

June 15, 2006

FOR PRIVATE CIRCULATION

Equity

	14 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	8,929	(1.5)	(27.3)	(17.3)
Nifty	2,633	(1.1)	(27.9)	(17.6)
Banking	4,017	(1.5)	(28.6)	(24.1)
IT	2,051	(3.6)	(26.6)	(20.0)
Healthcare	2,828	(2.1)	(29.7)	(21.6)
FMCG	1,594	(0.9)	(29.6)	(22.3)
PSU	4,381	(0.5)	(31.0)	(24.8)
CNX Midcap	3,335	(2.9)	(35.9)	(28.0)
World indices				
Nasdaq	2,086	0.7	(6.8)	(9.8)
Nikkei	14,310	0.6	(12.2)	(11.3)
Hangseng	15,248	0.1	(6.6)	(2.0)

Value traded (Rs cr)

	14 Jun 06	% Chg - 1 Day
Cash BSE	2,928	10.8
Cash NSE	6,833	22.5
Derivatives	22,948.1	19.6

Net inflows (Rs cr)

	13 Jun 06	% Chg	MTD	YTD
FII	(81.8)	183.6	(6,565)	11,745
Mutual Fund	(292.4)	(2,258.3)	6,176	12,176

FII open interest (Rs cr)

	13 Jun 06	% Chg
FII Index Futures	8,562	(14.2)
FII Index Options	2,434	7.1
FII Stock Futures	7,971	(9.7)
FII Stock Options	97	(13.8)

Advances/Declines (BSE)

	14 Jun 06	A	B1	B2	Total	% Total
Advances	62	118	143	323	19	
Declines	145	540	657	1342	79	
Unchanged	2	3	28	33	2	

Commodity

	14 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	69.1	0.8	(4.0)	9.6
Gold (US\$/OZ)	559.8	(0.4)	(16.9)	1.8
Silver (US\$/OZ)	9.6	0.4	(26.1)	(5.7)

Debt/forex market

	14 Jun 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.75	7.75	7.52	7.42
Re/US\$	45.99	46.04	45.45	44.49

Sensex



Source: Bloomberg

ECONOMY NEWS

- A fall in some Asian markets and profit booking by nervous investors, after early gains on Wednesday, led the benchmark Sensex to fall by about 1.5% and end below the 9000-point level for the first time since December 2005. (ET)
- India is moving towards an economic partnership agreement with Japan. The two countries are looking at an economic partnership, which will be similar to the Comprehensive Economic Cooperation Agreement (CECA) signed with Singapore and Mauritius. (ET)
- Industry body Assocham on Wednesday said India Kuwait bilateral trade is projected to rise three-fold to \$3.2 bn by 2010. Of the current \$1-bn trade between the two countries, India's exports stand at \$650 mn while imports from Kuwait were \$350 mn. (ET)

CORPORATE NEWS

- **GHCL** is close to sealing India's first major cross-border deal in the retail sector. The Sanjay Dalmia-controlled textile and chemicals company is in the final stages of acquiring the UK's largest home textile retailer, Rosebys, in a \$50-mn (Rs. 2.50 bn) deal. (ET)
- **Mumbai International Airport (MIAL)**, the joint venture company promoted by the **GVK group**, has tied up with the IDBI Bank-led consortium of banks to raise Rs. 40 bn for implementing the Rs. 70 bn modernization project over 20 years. The company will raise money from 12 banks at a rate of 215 bps over the yield on the three-year G-sec. (BS)
- **Reliance Communications** is undertaking a major expansion of its GSM-based services in its eight operations spread across the country. It plans to add between 10-12 mn GSM lines. The total outlay for the expansion is pegged at over Rs 15 bn. (BS)
- **Sebi** has cleared the IPO of commodity exchange **MCX Ltd**. When listed, MCX would be the country's first exchange to do so, joining a select few globally in that league. The exchange is going ahead with the issue despite the weak market sentiment. The company received Sebi's consent at the end of last week. (BL)
- **L&T** has signed a joint venture agreement with a subsidiary of the Kuwait-based Bader Al Mulla group. The new venture will be known as 'Larsen & Toubro Kuwait Construction WLL' and will be registered as a local company in Kuwait. (BL)
- **Hutchison Whampoa** has won the race for 5.1% stake in the Indian mobile telephony major Hutchison Essar. Hutchison Telecom International Ltd, an arm of the Hong Kong-based Hutchison Whampoa, is paying about \$580-590 mn (nearly Rs 27 bn) to buy the stake, industry sources said. (ET)
- **Godrej Beverages and Foods (GBFL)**, an affiliate of Godrej Industries, on Wednesday officially announced the acquisition of Chittur-based confectionery maker Nutrine Confectionery Company for an approximate sum of Rs 2.50 bn. (ET)
- Sources close to **TCS** said the company is planning to buy UK-based Vertex for anything in the region of \$800 mn-\$1 bn. If the deal comes through, it could be the largest ever by an Indian business house. Vertex is the outsourcing division of United Utilities, which is listed on both the London and New York stock exchanges. (TOI)

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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KPIT CUMMINS INFOSYSTEMS LTD (KPIT) (Rs.352, FY08 PE: 8x; BUY)

Valuation and Recommendation

We spoke to the company recently, to update ourselves on the latest developments within the company. We continue to remain positive on the longer term prospects of KPIT and maintain our positive bias on the stock.

During FY06, KPIT has taken significant steps, including acquisitions, to get into new and large accounts, while maintaining its focus on Manufacturing and BFSI verticals.

Through the acquisition of CG Smith, the advanced technology services (ATS) group of KPIT will become a major player in the third party service providers' space in the automotive vertical. On the other hand, acquisitions of Pivolis and Solvcentral.com will strengthen KPIT's value proposition in the business intelligence (BI) and consulting businesses.

The acquisitions will also give KPIT, access to several new Fortune 500 clients, to whom KPIT can cross-sell its other services. KPIT has identified consulting and BI services to move up the value chain and these acquisitions will cut down the lead-time for the company.

We believe that, KPIT's fundamentals have improved over the quarters. It has built up a healthy client base and added clients, who we believe, would provide good referral value.

We maintain our earnings estimates for FY07 and FY08. We expect the company to report earnings of Rs.33 per share in FY07, moving up to Rs.43.4 in FY08.

The stock has reacted downwards in line with the fall in the markets. At the current price, the stock is quoting at 10.7x FY07E earnings estimates and 8x FY08E estimates. We believe that the current valuations offer decent potential upside and maintain our BUY recommendation with a price target of Rs.520. At the target price, our FY08E earnings will be discounted by 12x.

We maintain our BUY recommendation with a price target of Rs.520

Main takeaways

The main takeaways are as under :

- The integration process of Pivolis and CG Smith are happening along expected lines. Due to the relatively larger size of CG Smith, the completion of the integration process may extend to 2QFY07. However, the financial integration is expected to happen with effect from 1QFY07.
- While Pivolis had about five employees, mostly in France, CG Smith had about 250 employees. These are in the process of being integrated by KPIT.
- The acquisition of CG Smith has brought several large accounts to KPIT. KPIT's existing list of 10 Star customers is expected to be augmented by this acquisition.
- The clientele of CGS consists of four Auto OEMs and 13 Tier 1 & 2 auto companies for services and 24 customers for IP. CGS' client footprint is very strong in UK and Continental Europe, thereby, giving further access to KPIT in these potentially high growth markets. CGS also has established references in Japan and USA.
- KPIT can cross sell its complimentary set of services to these customers, which are selling CGS' services to its own set of existing clients. CGS has already delivered more than 300 projects for its clients.

- The company would be announcing annual increments for employees by the end of June 2006. However, the increments will be effective from 1QFY06. We expect the increments to be in line with the industry increases. To that extent, we expect an impact on the operating margins (EBIDTA) of the company in 1QFY07.
- To offset the impact of salary increases, KPIT is planning to increase the off-shore component of projects and also cost control / rationalization measures. The increase in offshore component is expected to happen through higher BPO revenues, higher global business solutions revenues and also the addition of CG Smith, which has a large off-shore delivery capability.
- We expect the company to incur some integration expenses during 1QFY07 and to that extent, there could be an impact on margins of the consolidated entity.

Future prospects

(Rs.mn)	FY06*	FY07E*	% chg	FY08E	% chg
Turnover	3,182	4,572	43.7	5,845	27.8
Expenditure	2,723	3,870		4,956	
EBDITA	459	702	52.9	889	26.6
Depreciation	82	128		145	
EBIT	378	574	52.1	744	29.6
Interest	19	46		41	
Other Income	0	8		18	
PBT	359	537	49.7	721	34.3
Tax	28	43		77	
PAT	331	494	49.4	645	30.5
EPS (Rs)	22.2	33.2		43.4	
Margins					
EBDITA(%)	14.4	15.4		15.2	
EBIT(%)	11.9	12.6		12.7	
PAT(%)	10.4	10.8		11.0	

Source : Company, Kotak Securities - Private Client Research; * - Consolidation of SolvCentral WEF 4QFY06, Pivolis and CGS WEF 1QFY07

We maintain our FY07 and FY08 earnings estimates. We have based our earnings estimates on the fully diluted equity capital of Rs.74.3mn. The revenue and profit estimates given by us are on a consolidated basis, accounting for the Pivolis, SolvCentral and CG Smith acquisitions made in FY06.

We now expect the company to report revenues of Rs.4.57bn and profits of Rs.494mn in FY07, which would translate into an EPS of Rs.33 per share. For FY08, we expect the company to achieve revenues and PAT of Rs.5.85bn and Rs.645mn, respectively. This translates into an EPS of Rs.43.4 for FY08E.

Concerns

KPIT has not been able to realize the benefits from the acquisition of Panex, to the desired extent. The company's abilities to extract desired gains from the three acquisitions of Pivolis, SolvCentral and CG Smith, will be tested once again.

Rupee appreciation beyond our assumed levels of Rs.43 per USD by FY08 end, may provide downward bias to our estimates.

COMPANY UPDATE

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TATA MOTORS

(Rs.660, FY07 P/E: 12.3x, BUY)

Tata Motors has further expanded its bus exports operation by entering the Democratic Republic of Congo, where it has received and is executing a large order valued at about Rs.550 mn, to revamp the urban transport system of Kinshasa, the capital city. As a major part of this order, 228 buses have been delivered so far. The buses are being supplied under the Indian government's line of credit to the Democratic Republic of Congo, through the EXIM Bank of India.

In 2005-06, Tata Motors exported over 6,000 buses, registering an impressive growth of about 45% over the previous year. The company exports buses to several countries in Africa, the Middle East, Russia, Ukraine, Malaysia, besides the SAARC countries. Tata buses have a strong presence in most African countries like South Africa, Senegal, Algeria and the Middle East countries like UAE, Kuwait and Qatar.

However overall volumes in the bus segment for the company had declined by 7.0% YoY from 13,298 units in FY05 to 12,361 units in FY06. This was mainly on account of the vehicle certification issues and supply constraints. The market share of the company in this segment stood at 43.9% (FY05: 51.9%) during the year. The earlier issues have been resolved and we expect the company to record improved volumes in the coming years on the back of growing domestic demand.

The management of the company has been quite positive on the long-term prospects of the bus segment. As a result of its optimistic outlook the company had launched Starbus and Globus range of vehicles in FY05. It also acquired 21% stake in Hispano Carocera, Spain in FY05 and recently entered into a JV with Marcopolo, Brazil in May'06. Marcopolo is one of the largest manufacturers of bus bodies in the world with net revenues of US\$800 million in 2005 and manufacturing facilities in six countries. All the new initiatives have been part of the management plans to acquire modern technologies and capabilities in the bus segment.

At the current share price of Rs 660, the Tata Motors stock trades at 12.3x and 11x consolidated earnings for FY07E and FY08E, respectively. We believe that going ahead Tata Motors is also likely to benefit through sustained growth seen in its subsidiary profitability led mainly by TTL and TELCON. The company's other large subsidiary namely Tata Daewoo Motors also has potential to scale up its revenue and profitability over the next two to three years.

Tata Motors is also likely to benefit from a value unlocking possibility in the near term from the proposed sell off of both HV Axles Ltd. (HVAL) & HV Transmissions Ltd. (HVTL) either through a strategic stake sale or through a plain vanilla IPO. We hence maintain our positive bias on the Tata Motors stock and believe that the stock has come down to an attractive level and reiterate BUY with a target price of Rs 903. - an upside of 37%.from the current levels.

We reiterate BUY with a target price of Rs.903

Financials Estimates

Rs bn	FY07E	FY08E
Net Sales	237	265
EBITDA	30	33
EBITDA %	12.5	12.5
PAT	18	20
EPS (Rs)	46.5	53
Cons EPS (Rs)	53.5	60.2

Source: 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)
14-Jun	Action Fin	Meena Mehta	B	97,000	0.50
14-Jun	Alchemist Lt	Daisy Impex Private Limit	S	389,226	16.30
14-Jun	Crazy Infote	Kishorbhai Balubhai Chauh	B	30,000	8.90
14-Jun	Crew Bos	Standard Chartered Premie	S	452,000	133.00
14-Jun	Granules Ind	Goldman Sachs Investments	B	100,000	80.12
14-Jun	Hiran Orgoch	Raj Yog Share Stock Bro	S	60,000	68.96
14-Jun	Kanishk St.	Shailesh Jalan	B	150,000	26.00
14-Jun	Lloyd Ele En	Jay Investrade Pvt Ltd	B	147,000	117.65
14-Jun	Lloyd Ele En	Maruti Securities Limited	B	175,000	114.45
14-Jun	Madhucon Pro	Merrill Lynch Capital Mar	B	200,000	220.00
14-Jun	Madhucon Pro	Citigroup Global Markets	S	200,000	220.00
14-Jun	Samtel Color	Fidelity Investment Mgmt	S	1,372,825	31.00
14-Jun	Shaw Wallace	Citigroup Global Markets	B	251,000	97.39
14-Jun	Valecha Engi	Deutsche Securities Mauri	B	325,000	197.00
14-Jun	Valecha Engi	Goldman Sachs And Company	B	37,000	200.00
14-Jun	Valecha Engi	Aeneas Portfolio Company	S	325,000	197.00
14-Jun	Venus Remeds	Citigroup Global Mkts Mau	S	65,917	187.31

Source: BSE

Forthcoming events

COMPANY/MARKET	
Date	Event
15-Jun	Shipping Corporation of India, Container Corporation to announce earnings and dividend; Bank of Baroda & HDFC Standard Life, Tata Chemicals, Reliance Energy holds press conference
16-Jun	Exide Industries to consider stock split; Dredging Corporation of India to announce earnings & dividend
17-Jun	Financial Technologies (India) to announce earnings
19-Jun	Radico Khaitan to consider raising of funds
21-Jun	CESC Ltd to announce earnings and dividend
22-Jun	ONGC Corporation, Amara Raja Batteries to announce earnings and dividend
26-Jun	VSNL to announce earnings and dividend
27-Jun	Corporation Bank holds shareholders meeting; Reliance Industries holds annual shareholders meeting; Bata India to announce 2nd quarter earnings
30-Jun	State Bank of India holds shareholders meeting; Bharat Electronics to announce earnings and dividend

Source: Bloomberg

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	989.7	1.3	3.9	1.6
Bharti Airtel	326.7	1.7	2.2	1.7
HPCL	232.7	9.0	1.4	0.9
Losers				
Infosys Tech	2,485.2	(5.8)	(9.1)	2.2
Tata Consultancy	1,483.7	(5.5)	(8.9)	1.6
Tata Motors	660.5	(4.9)	(2.7)	2.7

Source: Bloomberg

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