

December 18, 2006
FOR PRIVATE CIRCULATION
Equity

	15 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,615	0.9	1.4	12.8
Nifty	3,889	1.2	0.9	11.3
Banking	6,995	1.4	(1.8)	23.6
IT	3,598	1.3	5.7	22.4
Healthcare	3,702	0.7	(0.1)	1.8
FMCG	1,952	(0.1)	(2.7)	(4.9)
PSU	5,968	1.0	(2.8)	4.8
CNX Midcap	5,011	1.0	0.9	10.6
World indices				
Nasdaq	2,457.2	0.1	0.5	9.9
Nikkei	16,914	0.5	5.4	6.9
Hangseng	19,111	1.0	(0.5)	9.8

Value traded (Rs cr)

	15 Dec 06	% Chg - 1 Day
Cash BSE	3,882	9.0
Cash NSE	8,727	7.9
Derivatives	28,954	(1.4)

Net inflows (Rs cr)

	13 Dec 06	% Chg	MTD	YTD
FII	(96.9)	(201.8)	(1,658)	38,212
Mutual Fund	(231.8)	(55.2)	(1,053)	13,332

FII open interest (Rs cr)

	14 Dec 06	% chg
FII Index Futures	10,580.7	1.9
FII Index Options	5,980.1	1.9
FII Stock Futures	15,889.7	3.9
FII Stock Options	181.4	0.4

Advances/Declines (BSE)

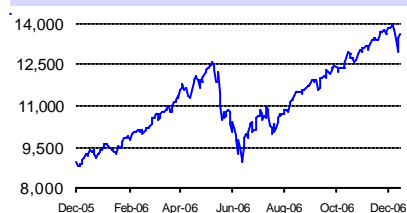
	15 Dec 06	A	B1	B2	Total	% Total
Advances	138	394	471	1003	59	
Declines	69	233	355	657	38	
Unchanged	1	21	26	48	3	

Commodity

	15 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	63.4	1.5	7.9	0.2
Gold (US\$/OZ)	615.4	(1.7)	(0.8)	5.1
Silver (US\$/OZ)	12.9	(6.6)	0.8	15.4

Debt/forex market

	15 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.65	7.68	7.52	7.78
Re/US\$	44.67	44.67	45.35	46.12

Sensex


Source: Bloomberg

ECONOMY NEWS

- Government officials said the Finance Ministry has told RBI the regulation of foreign venture capital funds investments in the realty sector is an area clearly marked out for Sebi. (ET)
- The Government is considering bringing about parity in customs duty rates on certain inputs used for final goods, which saw a steep reduction in duties under various bilateral trade agreements. (ET)
- The Government may propose stringent security conditions for telecom companies going for higher FDI of 74%. Among other things, the chief officer in charge of technical network operations and chief security officers should be resident Indian citizens. (ET)
- India and China have further cemented their friendship and strategic ties by inking a major pact envisaging joint exploration, production and acquisition of oil assets in third countries, which could substantially reduce their energy costs. (BS)
- Boosted by the massive rise in direct tax collections in the current fiscal year, the Government is considering moderation in corporate and income tax rates in the forthcoming Budget. (BS)

CORPORATE NEWS

- **Reliance Communications (RCL)** may have initiated moves to strike exclusivity agreements with leading foreign banks as part of its efforts to buy 100% of Hutch-Essar. The exclusivity agreements may give RCL an edge in the battle for Hutch Essar. (ET)
- The proposed mega merger of **Air India** and **Indian** would turn into a costly affair, with an estimated bill of Rs.3 bn, if the government does not provide tax breaks for the merger. (ET)
- **Reliance Industries** is considering expanding its oil business to Russia. It is talking to Russian government officials to enter the country's downstream oil sector by investing in the refinery and petrochemical industry. (ET)
- Wal-Mart and Target, the largest retailer in the world and the sixth-largest retailer in the US, respectively, have shown interest in a retail product - Personal Shopping Assistant (PSA) developed by TCS. PSA is a software product out of **TCS'** retail innovation lab. (ET)
- **ONGC** has made a huge gas find in Bay of Bengal, with initial estimates suggesting reserves of about 21 trillion cubic feet. ONGC struck a 28-meter net gas pay zone when deep-sea drill ship Belford Dolphin reached 5,300 meters depth at well UD-1, 55-kms from the coast. (BS)
- Mukesh Ambani-promoted biotech venture **Reliance Life Sciences** now plans to foray into pharma business for generics and contract manufacturing and acquire biotech companies globally as part of its expansion plan. (BS)
- **Tata Motors** will set up one-two new greenfield plants in the country as part of its Rs. 100 bn expansion program to meet the target of more than doubling annual sales to 1 mn units over the next five years. (BS)
- **Panacea Biotec** has plans to establish a manufacturing plant of global capacity for thermostable vaccines. Work on the plant, which is to come up next to its current facility at Lalru in Punjab, is to start in 2008. (BL)
- Sandesara group's **Sterling Biotech** plans to invest about Rs.6 bn to ramp up the manufacturing capacities of gelatin and coenzyme (Q10) at its Vadodara facilities. It is also planning to hike the manufacturing capacity of its recently acquired China unit. (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

COMPANY UPDATE

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ALLSEC TECHNOLOGIES (Rs.272, FY08E P/E: 11x, BUY)

We recently met the management of Allsec to get a further insight into the operations of the company and any developments post Carlyle's acquisition of a 25% stake in the company. We came back positive on the prospects of the company and continue to recommend a BUY with a target price of Rs.324.

The following are the main takeaways of the meeting:

Carlyle's open offer closed

- The mandatory open offer for an additional 20% stake in the company (post acquisition of a 20% post-diluted stake in the company) closed on December 11 2006.
- While details of the success of the offer are not available, we believe the response may have been lackluster because of the prospects of the company and also because the ruling market price was slightly higher than the open offer price.

Strategic benefits being explored

- According to the management, Carlyle has picked up a stake purely as a financial investment. Allsec agreed to the dilution with a view to raising funds for potential acquisitions, with the additional benefits of getting leads into the investee companies of Carlyle. Carlyle has investments in major companies including the likes of Hertz and AC Nielson.
- While Carlyle has picked up a stake in Allsec, there are no firm commitments about the business flow to Allsec from Carlyle. Nevertheless, Allsec has already initiated talks with one of the investee companies of Carlyle for potential business.
- We believe that, Carlyle may participate more actively in Allsec's operations in the future.
- In case Allsec is able to penetrate a few of the large accounts, it can greatly raise the revenue visibility for the company.

Existing clients scaling up

- In case of CompuCredit, Allsec has penetrated further into the collections and client servicing businesses, with a view to de-risking itself and also scaling up within the client. The company, currently, has 12 different processes going on for CompuCredit.
- In case of a large computer manufacturer, Allsec has recently initiated processes for the AMEA and Asia Pacific regions for that client.
- The total number of employees working for this client is 450.
- In Australia, the relationship with Sales Force is progressing smoothly with the company already working for a publishing company and also a consumer electronics company.
- The company is in negotiations with several customers for large call quality monitoring (CQM) projects and some of these may be finalized in future quarters. These projects can raise the revenue visibility for Allsec.
- In the payroll business, Allsec has developed on its own, a marine payroll process, which is currently deployed for a large global shipping company.

- A scale up in this business and work from Australia can increase the shift utilization for Allsec, in turn helping the company in improving margins.
- The company has been able to maintain margins at high levels over the past two fiscals because of high utilization levels and also the reducing communication costs.
- We believe the company has levers like increasing shift utilization and optimal utilization of resources, which can help it in restricting the impact on margins.
- The company expects B2K to become profitable at the net levels by Q4FY07. B2K currently employs about 260 employees.

Capex

- At present, the company has more than 3000 employees (on a consolidated basis) as against 2300 seats.
- In the past, the company has attained utilization rates of about 1.8x. Thus, we believe the company will look at expanding capacities once it has about 3500 employees.

Future prospects

Rs mn	FY06	FY07E	YoY (%)	FY08E	YoY (%)
Income	923.3	1308.7	41.7	1788.8	36.7
Expenditure	655.4	941.0		1305.2	
EBDITA	267.9	367.7	37.3	483.6	31.5
Depreciation	61.4	94.3		131.0	
EBIT	206.5	273.4		352.6	
Interest	5.0	0.6		0.0	
Other income	10.8	39.8		56.0	
PBT	212.2	312.6	47.3	408.6	30.7
Tax	-4.8	8.4		20.4	
PAT	217.0	304.2	40.2	388.2	27.6
EPS (Rs) *	13.8	19.4		24.8	
Margins (%)					
EBDITA	29.0	28.1		27.0	
EBIT	22.4	20.9		19.7	
PAT	23.5	23.2		21.7	

Source: Company, Kotak PCG estimates * - On fully diluted equity

- We expect revenues to grow to Rs.1.31 bn in FY07, looking at the decent revenue visibility from existing clients. For FY08, we expect revenues to further rise to 1.79 bn. We expect the number of employees to grow to 4,000 on a standalone basis.
- Margins are expected to be lower due to the expected rupee appreciation (assumed to appreciate to 43 per dollar by FY08 end) and salary increments. These are expected to offset gains from better shift utilization and resource utilization.
- We have assumed a tax rate of 5% in FY08 as against a write back in FY06.
- Consequently, PAT is expected to rise to Rs.388 mn in FY08, an EPS of Rs.24.8 on the enhanced equity capital.

Valuations

- Based on our DCF analysis, we arrive at a price target of Rs.324, at which levels, our FY08 estimates will be discounted by 13x. We maintain a **BUY** on the stock.

We recommend a BUY on the stock with a price target of Rs.324

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
15-Dec	Axon Infotec	Aboslute Leasing and Finv	B	4,100	150.00
15-Dec	Bihar Tubes	NC Jain	S	17,364	110.51
15-Dec	Bihar Tubes	Vinod N.Doshi	S	19,946	108.66
15-Dec	BSL Limited	Abhyudya Trading Limited	S	85,084	21.93
15-Dec	Emmso Intern	Faith Finstock Pvt Ltd	B	37,373	36.19
15-Dec	Emmso Intern	Himani Khandelwal	S	60,000	36.27
15-Dec	Filat Fash	Sangeetha Sethia	S	40,600	7.75
15-Dec	Galaxy Entet	Grantham Ac GMO Emerging	S	160,511	200.11
15-Dec	Ganesh Benzo	Seaglimpse Investments	S	500,000	12.08
15-Dec	Gayatri Proj	Citigroup Global Mkt Maur	B	50,000	319.41
15-Dec	Gemstone Inv	Manish Suresh Joshi	B	15,200	11.06
15-Dec	Gemstone Inv	Bhavesh Prakash Pabari	B	18,100	11.03
15-Dec	Gemstone Inv	Vijaykumar Nathubhai Shah	S	30,000	11.03
15-Dec	Gemstone Inv	Mradula Vijaykumar Shah	S	20,000	11.03
15-Dec	Gitanjali Ge	Nilesh Navinchandra Shah	S	592,841	204.28
15-Dec	Goldstn Tele	R J L Infrastructure Priv	S	81,445	18.90
15-Dec	GVK Powerinf	ABN Amro Bank N V London	B	155,000	298.89
15-Dec	Innocorp L	Ashok Malhotra	B	79,316	17.53
15-Dec	Kew Industr	S.P.J. Stock Brokers Pvt	B	101,218	26.99
15-Dec	Moving Pictu-Pms	Utsav Parekh HUF	B	40,000	8.75
15-Dec	Moving Pictu-Pms	Andamans Timber Industries	S	40,000	8.75
15-Dec	Paramo Commu	Manulife Global FD India	B	160,000	219.87
15-Dec	Pioner Embro	Search Finvest Pvt Limited	S	94,812	217.80
15-Dec	Ramsarup Ind	Manulife Global Fd India	B	141,000	128.62
15-Dec	Rpg Transm	BSMA Ltd	B	591,981	159.05
15-Dec	Suzlonenergy	Citicorp International	S	1,718,200	1,300.08
15-Dec	UTV Software	Decent Fin. Ser P Ltd	B	118,000	276.56
15-Dec	UTV Software	Decent Financial Services	B	175,000	278.09
15-Dec	UTV Software	Indo Distillation Company	S	312,505	287.29
15-Dec	Vybra Auto (P)	Dhananjaya Money Management	B	45,080	58.28

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	820	2.3	7.8	1.3
Reliance Com	466	4.1	7.6	9.3
SBI	1,264	3.3	4.3	0.8
Losers				
ITC	175	(1.2)	(1.6)	6.3
Reliance Ind	1,254	(0.5)	(1.6)	2.4
Zee Telefilm	342	(3.1)	(1.0)	15.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
18-Dec	LVP holds press conference for its investments in India; LT Overseas listing on BSE & NSE; LVP holds press conference for its investment in India
20-Dec	Sobha Developers listing on NSE & BSE; GAIL India to announce interim dividend; MRF to announce earnings and dividend; Hindustan Petroleum Corp to announce interim dividend; Four Soft to consider fund raising plans; Tantia Constructions to consider funds raising plans; Spanco Telesystems to consider funds raising plans
22-Dec	Indian Oil Corp to announce interim dividend
23-Dec	ONGC to announce interim dividend
26-Dec	Bharat Petroleum Corp to announce interim dividend

Source: Bloomberg

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