



Economy News

- ▶ Demand for oil in non-OECD countries including China and those in the Middle East remains robust, but global oil demand may fall in 2009 if those economies slow further, the head of the International Energy Agency. (ET)
- ▶ Railways have hiked the freight rates for cement and coal and coke from seven to eight per cent per tonne with immediate effect. According to a notification, Railway has revised classification of cement from class 140 to class 150 and coal and coke from class 140 to class 150 for trainload movement. (BL)
- ▶ Chinese demand for Indian iron ore is picking up slowly over the past few weeks and miners are expecting that the removal of export duty on iron ore by the Centre on Sunday will have a visible impact in the growth of exports over the next seven to 10 days. (BL)
- ▶ Russia has offered a sweetener in the form of a 30 per cent discount on the \$2-billion price tag for each of its new nuclear reactors under discussions for sale to India. (BL)
- ▶ Cement companies have responded to the reduction in excise duty by cutting prices by Rs 4 to Rs 6 a bag. (BL)

Corporate News

- ▶ **Reliance Communications (R-Com)** is set to be the first company to buy back foreign currency convertible bonds (FCCBs) after the Reserve Bank of India (RBI) allowed premature buyback of such bonds through rupee resources as well. (BS)
- ▶ **ONGC's** overseas arm ONGC Videsh (OVL) on Tuesday announced cash offer to acquire Imperial Energy at the agreed price of 1,250 pence-a-share after getting the go-ahead from the Cabinet committee on economic affairs (CCEA). OVL would fork out \$2.6 billion to acquire the LSE-listed Imperial Energy. (ET)
- ▶ **Bosch**, the Indian subsidiary of Germany's Bosch Group, today announced yet another open offer to buy back its fully paid-up equity shares from its shareholders at a price not exceeding Rs 4,500 per share for an aggregate value of Rs 6.39bn. (BS)
- ▶ A fire was reported at the site of **Reliance Petroleum's** under-construction export-oriented refinery at Jamnagar in Gujarat. The fire was reported at the "dumping ground" of the refinery, but it could not be ascertained if the unit had been affected or if there was any casualty. (BS)
- ▶ **Reliance Petroleum (RPL)**, a unit of Reliance Industries, may fully commission its 5,80,000 barrels per day only-for-exports refinery at Jamnagar in Gujarat by March but is likely to start producing some products by next month. (BS)
- ▶ **Videocon** has decided to delay the launch of its direct-to-home venture, D2H. The service, which was scheduled for August launch, has now been postponed to the next fiscal, when it will also launch its cellular service, Datacom. (ET)
- ▶ **The Kalpataru Power Transmission-Zangas** consortium has won a gas pipeline contract worth Rs 2.40bn from GAIL, Kalpataru Power said in a filing to the Bombay Stock Exchange on Monday. (BL)
- ▶ **Tata Motors**, owner of Jaguar and Land Rover (JLR), is helping the luxury car brand set up its dealership network in India. (ET)
- ▶ **Dr Reddy's Laboratories (DRL)** is contemplating an out-of-court settlement with the French company Sanofi-Aventis for anti-allergy drug Allegra. (ET)
- ▶ **GVK Oil & Gas Ltd** is set to invest up to \$400 million in the seven oil blocks along with its consortium partner in the exploratory phase. (BL)

Equity

	8 Dec 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	9,163	2.2	(8.0)	(38.5)
NIFTY Index	2,784	2.6	(6.4)	(37.7)
BANKEX Index	4,788	1.7	(13.5)	(35.0)
BSET Index	2,386	1.2	(10.7)	(40.8)
BSETCG INDEX	6,529	1.9	(14.5)	(47.2)
BSEOIL INDEX	5,522	0.5	(8.2)	(44.1)
CNXMcap Index	3,328	(0.8)	(10.5)	(42.2)
BSESMCAP INDEX	3,343	0.6	(14.3)	(52.0)
World Indices				
Dow Jones	8,691	(2.7)	(2.8)	(22.6)
Nasdaq	1,547	(1.6)	(6.1)	(30.0)
FTSE	4,381	1.9	0.4	(19.1)
Nikkei	8,396	0.8	(6.5)	(31.2)
Hangseng	14,753	(1.9)	2.7	(24.3)

Value traded (Rs cr)

	8 Dec 08	% Chg - Day
Cash BSE	3,721	-
Cash NSE	9,419	(3.2)
Derivatives	39,051	6.4

Net inflows (Rs cr)

	5 Dec 08	% Chg	MTD	YTD
FII	51	(89)	(152.8)	(55,968)
Mutual Fund	(195)	(332)	(407)	13,368

FII open interest (Rs cr)

	5 Dec 08	% Chg
FII Index Futures	6,697	9.3
FII Index Options	11,705	5.7
FII Stock Futures	9,735	6.5
FII Stock Options	203	28.0

Advances / Declines (BSE)

	8 Dec 08	A	B	S	Total	% total
Advances	133	952	245	1,330	56	
Declines	67	712	178	957	40	
Unchanged	4	69	12	85	4	

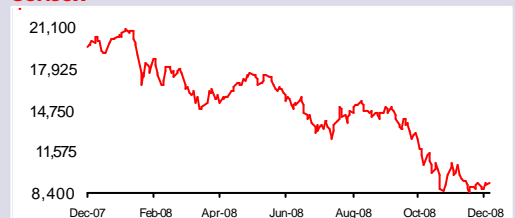
Commodity

		8 Dec 08	% Chg		
			1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	43.2	2.6	(30.8)	(57.9)
Gold (US\$/OZ)		777.0	0.6	4.2	3.4
Silver (US\$/OZ)		9.8	(1.5)	(2.7)	(7.3)

Debt / forex market

	8 Dec 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.76	6.76	7.77	8.38
Re/US\$	49.59	49.60	47.38	44.61

Sensex



COMPANY UPDATE

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KPIT CUMMINS

PRICE: Rs.25
TARGET PRICE: Rs.50

RECOMMENDATION: BUY
FY09E P/E: 3x

- ❑ Management interaction highlights uncertain demand environment
- ❑ No client specific issues with KPIT and pricing cuts not pronounced, as yet
- ❑ Make marginal changes to our lower-than-guidance earnings estimates
- ❑ Maintain BUY with a price target of Rs.50 (Rs.56 earlier) due to inexpensive valuations.
- ❑ However, prefer large caps at this stage - Infosys and Satyam are out picks.

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	4,637	6,006	7,734
Growth (%)	45.7	29.5	28.8
EBITDA	715	923	1,079
EBITDA margin (%)	15.4	15.4	13.9
Net profit	503	526	634
Net debt	598	125	-487
EPS (Rs)	6.7	6.6	8.0
Growth (%)	55.0	1.5	23.2
CEPS	8.4	9.7	11.9
DPS (Rs)	0.7	0.7	1.0
ROE (%)	29.6	22.3	19.9
ROCE (%)	21.7	20.1	18.9
EV/Sales (x)	0.5	0.4	0.2
EV/EBITDA (x)	3.6	2.4	1.5
P/E (x)	3.9	4.0	3.3
P/Cash Earnings	3.1	2.7	2.2
P/BV (x)	1.0	0.8	0.6

Source: Company, Kotak Securities - Private Client Research

Management interaction highlights uncertainty in demand environment; decision making cycles are getting longer and weakness in US spreading to other sectors and geographies. For the company, KPIT claims to have seen no major client specific impact, yet. Pricing cut demands too are not yet pronounced, according to the company. Favorable INR, variable pay and productivity optimization are levers for the tough macro environment. We make marginal changes to estimates; adjust our DCF based price target to account for higher WACC and lower growth rates in medium term given the weak and uncertain demand environment. Valuations at 3x FY09E EPS are cheap; continue to rate the stock a BUY, based only on valuations with a price target of Rs.50 (Rs.56 earlier). However we continue to prefer large-caps over smaller industry peers on account of their ability to counter a challenging macro environment more effectively, in our opinion.

- Management, in its interactions has stated that it is yet to experience client specific ramp-downs; however it has noted that given the macro-uncertainty it is cautious on its own business prospects.
- In line with other IT services peers; the company believes that the macro remains uncertain, challenging and weak in pockets. It believes that decision making cycles have turned longer with clients holding back on finalizing spends- especially in the US and European geographies.
- For KPIT, the failure of the Big 3 in US automobile industry is yet to impact operations significantly. The company claims only 5% of its revenues being directly attributable to the segment. In the India and Japan geographies the company believes traction remains okay though a sharper downturn in client spends will likely impact financials negatively.
- On the hiring front, KPIT remains hopeful of adding close to 800 employees on a net basis i.e around our estimates for FY09. However the company has stated that it may be obliged to defer campus hiring commitments for the next fiscal given the unfavorable macro environment.
- We have made relevant changes to account for the uncertain demand environment and the management commentary. For FY09, we estimate a 23% growth in profits to Rs.629mn; an EPS of Rs.7.9 (Rs.8 earlier). We estimate revenue growth of 29% YoY for FY09 accompanied by lower EBITDA margins (due to higher G&A expenses) in comparison to FY08.
- We note that our estimates are lower than company's guidance on the net profit line. We believe caution is prudent on this front given the uncertainty in demand environment reflected in delayed decision making cycles on the client s' end.

- We have also moderated our medium term growth expectations for the company given the expected impact of a weak macro environment on medium term growth rates for a smaller player like KPIT.
- Our DCF-based price target works out to Rs.50 (Rs.56 earlier). At our price target of Rs.50, our FY09E earnings will be discounted by 6x.
- We continue to recommend a BUY based, only on valuations. At the same time we are cognizant of the challenging macro environment for smaller players and retain our preference for large-caps to weather the uncertain demand environment.
- On the forex contracts front, management has said that of the three derivative contracts, 2.5 contracts have been knocked out till date. At the end of Q2FY09, the company had knocked out one contract.
- It also indicated that the MTM loss on its forex positions was Rs.260-280mn, down from Rs.470mn at the end of Q2FY09.

Revenue break up- manufacturing vertical and USA geography are important contributors

(Rs mn)	2QFY09	1QFY09	% chg	2QFY08	% chg
Manufacturing	1730.49	1528.41	13.22	1230.50	40.63
BFSI	98.92	104.04	-4.92	125.21	-21.00
Others	117.81	104.38	12.86	136.86	-13.92
USA	1049.16	979.05	7.16	844.71	24.20
Europe	709.96	608.07	16.76	484.59	46.51
RoW	188.10	149.72	25.64	163.12	15.31
Manufacturing	997.17	939.80	6.10	854.26	16.73
Auto Electronics	569.17	453.14	25.61	318.93	78.46
Semi Conductor	143.32	126.27	13.50	130.29	10.00
Financial Services	99.70	91.53	8.92	104.77	-4.84
Global Business Solutions	137.86	125.92	9.48	84.02	64.08

Source: Company

EBITDA Margins -favorable INR to be a positive; company believe it can optimize productivity too, to protect margins

- We believe KPIT's EBITDA margins will likely benefit from the favorable INR equation. KPIT accounts for its forex losses in the revenue line itself which explains its lower INR realized rate versus peers.
- EBITDA margins for Q2FY09 had increased by 160bps to 14.6% from the 13% reported in the previous quarter. We believe this improvement in margins has been on account of higher utilization rates- onsite and offshore.
- On site utilization rates had increased to 93.9% (91.3%), offshore utilization has also increased to 71.4% (70.5%).
- The company also believes it can use the levers of productivity- in effort and utilization to protect margins over FY10E. However we note that revenue growth trajectory will likely remain critical for sustenance of margins in a challenging year.

We recommend BUY on KPIT Cummins with a price target of Rs.50

Future prospects-macro remains critical, has worsened significantly, of late. Valuations remain the cushion right now.

- We have made marginal changes to our earnings estimates, to accommodate the uncertain demand environment and accompanying management commentary.
- For FY09, we estimate a 29% growth in revenues to Rs.7.73bn on the back of a favorable INR and still existent traction in its business segments.
- In FY09E we estimate KPIT's margins will drop c140bps to 13.9% on account of cost pressures on the G&A front, increased wage costs and investments towards S&M.

Concerns- a negative macro translating into low growth rates in the medium term

- An accelerated slowdown / recession in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are pronounced risks for KPIT Cummins.

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
8-Dec	Asian Oilfie	Bharatjayantilalshah	B	58,000	38.58
8-Dec	Asian Oilfie	Truptibharatshah	S	60,500	38.58
8-Dec	Diamon Cable	KSK Emerging India Energy Pvt Ltd II	B	200,000	106.09
8-Dec	Diamon Cable	Diamond Projects Ltd	S	200,000	106.10
8-Dec	Divyajyo Ind	Sarveshvar Ratanji Rathi	S	92,000	7.31
8-Dec	Divyajyo Ind	Dwarka Das Rathi	S	92,000	6.83
8-Dec	Enso Secut	Corporate Strategies Pvt Ltd	S	100,000	17.30
8-Dec	Khaitan Wvg	Comfort Intech Limited	B	45,000	146.21
8-Dec	Luminai Tech	Rita Deepak Negandhi	S	200,000	3.68
8-Dec	Rit Pro Ind	Subhash Chander Khaneja	B	325,000	14.65
8-Dec	Rit Pro Ind	Harerama Resturant Pvt Ltd	B	88,000	14.65
8-Dec	Rit Pro Ind	Chintan Securities and Finance Pvt Ltd	B	100,000	14.65
8-Dec	Rit Pro Ind	Kinsfolk Industries P Ltd	B	500,000	14.65
8-Dec	Rit Pro Ind	Nikhil Securities Ltd	S	50,000	14.65
8-Dec	Rit Pro Ind	Sanjeev Arora	S	163,257	14.65

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
BPCL	326	(4.2)	(0.8)	0.8
Satyam Comp	224	(0.7)	(0.2)	3.5
HCL Tech	117	(1.4)	(0.2)	0.9
Losers				
Bharti Airtel	701	5.5	11.2	4.4
NTPC	166	3.6	7.7	9.5
DLF Ltd	222	8.9	5.0	20.2

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
10-Dec	3i Infotech holds press conference for company's initiatives
11-Dec	CII organizes National Retail Summit 2008

Source: Bloomberg

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