q4FY05	% chg
Net Sales	320.5	209.5	53.0
Other Income	1.6	4.0	-60.0
RM costs	165.9	126.3	31.4
Staff costs	22.1	18.3	20.8
Other costs	59.3	30.6	93.8
Total Expenditure	247.3	175.2	41.2
PBIDT	73.2	34.3	113.4
Interest	5.2	2.1	147.6
PBDT	69.6	36.2	92.3
Depreciation	8.7	6.4	35.9
PBT	60.9	29.8	104.4
Tax	32.1	13.5	137.8
Reported PAT	28.8	16.3	76.7
PBDIT (%)	22.8	16.4	
tax rate (%)	52.7	45.3	
RM costs to sales (%)	51.8	60.3	

Source: Company

Summary table

Rs mn	FY05	FY06E	FY07E	FY08E
Sales	512.4	1064.0	1430.0	1888.0
Growth (%)	26.1	107.7	34.4	32.0
EBITDA	72.5	228.4	317.8	386.7
EBITDA margin (%)	14.2	21.5	22.2	20.5
Net profit	35.9	130.8	186.1	231.9
Net cash (debt)	-110.9	-257.3	-326.0	-280.6
EPS (Rs)	11.4	39.3	55.9	69.6
Growth (%)	30.1	264.4	42.3	24.6
CEPS	16.2	46.9	64.7	78.2
DPS (Rs)	13.7	13.7	12.9	12.9
ROE (%)	18%	49%	44%	37%
ROCE (%)	20%	46%	44%	45%
EV/Sales (x)	4.0	2.2	1.7	1.2
EV/EBITDA (x)	27.9	10.0	7.4	6.0
P/E (x)	53.6	15.6	10.9	8.8
P/Cash Earnings	37.8	13.0	9.4	7.8
P/BV (x)	10.4	6.8	4.6	3.2

Source: Company & Kotak Securities - Private Client Research

Result Highlights

- On the back of healthy order backlog, the company reported 53% yoy growth in Q4 FY06.
- Margins have expanded from 16.4% in Q4 FY05 to 22.8% in Q4 FY06. Operating margins should remain stable in the medium term. There are possible upsides to margins in FY07 due to fixed cost absorption (employee cost 8.5% of revenues). We have factored in a margin decline in FY08 as increased revenues from projects business could pull down the overall operating margins.
- Depreciation in the quarter rose 36%. Easun Reyrolle is investing in a new switchgear facility, which should be operational by September 2006.
- PAT for the quarter grew 77% yoy to Rs 29 mn. Higher tax charges decelerated profit growth for the quarter.

Valuation & Outlook

Robust earnings growth and continuing investment momentum in the power sector have resulted in a re-rating of Easun. We see market growth for power products to remain buoyant over the next 4 - 5 years on the back of planned capacity additions in the power sector. Thus, the revenue visibility for players in the power equipment sector continues to be strong.

Easun is forecast to post above-industry average growth in earnings (34% CAGR over FY06-08) and enjoys high return ratios (47% RoE in FY06E). This should drive sustained stock outperformance. Given the strong growth potential in the engineering sector, sector leaders are trading at a significant premium to the broad market.

Despite this, Easun is trading at 10.9x and 8.8x FY07E and FY08E earnings, which in our view is at a significant discount to the broad market as well as the engineering sector.

We have revised our earnings estimates downwards. Resultantly, our price target works out to Rs 1000, achievable over the next 12-18 months timeframe.

Estimates

	Earlier		Revised	
	FY07E	FY08E	FY07E	FY08E
Net Profit Rs mn	209	271	186	232
EPS Rs per share	62.9	81.3	55.9	69.6

Source: Kotak Securities - Private Client Research

Peer valuation

(x)	PER 07	EV/EBITDA	ROE (%)
Easun Reyroll	10.9	7.4	46.0
Bharat bijlee	12.4	7.9	43.6
Emco	10.9	7.7	24.4

Source: Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
19-Jun	Ansal Buildw	Deutsche Securities Mauri	S	38,236	136.38
19-Jun	Ansal Buildw	Stanford Invts And Proper	S	37,693	136.83
19-Jun	Asia Cerc In	Systematik Finvest Pvt.	S	60,000	47.79
19-Jun	Iol Broadban	HSBC Fs Account Kuvera Fu	S	79,225	52.65
19-Jun	K S Oils Ltd	Ketan Chandan	B	60,000	147.50
19-Jun	Kanishk St.	Kamayani Engg. Products L	S	100,000	27.50
19-Jun	Karur Vysya-Pms	Ruane Cunniff And Goldfar	B	293,300	532.00
19-Jun	Koff Br Pict	Meena Bhushan Punamiya	S	60,000	7.23
19-Jun	Parekh Alum	Merrill Lynch Capital Mar	B	40,000	104.80
19-Jun	Prajay Eng S	Goldman Sachs Investment	S	100,000	150.00
19-Jun	Rohit Ferro	Rakhi Trading Private Lim	B	185,951	45.85
19-Jun	Spicejet Ltd	Citigroup Global Markets	S	897,000	39.01
19-Jun	Telephoto En	Agarwal Kiran	S	42,500	25.25
19-Jun	Worldw Le Ex	Samir Mukund Lal Shah	B	47,143	36.83
19-Jun	Worldw Le Ex	Samir Mukund Lal Shah	S	67,143	35.50
19-Jun	Zicom Ele Se	P P Holding Ltd	S	54,557	130.00

Source: BSE

Forthcoming events

COMPANY/MARKET	
Date	Event
20-Jun	EMC Corporation, Financial Technologies holds press conference
21-Jun	CESC Ltd to announce earnings and dividend
22-Jun	Amara Raja Batteries to announce earnings and dividend
23-Jun	SRF to consider buy-back of shares
25-Jun	Hotel Leela Venture to consider stock split, raising FII limit
26-Jun	VSNL, ONGC, NIIT Technologies to announce earnings and dividend; TVS Motor to announce earnings
27-Jun	Corporation Bank holds shareholders meeting; Reliance Industries holds annual shareholders meeting; Bata India to announce 2nd quarter earnings; Aurobindo Pharma to announce earnings and dividend
30-Jun	State Bank of India holds shareholders meeting; Bharat Electronics to announce earnings and dividend

Source: Bloomberg

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Infosys Tech	2,871.2	2.5	4.1	1.1
Reliance Ind	933.7	1.3	3.6	4.0
Tata Motors	768.1	6.0	3.5	2.6
Losers				
TCS	1,668.4	(1.0)	(1.7)	0.5
SBI	753.3	(1.8)	(1.5)	1.8
Bharti Airtel	362.2	(1.0)	(1.5)	0.4

Source: Bloomberg

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