October 31, 2006

FOR PRIVATE CIRCULATION

Equity

		% Chg		
	30 Oct 06	1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,024	0.9	4.6	21.2
Nifty	3,769	0.8	5.0	19.9
Banking	6,518	1.9	7.9	36.3
IT	3,314	0.8	10.5	26.9
Healthcare	3,653	0.6	(0.8)	13.2
FMCG	2,019	0.4	(2.3)	7.3
PSU	5,975	0.3	2.7	18.3
CNX Midcap	4,846	0.1	3.3	25.0
World indices				
Nasdaq	2,363.8	0.6	4.7	13.0
Nikkei	16,352	(1.9)	1.5	5.9
Hangseng	18,298	(0.3)	3.9	7.5

Value traded (Rs cr)

	30 Oct 06	% Chg - 1 Day
Cash BSE	3,464	(13.3)
Cash NSE	8,424	0.8
Derivatives	25,316	12.1

Net inflows (Rs cr)

	27 Oct 06	% Chg	MTD	YTD
FII	496.7	0.7	5,258	29,133
MF (20 Oct)	(1.3)	(98.2)	(379)	13,961

FII open interest (Rs cr)

	27 Oct 06	% chg
FII Index Futures	6,555.8	(1.9)
FII Index Options	3,123.6	7.2
FII Stock Futures	13,269.4	2.4
FII Stock Options	122.2	2.1

Advances/Declines (BSE)

30 Oct 06	A	B1	B2	Total	% Total
Advances	101	242	386	729	43
Declines	105	398	446	949	55
Unchanged	2	9	24	35	2

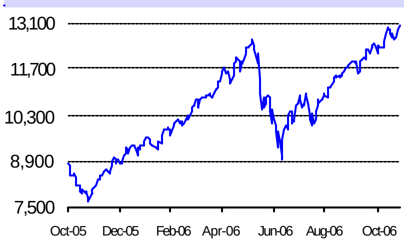
Commodity

		% Chg		
	30 Oct 06	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	58.4	(3.9)	(7.2)	(20.3)
Gold (US$/OZ)	604.1	0.7	0.7	(5.4)
Silver (US$/OZ)	12.1	0.4	5.1	5.2

Debt/forex market

	30 Oct 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.61	7.61	7.64	8.23
Re/US$	44.97	45.20	45.97	46.56

Sensex



Source: Bloomberg

ECONOMY NEWS

- The 30-share Sensex crossed yet another milestone - the psychological 13000-mark - on Monday. The index has rallied 47% from its low in June this year. (ET)
- Stock exchanges will have to compulsorily delist a company if it suffers losses during the preceding three consecutive years and its net worth has turned negative. This is as per the draft delisting rules notified by the Finance Ministry's Department of Economic Affairs. (ET)
- With foreign investments in critical sectors becoming a controversial issue, RBI and finance ministry have asked the department of industrial planning and promotion to define FDI and FII unambiguously. (ET)
- The cost of non-life insurance policies may come down as the Government is set to allow firms providing both taxable and exempt insurance services to take input tax credit proportionate to the taxable services they render. (ET)
- India will offer over 250 additional items in the tariff liberalization program under its bilateral Comprehensive Economic Cooperation Agreement with Singapore. The additional items are being included following a demand made by Singapore. (BS)

CORPORATE NEWS

- **Tata Steel** has reported a net profit of Rs.11.01 bn during the second quarter ended September 30 against Rs.10.45 bn in the same quarter of last fiscal, representing a 5.3% increase. Tata Steel is expected to close the acquisition of Corus Group Plc by middle of January 2007. (BL, BS)
- **ITC** has recorded a 32.3% growth in net turnover during the second quarter ended September 30, 2006. The company has notched a net sales turnover of Rs.28.88 bn against Rs.21.83 bn recorded in July-September 2005. (BL)
- **Punjab National Bank's** profit after tax has risen 19.7% to Rs.5.05 bn for the three months ended September 30, as against Rs.4.22 bn for the corresponding quarter of 2005-06. Operating profit has also shot up 30%, from Rs.6.84 bn to Rs.8.89 bn. (BL)
- **Reliance Communications** has reported a net profit of Rs.7.02 bn for the second quarter of the current fiscal, as against a net loss of Rs.190 mn in the corresponding year-ago quarter. (BL)
- **Hero Honda Motors Ltd** is likely to acquire the low-volume subsidiaries of Honda Motor Company in Nigeria, South Africa, Egypt and other African countries. Hero Honda will also enter into an agreement with Honda in other markets. (BS)
- The Tata-Fiat alliance is likely to look beyond the passenger vehicle space to a collaboration between the two companies in the commercial vehicle segment. Fiat group CV-maker Iveco is part of the discussions between **Tata Motors** and Fiat SpA. (ET)
- The management team at CVC International, the private equity arm of Citigroup, made a killing when it sold a part of its holding in **Suzlon Energy** for Rs.8.01 bn. It had earlier realized Rs.1.85 bn during the company's IPO. (ET)
- Actis has sold its investment in **Glenmark Pharmaceuticals**. The private equity fund has offloaded the final lot of about 6.7% stake in the pharma company to HSBC Global Investment Fund in a deal valued at Rs.3.04 bn. (ET)
- The **MphasiS BFL** Group has reported a 54% rise in consolidated net profit at Rs.234 mn for the quarter-ended September compared to Rs.152 mn in the previous quarter. (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

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6634 1258

AREVA T&D
(RS.810, CY07E P/E: 22.5X, HOLD)

Areva has announced an excellent set of third quarter results. During the quarter, the company transferred its non-T&D business to its subsidiary Alstom Energy Ltd. Hence, the quarterly numbers are not strictly comparable on a YoY basis. The margin expansion is in line with our expectations. We have raised our profit projection for CY06 to Rs.26.1 per share. We maintain upgrade the stock to a BUY with a target price of Rs.935.

Summary table

Rs mn	FY05	9MCY05	CY06E	CY07E
Sales	7,747	8,695	12,950	16,835
Growth (%)	39.5	12.2	48.9	30.0
EBITDA	543	689	1,606	2,237
EBITDA margin (%)	7.0	7.9	12.4	13.3
Net profit (Adj)	353	417	1,040	1,435
Net cash (debt)	255	312	(56)	686
EPS (Rs)	8.8	10.5	26.1	36.0
Growth (%)	142.0	18.1	149.5	37.9
CEPS	12.0	11.5	28.9	39.4
DPS (Rs)	1.8	2.5	2.5	2.5
ROE (%)	18.8	20.2	41.4	41.1
ROCE (%)	21.3	27.9	57.1	58.4
EV/Sales (x)	3.7	3.7	2.5	1.9
EV/EBITDA (x)	59.0	46.5	20.2	14.1
P/E (x)	91.5	77.5	31.1	22.5
P/Cash Earnings	67.5	70.5	28.0	20.6
P/BV (x)	21.0	18.0	13.3	8.6

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

	Q3CY06	Q3CY05	% chg	9MCY06	9MCY05	% chg
Net Sales	**3,204**	**3,017**	**6.2**	**9,507**	**7,343**	**29.5**
Other Income	23	22	5.6	55	67	-18.4
Total Income	**3,226**	**3,039**	**6.2**	**9,562**	**1,496**	**539.2**
RM costs	2,204	2,083	5.8	6,526	4,950	31.9
Staff costs	241	221	8.9	672	656	2.5
Other exp	366	511	-28.4	1,193	1,204	-0.9
Total Expenditure	2,811	2,815	-0.2	8,391	6,809	23.2
PBIDT	**393**	**202**	**94.5**	**1,116**	**533**	**109.2**
Interest	7	1	600.0	14	2	566.7
PBDT	**408**	**222**	**83.6**	**1,157**	**599**	**93.2**
Depreciation	27	31	-11.4	84	86	-3.1
PBT	**381**	**192**	**98.9**	**1,073**	**512**	**109.4**
Tax	89	70	27.4	366	187	95.2
Adj Profit After Extra-ord item	**292**	**122**	**140.0**	**707**	**325**	**117.7**
VRS and asset sales	68	(5)		59	(32)	-286.1
Reported PAT	360	117	207.6	766	293	161.3
OPM (%)	12.3	6.7		11.7	7.3	
Tax rate (%)	23.4	36.5		34.1	36.6	

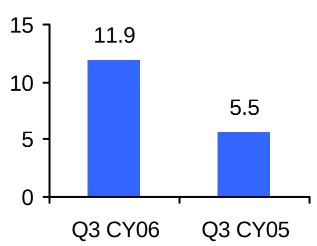
Source: Company

RESULT HIGHLIGHTS

Revenues driven by strong growth in T&D business

Since the corresponding quarter of the previous year included the now demerged non-T&D business, the second quarter revenue growth is not strictly comparable on a YoY basis. On a segment basis, the revenue of T&D division has grown 26.5% in Q3CY06.

Segment margins (%)



Source: Company

Quantum improvement in operating margins

There has been an impressive expansion in operating margins. Segment margins in the T&D division have

Earnings for the quarter up 140% to Rs.292 mn

Areva reported excellent growth in net profit. Earnings have been primarily driven by margin expansion. We have raised our earnings forecast for CY06 from Rs 23.1 per share to Rs 26.1 per share.

Earnings estimates

	Earlier		Revised	
(Rs mn)	CY06	CY07	CY06	CY07
EPS (Rs)	23.1	30.5	26.1	36.0
NP	922.0	1,216.0	1,040.2	1,434.5
EBITDA	1,430.5	1,914.0	1,606.0	2,236.0

Source: Kotak Securities - Private Client Research

Areva plans to invest 50 mn euros in India in the T&D sector

Areva has stated its intentions to invest up to 50 mn euros in the T&D sector over the next three years. It also plans to ramp up its exports in the coming years. The company is targeting exports to touch 20% sales in the future.

Peer comparison (PE)

(x)	CY06	CY07
ABB	44.6	31.0
Siemens	40.8	29.4
Areva	31.0	23.0

Source: Company

Growth in order inflows across major divisions in CY05

Business divisions	% change
Power Transformers	98
Distribution Transformers	72
Automation	35

Source: Company

Amalgamation of other group companies

The Areva board has approved the amalgamation of Areva T7D systems, Areva Instrument Transformers and Areva Lightning arrestors with itself.

Outlook

We are upgrading our recommendation to a BUY on the stock with a price target of Rs.935

We remain highly positive on Areva in view of the strong investment momentum in the sector. In view of the transfer of the non-T&D division to its subsidiary, we are presenting the earnings for the pure T&D business.

We are upgrading our recommendation to a **BUY** on the stock. The stock is trading at 31.1x and 22.5x CY06 and CY07 earnings, respectively.

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6634 1237

PATEL ENGINEERING LTD
(RS.358, FY08E P/E: 15.3, HOLD)

Patel Engineering reported a very good set of numbers with revenues registering a YoY growth of 39%, operating margins of 15.5% and a robust YoY growth of 97% in net profits, which was ahead of our estimates.

Summary table

(Rs mn)	FY06E	FY07E	FY08E
Revenues	8,016	11,374	14,951
% change YoY	52.1	41.9	31.5
EBITDA	1,059	1,458	1,909
EBITDA (%)	13.2	12.8	12.8
Other Income	200	200	200
Depreciation	266	326	393
EBIT	993	1,332	1,716
% change YoY	97.7	34.1	28.9
Net interest	206	188	150
Profit before tax	787	1,144	1,566
% change YoY	79.7	45	36.9
Tax	85	126	172
as % of PBT	10.8	11.0	11.0
Net income	702	1,018	1,394
% change YoY	80.3	45	36.9
Shares outstanding (m)	50.0	59.7	59.7
EPS (reported) (Rs)	14.0	17.1	23.4
CEPS (Rs)	19.4	22.5	29.9
DPS (Rs)	0.99	1.00	1.00
EV/ Sales	2.7	1.6	1.3
EV/EBITDA	20.7	12.9	10.1
P/E (x)	25.5	21.0	15.3
P/B	9.2	3.0	2.5

Source: Company & Kotak Securities - Private Client Research

Key highlights of the result(Standalone)

Rs mn	Q2FY07	Q2FY06	YoY (%)
Net Sales	**1979**	**1421**	**39**
Expenditure	1672	1186	
EBITDA	**307**	**235**	**31**
EBITDA margin (%)	15.5	16.5	-100bps
Depreciation	66	71	
EBIT	**241**	**164**	**47**
Interest	-13.1	23	
EBT(exc otr income)	254	141	80
Other Income	20	1.9	
EBT	**274**	**143**	**92**
Tax	24	16	
Tax (%)	8.7	11.2	
Net profit	**250**	**127**	**97**
NPM (%)	12.6	8.9	
Equity Capital	59.7	48.6	
EPS (Rs)	**4.2**	**2.6**	

Source: company

Good revenue growth

Patel Engineering reported a 39% YoY growth in its net revenues, which was ahead of our estimates. Monsoons impacted work during the second quarter, due to which, on a QoQ basis, a decline of 32% is seen in revenues. We believe that with an order book close to Rs.48 bn, the company will be able to grow its revenues at a CAGR of 36.5% for the next two years.

Healthy operating margins

The company reported healthy operating margins for the current quarter, which was primarily due to higher margin contracts executed in the current quarter. With a diverse business mix comprising projects from high margin hydropower and irrigation projects and lower margin road projects, we expect operating margins for the company to be in the range of 12-13% on a full year basis.

Repayment of contractee advances

The company planned to repay interest bearing contractee advances to the tune of Rs.800 mn out of the proceeds of the follow-on issue. Out of this, it had paid advances to the tune of Rs.792 mn, resulting in declining the interest outgo by a significant amount.

Acquisition of Michigan Engineers (MEPL)

Patel has acquired a controlling stake of 51% in a Mumbai-based construction company Michigan Engineers Ltd, which has expertise in the areas of underground works and foundations, bridges, piling works and specialized sewage rehabilitation works. MEPL has an order book close to Rs.1 bn in the areas of underground sewage works, piling and foundations.

It had reported revenues in the range of Rs.200-250 mn in FY06. With the present order book, along with Patel Engineering we expect MEPL to show 100% growth in the revenues for the next two years. Due to the very small size of MEPL, this acquisition would not have any significant impact in the near future on financials of Patel Engineering but the impact of synergies would be seen after one and a half to two years.

Order inflow momentum intact

The company has bagged orders to the tune of Rs.9.1 bn in the current quarter, which includes Loharinag Pala Hydro Electric Power Project worth Rs.3.18 bn from NTPC and two railway projects worth Rs.1.76 bn from Rail Vikas Nigam Ltd. With the government's renewed thrust on raising the share of hydropower to the total installed capacity, Patel should benefit with higher order inflows in the coming future. It has also floated a separate SPV for executing its Rs.4.1 bn BOT project, which the company has bagged jointly with KNR Constructions. Details of this project are as follows -

Project details	
Cost of project	Rs 4.1bn
Duration of the project	20 years(including a 2 year construction period)
Percentage share of Patel Engg	60%
Joint Venture Partner	KNR constructions
Debt-Equity ratio	75 : 25
Annuity Payment	Rs 330 million semi-annual annuities for 18 years
Expected IRR	12-14%

Source: Company

Valuation and recommendation

We recommend a HOLD on the stock

At the current price of Rs.358, the stock is trading at 15.3x P/E and 10.1 x EV/ EBITDA multiples for FY08. We currently have a **HOLD** recommendation on the stock with a price target of Rs.360. At our target price, the stock would be trading at 15.4 x P/E and 10.1 x EV/EBITDA multiples for FY08.

Nagarjuna Constructions (NCC)
(Rs.176, FY08E P/E 14.8x, BUY)

Result Update

Teena Virmani
teena.virmani@kotak.com
+91 22 6634 1237

NCC posted quite an impressive set of numbers for Q2FY07 with revenues rising 77% YoY. This was ahead of our estimates. Operating margins were 9.5% and net profit grew 88% YoY.

Summary table (Year end Mar)

(Rs mn)	FY06	FY07E	FY08E
Revenues	18,404	29,446	40,047
% change YoY	54.9	60.0	36.0
EBITDA	1,641	2,797	3,804.5
EBITDA margin (%)	8.9	9.5	9.5
Other Income	20.2	20.2	20.2
Depreciation	181.6	260.9	345.9
EBIT	1,479.3	2,556.7	3,478.8
% change YoY	74.7	72.8	36.1
Net interest	217.0	361.8	399.3
Profit before tax	1,262.3	2,194.9	3,079.5
% change YoY	80.3	74	40.3
Tax	223.3	439.0	615.9
As % of PBT	17.7	20.0	20.0
Net income	1,039.0	1,755.9	2,463.6
% change YoY	82.2	69	40.3
Shares outstanding (m)	103.3	206.6	206.6
EPS (reported) (Rs)	10.1	8.5	11.9
EV/ Sales	2.0	1.2	0.9
EV/EBITDA	22.7	12.9	9.5
P/E (x)	35.0	20.7	14.8
P/B	3.8	3.3	2.7

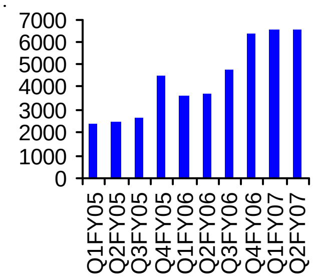
Source: Company & Kotak Securities - Private Client Research

Quarterly performance

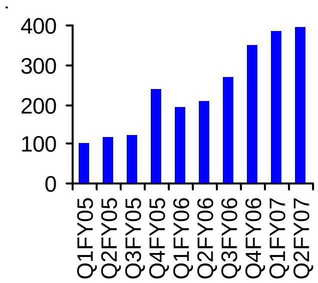
Rs mn	Q2FY07	Q2FY06	YoY (%)
Net Sales	**6517**	**3682**	**77%**
Expenditure	5899	3303	
EBITDA	**618**	**379**	**63%**
EBITDA margin	9.5%	10.3%	- 80bps
Depreciation	69	41	
EBIT	**549**	**338**	**62%**
Interest	96	89	
EBT (exc other income)	453	249	82%
Other Income	9.8	15	
EBT	**462.8**	**264**	**75%**
Tax	69	55	
Tax%	14.9%	20.8%	
Net profit	**393.8**	**209.0**	**88%**
NPM%	6.0%	5.7%	30 bps
Equity Capital	413.2	318	
EPS	**1.91**	**1.3**	
EPS adjusted for bonus			

Source: Company

Revenue (Rs mn)



PAT (Rs mn)



Source: Company

Key highlights of the results

- **Excellent revenue growth.** Revenues have registered excellent growth of 77% for Q2FY07. On a QoQ basis also, NCC has not shown any de-growth in revenues due to the impact of monsoons on the construction business. With an order book of Rs.67 bn and a sustained order flow momentum, we believe the company should be able to achieve revenues of Rs.29.4 bn and Rs.40 bn in FY07 and FY08, respectively.
- **Healthy operating margins.** Although margins declined by 80 basis point, on a YoY comparison, it has shown an improvement of 104 bps as compared to Q1FY07. With variable pricing contracts in most of its projects and a diverse business mix portfolio, we expect NCC to maintain margins of 9.5% for the full year.
- **Improvement in net profit margins.** Excellent growth in revenues and very good operating margins have resulted in increasing net profits by 88% on a YoY basis. This has also improved net profit margins by 30 bps.
- **Order inflow intact.** The company has bagged orders to the tune of Rs.25.5 bn in the current financial year and raised its order book to Rs.67 bn, which is fairly diversified across different segments such as buildings (18%), roads (47%), water (18%), electricity (7%) and irrigation (9%).
- **Valuation and Recommendation.** We believe the order book of Rs.67 bn is expected to drive growth in revenues at a CAGR of 47% and profits at a CAGR of 54% for next two years. At the current market price of Rs.176, the stock is trading at 20.7x FY07 and 14.8x its estimated FY08 earnings on a standalone basis. On an EV/EBITDA basis, it is trading at 12.9x and 9.5x it's FY07 and FY08 estimates, respectively. We have valued NCC on DCF and sum-of-the-parts methodology and maintain our BUY with a price target of Rs.200. At our target price, the stock would be trading at 16.8 x P/E and 10.8 x EV/EBITDA multiples for FY08.

We maintain BUY recommendation on the stock with a price target of Rs.200

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6634 1237

IVRCL INFRASTRUCTURE LTD
(RS.289, FY08E P/E 14.8X, HOLD)

IVRCL reported a decent set of numbers for Q2FY07 with net sales registering 42% YoY growth, which is slightly lower than our estimates. Operating margins showed an improvement of 30 bps and net profit grew 39% as compared to Q2FY06. We currently have a HOLD recommendation on the stock.

Summary table (Year end Mar)

(Rs mn)	FY06	FY07E	FY08E
Revenues	15,214	25,491	35313
% Change YoY		67.6	38.5
EBITDA	1,343	2,320	3213
EBITDA margin	8.8	9.1	9.1
Other Income	57.0	20.0	20.0
Depreciation	110.0	150.4	190.9
EBIT	1,290.0	2,249.3	3,042.6
% Change YoY		74.2	35.3
Net interest	253.0	280.1	280.136
Profit before tax	1,037.0	1,969.1	2,762.5
% Change YoY		90.0	40.3
Tax	107.6	295.0	414.37
As % of PBT	10.4	15.0	15.0
Net income	929.4	1,673.8	2,348.1
% change YoY		80.0	40.3
Shares outstanding (m)	107.0	119.5	119.5
EPS (reported) (Rs)	8.7	14.0	19.6
EV/ Sales	1.8	1.2	0.9
EV/EBITDA	20.8	13.0	9.5
Price to earnings (P/E)	33.3	20.6	14.8
Price to book value (P/B)	6.4	3.7	3.0

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

Rs. mn	Q2FY07	Q2FY06	YoY%
Net Sales	**3644.0**	**2566.5**	**42%**
Expenditure	3336.0	2356.0	
EBITDA	**308.0**	**210.5**	**46%**
EBITDA margin	8.5%	8.2%	30 bps
Depreciation	49.0	24.2	
EBIT	**259.0**	**186.3**	**39%**
Interest	102.6	71.8	
EBT (exc other income)	156.4	114.5	37%
Other Income	54.6	3.5	
EBT	**211.0**	**118.0**	**79%**
Tax	55.7	6.0	
Tax%	26.4%	5.1%	
Net profit	**155.3**	**112.0**	**39%**
NPM%	4.3%	4.4%	
Equity Capital	214	214.0	
EPS	**1.5**	**1.0**	

Source: Company

Key highlights of the result

- **Revenue growth lower than estimates due to monsoons.** IVRCL registered a 42% growth in net sales for Q2FY07, which is slightly lower than our estimates. The impact of monsoons is seen in the revenue growth for Q2FY07 with revenues registering a 15% de-growth vis-à-vis Q1FY07. However, we believe this is a cyclical phenomenon and this de-growth would be overcome by a robust growth in the coming quarters.

- **Operating margin improvement**. Operating margins of the company have shown an improvement of 30 bps as compared to Q2FY06, primarily due to variable pricing clauses in most of its projects, which protects the margins from rising commodity prices. With diversification into higher margin electrical and building projects, we expect IVRCL to obtain operating margins of 9.1% for the full year.

- **Net profits register slower growth**. Due to a slower growth in revenues and higher tax outgo, net profits of the company have grown by only 39%, which has resulted in lowering the net profit margins by 10 bps as compared to Q2FY06.

- **Performance of subsidiaries**. Hindustan Dorr Oliver has shown an excellent set of numbers with revenues growing by 39% and a sharp improvement in the operating margins from 2.9% in Q2FY06 to 11.8% in Q2FY07, driven primarily by improved capacity utilization in the manufacturing operations and cost efficiencies. Healthy growth in revenues and a sharp improvement in operating margins have resulted in a 913% YoY growth in net profit.

IVRCL would continue to focus on improving upon the efficiencies of Hindustan Dorr Oliver. IVRCL Prime Urban Developers has also shown a significant improvement in its profitability due to the rise in the real estate prices. The company is venturing into real estate development across different cities such as Noida, Chennai, Bangalore, Pune and Hyderabad and currently has a land bank of approximately 2000 acres and plans to develop around 50-mn sq ft in the next four to five years.

We recommend a HOLD on the stock

- **Valuation and Recommendation**. At the current price of Rs.289, the stock is trading at 20.6x FY07 and 14.8x FY08 it's fully diluted estimated earnings on a standalone basis. On an EV/EBITDA basis, it is trading at 13.0x and 9.5x its FY07 and FY08 estimates, respectively. With an order book of close to Rs.70 bn, we expect IVRCL to grow its revenues at a CAGR of 52% and profits at a CAGR of 59% for the next two years. We currently have a **HOLD** recommendation on the stock.

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6634 1237

MURUDESHWAR CERAMICS
(Rs.102, FY07 P/E: 5.5x, BUY)

Murudeshwar Ceramics Ltd (MCL) has reported an excellent set of numbers for Q2FY07 with revenues growing 35% on a YoY basis and net profit growing 47% driven by healthy operating margins despite commissioning of lower margin ceramic tiles production. With completion of the company's expansion program in both the ceramic and vitrified tile division, the company has become one of the largest manufacturers of vitrified tiles in India. At the current price of Rs.102, the stock is trading at 5.5x its estimated earnings for FY07 and 4.7x its estimated earnings for FY08. We are maintaining our BUY on the stock with a price target of Rs.166.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	2,029.5	3,021.0	3,289.0
Growth (%)		49%	9%
EBITDA	602.0	752.2	818.9
EBITDA margin (%)	29.7	24.9	24.9
Net profit	238.2	324.6	377.5
Net debt	1,485.0	1,685.0	1,435.0
EPS (Rs)	15.9	18.6	21.6
Growth (%)		17%	16%
DPS (Rs)	1.0	2.0	2.0
ROE (%)	11.2	14.5	14.7
ROCE (%)	12.2	14.2	14.5
EV/Sales (x)	1.4	1.1	0.9
EV/EBITDA (x)	5.0	4.4	3.8
P/E (x)	7.4	5.5	4.7
P/BV (x)	0.73	0.75	0.65

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

Rs mn	Q1FY07	Q1FY06	YoY%
Net sales	**658.8**	**488.6**	**35.0**
Operating Profit	194.3	139.7	39.0
Operating profit margin	29.49%	28.59%	
Depreciation	56	43.2	
EBIT	**138.3**	**96.5**	**43.0**
Interest	44	35.8	
EBT (exc other income)	**94.3**	**60.7**	**55.0**
Other income	2.15	2	
EBT	**96.45**	**62.7**	**54.0**
Tax	11.8	4.9	
Tax %	12.23%	7.81%	
PAT	**84.65**	**57.8**	**47.0**
NPM %	12.85	11.83	
Capital	150.1	150.1	
EPS	**5.64**	**3.85**	

Source: Company

Key highlights of the result

- **Excellent growth in revenues driven by strong demand**. MCL has registered an excellent 35% YoY growth in its revenues. The company achieved this on account of increased capacities due to the capacity expansion carried out by it. Out of the total sales of Rs.659 mn in Q2FY07, 23% has come from ceramic tiles, 72% from vitrified tiles and 5% from the granite division. Capacity utilizations have also improved with the Karaikal facility operating at 71% and Hubli at 89%, which has resulted in higher production.

- **Good operating margins despite commissioning of ceramic tile division**. Since the ceramic tiles business is a lower margin business as compared to vitrified tiles, margins have shown a decline as compared to Q1FY07. This can be correlated with the rise in revenues coming from the ceramic division. However, on a YoY comparison, margins have shown an improvement. Operating margins of the company continue to be the best in the industry due to higher proportion of sales from the vitrified segment, access to cheaper raw materials and access to natural gas at Karaikal plant.

- **Net profits registering a growth of 46%.** Net profits of the company have registered an excellent growth of 46% as compared to last year resulting in net profit margins of 13%. We expect the company's net profit to grow to Rs.325 mn in FY07 and Rs.377 mn in FY08.

- **Capacity expansion achieved**. MCL's expanded capacity now stands at 22000 sq. meters/day for ceramic tiles and 10000 sq. meters/day for vitrified tiles at the Hubli plant and 11000 sq. meters/day for the Karaikal plant. This expansion has made the company a one-stop shop for all kinds of tiles. With growing demand on account of increased infrastructure activities, we expect MCL to achieve sales of Rs.3.02 bn and Rs.3.30 bn in FY07 and FY08, respectively.

- **Valuation and recommendation**. At the current market price of Rs.102, the stock is trading at very attractive valuations of 5.5x FY07E and 4.7x FY08E earnings, respectively. On an EV/EBITDA multiples basis, it is available at 4.4x and 3.8x its FY07 and FY08 estimates, respectively. Strong demand traction on account of increased infrastructure activities is expected to drive a healthy growth in MCL's revenues in the second half of the year. We maintain a **BUY** on MCL with a price target of Rs.166. Our target price provides an upside of 63%. At our target price, the stock would be trading at 7.7x P/E and 5.2x EV/EBITDA multiples on FY08 estimates.

We maintain a BUY on the stock with a price target of Rs.166

RESULT UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6634 1366

Summary table (year end Mar)

(Rs mn)	FY06	FY07E	FY08E
Sales	5,209	6,634	7,609
Growth (%)	15.7	27.4	14.7
EBIDTA	2,135	2,654	2,967
EBIDTA margin (%)	41.0	40.0	39.0
Net profit	1,061	1,319	1,495
EPS (Rs)	7.6	9.4	10.7
Growth (%)	14.5	24.2	13.4
CEPS (Rs)	11.6	14.2	16.0
DPS (Rs)	2.5	2.5	2.5
ROE (%)	30.7	31.0	28.4
ROCE (%)	40.8	42.8	40.8
EV/Sales (x)	3.2	2.5	2.2
EV/EBIDTA (x)	7.9	6.3	5.7
P/E (x)	15.7	12.6	11.1
P/BV (x)	4.4	3.5	2.9
P/CEPS (X)	10.2	8.4	7.4

Source: Company & Kotak Securities - Private Client Research

INDRAPRASTHA GAS (RS.119, FY08E PER: 11.1X, BUY)

IGL has posted a good set of results for Q2FY07, which are above our estimates. We maintain a price target of Rs.145 (22% upside) and reiterate BUY on IGL.

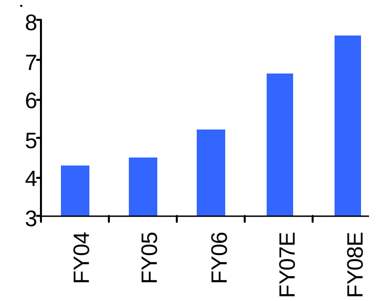
- Net sales for Q2FY07 were at Rs.1.5 bn. This was higher by 15% YoY and up 13.5% on a QoQ basis. Higher sales were the result of a price increase in CNG and also rise in volumes of both CNG and PNG.
- During Q2FY07, IGL sold 85.9 mn kg of CNG as against 81.0 mn kg of CNG in the same period last year, registering a YoY volume growth of 6%.
- IGL sold 8.8 mn SCM of PNG in Q2FY07 as against 6.4 mn SCM of PNG during the same period last year showing an impressive volume growth of 37.5%.
- Operational profit grew 20.1% on a YoY basis to Rs.646 mn. The company recorded EBIDTA margins of 41.9%, which is up 180 bps on a YoY basis and up 200 bps on a QoQ basis primarily due to lower raw materials to sales ratio at 43.7% in Q2FY07 as against 44.6% in the same quarter last year. Also, the other expenditure to sales ratio reduced from 13.3% in Q2FY06 to 12% in Q2FY07, thereby leading to better EBIDTA margin.
- IGL provided higher depreciation during Q2FY07 at Rs.150 mn, up 9.1% on YoY basis due to the ongoing programme to widen reach within the NCR region.
- PBT for Q2FY07 was at Rs.519 mn, up 28.4% on a YoY basis and up 25.5% on a QoQ basis.
- PAT for Q2FY07 was at Rs.348 mn up 28.9% on YoY basis and up 26% on sequential basis, thereby translating into quarterly EPS of Rs.2.5 and CEPS of Rs.3.6.

Quarterly performance

Rs mn	Q2FY07	Q2FY06	YoY (%)	Q1FY07	QoQ (%)	H1FY07
Net Sales	**1,542**	**1,341**	**15.0**	**1,358**	**13.5**	**2,899**
Increase / decrease in stock	(0)	(0)	140.0	(0)	65.4	(1)
Raw materials	675	599	12.7	586	15.2	1,261
Staff cost	36	26	37.4	31	14.1	67
Other exp.	186	179	3.8	200	(7.0)	385
Total exp.	896	803	11.5	816	9.7	1,712
EBIDTA	**646**	**538**	**20.1**	**541**	**19.3**	**1,187**
Other income	23	10	123.8	22	6.2	44
Depreciation	150	138	9.1	150	0.4	300
EBIT	**519**	**410**	**26.4**	**413**	**25.5**	**932**
Interest	-	6	(100.0)	-	-	-
PBT	**519**	**404**	**28.4**	**413**	**25.5**	**932**
Tax & deferred tax	170	133	27.6	137	24.5	307
PAT	**348**	**270**	**28.9**	**276**	**26.0**	**625**
Equity shares o/s (mn)	140	140		140		140
Ratios						
Operting profit margin (%)	41.9	40.1	+180 bps	39.9	+200 bps	40.9
EPS (Rs)	**2.5**	**1.9**		**2.0**		**4.5**
CEPS (Rs)	3.6	2.9		3.0		6.6
Raw Materials / Sales (%)	43.75	44.63		43.1		43.5
Staff cost / sales	2.3	1.9		2.3		2.3
Other exp / sales	12.0	13.3		14.7		13.3
Tax / PBT	32.8	33.1		33.1		33.0

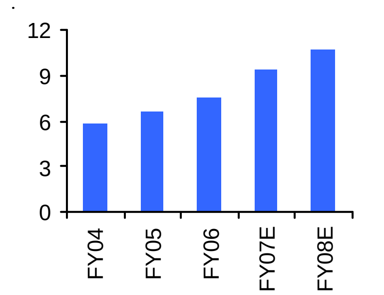
Source: Company

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

We maintain BUY on IGL with a price target of Rs.145 (22% upside potential)

Volume performance

	Q2FY07	Q2FY06	YoY (%)	Q1FY07	QoQ (%)
CNG mn kg	85.9	81.0	6.0	78.8	9.0
PNG mn scm	8.8	6.4	37.5	8.3	6.0

Source: Company

Value (Rs mn)

	Q2FY07	Q2FY06	YoY (%)	Q1FY07	QoQ (%)
CNG	1629.8	1433.7	13.7	1423	14.5
PNG	143.2	111.9	28.0	137.2	4.4

Source: Company

Average Realisations

	Q2FY07	Q2FY06	YoY (%)	Q1FY07	QoQ (%)
CNG Rs. per Kg	18.97	17.70	7.2	18.06	5.1
PNG Rs. per SCM	16.27	17.48	(6.9)	16.53	(1.6)

Source: Company

Recommendation and Valuation

- During FY06, IGL had supplied CNG to Indian Railways on a test basis. Various tests have been conducted on railway locomotives and the railway authorities are satisfied with the performance of the locomotives. The formal approval from Indian Railways is expected within a short time, which could lead to huge demand for CNG in years to come.
- The Delhi Government has recently issued a notification making it mandatory for all new LCVs that are registered in Delhi on or after July 1 2006 to run on CNG fuel only. Approximately 4000-5000 LCVs are registered every year in Delhi. The above developments are expected to provide the next growth momentum for the CNG business of the company. Also, approximately 2,200 to 2,500 private vehicles are getting converted into CNG vehicles. This is expected to increase the revenues and profitability of IGL going forward.
- The PNG business of the company has been growing at a CAGR of 54% over the last three years. IGL supplies PNG to three categories of customer, that is, domestic, small commercial and large commercial users. As of September 2006, the company has 56,156 domestic customers, 236 small commercial consumers and 46 large commercial users. We expect PNG sales to continue to grow at a rapid pace, considering the huge untapped potential like housing complex, hotels, hospitals, restaurants, educational institutions, shopping malls etc.
- We maintain our EPS estimates for FY07E and FY08E at Rs.9.4 and Rs.10.7, respectively.
- On the basis of our estimates, at the current market price of Rs.119 the stock is trading at 5.7x EV/EBIDTA, 11.1x P / E and 7.4x P/CEPS on the basis of FY08E earnings.
- We maintain a BUY on IGL with an unchanged price target of Rs.145, implying 22% upside potential.

RESULT UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6634 1366

GHCL LTD.

Rs.175, FY08E PE: 7.9x, BUY)

The results were below our expectations. There was a change in the accounting year from December to March. We continue to recommend BUY with a price target of Rs. 221 (26% upside).

- Net sales for Q3FY06 were at Rs.1.9 bn, higher by 17.3% YoY due to growth in the soda ash business on the back of the economic growth and investment in infrastructure sectors. The sales were up 17.3% on a QoQ basis due to higher contribution from the trading sales.
- EBIDTA margin during Q3FY06 was down by 240 bps at 24.8%. This was primarily due to losses from the recently commissioned home textiles factory at Vapi, Gujarat, which is in its initial stages. Going forward, the management is confident of making the Vapi Unit EBIDTA positive as the plant is expected to stabilize in the current quarter, which would help to raise the profitability of GHCL going forward.
- EBIDTA for Q3FY06 was at Rs.481.6 mn, up 6.8% YoY and down 24.5 % on a QoQ basis.
- Depreciation during Q3FY06 was higher by 5.7% YoY to Rs.104 mn. This was due to the rise in provisioning of depreciation due to the expansion of the soda ash and spinning capacity.
- Interest cost fell by 57.4% YoY and 63% QoQ to Rs.14.8 mn in Q3FY06.
- PBT for Q3FY06 was at Rs.376.1 mn up 15.5% YoY and down 20% on a QoQ basis.
- PAT for Q3FY06 was up 5.4% YoY and down 20.5% on a QoQ basis to Rs.246.9 mn, translating into a quarterly EPS of Rs.2.1 and quarterly CEPS of Rs.3.0 on standalone fully diluted basis. Typically September quarter is the worst quarter for GHCL and we can expect strong growth going forward.

Summary table Consolidated

(Rs mn)	CY05	15M FY07E	FY08E
Sales	5,254	28,216	38,750
Growth (%)	(7.1)	437.1	37.3
EBITDA	1,372	2,960	5,090
EBITDA margin (%)	26.1	10.5	13.1
Net profit	726	1,467	2,604
Net debt	5,332	7,061	8,506
EPS (Rs)	7.6	12.4	22.1
Growth (%)	140.8	102.1	77.4
DPS (Rs)	2.4	2.4	2.4
ROE (%)	28.7	26.1	26.2
ROCE (%)	16.2	19.4	25.3
EV/Sales (x)	4.2	0.8	0.6
EV/EBITDA (x)	16.0	8.0	4.9
P/E (x)	22.9	14.1	7.9
P/BV (x)	7.4	2.4	1.8

Source: Company & Kotak Securities - Private Client Research

Quarterly performance - standalone

Rs mn	Q3FY07	Q3CY05	YoY (%)	Q2FY07	QoQ (%)	9M FY07
Net Sales	**1,943.0**	**1,656.4**	**17.3**	**1,657.0**	**17.3**	**6,039.8**
Incr / decr in stock	(214.8)	13.3	(1,717.5)	(207.0)	3.8	(434.4)
raw materials	892.4	546.9	63.2	578.2	54.3	2,694.2
staff cost	117.6	85.8	37.1	101.1	16.3	313.8
other exp.	666.2	559.3	19.1	546.6	21.9	1,836.9
total exp.	1,461.4	1,205.3	21.2	1,018.9	43.4	4,410.6
EBIDTA	**481.6**	**451.1**	**6.8**	**638.0**	**(24.5)**	**1,629.2**
Other income	13.3	7.8	70.7	10.5	26.8	32.2
Depreciation	104.0	98.4	5.7	138.1	(24.7)	345.8
EBIT	**390.9**	**360.4**	**8.5**	**510.4**	**(23.4)**	**1,315.7**
Interest	14.8	34.7	(57.4)	40.0	(63.0)	74.6
PBT	**376.1**	**325.7**	**15.5**	**470.4**	**(20.0)**	**1,241.1**
Tax & deferred tax	129.2	91.4	41.4	159.9	(19.2)	402.5
PAT	**246.9**	**234.4**	**5.4**	**310.5**	**(20.5)**	**838.6**
Equity shares o/s (mn)	95.1	95.1		95.1		95.1
Ratios						
Operting profit margin (%)	24.8	27.2	-240 bps	38.5	-1370 bps	27.0
EPS Reported (Rs)	2.6	2.5	5.4	3.3	(20.5)	8.8
CEPS (Rs)	3.7	3.5		4.7		12.5
Raw Materials / Sales (%)	34.87	33.82		22.41		37.42
Diluted Equity Shares mn	118.05	118.05		118.05		118.05
Diluted EPS (Rs.)	2.09	1.99		2.63		7.10
Diluted CEPS (Rs)	2.97	2.82		3.80		10.03

Source: Company

Business Mix	Q3FY07	Q3CY05	YoY (%)	Q2FY07	QoQ (%)
Net Sales					
Inorganic Chemicals	1,287.6	1,244.9	3.4	1,346.3	(4.4)
Textiles	344.4	347.7	(1.0)	339.6	1.4
Others	311.1	63.8	387.5	113.2	174.8
EBIT					
Inorganic Chemicals	386.6	310.0	24.7	501.3	(22.9)
Textiles	5.0	57.0	(91.3)	11.7	(57.6)
Others	4.1	(1.4)	(388.8)	3.4	20.1

Source: Company

- The company is expanding its spinning capacity at Madurai from 90,000 spindles to 145,000 spindles, which is scheduled to be operational by January 2007. GHCL has also set up a new processing unit for home textiles at Vapi, Gujarat with 36 mn metres per annum of dyeing and printing capacity of wide width fabric. The company has already commenced commercial production in March 2006 and it is in the process of stabilization. We expect the plant to enhance its capacity utilization and become EBIDTA positive in the current quarter.
- GHCL has acquired majority stakes in US textiles major Dan River and also a 100% stake in UK's largest home textiles retailer Rosebys. The company is going to make optimum and profitable combination of its own in-house manufacturing capacity and outsourcing capabilities of it's own marketing arm to procure the goods at the lowest cost across the globe and sell it through its marketing subsidiaries in the global hubs of home textiles. GHCL is planning to set up the last-mile connectivity in the home textiles market and, thereby, enjoy the highest margins across the entire value chain in the home textiles market.
- GHCL is also expanding its domestic soda ash capacity from 600,000 TPA to 850,000 TPA, which is expected to commence commercial production by April 2007. However, the company is progressing very well on the expansion front. It expects the expansion to be complete by November 2006 itself, thereby providing additional revenues and profitability for the current financial year. GHCL is also increasing the proportion of dense variety of soda ash used in the glass industry as it enjoys beneficial pricing over the light variety of soda ash, which is used in the detergent industry.
- The production at the Romanian unit, acquired in December 2005, is also operating with higher efficiency and lower cost. The Romanian unit has turned EBIDTA positive, which is expected to improve the overall profitability of the company. The company has also signed a definitive agreement to acquire the only other soda ash plant in Romania and is set to hike its capacity to 700,000 TPA, which is expected to be fully operational by April 2007. GHCL expects to achieve a better volume and margin performance on the back of strong demand for soda ash and also domestic and overseas capacity expansion.
- The company has changed the accounting year from December to March. Hence, GHCL would report its financials for the 15-month period ended March 2007.

Change in Estimates

	Old		Revised	
	CY06E	CY07E	15MFY07E	FY08E
Revenues	24144	38351	28,216	38,750
EBIDTA	2741	4984	2,960	5,090
Profit	1354	2520	1,467	2,604
EPS	11.5	21.3	12.4	22.1
CEPS	15.7	26.4	17.4	27.2
Fully diluted Equity	1181	1181	1,181	1,181

Source: Kotak Securities - Private Client Research

Financials, Valuation & Recommendation

We maintain BUY on GHCL with a price target of Rs.221

- For 15M FY07E, we expect sales to grow to Rs.28.2 bn and net profit to be Rs.1.5 bn translating into an EPS of Rs.12.4, CEPS of Rs.17.4 and the book value to be Rs.71.8 per share on a fully-diluted basis.
- For FY08E, we expect sales to grow to Rs.38.7 bn and net profit to be Rs.2.6 bn translating into EPS of Rs.22.1, CEPS of Rs. 27.2 and the book value to be Rs.96.5 per share on a fully diluted basis. The significant rise in revenues is due to the full impact of Rosebys acquisition and turnaround of Dan River.
- At the current market price of Rs.175, the stock trades at 2.4x for 15MFY07E and 1.8x FY08E to book value.
- It discounts 15MFY07E and FY08E earnings at 14.1x and 7.9x, respectively.
- The stock looks attractive on a cash earnings basis. It trades at 10.0x 15MFY07E and 6.4x FY08E cash earnings.
- We remain positive and reiterate our BUY on GHCL with a price target of Rs.221, which provides an upside potential of 26% from the current level. We recommend BUY.

RESULT UPDATE

Dipen Shah
dipen.shah@kotak.com
+91 22 66341376

Saurabh Gurnurkar
saurabh.gurnurkar@kotak.com
+91 22 66341273

SUBEX SYSTEMS
(RS.550, CONS FY08E P/E: 14X, BUY)

Subex declared the consolidated results (with Azure's financials) for the first time. In a sense the results were encouraging as they reflected the benefits of the merger. The higher traction in the order book and higher pipeline of orders, along with improvement in the organic and consolidated profitability over Q1FY07 (excluding one-time items) were the positives, which came out of the results.

The reorganization and integration of Azure is under way and is expected to be totally complete by Q3FY07. The large size and better brand equity has led to a rise in the success rate so far as order wins are concerned.

According to the management, the combined entity is now the leader in the revenue maximization space with a revenue share of about 29%, globally. Post the acquisition, Subex has among its customers, 23 of the world's largest 40 telecom companies and a customer base of over 150 customer installations in more than 60 countries. We believe the acquisition will open up significant opportunities for Subex to cross-sell its existing products to Azure's large clients like Verizon, Vodafone and T-Mobile.

Also, the targeted goals in cost rationalization and restructuring of operations have already been achieved to a great extent. These initiatives will help improve Azure's operations, in turn impacting the consolidated margins positively.

We expect the company to report revenues of Rs.3.62 bn in FY07 and Rs.5.52 bn in FY08. Margins are expected to improve with the rise in product revenues and the cost rationalization exercise. Thus, PAT is likely to rise to Rs.1.33 bn in FY08, an EPS of Rs.38.

We recommend a BUY on the stock with a price target of Rs.655

In our opinion, the consolidated entity will rank as one of the largest product companies in India with globally leading products and a set of marquee clients. We expect valuations to improve and arrive at a price target of Rs.655 for the stock. We recommend a **BUY**.

Delays/failure in effectively integrating the operations of Azure and a slowdown in the global telecom vertical are major risks to our estimates and recommendation.

Q2FY07 results

(Rs mn)	Q2FY07 #	Q1FY07	% YoY	Q2FY06	% YoY
Revenues	**1031.0**	**434.5**	**137.3**	**418.7**	**146.2**
Expenditure	869.5	396.3		285.8	
EBDITA	**161.4**	**38.1**	**323.4**	**133.0**	**21.4**
Depreciation	38.0	28.2		22.4	
EBIT	**123.4**	**9.9**	**1147.4**	**110.6**	**11.6**
Interest	19.2	8.8		6.1	
Other Income	82.0	49.4		4.1	
PBT	**186.2**	**50.5**	**268.6**	**108.6**	**71.5**
Tax	18.0	10.2		5.5	
PAT	**168.2**	**40.3**	**317.6**	**103.0**	**63.2**
EPS (Rs.)	**4.9**	**1.2**		**3.0**	
OPM (%)	15.7	8.8		31.8	
GPM (%)	12.0	2.3		26.4	
NPM (%)	16.3	9.3		24.6	

Source: Company; # Including Azures financials

Product revenues

- Product revenues during the quarter grew over the previous quarter to Rs.743 mn. This quarter includes revenues from Azure, which was merged with effect from Q2FY07. British Telecom, which is a major customer and shareholder in Azure, contributed to 31% of the consolidated product revenues.
- About 55% of the non-BT revenues came from the fraud management business whereas revenue assurance and interconnect products contributed 28% and 13%, respectively.
- The important parameter is that AMC contributed to 26% of the non-BT revenue stream, bringing in more stability to the revenues. License revenues formed 51% of the overall non-BT revenues.
- The company earned $1 mn revenues from managed services in Q2FY07. With more telcos likely to adopt the managed services route to reduce and manage costs, revenues to Subex from this business are expected to increase at a steady pace.

Order bookings and order pipeline

- In terms of order bookings and pipeline, we believe the company added nearly $40 mn to the order pipeline to end the quarter with a pipeline of $170 mn. On the other hand, it converted about 8% of the previous quarter's $160 mn pipeline into firm orders — about $13 mn. This is largely in line with the 40% ratio experienced by the company in terms of order book to pipeline conversion.
- The company currently has an order backlog of $20 mn to be executed over H2FY07 in addition to $9 mn from BT. This gives a high degree of visibility to the company's target revenues of $55 mn in FY07.
- The existing pipeline, new lines of revenues like managed services and the company's premier positioning in the area of operation, gives a higher degree of comfort as far as order pipeline, order conversion and revenue visibility for FY08 is concerned.

Margins

- The company has completed the integration process with Azure to a great extent.
- Areas like redundancy and financial consolidation are also largely out of the way. The company hopes to complete the integration process by Q3FY07.
- One-time integration expenses have impacted the profitability to a great extent. Reducing impact of the changed accounting policy helped moderate the margin impact. Some of the expenses (about Rs.66 mn) have been capitalized and are being amortized. Excluding these, other integration expenses have been charged to profits of the quarter.
- The company earned one-time income of about Rs.80 mn and this, in our opinion, also largely nullified the impact of one-time integration costs.
- In future quarters, the falling impact of the changed accounting policy (which impacted results negatively in Q1FY07) and reduction in integration expenses, are expected to improve profitability.

Future prospects

(Rs mn)	FY06E	FY07E#	% YoY	FY08E	% YoY
Revenues	**1812.1**	**3616.7**	**99.6**	**5519.6**	**52.6**
Expenditure	1301.8	2875.9		3824.0	
EBDITA	**510.4**	**740.8**	**45.2**	**1695.6**	**128.9**
Depreciation	90.8	146.3		181.0	
EBIT	**419.6**	**594.6**	**41.7**	**1514.6**	**154.7**
Interest	26.4	56.0		75.0	
Other Income	29.0	165.5		77.0	
PBT	**422.2**	**704.0**	**66.8**	**1516.6**	**115.4**
Tax	30.7	81.2		182.0	
PAT	**391.4**	**622.8**	**59.1**	**1334.6**	**114.3**
EPS (Rs.)	**11.3**	**18.0**		**38.5**	
EBIDTA (%)	28.2	20.5		30.7	
EBIT (%)	23.2	16.4		27.4	
Net Profit (%)	**21.6**	**17.2**		**24.2**	

Source: Company, Kotak Securities - Private Client Research # Azure's financials consolidated wef Q2FY07

- We expect Subex to report revenues of Rs.3.62 bn in FY07 and Rs.5.52 bn in FY08. Product revenues in these fiscals are expected to touch Rs.2.53 bn and Rs.4.37 bn, respectively.
- EBIDTA margins are expected to improve with the increase in product revenues and the cost rationalization exercise currently underway.
- Thus, PAT is expected to rise to Rs.623 mn in FY07 and Rs.1.33 bn in FY08, an EPS of Rs.18 and Rs.38, respectively.

RESULT UPDATE

Vinay Goenka
vinay.goenka@kotak.com
+91 22 66341291

TATA MOTORS
(RS.850, FY08 CONS PE: 16X; REDUCE)

Tata Motors reported financial numbers for Q2FY07 that were in line with our estimates. The company reported net sales at Rs.65.7 bn for Q2FY07, an increase of 37% over Rs.47.8 bn recorded in the corresponding quarter of last year. Tata Motors recorded an EBIDTA growth of 30% at Rs.7.4 bn from Rs.5.7 bn in Q2 last year. The profit after tax (PAT) for Q2FY07 was Rs.4.4 bn as compared to Rs.3.4 bn in Q2FY06, an increase of 30.7%. The increase in revenue growth was better than the overall sales volumes that increased by 30% for the second quarter.

Summary table - Standalone

(Rs mn)	FY06	FY07E	FY08E
Sales	206,022	243,637	275,704
Growth %	18%	18%	13%
EBITDA	27,950	30,597	35,979
EBITDA margin %	12.5	12.0	12.5
Net profit	15,797	15,784	18,960
Net cash (debt)	(18,136)	(21,129)	(19,773)
EPS (Rs) (Diluted)	37.8	39.2	47.1
Growth %	15%	4%	20%
ROE %	32.7	26.0	25.9
ROCE %	27.3	25.4	26.3
EV/Sales (x)	1.57	1.33	1.17
EV/EBITDA (x)	12.5	11.0	9.3
P/E (x)	21.4	20.6	17.2
P/BV (x)	5.9	4.9	4.1

Source: Company & Kotak Securities - Private Client Research

Key Highlights of Q2FY07

- The operating margins for the quarter declined from 11.9% to 11.3% as Tata Motors witnessed a significant rise in all its input costs. The raw material cost, as a percentage of net revenues of the company was 68.9% in Q2FY07, up from 68.2% in Q2FY06.
- Average vehicle realization of the company increased 5.38% during the quarter, aided by selective price hikes effected by Tata Motors. However, the margins were under pressure on account of increase in input costs.
- The company registered a forex gain of Rs.253.9 mn during Q2FY07 as compared to a forex loss of Rs.196 mn recorded in Q2FY06. However, it also incurred a one-time charge of Rs.450 mn towards plant improvement and employee expenses during the quarter. After adjusting for the forex charges and one-time expenses, the EBITDA margin of the company for Q2FY07 stands at 11.6% compared to 12.3% in Q2FY06.
- The net interest cost in Q2FY07 rose to Rs.955.8 mn from Rs.460.6 mn in Q2FY06, an increase of around 107% YoY. The management expects the debt levels to come down to around Rs.30 bn from the current Rs. 41 bn by the end of the year and, accordingly, we have made provision for higher interest costs for the full year 2007.
- The management estimates a loss of around 3000-4000 vehicle sales due to the fire at the Pune car plant. However, the facility is adequately insured for fire, including for loss of operations resulting thereof, and hence no financial impact is expected. We are not changing our volume estimates as we expect the company to comfortably achieve our volume projections.

Quarterly performance

Period Ended (Rs. mn)	Q2FY07	Q2FY06	YoY %
Gross Sales	**75893**	**55681**	**36**
Other Income	848	580	29
Total Income	**86068**	**63548**	**35**
Net Sales	65718	47813	37
Total Expenditure	68485	49978	37
Op Profits	7408	5702	30
OPM %	11.3	11.9	-
Interest	956	461	108
Depreciation	1435	1272	13
PBT	**5866**	**4550**	**29**
Provisions and contingencies	2	0	
Prov for Tax	1447	1161	25
Exceptional Item	0	10	-100
PAT before EiTEM	4417	3389	30
PAT after EiTEM	**4417**	**3379**	**31**
Equity Capital	3852	3763	
EPS (Rs)	**11.5**	**9.0**	**28**

Source: Company

Other Highlights for H1FY07

- In the first half, sales volumes, on a standalone basis, at 266,098 units, grew 37% against 194,558 units in the previous year period. The company exported 27,224 vehicles during this period as against 23,067 vehicles during the previous year period, a growth of 18%. The exports were flat in the second quarter due to inverse movement of the South African currency and the company's dependence on that market for export sales.
- During the first half, the company launched a new range of Tata Safari, a face lifted Indigo Sedan and Indigo Marina range of vehicles. Tata Ace continues to post strong growth with its gradual extension across the country as well as with its launch in Sri Lanka.
- During this period, the company has improved its market share position across all its product range. The market share in the commercial vehicle segment has grown to 65.2% as compared to 58.0% in the previous year. In the passenger vehicle segment, the company's market share has grown to 16.3% as compared to 15.8% in the previous year.

Subsidiaries continue to perform

- The company's consolidated revenues at Rs.77 bn recorded an increase of 42% as against Rs.54.2 bn in the corresponding period of the previous year.
- The consolidated PAT was at Rs.5.3 bn as against Rs.3.9 bn in the corresponding period of the previous year, recording a growth of 36%.

Business Outlook

The company has gone for selective price increases in the current month and the price hike should provide some respite on the margin front. Besides, the management also believes the input costs have flattened out. Hence, operating margins are expected to improve in the coming quarters. Overall, the margins are expected to be around 12% for the full year.

The management is confident the momentum in the CV sales can be maintained in the current year. Their optimism is backed by the strong replacement demand expected in the CV industry. According to company estimates, out of around 3 mn trucks on the Indian roads, close to 40% are above the 10-year mark and prove to be inefficient in long distance journeys.

Besides, the freight rates that have shown significant improvement in the last twelve months have also sustained at the current levels ensuring higher returns for truck operators. Consequently this has improved the overall CV market growth. The healthy freight rates, continued buoyancy in IIP and strong GDP growth estimates makes us confident of sustained increase in CV volumes for FY07. However, adverse movement in interest rates and diesel prices could slow down the growth in CV sale volumes.

The company is also looking at launching new models and platforms in the passenger cars, trucks and buses besides facelift of existing models including the Indica replacement platform. However, the new products are scheduled to be launched only from the beginning of FY08 and would continue into FY09.

However, we believe the scheduled launch of diesel Swift by Maruti Udyog in the second half of the year (probably fourth quarter) could hit Indica's sales in the coming year, that is, FY08. Currently, according to our estimates, the passenger car segment contributes roughly 25% of the company's revenues and lower sales could impact our revenue forecast for FY08. Besides, the company would also be impacted by higher depreciation charges as it goes into capex mode with expected expenditure of Rs.100 bn. We have done a sensitivity analysis of the passenger car sales of the company and its impact on the company's profitability in FY08.

Sensitivity Analysis

Passenger cars

Growth (%)	-10	0	5	10
Vehicle sales (Rs mn)	52,427	58,253	61,165	64,078
EPS	44.8	46.3	47.1	47.8

Source: Kotak Securities - Private Client Research

We have assumed a 5% growth in passenger car volumes in the domestic market for FY08

Valuations

We have revised our estimates downwards factoring in the higher interest cost and lower operating margins for the company. Our revised standalone EPS estimate stands at Rs.39.2 for FY07 and Rs.47.1 for FY08 on a fully diluted basis.

Recommending REDUCE with a price target of Rs.784

We have done an SOTP valuation for the stock including the valuation for its subsidiaries and investments in Tata Steel. Our DCF valuation for the stock comes to Rs.660 while the subsidiaries and its investment in Tata Steel have been valued at Rs.123. The new revised price target for the stock is Rs.784.

SOTP valuation

	Value per share	EPS (Rs) FY07E	EPS (Rs) FY08E
TAMO standalone	661	39.2	47.1
Subsidiaries	123	6.9	8
Total	784	46.1	55.1

Source: Kotak Securities - Private Client Research

The stock has already crossed our price target of Rs.834 recommended after the first quarter results. Although we remain positive on the long-term prospects of the company, given the buoyancy in the CV market, we believe that in the near-term, the company could suffer on the passenger car sales (accounting for 25% revenues). Hence, we are recommending REDUCE on the stock with a price target of Rs.784. At our target price, the stock would be trading at 14x FY08E consolidated earnings of Rs.55.1.

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6634 1258

MATHER AND PLATT PUMPS LTD
(RS.176, CY07E P/E: 10.9X, BUY)

Mather and Platt's third quarter results are below our expectations. While revenue growth is satisfactory, the decline in operating margins has hit overall profit growth. The company also made some write-offs, which pulled down the net profit. Valuations remain attractive at 10.9x CY07 earnings. We are maintaining a BUY recommendation on the company with a target price of Rs.240.

Summary table

(Rs mn)	9MCY05	CY06E	CY07E
Sales	617.9	1212.5	1578.2
Growth %	-30.9	96.2	30.2
EBITDA	69.8	180.5	239.5
EBITDA margin %	11.3	14.9	15.2
Net profit	-61.3	103.2	148.4
Net cash (debt)	-157.6	-123.4	-36.1
EPS (Rs)	-6.6	11.2	16.1
Growth %	-148.5	-268.4	43.8
CEPS	-5.6	12.6	17.6
DPS (Rs)	0.0	0.0	0.0
ROE %	-93.7	99.3	64.6
ROCE %	26.6	76.5	69.5
EV/Sales (x)	2.9	1.4	1.1
EV/EBITDA (x)	25.5	9.7	6.9
P/E (x)	-26.5	15.7	10.9
P/Cash Earnings	-31.4	14.0	10.0
P/BV (x)	31.1	10.4	5.3

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

Date End	Q3 CY06	Q2 CY05	% change	Q2 CY06	QoQ %
Net Sales	**343.2**	**189**	**81.7**	**301.2**	**13.9**
Other Income	1.2	2	-40.0	4.3	-72.1
Total Income	344.4	191	80.4	305.5	12.7
RM costs	215.5	90	139.4	158.0	36.4
Staff costs	46.5	40	17.7	46.5	0.0
Other costs	43.1	35	23.9	37.9	13.7
Expenditure	305.1	164	85.7	242.4	25.9
Operating Profit	**38.1**	**24.6**	**54.9**	**58.8**	**-35.2**
Interest	6.5	8	-17.7	5.8	12.1
Gross Profit	32.8	19	75.4	57.3	-42.8
Depreciation	3.3	3	6.5	3.1	6.5
Profit before Tax	29.5	15.6	89.1	54.2	-45.6
Tax	8.0	1	-	26.5	-69.8
Provisions/Contingencies	-8.1	-25	-132.4	1.6	406.3
Adjusted PAT	21.5	14.4	49.3	27.7	-22.4
Reported PAT	13.4	-10.4		26.1	-48.7
Equity mn shares	9.2	9.2		9.2	
EPS	**2.3**	**1.6**		**3.0**	
OPM%	11.1%	13.0		19.5	
Tax rate %	34%	31		49	

Source: Company

Key Highlights

- Revenues for the quarter increased 82% YoY to Rs.343 mn. Revenue growth is in line with the company's guidance of Rs.1.2 bn in revenues in CY06. The company's main client segments are municipal corporations, irrigation departments and process industries. Demand for the company's product is buoyant in view of the revival in capex and greater thrust by state governments on developing irrigation facilities for rural and urban households. M&P has also begun to market Wilo's range of pumps in the Indian market and expects to clock revenues of Rs.50 mn in CY06.

- Operating margins declined 190 bps to 11.3% possibly due to raw material price pressures. The way to look at quarterly margins is that, in the second quarter the company earned an operating margin of 19.5% and has followed it up with a margin of 11.1% in Q3CY06. Hence, on a six monthly basis (April-September), margins are still healthy at 14.8%.

- The company has begun construction on the Kolhapur facility, which would be used as an assembly unit for Wilo's range of pumps. The company has already imported the requisite plant and machinery and the plant should be operational in the first quarter of CY07.

We maintain BUY on the stock with a price target of Rs.240

- **Recommendation**: The stock is trading at 15.7x and 10.9x CY06 and CY07 forecast earnings, respectively. We maintain our **BUY** on the stock with a price target of Rs.240.

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6634 1258

BHEL

(Rs.2441, FY08E P/E: 21.4x, HOLD)

Bhel's second quarter numbers are in line with our expectations. While revenue growth has been ahead of our expectations, the same has been offset by lower operating margins. Margins have been impacted by higher staff costs and raw material price pressure. Order inflows have clearly gained momentum in the current year and at Rs.140 bn are already 74% that of FY06. We maintain our positive view on the stock and recommend a HOLD with a price target of Rs.2670.

We recommend a HOLD on the stock with a price target of Rs.2670

Key Highlights

(Rs mn)	Q2 FY07	Q2 FY06	% change
Sales Turnover	**36,654**	**25,104**	**46**
Other Income	1,699	1,057	61
Expenditure	32,091	21,414	50
RM costs	21,810	13,419	63
Staff cost	5,660	4,661	21
Other costs	4,621	3,334	39
Operating Profit	**4,563**	**3,690**	**24**
Interest	135	133	2
Gross Profit	6,127	4,614	33
Depreciation	667	624	7
PBT	**5,460**	**3,990**	**37**
Tax	1,860	1,388	34
Reported PAT	**3,600**	**2,602**	**38**
RM costs to sales %	59.5%	53.5%	
Current tax rate	34.1%	34.8%	
Staff costs to sales	15.4%	18.6%	
Other costs to sales%	12.6%	13.3%	
OPM%	12.4%	14.7%	
Tax rate %	34.1%	34.8%	

Source: Company

Revenues for the quarter rose 46% to Rs.36.6 bn for the quarter. Given the dominance of the power sector in the order backlog, this segment continues to drive revenue growth.

Segment

	Q2 FY07	Q2 FY06	YoY chg %
Power	27141	21080	29
Industry	10399	7713	35

Source: Company

Higher staff costs, raw material price pressure dents operating margin: During the quarter, the company's industry division bore the brunt of a steep rise in raw material prices (copper and electrical grade steel).

Based on actuarial assessment, the company provided Rs.450 mn towards retirement benefits. This apart, there was Rs.160 mn of additional expenses on account of performance incentive. These charges are not likely to recur in the remaining quarters.

Nonetheless, the operating margins outlook remains stable to increasing.

Segment Margins (%)

	Q2 FY07	Q2 FY06
Power	21.3	20.0
Industry	12.2	14.9

Source: Company

Order inflows of Rs.140 bn in H1FY07: Order inflows during the quarter rose 80% on a sequential basis. Order inflows have been robust in the current year, which is already 74% of the FY06 order inflows.

Order backlog rises 42% YoY and 16% on a sequential basis to Rs.457 bn

Major orders received in Q2FY07

500 MW unit for UPRVUNL	12240
490 MW unit for NTPC at Dadri	NA
500 MW unit at Harduganj	12240
250 MW power project from Tata Power	NA
MAHAGENCO orders for Paras and Parli	13000

Source: Company

Other conference call highlights

In a capex mode: Bhel is in the process of expanding its installed capacity from 6000 MW to 10000 MW.

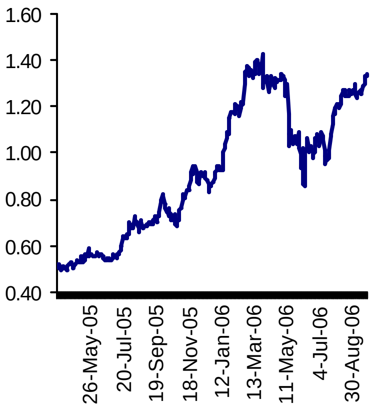
There have been media reports stating that Alstom is planning a new facility to make supercritical boilers in India. Bhel has clarified that according to the technical tie-up with Alstom, Alstom cannot directly compete with Bhel in the domestic market for power projects based on super critical technology. The new facility planned by Alstom could be domestic manufacturing units for boiler components, which are being imported from Alstom.

Regarding NTPC looking at acquiring an equipment manufacturing unit, the management feels such an idea would be feasible if the current domestic capacity is not able to cope with the market expansion. Bhel has made representations to the ministry that with the help of its expanded capacity it can service the 11th plan target. Furthermore, the company is open to more capacity enhancements if the situation warrants.

Valuation: Bhel is currently trading at rich valuations of 25.6x and 21.4x FY07 and FY08 earnings, respectively. In view of the rich valuations, we maintain a HOLD on the stock with target price of Rs.2670.

EV/Order backlog ratio is close to peak.

EV/order backlog



Source: Company

Summary table

Rs mn	FY05	FY06E	FY07E	FY08E
Sales	**100731.2**	**132892.8**	**175222.5**	**208345.7**
Growth %	22.4	31.9	31.9	18.9
EBITDA	**17786.3**	**23382.9**	**32354.5**	**38883.0**
EBITDA margin %	17.7	17.6	18.5	18.7
Net profit	9534.2	16791.6	23368.6	27884.0
Net cash (debt)	26408.9	35455.8	44730.8	66706.3
EPS (Rs)	**39.0**	**68.6**	**95.5**	**114.0**
Growth %	44.9	76.1	39.2	19.3
CEPS	**47.2**	**78.7**	**106.5**	**125.7**
DPS (Rs)	6.8	6.8	6.8	6.8
ROE %	18.2	22.3	24.1	22.6
ROCE %	28.1	31.6	34.1	32.5
EV/Sales (x)	5.7	4.2	3.2	2.5
EV/EBITDA (x)	32.1	24.0	17.1	13.6
P/E (x)	52.9	35.6	25.6	21.4
P/Cash Earnings	51.7	31.0	22.9	19.4
P/BV (x)	9.9	7.9	6.2	4.8

Source: Company, 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)
30-Oct	Axon Infotec	Hitesh Suresh Bhagat	S	5,000	147.95
30-Oct	Garnet Const	Hitesh Jhaveri	B	28,683	62.95
30-Oct	Garnet Const	Mansukhlal A. Sanghrajka	S	45,000	62.90
30-Oct	GEI Hamo Ind	Silgo Finance Pvt Ltd	B	75,000	55.92
30-Oct	GEI Hamo Ind	Ajay Dilkhush Sarupria	S	75,000	55.92
30-Oct	Mohit Indust	Hemrajsinh S Veghela	B	40,000	50.71
30-Oct	Mohit Indust	Shah Manish Ratilal	S	25,000	50.50
30-Oct	Mohit Indust	Chandrakant Bhogilal Shah	S	55,000	51.05
30-Oct	Sanguine Md	Chamatkar Netindia Ltd	S	27,550	40.09
30-Oct	Sika Interp	Ketan R Mehta	B	15,000	62.81
30-Oct	Silverline T	Spsps Capital and Money M	S	1,535,000	6.93
30-Oct	Techtran Pol	Religare Securities Ltd P	S	68,427	34.24
30-Oct	Techtran Pol	Navmee Securities Pvt Ltd	S	60,000	34.40
30-Oct	Unisock Indi	Sangeetha Sethia	S	31,400	7.03
30-Oct	United Brewr	CLSA Mauritius Ltd	B	1,008,000	292.00
30-Oct	United Brewr	Oppenheimer Funds	S	1,000,000	292.01
30-Oct	Winsome Text	Himanshu Suresh Shah	B	33,088	49.19

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	805	2.0	6.9	1.5
Bharti Airtel	542	2.8	5.6	1.6
ICICI Bank	788	3.9	5.3	1.7
Losers				
SAIL	88	(4.0)	(3.0)	14.1
Tata Motors	849	(4.2)	(2.9)	2.6
Wipro	555	(1.5)	(2.5)	0.9

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
31-Oct	Indian Hotels, Hindustan Lever, BPCL, Colgate Palmolive, Dabur India, Cadila Healhcare, Procter & Gamble, Neyveli Lignite Corp, EIH, Engineers India, Raymond Ltd, Videocon Industries, Ceat, Opto Circuits, KEC International, Gujarat Gas Company, United Phosphorous, Motor Industries, Indusind Bank, Financial Technologies, Glenmark Pharma, Hinduja TMT, Saregama India, Unitech, Man Industries, Sterling Biotech, Hindustan Zinc, VSNL, Arvind Mills, FDC, GDL earnings expected; Tata Tea holdsPress conference to announce earnings; SBI Capital Markets holds press conference; Dolphin Offshore to announce bonus issue
6-10 Nov	Initial Public Offer of Parsvnath Developers opens
15-Nov	Thermax to announce Half-yearly earnings

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, Mid Cap, Power	+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