

December 28, 2006

FOR PRIVATE CIRCULATION

Equity

	27 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	-			
Nifty	-			
Banking	-			
IT	-			
Healthcare	-			
FMCG	-			
PSU	-			
CNX Midcap	-			
World indices				
Nasdaq	-			
Nikkei	-			
Hangseng	-			

(Data not available due to Technical issues)

Value traded (Rs cr)

	27 Dec 06	% Chg - 1 Day
Cash BSE	-	
Cash NSE	-	
Derivatives	-	

Net inflows (Rs cr)

	26 Dec 06	% Chg	MTD	YTD
FII	-			
MF	-			

FII open interest (Rs cr)

	26 Dec 06	% chg
FII Index Futures	-	
FII Index Options	-	
FII Stock Futures	-	
FII Stock Options	-	

Advances/Declines (BSE)

	27 Dec 06	A	B1	B2	Total	% Total
Advances	142	316	436	894	51	
Declines	62	326	415	803	46	
Unchanged	3	12	36	51	3	

Commodity

	27 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	-			
Gold (US\$/OZ)	-			
Silver (US\$/OZ)	-			

Debt/forex market

	27 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	-			
Re/US\$	-			

Sensex



Source: Bloomberg

ECONOMY NEWS

- ❑ The Government has allowed state-run Rural Electrification Corp to issue tax-free bonds totaling Rs.35 bn. The Central Board of Direct Taxes has also extended the time limit for making investments in these capital gains tax bonds up to March 31, 2007. (BS)
- ❑ The new pharmaceutical policy, being finalized by the Government, is likely to make price monitoring norms for drugs outside price controls more realistic and in tune with market forces. (ET)
- ❑ The Customs duty structure for textile sector may see some rationalization in the forthcoming Budget. The Finance Ministry is considering a proposal to bring down Customs duty on fiber intermediaries, yarn and fabric. (ET)
- ❑ The rupee has appreciated by around 1.7% against the dollar at the end of the calendar year. Its Southeast Asian counterparts, the South Korean won, the Singapore dollar and Indonesian rupiah, have fared better, appreciating by 9%, 7% and 8%, respectively. (BL)
- ❑ State governments have turned down the recommendation of the National Commission on Farmers, headed by Professor MS Swaminathan, to transfer agriculture to the concurrent list of the Constitution to bring it under the direct control of the Centre. (BS)

CORPORATE NEWS

- ❑ **Tata Group** supremo Ratan Tata has blamed competitors for 'fueling' the fire in the controversy over the proposed Rs 1-lakh car project at Singur in West Bengal, but resolved not to pull out of the state. (BS)
- ❑ Tata group company **Indian Hotels**, through one of its associate entities, has picked up 80.62% stake in Kochi-based Amalgam Foods & Beverages. A Tata group spokesperson confirmed the acquisition. (ET)
- ❑ **Dr Reddy's Labs'** generic version of GlaxoSmithKline's Zofran could generate revenues of around Rs.2 bn (\$45 mn) in the US in the six-month exclusivity period. This will contribute to revenue and profits in March and June quarters. (ET)
- ❑ The **UB Group** has said it has earmarked \$500 mn to \$1 bn for an overseas acquisition as part of its strategy to boost global and domestic spirit sales. (ET)
- ❑ **Videocon** and Kishore Biyani's **Future Group** have entered into an agreement for consumer durables. Under the agreement, Future Group company, Home Solutions Retail India will source electronics and home appliances from Videocon for its in-store brands, Sensei and Koryo. (BS)
- ❑ **Bharti Airtel** will start talks for 'disengagement' from its partner Vodafone once the UK company decides on its future course of action in India. Vodafone, which has a 10% equity stake in Bharti Airtel, announced a few days back that it would pitch for acquiring a majority stake in Hutchison Essar. (BS)
- ❑ **Nagarjuna Construction Company** has informed the BSE that the company has secured three new orders aggregating to Rs.3.7 bn. (BL)
- ❑ The **Bharti group** said it planned to set up 200 hypermarkets and large format stores across the country and invest around \$7 bn by 2010. (BS)
- ❑ Some bidders could walk away from the race for **Hutchison Essar** if the asking price reaches about \$20 bn or a similar amount. People bidding for Hutch say at \$20 billion, the company will be valued at a substantial premium to both **Bharti** and **Reliance Communications**. (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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Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	35,020	41,230	48,487
Growth (%)	9.9	17.7	17.6
EBITDA	8,542	9,718	11,163
EBITDA margin (%)	24.4	23.6	23
Net profit	5,830	6,567	7,626
Net cash (debt)	18,226	21,365	27,794
EPS (Rs) (consolidated)	72.9	82.1	95.3
Growth (%)	30.6	12.6	16.1
CEPS	82.7	92.6	106.7
DPS (Rs)	12.8	12.8	12.8
ROE (%)	32.0	29.0	26.0
ROCE (%)	48.0	43.0	40.0
EV/Sales (x)	2.5	2.1	1.6
EV/EBITDA (x)	10.5	8.9	7.1
P/E (x)	18.5	16.4	14.1
P/Cash Earnings	16.3	14.5	12.6
P/BV (x)	5.5	4.3	3.4

Source: Company & Kotak Securities - Private Client Research

BHARAT ELECTRONICS (Rs.1344, FY08 P/E: 14.1x, HOLD)

We had initiated coverage on Bharat Electronics (BEL) with a BUY rating and a target price of Rs.1300. We are now revising our target upwards to Rs.1400 based on DCF. In view of the limited upside, we are revising our rating on the stock to a HOLD.

BEL is one of the largest manufacturers of radars, wireless communication systems and other technical equipment for the defense forces in the country. The company had a healthy order backlog of Rs.66 bn at the end of FY06 giving it a revenue visibility of 22 months based on FY06 revenues. While the focus area for BEL continues to be defense, over the years it has made an entry into the civilian electronics market as well.

Product portfolio - Defense

Segments	Products
Military Communications	HF/VHF Comm tech
Land based radars	3D/Low flying radar/surveillance radar
Naval Systems	Air&Surface warnings radar
Opto-electronics	Binoculars/laser range finder
Electronic Warfare	Airborne ESM systems

Source: Company

Product portfolio - Civil

Segments	Products
Telecom	Rural auto exchange/Digital switching systems
Sound and vision broadcasting	Transmitters
Solar photovoltaic systems	Solar cells/lighting systems
Electronic components	Semi-conductor devices
Niche products	Electronic voting machine/Digital set-top boxes

Source: Company

Revenue (Rs mn)

	FY03	FY04	FY05	FY06
Civil	5,241	6,245	4,000	5,000
Defence	19,715	20,906	27,853	30,608
Total	24,956	27,151	31,853	35,608
% Share of defense	79%	77.0%	87.4%	86.0%

Source: Company

We reckon the stock could see further upside as:

- In terms of revenue booking BEL tends to have a weak first half but makes up with strong earnings numbers in the second half. In FY06, 49% of the company's annual earnings came in the fourth quarter. As a result, the stock tends to perform in the latter part of the fiscal year.
- This trend is evident in the current year as well. While BEL has underperformed the broad market in the current fiscal, the stock has outperformed the Sensex over the last one month.
- Greater thrust on capital expenditure on defense in the upcoming Budget could boost BEL's order book prospects.

- The Offset Policy for defense procurement was introduced in June 2005. It stipulates that all contracts over Rs.3 bn must have a minimum offset of 30% and the offset obligation should be discharged concurrently with the main contract. It is estimated that this offsets to the extent of \$10 bn will be generated during the 11th Plan period. (Source PIB.NIC.IN)

The offset policy can be discharged in any of the forms given below:

- (a) Direct execution of export orders for defense products services meaning maintenance, overhaul, upgradation, life extension, engineering, design, testing, defense related software or quality assurance services.
- (b) Direct foreign investment in Indian defense industries for industrial infrastructure for services, co-development joint ventures and co-production of defense products.
- (c) Direct foreign investment in Indian organizations engaged in defense research and development as certified by Defence Offset Facilitation Agency (DOFA).

- The company has stated that large number of large system developments based on the joint efforts of DRDO and BEL are either completed or are at advanced stages of development. This augurs well for BEL. BEL is also setting up facilities to produce super-components and a new mass manufacturing facility to assemble circuit boards has been set up at Panchkula to meet captive requirement and also address the contract manufacturing segment of export.

Valuation

While BEL has reported lackluster numbers for the first half, we are expecting it to meet our full year profit estimates.

We recommend HOLD on the stock with a price target of Rs.1400

BEL would continue to trade at a discount to the engineering sector peers due to its lower earnings growth, inadequate reporting of key indicators like order backlogs on a quarterly basis and lumpiness in revenue booking.

At the current price, BEL is trading at 16.4x and 14.1x FY07 and FY08 earnings, respectively. We revise our rating to a **HOLD** with a price target of Rs. 1400.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
27-Dec	Best E.Hotel	Piyush Mahasukhlal Shah	B	13,000	56.69
27-Dec	Calfnia Sof	Kothari Products Ltd	S	45,000	75.77
27-Dec	Comfort Intc	Jagdish Chandra Bansal	S	34,000	16.99
27-Dec	DCM Limited	Reliance Capital Trustee	B	117,046	76.46
27-Dec	Empower Inds	Bhavesh Prakash Pabari	B	50,000	11.38
27-Dec	Essar Ship	ECL Finance Limited	B	2,200,000	39.85
27-Dec	Essar Ship	Goldman Sach	S	2,535,743	40.00
27-Dec	Foundry Fuel	Bal Binode Bajoria	S	30,900	8.12
27-Dec	Gemstone Inv	BCB Finance P Ltd	B	16,900	11.83
27-Dec	IOL Broadban	Goldman Sachs Investment	S	102,305	240.13
27-Dec	Kotawala(I)	Hitesh Jhaveri	B	30,030	86.57
27-Dec	Mazda Ltd	Harsiddh Online	S	36,873	181.98
27-Dec	Mcnally Bha	Gujarat Fluoro Chemicals	S	160,000	158.85
27-Dec	Mefcom Agr I	ISF Securities Ltd	S	65,000	140.05
27-Dec	Mohit Indust	Chandrakant Bhogilal Shah	B	50,000	61.56
27-Dec	N K Industr	Kotak Mahindra Bank Limit	S	50,000	14.04
27-Dec	Nitco Tiles	Indo Distillation Company	S	200,000	265.00
27-Dec	PFLInfotech	Chandrakanth Bhagilal Sha	B	40,000	7.12
27-Dec	Ramsarup Ind	Manulife Global Fund Indi	B	122,000	151.36
27-Dec	RTS Power Co	Ranjeet Singh Lodha	B	30,000	112.69
27-Dec	Sharon Bio	Micro Management Ltd	B	83,740	178.89
27-Dec	Sharon Bio	Sovin Trading Pvt.Ltd.	S	54,000	177.65
27-Dec	Sharyan Reso	Vijay K.Choraria	B	131,585	262.00
27-Dec	Sharyan Reso	Padam Baid	S	108,610	262.00
27-Dec	Simbhaol Su	UBS Securities Asia Limit	S	136,996	58.77
27-Dec	Spanc Telesy	Ashita Bhavin Parekh	B	100,000	188.02
27-Dec	Speciality	Honeyvick Enterprises P L	B	36,430	44.59
27-Dec	Speciality	Ramuben Lakhamshi Shah	S	50,000	46.63
27-Dec	Speciality	Manilal M Shah	S	100,000	47.70
27-Dec	Speciality	Jignesh Lakhamshi Shah	S	75,000	41.91
27-Dec	Speciality	Honeyvick Enterprises P L	S	77,529	47.56
27-Dec	Super Tann I	Girish B Shah	S	42,721	53.06
27-Dec	Super Tann I	Honeyvick Enterprises P L	S	207,003	55.79
27-Dec	Tel Eighteen	Laxmi Shivanand Mankekar	B	350,000	587.87
27-Dec	Vyapar Inds	Hussain Abbas Rassai	S	41,000	123.02
27-Dec	Vyapar Inds	Marconi Investments Ltd.	S	38,170	123.00

Source: BSE

Forthcoming events

COMPANY/MARKET	
Date	Event
28-Dec	Union Bank to announce interim dividend
10-Jan	iGate Global Solutions earnings expected
16-Jan	Bajaj Auto earnings expected
18-Jan	Ranbaxy Laboratories to announce earnings & dividend
19-Jan	Dabur India earnings expected

Source: Bloomberg

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