

February 21, 2007

FOR PRIVATE CIRCULATION

Equity

	20 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,253	(1.0)	0.5	4.7
Nifty	4,107	(1.4)	0.4	4.8
Banking	7,186	(1.4)	(4.0)	1.5
IT	3,886	(1.0)	4.7	9.7
Healthcare	3,798	(0.1)	(2.2)	2.9
FMCG	1,881	(0.6)	(3.6)	(7.5)
PSU	6,116	(1.5)	(1.7)	(0.2)
CNX Midcap	5,169	(1.3)	(2.2)	4.1
World indices				
Nasdaq	2,513.0	0.7	2.5	2.4
Nikkei	17,939	(0.0)	3.6	14.0
Hangseng	20,568	0.1	1.5	7.5

Value traded (Rs cr)

	20 Feb 07	% Chg - 1 Day
Cash BSE	3,678	(7.1)
Cash NSE	7,801	0.5
Derivatives	39,292	20.9

Net inflows (Rs cr)

	19 Feb 07	% Chg	MTD	YTD
FII	220.2	(64.3)	(599.2)	(599.2)
Mutual Fund	130.8	24.7	(70.2)	194.7

FII open interest (Rs cr)

	19 Feb 07	% chg
FII Index Futures	13,529.3	(2.8)
FII Index Options	8,043.1	2.2
FII Stock Futures	18,524.9	(0.2)
FII Stock Options	50.1	38.2

Advances/Declines (BSE)

	20 Feb 07	A	B1	B2	Total	% Total
Advances	46	118	188	352	23	
Declines	164	513	483	1,160	75	
Unchanged	3	6	19	28	2	

Commodity

	20 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	58.9	(1.7)	13.2	0.1
Gold (US\$/OZ)	657.3	(2.0)	4.0	5.3
Silver (US\$/OZ)	13.8	(1.2)	7.5	5.9

Debt/forex market

	20 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.00	8.02	7.83	7.46
Re/US\$	44.14	44.13	44.17	44.98

Sensex



Source: Bloomberg

ECONOMY NEWS

- Indian policy makers are working on a proposal to allow a set of overseas investors such as non resident Indians (NRIs), foreign firms and individuals to invest in the local stock markets by registering with foreign institutional investors (FIIs) - (ET)
- In a effort to boost investment in infrastructure, Finance Minister P Chidambaram is considering waiving withholding tax, dividend distribution tax and tax deducted at source (TDS) on corporate bonds for companies investing in infrastructure projects, in Budget 2007-08. (BS)
- The Reserve Bank of India has opposed the government's move to bring in a law to introduce a new reporting system for inward flow of foreign contributions. (BS)
- The Customs duty on paper imports may be trimmed to 10 per cent from the current 12.5 per cent in the coming Budget. In the last Budget, the duty was reduced from 15 to 12.5 per cent. (BS)

CORPORATE NEWS

- **Ranbaxy Laboratories** plans to raise \$2bn via ADS to fund the proposed acquisition of German pharma firm Merck's generic business. Ranbaxy has refused to comment on the ADS issue. (FE)
- **Aurobindo Pharma** has announced that it has received another marketing authorization approval from Medicines Control Council (MCC) of South Africa. (BS)
- FMCG major **Dabur Foods Ltd** on Tuesday said it will invest Rs 100 crore to expand capacities (BS)
- **Bosch Chassis Systems India Ltd** has recommended issue of Bonus Shares in the proportion of one new equity share for every equity share held (BSE)
- **Lupin** has entered into an agreement with Laboratoires Servier of France for the sale of certain patent applications and other related Intellectual Property (IP) for Perindopril for multiple countries. (BSE)
- **HCL Technologies Ltd** has signed a MOU with the Government of Maharashtra towards allotment of 170 acres of land in the MIHAN SEZ at Nagpur, a SEZ formally approved by the Ministry of Commerce. (BSE)
- **HLL** has posted a net profit of Rs 5111.80 million for the quarter ended December 31, 2006 and total Income of Rs 32630.50 million. (BSE)
- **Biocon Ltd** has announced that Nasulin, an intra-nasal insulin spray it is developing with Bentley Pharmaceuticals Inc., will enter phase 2 trials in the country in March this year. (BL)
- **Hindustan Lever Ltd** has decided to sell its marine products business. This is on the lines of the company's strategy to exit non-FMCG business. (BL)
- Automotive paints maker Asian PPG Industries will acquire the advanced refinish business of **ICI India**. The company, a joint venture between Asian Paints Ltd and US-based PPG Industries Inc, would buy the unit for Rs 52 crore. (BL)
- P.J. Nayak will continue as Chairman and Managing Director of **UTI Bank** for two more years, effective from August 1, 2007 to July 31, 2009. (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

COMPANY UPDATE

Lokendra Kumar
lokendra.kumar@kotak.com
+91 22 6634 1540

HPCL

(Rs.287, FY08E P/BV: 0.9x, BUY)

Punjab refinery update

HPCL has finally tied up with Mittal Investments as 49% equal equity partner for its 9 MMTPA Punjab refinery project. Mittal Investments will invest over Rs 33 bn as foreign direct investment. It will also be a partner in the 1,100-km pipeline being laid by HPCL to transport crude from Mundra port in Gujarat to the refinery. The refinery and petrochemical complex are together expected to cost Rs 160 bn with Rs 66 bn coming in the form of equity while the remaining Rs 94 bn will be borrowings. HPCL has already invested about Rs 5 bn in the refinery and its likely to get commissioned by 2010 end.

The refinery project would help to provide growth orientation to the HPCL stock only in the long term. HPCL remains value pick for us. We restrain ourselves from changing our valuation parameter of one-year forward 5.2x EV/EBITDA, arrived based on historical trading band. On the PE front the stock has historically (FY04-05) traded between 8x and 10x band. At CMP it is available at the lower end of 8.4x FY08 earnings.

We expect FY08-09 average EBITDA of Rs 27.4 bn, compared to FY07 EBITDA of Rs 22.3 bn; representing 26% growth. Our 5.2x EV/EBITDA multiple to FY08-09 earnings result in target price of Rs 340. The valuations are attractive at CMP, with stock trading at FY08 EV/EBITDA multiple of 4.9x and P/BV of 0.9x. The target price provide 18% upside over CMP, hence we continue to recommend **BUY** on HPCL.

Summary table

(Rs bn)	FY06	FY07E	FY08E
Net sales	710.38	895.51	886.39
Growth (%)	18.81	26.06	-1.02
EBITDA	7.56	21.78	26.55
EBITDA margin (%)	1.06	2.43	3.00
Net profit	4.06	9.16	11.68
Net cash (debt)	-66.21	-85.59	-83.77
EPS (Rs)	11.97	27.02	34.45
Growth (%)	-68.24	125.75	27.51
DPS (Rs)	3.00	3.00	3.00
ROE (%)	4.72	10.02	11.61
RoIC (%)	-3.84	7.37	8.53
EV/Sales (x)	0.23	0.20	0.21
EV/EBITDA (x)	16.40	5.89	4.89
P/E (x)	24.15	10.70	8.39
P/BV (x)	1.12	1.03	0.93

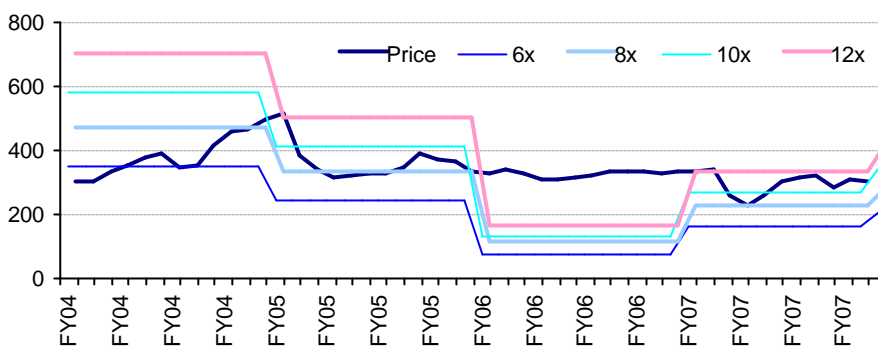
Source: Company & Kotak Securities - Private Client Research

Key assumptions

	FY06	FY07	FY08	FY09
Crude (Indian basket)	57.0	61.5	58.0	57.0
Crude throughput (mn ton)	13.82	16.5	17.5	18.0
Products sales (mn ton)	19.48	20.37	21.30	22.18
GRM (\$/bl)	5.23	6.20	5.55	5.37
NRM (\$/bl)	1.23	1.75	1.36	1.32
HSD retail margin (Rs/tonne)	-200.29	-2487.49	-1475.84	-965.27
MS retail margin (Rs/tonne)	-1362.60	-3169.96	-3225.30	-2663.72
SKO margin (Rs/tonne)	-14766.59	-18560.59	-16498.61	-15999.89
LPG margin (Rs/tonne)	-7563.16	-9494.88	-7945.30	-7584.08
Naphtha margin (Rs/tonne)	766.00	1200.00	1200.00	1200.00
FO and other product margins (Rs/tonne)	1400.00	1200.00	1200.00	1200.00
Total subsidy under-recovery (Rs bn)	75.45	111.80	100.39	96.49
Subsidy shared by upstream and govt (Rs bn)	54.98	96.71	90.35	86.84
Total oil bond to be issued by govt (Rs bn)	139.69	245.71	229.55	220.63
Oil bond for HPCL (Rs bn)	28.64	50.37	47.06	45.23
Net refining contribution (Rs bn)	5.23	9.06	7.38	7.37
Marketing contribution (Rs bn)	-42.09	-76.74	-63.56	-57.99
Oil bond contribution (Rs bn)	28.64	50.37	47.06	45.23
Upstream subsidy sharing (Rs bn)	26.34	46.34	43.29	41.61

Source: Company, Kotak Securities - Private Client Research

PE Band



Source: Kotak Securities - Private Client Research

Valuation - New Estimates

	HPCL
EV/EBITDA	5.20
Operating EBITDA (Rs bn)	27.38
EV (Rs bn)	142.40
Debt net of cash and oil bonds (Rs bn)	35.96
Equity value of core business (Rs bn)	106.44
Number of shares (mn)	339.00
Value per share (core business)	313.99
Value of strategic Investments at CMP (IGL, PLNG, NRL)	26.39
Other financial investments value per share	0.00
Total Value per share	340.38

Source: Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
20-Feb	Aarvee Den E	Shree Dhoot Tdg and Agenc	S	115,525	112.42
20-Feb	Allianz Secu	Dilipkumar V.Akhi	B	1,050,000	62.60
20-Feb	Allianz Secu	ICICI International Ltd	S	500,000	62.60
20-Feb	Anik Inds	Kamlesh Haribhai Chavda	S	151,995	40.44
20-Feb	Anku Dr Ph	Ashok Ruia	B	100,000	182.74
20-Feb	Ashco Indust	Bina A Chauhan	B	20,000	77.90
20-Feb	Automo Cor G	Pruicici Service Fund	B	50,000	485.06
20-Feb	Automo Cor G	Birla Sunlfie Trustee Co	S	50,000	485.03
20-Feb	Balrampur C*	Citicorp International Fi	S	2,200,000	60.00
20-Feb	Cinemax Ind	MBL and Company Ltd	B	167,299	177.69
20-Feb	Conart Engin	H.H.Javeri	S	30,000	35.77
20-Feb	Dai Ich Kark	S.D.N.Company	B	492,240	25.00
20-Feb	Dai Ich Kark	Jehangir H C Jehangir	S	250,000	25.00
20-Feb	Dai Ich Kark	Adi H Jehangir	S	260,000	25.06
20-Feb	Elpro Intern	Lotus Global Investments	B	30,000	265.00
20-Feb	Garnet Const	Yogesh Ambekar	S	41,236	75.21
20-Feb	Godrej Indus	JF Asset Management Limit	B	1,863,000	178.15
20-Feb	HT Media	Kmuk Ac Premier Investmen	S	297,328	175.00
20-Feb	Jupiter Bios	Ruchiraj Securities	B	70,506	195.76
20-Feb	Jupiter Bios	UBS Securities Asia Ltd.	S	200,000	190.01
20-Feb	Malu Paper	Diamant Investment and Fi	B	121,688	37.29
20-Feb	Mazda Ltd	Mayank Sarabhai Shah	S	30,000	153.36
20-Feb	Minax Textil	Jolapara Vijay J	S	30,000	30.70
20-Feb	Royale M H I	Jhaveri Trading Inv Pvt	S	139,159	24.11
20-Feb	Shivalik Gbl	Consolidated Securities	B	117,284	36.32
20-Feb	Som Distil B	Lilae Farms Pvt. Ltd.	B	142,493	20.03
20-Feb	Tripex Over	H B And Co.	S	49,980	180.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ITC	176	0.8	1.1	2.9
GAIL India	295	0.8	0.4	1.0
HPCL	288	1.9	0.4	0.5
Losers				
ONGC	876	(3.3)	(12.9)	1.1
Wipro	664	(2.5)	(4.9)	0.4
Reliance Com	452	(2.4)	(4.5)	2.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
21-27 feb	Initial public offer of Tubeknit Fashions opens
21-Feb	Sun Microsystems & Technopak holds press conference; Motorola hosts a event for the launch of its 1st MotoStore; Garnet Construction holds press conference for marketing alliance; DHL Express holds conference for restructuring of business
22-Feb	Wockhardt to announce earnings and dividend; Shoppers Stop holds conference for announcing joint venture
23-27 Feb	Initial Public Offer of Page Industries opens
26-Feb	India to present Railway Budget for year 2007-08
27-Feb	India to announce economic survey for year ending March 2007
28-Feb	India to unveil Federal Budget for year 2007-08; Alfa Laval to announce earnings and dividend

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Vinay Goenka	Auto, Auto Ancillary, Sugar	+91 22 6634 1291	vinay.goenka@kotak.com
Saday Sinha	Economy, Banking	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

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