

June 11, 2007

FOR PRIVATE CIRCULATION

Equity

	8 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,064	(0.9)	1.9	9.1
Nifty	4,145	(0.8)	1.7	11.5
Banking	7,441	(0.9)	7.8	15.3
IT	3,740	0.1	2.0	5.7
Healthcare	3,741	(0.8)	1.7	8.0
FMCG	1,779	(1.8)	(1.1)	5.3
PSU	6,444	(0.7)	0.8	16.0
CNX Midcap	5,591	(0.3)	5.6	20.1
World indices				
Nasdaq	2,573.5	1.3	0.4	7.8
Nikkei	17,779	(1.5)	1.8	4.1
Hangseng	20,509	(1.4)	0.8	7.8

Value traded (Rs cr)

	8 June 07	% Chg - 1 Day
Cash BSE	4,462	7.5
Cash NSE	10,577	16.3
Derivatives	41,842.9	(1.0)

Net inflows (Rs cr)

	7 June 07	% Chg	MTD	YTD
FII	(223)	220	374	17,641
Mutual Fund	(87)	(55)	(180)	(656)

FII open interest (Rs cr)

	7 June 07	% chg
FII Index Futures	15,094	2.2
FII Index Options	6,415	6.0
FII Stock Futures	18,904	2.5
FII Stock Options	35	1.6

Advances/Declines (BSE)

	8 June 07	A	B1	B2	Total	% Total
Advances	57	237	382	676	37	
Declines	151	487	476	1,114	61	
Unchanged	1	12	38	51	3	

Commodity

	8 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	64.9	0.2	4.0	8.1
Gold (US\$/OZ)	648.9	(1.6)	(2.9)	0.2
Silver (US\$/OZ)	13.1	(2.6)	(0.8)	1.4

Debt/forex market

	8 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.19	8.18	8.17	8.03
Re/US\$	41.1	40.7	40.8	44.4

Sensex



Source: Bloomberg

ECONOMY NEWS

- For the first-time ever, total equity deals struck by India Inc in a year have crossed the \$50-bn mark. A total of \$46.8 bn worth of strategic M&As and \$5.1 bn worth of private equity deals were announced in the country during January-May 2007. (ET)
- RBI has told the Government that it is not in favor of a liberal foreign investment policy for foreign commodity broking firms, considering the sensitive nature of the local commodities market. (ET)
- A parliamentary committee has said collection of toll should stop once the concessionaire, operating the road on BOT basis, has recovered the invested capital and interest from the project. It also said there is a need for rationalization of toll tax being charged on national highways. (ET)
- With the 60 approved agri export zones, precursors to today's dedicated export zones, not taking off as the Commerce And Industry Ministry had planned even six years after their inception, the ministry has decided it will focus on four zones and fund their setting up. (BS)
- The Finance Ministry has opposed any cap on interest rates for small loans under the Micro Finance Bill. The Bill, which was introduced in Parliament, is currently under consideration of the Standing Committee. (BS)

CORPORATE NEWS

- **Reliance Natural Resources** has sent a legal notice to the petroleum ministry against the bids invited by **Reliance Industries** for sale of gas and its proposal to enter into gas sales agreements. (ET)
- **Nicholas Piramal India** has initiated two basic research programs to screen patient samples in the diabetes and cancer segments. The aim is to develop biomarkers that could eventually lead to a targeted new drug. (BL)
- Talks over an out-of-court settlement in the **RIL-NTPC** gas imbroglio have thrown up some interesting offers from RIL. The company has indicated that it could be willing to offer 12 mmscmd, the committed gas to NTPC, at about \$6 per mmbtu. (ET)
- Steel Authority of India will partner **Jaypee Associates (JAL)** for a proposed 2-MT cement plant at Bokaro, Jharkhand. The two will form a JV shortly, where Jaypee would have a majority stake. (ET)
- **Bharti Airtel** has maintained its lead over rivals in terms of gross revenue earned during the quarter ended March 31, 2007, while Hutch-Essar, in which UK's Vodafone recently bought a controlling stake, has displaced BSNL from the third spot in terms of subscribers. (BS)
- **Hindustan Petroleum** is in talks with Total and Kuwait to build a new \$3-bn refinery in India instead of expanding the state-run refiner's existing plant, its chairman said. (ET)
- **BSNL** has reduced calling rates to the US and Canada to Rs.1.75 per minute and Rs.6.75 per minute to the Gulf, slightly lower than the rates offered by private firms. With the drop of rates, the company hopes to scale up volumes. (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

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CROMPTON GREAVES

PRICE : Rs.243

RECOMMENDATION : BUY

TARGET PRICE : Rs.280

FY08E PE : 22.1x

- Crompton Greaves' fourth quarter numbers are better than our estimates.
- Margin gains were led by higher volumes and material price hedging
- Standalone order backlogs were up 41% to Rs.20.6 bn
- The stock has risen 22% since our last upgrade to a BUY. Earnings growth is likely to remain strong, given a healthy order backlog and good demand conditions in Europe. We maintain BUY with a one-year target price of Rs 280

Summary table - Consolidated

(Rs mn)	FY07	FY08E	FY09E
Sales	56,396	73,656	86,881
Growth (%)	34.0	28.9	0.0
EBITDA	4,827	6,910	8,379
EBITDA margin (%)	8.6	9.4	9.6
Net profit	2,865	4,035	5,090
EPS (Rs)	7.8	11.0	13.9
Growth (%)	23.5	40.8	26.2
ROE (%)	32.3	35.2	32.8
ROCE (%)	29.0	36.1	36.0
EV/Sales (x)	1.3	1.0	0.8
EV/EBITDA (x)	16.1	11.4	9.1
P/E (x) consolidated	31.1	22.1	17.5
P/BV (x)	9.0	6.6	4.9

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

Rs mn	Q4FY07	Q4FY06	% change
Net Sales	9,900	7,983	24.0
Other Income	133	119	11.6
Total Income	10,033	8,102	23.8
RM costs	7,064	5,672	24.6
Staff costs	464	408	13.8
Other costs	1,228	1,151	6.7
Total Expenditure	8,757	7,231	21.1
PBIDT	1,143	752	52.0
Interest	101	64	57.5
PBDT	1,175	807	45.6
Depreciation	113	129	-12.2
PBT	1,063	679	56.5
Tax	363	118	207.9
Reported Profit After Tax	699	561	24.7
RM costs to sale (%)	71.4	71.0	
Staff costs (%)	4.7	5.1	
Other costs (%)	12.4	14.4	
OPM (%)	11.5	9.4	
Total tax rate (%)	34.0	17.0	

Source: Company

Result Highlights

- CGL's standalone revenues grew 24% during the fourth quarter, aided by healthy revenue growth in the power and industrial segments. Growth in the power segment has been fuelled by simultaneous investment in power generation and T&D.
- As against the norm of 50% investment in T&D for every 100% investment in power sector, the investment in T&D has been lagging at 30%. This has resulted in high T&D losses. Power Grid Corporation of India plans to invest Rs.550 bn during the Eleventh Plan to increase its transmission capacity. The plan is to raise the current transmission capacity from 11,500 MW to 37000 MW by 2012.
- PGCIL also plans to go for Hybrid Ultra High Voltage Transmission System, which will reduce transmission losses. The company also plans to raise its capital expenditure plans for 2007-08 to Rs.91 bn from Rs.61 bn in the current fiscal, an increase of nearly 50%.
- In the industrial segment, the company makes motors and is the largest maker of motors in India. The demand for motors is driven by capex in the industrial sector and manufacturing sector.

Segment revenues (Rs mn)			
	Q4FY07	Q4FY06	% change
Power Segment	5,601	4,085	37
Consumer	2,767	2,531	25
Industrial	2,408	1,970	22
Digital	52	102	-49

Source: Company

- Operating profit margins reversed the declining trend

Segment Margins %			
	4Q FY07	4Q FY06	3Q FY07
Power Segment	13.9%	9.4%	7.7%
Consumer	11.4%	10.9%	8.7%
Industrial	16.7%	12.2%	14.3%
Digital	-137.6%	-15.0%	-20.3%

Source: Company

- Operating profit for the quarter rose 52% to Rs.1.14 bn. The company reversed the declining trend in operating margins. In the power segment, higher volumes and strategic hedging of raw materials prices helped the company report margin expansion. During the quarter, the company discontinued its operations of the telecom division.
- Although the interest cost rose sharply by 57.5% YoY to Rs.100.8 mn in Q4FY07, the interest coverage ratio remains very healthy at 11.7x.
- Increase in the tax rate has been in line with the sequential trend. During the quarter, overall tax rate rose to 34% as against 17% in Q4FY06, which has dragged down the earnings growth rate. During the year, CGL came out of the MAT shelter, thereby paying taxes at full tax rate.
- Earnings for the quarter posted a rise of 24.5%, aided by robust volumes and higher operating margins.

Order book is healthy

Crompton Greaves' standalone order book stands at Rs.20.6 bn while the combined order backlog of Pauwels and Ganz is Rs.21.9 bn. According to our assessment, the standalone order book of CGL is up 41%, thereby indicating that current year revenue growth should also be robust.

Subsidiary performance

During the year, Pauwels reported sales of Rs.22.4 bn and profit after tax of Rs.690 mn. Ganz reported sales of Rs.890 mn and profit after tax of Rs.200 mn.

Ganz's results have been accounted from the October-March 2007 quarter.

Pauwels reported a 7.5% margin at the EBITDA level, which is likely to be bettered in the current year owing to the rising volumes driving higher asset utilization.

Ganz's PAT was buoyed by non-recurring income on account of foreign exchange variations, scrap sales and social security refunds. At the EBITDA level, Ganz has reported a loss.

Vibrant business environment drives capex

On the back of strong investment momentum in the power sector, CGL is expected to continue expanding its capacity in the current year as well. It plans to spend Rs.2.0 bn on a consolidated basis towards capacity expansion at Pauwels and CGL. A majority of the capex would be spent on domestic operations. Capacity enhancement is envisaged at transformer manufacturing to 32000 MVA from 27000 MVA. The CFL and HT motors capacity is also being raised.

Acquisition of Microsol

CGL has announced that it has signed a share purchase agreement for acquiring entire shareholding in Microsol, which is Europe based company, engaged in power automation solutions. Microsol reported sales for the year ended March 31 2007 of 28.8 mn euros and EBITDA adjusted after taking out some non-recurring costs of 1.2 mn euros.

Microsol's product will be fitted in the new stations for automating it as well as retrofitting the existing non-automated distribution sub-stations. This plugs the gap in Crompton Greaves' product portfolio. CGL is now in a position to convert itself from a product-based company to a solutions based company.

Outlook

Our outlook for the company remains positive as growth in order inflow continues to be impressive.

The investment theme in CGL over the last two years has been that of a strong domestic business environment coupled with synergistic acquisitions in large overseas markets. Apart from access to larger markets, these acquisitions have also helped CGL plug gaps in technology. It has succeeded in turning around the operations at Pauwels and given the favorable demand conditions in Europe aims to replicate the same with Ganz and Microsol.

At the current price, CGL is currently trading at a P/E ratio of 22.1x and 17.5x FY08 and FY09 earnings (consolidated EPS of Rs.11 and Rs.13.9 per share in FY08 and FY09, respectively).

CGL trades at a substantial discount to Siemens and ABB. The MNC peers score over CGL in terms of higher earnings growth, higher operating cash flow per share and an attractive business portfolio.

We recommend a BUY on Crompton Greaves with a price target of Rs.280

The CGL stock has staged a smart rally in the recent weeks in line with the capital goods sector. In a short span, the stock has risen by over 20% since our last update wherein we had upgraded the stock to a **BUY**. In view of this, we maintain our BUY with a one -year price target of Rs.280.

Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
8-Jun	Asian Tea Ex	Satra Properties India Limited	B	54,766	34.92
8-Jun	Empower Inds	Kamal Bhupatry Parekh	S	31,700	27.55
8-Jun	Empower Inds	Sefali Dikul Shah	S	25,000	27.55
8-Jun	G V Films Ltd	UBS Securities Asia Limited	S	2,922,921	7.50
8-Jun	Gremac Infra	Savitri Minerals Pvt Ltd	B	100,000	144.95
8-Jun	Intellvis So	Credo Capital Plc Account Kii Ltd	B	160,000	124.31
8-Jun	Intellvis So	Neetish R Doshi	S	160,000	124.30
8-Jun	K S Oils Ltd	BSMA Ltd	B	150,000	402.00
8-Jun	Kalpitaru	Ashlesh Gunvantbhai Shah	B	67,007	86.26
8-Jun	Koff Br Pict	Hetal Paliwal	B	25,000	27.24
8-Jun	Koff Br Pict	Vasant M. Chheda	B	137,000	26.68
8-Jun	Koff Br Pict	Vasant Meghji Chheda	B	153,214	26.04
8-Jun	Koff Br Pict	Obident Exports Pvt Ltd	S	30,500	26.22
8-Jun	Koff Br Pict	Diamant Investment and Fin Limited	S	30,443	26.32
8-Jun	Koff Br Pict	Beena R. Surana	S	25,000	26.04
8-Jun	Koff Br Pict	Vasant M. Chheda HUF	S	66,575	28.45
8-Jun	Koff Br Pict	Shri Bajrang Alloys Ltd	S	25,000	28.13
8-Jun	Liberty Phos	Brightmoon Supply Pvt Ltd	S	24,826	15.40
8-Jun	Maximaa Syse	Zaver Dalpatraj Jain	B	150,000	9.41
8-Jun	Mount Eve Mi	Morgan Stanley And Co Intl Ac			
		Morgan Stanley Investments Mau	B	200,000	120.04
8-Jun	Mount Eve Mi	Winstar Ind Inv Co Ltd	S	239,899	120.40
8-Jun	Pasari Spin	Hardik M Mithani	B	63,833	12.05
8-Jun	Pasari Spin	Pasari Export Ltd	S	100,000	12.00
8-Jun	Paushak Ltd	Sierra Investments Ltd.	B	413,250	87.00
8-Jun	Paushak Ltd	Granada Investments Limited	S	413,250	87.00
8-Jun	Rana Sugars	Lilac Farms Private Limited	B	1,489,767	19.35
8-Jun	Rana Sugars	Cherry Cosmetics Pvt Ltd	S	577,698	18.29
8-Jun	Rana Sugars	Lilac Farms Private Limited	S	1,489,767	18.87
8-Jun	Rishi Packer	Kishor Shah H.U.F	S	20,000	12.50
8-Jun	Rswm Ltd	Goldman Sachs Investments M I Ltd	B	116,853	82.97
8-Jun	Sharon Bio	Millennium Enterprises	B	100,000	248.00
8-Jun	Sharon Bio	Micro Management Ltd	S	100,000	248.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	864.8	1.3	4.5	1.6
TCS	1,220.1	1.1	2.5	1.5
Satyam Computers	493.6	2.6	1.6	8.9
Losers				
SAIL	125	(4.2)	(4.3)	12.6
Tata Steel	586	(4.8)	(3.5)	1.9
HDFC	1,750	(3.9)	(3.5)	0.8

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
11-Jun	Glenmark Pharma to consider stock split; Vishal Retail holds press conference to announce IPO
13-Jun	Wyeth to announce earnings and dividend
15-Jun	Shipping Corporation of India to announce earnings; EIH Ltd to announce earnings and dividend; Yes Bank and Reuters jointly holds press conference
18-Jun	Tata Motors holds press conference for launch of commercial vehicles
22-Jun	Amara Raja Batteries to announce earnings and dividend; Infosys Technologies holds shareholders meeting in Bangalore
25-Jun	Annual General Meeting of SBI
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol earnings expected

Source: Bloomberg

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