

July 12, 2007
FOR PRIVATE CIRCULATION
Equity

	11 July 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,911	(0.7)	5.5	13.7
Nifty	4,387	(0.4)	5.6	14.6
Banking	8,089	(0.2)	8.5	25.0
IT	3,778	(2.0)	1.9	7.2
Healthcare	3,831	(0.3)	2.4	4.7
FMCG	1,844	0.3	3.0	3.1
PSU	6,909	0.3	7.5	14.7
CNX Midcap	6,063	0.6	9.6	22.6
World indices				
Nasdaq	2,652	0.5	4.0	6.9
Nikkei	18,050	(1.1)	2.0	3.3
Hangseng	22,607	(1.2)	10.9	12.3

Value traded (Rs cr)

	11 July 07	07	% Chg - 1 Day
Cash BSE	5,222		7.9
Cash NSE	11,183		4.3
Derivatives	34,044		4.0

Net inflows (Rs cr)

	10 July 07	% Chg	MTD	YTD
FII	702	(21)	7,481	31,918
Mutual Fund	(168)	12	(733)	(757)

FII open interest (Rs cr)

	10 July 07	% chg
FII Index Futures	15,565.1	2.0
FII Index Options	9,135.3	2.4
FII Stock Futures	25,064.3	1.0
FII Stock Options	139.9	(2.7)

Advances/Declines (BSE)

	11 July 07	A	B1	B2	Total	% Total
Advances	106	391	524	1,021	53	
Declines	104	334	403	841	44	
Unchanged	2	10	36	48	3	

Commodity

	11 July 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	72.7	0.1	11.2	13.8
Gold (US\$/OZ)	660.6	(0.4)	2.3	(2.1)
Silver (US\$/OZ)	12.9	(0.1)	(0.8)	(7.1)

Debt/forex market

	11 July 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.93	7.95	8.33	8.06
Re/US\$	40.4	40.4	40.8	42.8

Sensex


Source: Bloomberg

ECONOMY NEWS

- General insurance products are set to become cheaper by September. With the regulator expected to make pricing more liberal, companies are likely to unleash another price war by slashing premiums in fire, engineering and motor policies. (ET)
- The Government has reviewed the price trends and supply of pulses, sugar and wheat as a part of steps to check inflation rate that had marginally risen to 4.13% for the week ended June 23. (ET)
- A survey conducted by the National Sample Survey Organisation has revealed that 51% or more than half of India's rural households (marginal farmers possessing less than 1,076 square feet of land) have no ration card at all. (BS)
- Several key decisions on infrastructure financing were taken at a high-level meeting in the capital to facilitate the availability of long-term finance for infrastructure projects. It was decided at the meeting to restrict private placement of debt to QIBs against the current practice of opening the market to all players. (BS)
- The Left-ruled Kerala government's proposed ban on all corporate houses entering the retail business, a first of its kind in the country, is likely to attract the Competition Commission of India's attention. (ET)

CORPORATE NEWS

- The board of **NTPC** has cleared a proposal to invest up to Rs.10 bn in its joint venture company, Aravali Power Company Pvt Ltd. (BL)
- Alcatel-Lucent has bagged a \$400 mn (Rs.16 bn) network expansion deal from **Reliance Communications**. The contract will enable the Anil Ambani company to expand its wireless network to over 20,000 towns and 600,000 villages in the country. (BS)
- **L&T** is likely to set up two manufacturing facilities, for turbines and boilers, at Hazira in Gujarat. L&T has joined hands with Japan's Mitsubishi to float a joint venture that will build the Rs.3.5-bn boiler factory. (ET)
- **Idea Cellular**, the Aditya Birla group company, has awarded a Rs.2.05-2.5 bn (\$50-55 mn) contract to IBM to deploy and maintain an interactive voice response system for the GSM service provider. (BS)
- S&P has lowered corporate credit rating on **Tata Steel** to 'BB' reflecting non-investment grade as against the earlier rating of 'BBB,' an investment grade. The adjustment is an indicator of the risk it perceives to the company after the Corus acquisition. (ET)
- The board of directors of **Dabur India** has approved the amalgamation of Dabur Foods (a wholly-owned subsidiary) with the company. The appointed date for the merger is April 1, 2007. (BS)
- **TCS** and CDMA applications provider Qualcomm have initiated discussions to jointly work on wireless communications technology and platforms. (BS)
- The Gujarat Government is actively considering floating an overseas subsidiary of **Gujarat State Petroleum Corporation** to undertake exploration and production activities abroad. (BL)
- UK-based legal firm CMS Cameron McKenna has entered into a \$20-mn IT co-sourcing agreement with **HCL Technologies** to avail its integrated IT services including IT infrastructure management and application development. (ET)
- **iGate Global Solutions** has reported a 14-time increase in consolidated net profit at Rs.143.1 mn for the first quarter ended June 30, 2007 as against Rs.10.5 mn in the same period last fiscal. Revenue has moved up nearly 10% to Rs.1.99 bn. (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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INFOSYS TECHNOLOGIES LTD

PRICE : Rs.1930
TARGET PRICE : Rs.2225

RECOMMENDATION : BUY
FY08E PE : 24x

The first quarter results of Infosys were marginally lower than our estimates. The US dollar guidance for revenues during FY08 has been increased, reflecting positive outlook for the business. We opine that margin levers exist for the company, maintain BUY on the stock with a revised price target of Rs.2225.

- The results were marginally lower-than-estimates on the operational front
- Tax write-back and higher interest income have pushed up net profits
- While lower-than-expected revenue growth (almost flat) was the negative, EBIDTA margins came in higher-than-expected
- Improved guidance in US dollar terms (about 30% revenue growth and about 29% EPS growth) and potential upsides from levers like pricing (not considered in revised guidance) sustain our optimism on the stock valuations
- We have marginally altered our earnings estimates for FY08 to Rs.79.4 per share (v/s Rs.80.2 earlier). We arrive at a price target of Rs.2225 and maintain BUY.
- A sharp appreciation in the rupee against various currencies remains a risk for Infosys and the industry.

Q1FY08 results

Performance as against guidance

Indian GAAP	1Q'08 Guidance	1Q'08 Actual
Revenues (Rs.mn)	38960-39130	37730.00
EPS (Rs)	17.8	18*

*-Excluding tax reversal of Rs.510mn during Q1'08; Source: Company

Quarterly performance

(Rs mn)	1QFY08	4QFY07	% Chg	1QFY07	% Chg
Turnover	37,729	37,720	0.0	30,150	25.1
Expenditure	26,890	25,750		21,260	
EBIDTA	10,839	11,970	-9.4	8,890	21.9
Depreciation	1,440	1,450		1,060	
EBIT	9,399	10,520	-10.7	7,830	20.0
Other Income	2,530	1,200		1,280	
PBT	11,929	11,720	1.8	9,110	30.9
Tax	1,650	2,750		1,060	
Minority interest	0	10		80	
PAT	10,279	8,960	14.7	7,970	29.0
E. O items	-510	-1,240		30	
PAT after EO items	10,789	10,200		8,000	
EPS (Rs)	18.0	15.7		14.0	
EBIDTA (%)	28.7	31.7		29.5	
EBIT (%)	24.9	27.9		26.0	
Net Profit (%)	27.2	23.8		26.4	

Source : Company

Revenues - volumes grow 7%, macro scenario remains conducive...

- Infosys reported an in-line 7% QoQ growth in volumes that was better compared to about 4% reported in the previous quarter.

Revenue analysis

	1QFY08	4QFY07	3QFY07	4QFY06
Volume growth (%)	6.73	3.90	9.74	6.64
Revenue growth (%)	0.02	3.20	5.93	3.64
Off-shore revenues (%)	50.30	50.63	50.80	50.70

Source: Company

- In US dollar terms, while the Top 10 clients grew 3.9%, the remaining customers brought in a revenue growth of 9.3%. The company's penetration strategy was adequately reflected in the number of \$80 mn accounts increasing to eight from four in the previous quarter.
- These facts also indicate that the macro environment remains conducive for Indian IT services companies, which, in turn, are scaling up new business lines.
- For Infosys, services introduced in the last five years contributed about 43.2% of revenues in Q1FY08. Within these, consulting, BPO and infrastructure management services grew faster than the company during the quarter.
- Also, relatively new verticals like travel and logistics witnessed faster-than-company growth during the quarter.
- Conducive macro trends have led to Infosys increasing its revenue growth guidance in US dollar terms to 29-31%.

EBIDTA margins - better than estimates, levers for improvement exist

OPM analysis in 1QFY08 (bps)

What hurt...

Rupee Appreciation, bps	-350.0
Wage Hikes, bps	-250.0
Visa Costs, bps	-100.0
Total	-700.0

...what helped

Utilisation, bps	150.00
Pricing, bps	100.00
Subsidiary performance & scale, bps	150.00
Total	400.00

Net impact on OPM, bps -300.00

Source: Company

- EBIDTA margins fell 300 bps over Q4FY07, on the back of an appreciating rupee, salary hikes and seasonally higher visa costs.
- The company gave salary increments of 13-15% for offshore employees and 5-6% for on-site employees.
- However, the company put to work several levers to restrict the impact on margins caused by these factors. Firstly, scale benefits kicked in further on the back of higher revenues.
- The company added about 3,700 employees on a net basis. With more trainees getting billable, the employee utilization including trainees increased to 70.5% compared to 67.9% in Q4FY07.
- The company also got billing rate hikes from existing clients while bagging new clients at higher-than-average rates. With a higher proportion of value-added services, average realizations improved about 1% QoQ, in turn helping margins.
- Also, investments in the consulting business started bearing fruits, aiding overall margins of the company.
- Sales and marketing expenses came down about Rs.630 mn QoQ and by 167 bps as proportion of revenues.
- We believe the company can further leverage on factors like improving utilization (to around 78-80% excluding trainees), better profitability in subsidiaries (consulting and China), higher realizations and cost control to restrict the impact on margins.

Other income - positive surprise

- Other income came in at much higher levels of Rs.2.53 bn.
- While forex gains grew to Rs.740 mn v/s a loss of Rs.30 mn in Q4FY07, interest income went up to Rs.1.75 bn v/s Rs.820 mn in the previous quarter.
- We believe the company deployed more funds within India at higher rates, earning higher yields of about 11%. This is expected to reduce to about 9% in future quarters.
- The company also wrote back Rs.510 mn of excess tax provision of earlier quarters.

Subsidiaries performance for Q1FY08

(Rs mn)	Revenue	PAT
Infosys BPO	2000.00	360.00
Infosys Australia	1440.00	230.00
Infosys Consulting	520.00	-30.00
Infosys China	150.00	-40.00

Source: Company

Guidance revised up in US dollar terms...

- Infosys revised its US dollar revenue and PAT guidance for FY08 upwards.
- This indicates that the demand for outsourcing and offshoring remains robust and also the fact that transformational partners like Infosys are increasingly being preferred by clients.
- We view a nearly 30% revenue growth guidance as positive especially on a large base of about \$3 bn.
- The EPS is also projected to grow at about 29% over FY07, indicating that the company has the flexibility to contain the impact of higher costs like salaries, etc.

Rupee guidance for FY08 revised downwards; reflects the currency challenge

	Earlier	Revised	Revised YoY Gth (%)
Revenues, Rs.mn	170380-173080*	162380-164330**	16.9-18.3
EPS, Rs.	80.29-81.58	77.3-78.11***	13-14.1

Dollar guidance sees marginal uptick

	Earlier	Revised	Revised YoY Gth (%)
Revenues, \$bn	3.95-4.02	4-4.05	29-31
EPS, \$	\$1.86-1.89	\$1.92-1.94	25.5-26.8

*-Conversion of 1 US\$=Rs.43.1; **-Conversion of 1 US\$=Rs.40.58; ***-Excluding one time items; Source: Company

...and down in rupee terms

- In rupee terms, Infosys has lowered its revenue and EPS growth guidance.
- We believe this is only due to the appreciation of the rupee. The previous guidance was at an exchange rate of 43.1 per US dollar, whereas the current guidance is at 40.58 per US dollar.
- Hence, we do not view this as negative. We also believe the company may outperform the guidance in case it is able to get further price hikes (not assumed in guidance) and if the rupee depreciates beyond Rs.40.58 per US dollar.

Financial projections

- We have made some changes to our projections to accommodate the Q1FY08 results and changes in our exchange rate assumptions.

Financials					
(Rs mn)	FY06	FY07	% Chg	FY08E	% Chg
Turnover	95215	138925	45.9	170696	22.9
Expenditure	64298	95015		119142	
EBIDTA	30917	43909	42.0	51554	17.4
Depreciation	4371	5140		6360	
EBIT	26546	38769	46.0	45194	16.6
Other Income	1386	3730		6960	
PBT	27932	42499	52.2	52154	22.7
Tax	3132	5100		6787	
Minority interest	200	100		0	
PAT	24600	37300	51.6	45367	21.6
EO items	1	-1270		-510	
PAT after EO items	24600	38570		45877	
Shares (mns)	552	571		571	
EPS (Rs)	44.6	65.3		79.4	
EBIDTA (%)	32.5	31.6		30.2	
EBIT (%)	27.9	27.9		26.5	
Net Profit (%)	25.8	26.8		26.6	

Source : Company, Kotak Securities - Private Client Research

- We have assumed the rupee will depreciate to 41.50 per US dollar by FY08 end.
- We have assumed a volume growth of 31% for the company with marginal price increases during the balance part of FY08.
- EBDITA margins are expected to improve over Q1FY08 because of lower visa expenses, expected rupee depreciation and also due to the evening out of salary hikes given in Q1FY08.
- We have assumed a lower other income component for the balance three quarters because of reducing yield on investments and also relatively lower forex gains.
- Thus, we arrive at an EPS of Rs.79.4 for FY08.

Valuations

- In our opinion, the only negative impacting the company is the exchange rate. We remain positive on other aspects like volume growth, billing rates and presence of levers for restricting margin impact. The increased guidance in US dollar terms also adds to our optimism.
- We expect the rupee to depreciate from the current levels to 41.50 per US dollar by FY08 end.
- Based on this, we believe the stock offers a decent upside from current levels and maintain our BUY but with a reduced price target of Rs.2225.

Concerns

- Our estimates are higher than the company's guidance because of our assumption of the exchange rate. Appreciation of the rupee beyond our assumed levels is a key risk to our estimates and recommendation.
- A sharp deceleration/recession in major user economies can impact Infosys's growth rates.

EVENT UPDATE

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We recommend a BUY on Megasoft with a price target of Rs.180

MEGASOFT LTD.

PRICE : Rs.149
TARGET PRICE : Rs.180

RECOMMENDATION : BUY
CY07E PE : 12x

Megasoft proposes to acquire Boston Communication Group, Inc. The details on financials remain sketchy. We leave estimates unchanged pending further clarity, retain BUY with a price target of Rs.180.

- Megasoft has announced that the company and Boston Communications Group Inc. (BCGI) have announced a definitive agreement for Megasoft to acquire Boston Communications Group, for \$3.6 per share of BCGI common stock, in cash, for an expected aggregate purchase price of approximately \$65 mn.
- The \$3.6 per share price represents a premium of approximately 120% over BCGI's average closing share price during the 30 days ended July 6, 2007.
- The offer is expected to commence on or before August 1, 2007, and will expire in three weeks, unless extended in accordance with the terms of the merger agreement and the applicable rules and regulations of the SEC.
- The tender offer will be conditioned upon, among other things, approximately 83% of BCGI's shares being tendered in the offer based on the number of current shares and is expected to be completed during the third quarter of 2007, subject to customary regulatory approvals and other conditions.
- In terms of financials, according to Megasoft, BCGI has revenue run rate of close to \$70 mn currently with cash balances of close to \$50 mn. The company has close to 350 employees. Also, BCGI is currently in the process of restating its financials on account of certain option accounting norms stipulated by the SEC. According to the Megasoft management, liabilities, which could come about post this restatement, are not expected to be significant.
- Pending the completion of these accounting restatements, Megasoft has not commented on the profitability of BCGI. However, the company is confident that the acquisition would be EPS accretive for the combined entity (Megasoft) during CY07.
- Megasoft intends to fund this acquisition through debt (\$25 mn borrowed at Libor+200 bps) and using existing cash balances of BCGI. We believe this would entail a possible outgo of close to Rs.45 mn in added interest outgo for Megasoft during CY07, which could be compensated for by the operations of BCGI.
- Pending further details on the acquisition - greater financial details, product range of BCGI, status of client relationships - we leave our estimates unchanged at this point in time. We maintain our CY07 EPS estimates for the company at Rs.12 and maintain our BUY call with a target price of Rs.180.

BCGI - What Megasoft sees as possible advantages; complementary product suite & cross selling opportunity through the S&M channel

- BCGI is present in the telecom space with a presence in billing products and networking solutions with clients like Sprint, Verizon and Cingular. The company has seen a dip in revenues over recent quarters due to the loss of a deal with Sprint. However, it has two other deals with the same client.
- Megasoft plans to improve the profitability of BCGI by moving most of the cost intensive development work to India and thus reducing costs for the entity.
- Megasoft plans to utilize BCGI' existing relationships with telcos/MVNOs in the US to cross sell and, possibly, integrate its own strong offerings in the telecom products space. The company also plans to utilize BCGI's presence in the US to boost its S&M network and push its integrated suite of products.
- The management is hopeful that the present acquisition will help increase its customer access/base in the vital US telecom market, lend scale to its operations and efforts to provide 'total' solution to its client - products and managed services.

Future prospects		
Rs. Mn	CY06	CY07E
Sales	1783.5	2983.9
Growth %	55	67
EBITDA	462.4	831.1
EBITDA margin %	25.9	27.9
Net profit	341.5	518.5
Net cash (debt)	348.6	512.0
EPS (Rs)	7.7	11.7
Growth %	-2.5	51.9
CEPS	9.6	16.2
DPS (Rs)	3.0	4.0
ROE %	34.8	39.0
ROCE %	24.6	32.3
EV/Sales (x)	3.6	2.2
EV/EBITDA (x)	14.0	8.0
P/E (x)	17.9	11.8
P/Cash Earnings	14.4	8.5
P/BV (x)	4.9	4.3

Source: Company, Kotak Securities - Private Client Research Estimates.

*The fully diluted equity is Rs.443mn which is post the amalgamation with VisualSoft (Rs.324mn previously)

Our earnings estimates factor in the following in our assumptions:

- **Greater visibility in the telecom vertical:** We expect the telecom vertical to contribute close to Rs.1.2 bn in CY07 from Rs.700 mn reported in CY06.
- Growth in the telecom vertical is expected to be driven by the implementation of VOISE for clients like Xero Mobile in addition to healthy off take in products like InfiNet and Insta-Roam.
- We have assumed Visual Soft will contribute revenues of Rs.730 mn for CY07 in line with the current quarterly run rate. We believe Visual's contribution to profitability will be minimal. We expect low profitability (3% @ EBITDA level) of Q1CY07 going ahead.

With an increasing proportion of the high margin telecom business, overall margins (23.5% for CY05 and 25.9% in CY06) are expected to improve, going forward. These are expected to be around 27.8% in CY07.

Concerns

- An accelerated slowdown / recession in major user economies can impact Megasoft.
- Appreciation of the rupee v/s the US dollar beyond our expectations can impact the revenue growth and profitability of Megasoft.
- Higher than expected liabilities post BCGI's accounts restatement and/or failure to integrate the current acquisition will be downside risks for the company.

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW - PHARMACEUTICALS

Key observations for Q1FY08 results

- We maintain our positive stance on the pharmaceutical sector and expect most of the companies to report moderate to strong growth in Q1FY08. We expect companies to replicate the strong growth momentum in the domestic formulations business that they have witnessed in the last few quarters, driven by volume growth and new product launches including line extensions.
- Buoyed by a spate of new product launches in global markets (led by ANDA approvals one after another), continuous order flow in the CRAMS space, earnings-accretive acquisitions, healthy growth in the domestic formulation sales, improving efficiencies and better cost management, the sector is showing strong fundamental strength. Companies in our active coverage are expected to report an overall revenue growth of 21% YoY to Rs.62.1 bn with sharp jump in earnings at net level by 41.2% YoY to Rs.8.7 bn for the same period.
- While large cap stocks are expected to register a revenue growth of 21.9% as compared to 19.1% expected from mid/small-cap stocks, the mid/small-cap stocks are also likely to under-perform large caps in terms of net profit growth. The large cap stocks are expected to report an overall growth of 45.1% in profit after tax as compared to 33.1% expected from mid/small-cap stocks.
- The average EBITDA and net profit margins of all companies in our active coverage are expected to around 19.2% and 14.1%, respectively for the quarter.
- Dr Reddy's is likely to report a second strong quarter due to Zofran (Ondansetron) exclusivity and the good market share in Allegra (Fexofenadine). However, Betapharm is likely to be a drag on profitability.
- Lupin may surprise us on the US market front. It has launched Omnicef (Cefdinir), a US\$800 mn anti-infective drug, in the US markets last quarter.
- Cipla and Panacea Biotec are likely to report lackluster revenue and net profit growth given a high base and negative impact of rupee appreciation.
- Ranbaxy, Sun Pharma, Wockhardt, Jubilant, Lupin and Orchid Chemicals are likely to benefit from marked to market gains on their FCCBs outstanding due to rupee appreciation.
- We expect strong growth from Ranbaxy, Dr Reddy's, Lupin, Nicholas Piramal, Glenmark, Jubilant Organosys and Strides Arcolab.

Earning Estimates for Q3 FY07

Company (Rs mn)	Revenue			Operating Profit			Net Profit			Q1 FY08E		
	Q1FY08E	Q1FY07	YoY (%)	Q1FY08E	Q1FY07	YoY (%)	Q1FY08E	Q1FY07	YoY (%)	OPM (%)	NPM (%)	EPS (Rs)
Large Cap												
Cipla	9,764	8,636	13.1	1,999	2,289	(12.7)	1539	1704	(9.7)	21.1	16.3	2.0
Ranbaxy Labs*	17,097	14,562	17.4	2,565	2,648	(3.2)	2452	1223	100.5	15.0	14.3	6.6
Glenmark Pharma	3,466	1,829	89.5	1,005	321	213.0	628	187	236.3	29.0	18.1	5.2
Lupin Ltd	5,987	5,044	18.7	1,101	649	69.7	781	536	45.5	18.7	13.3	9.7
Nicholas Piramal	6,717	5,226	28.5	1,008	877	14.8	682	539	26.4	15.0	9.8	3.3
Total	43,030	35,297	21.9	7,676	6,784	13.2	6,081	4,190	45.1	17.8	14.1	
Mid & Small Cap												
Alembic Ltd	1,684	1,461	15.3	253	186	35.6	158	183	(13.6)	15.0	9.4	1.1
Aventis Pharma*	2,457	2,228	10.3	639	619	3.2	498	439	13.5	26.0	20.3	21.6
IPCA Lab	2,548	2,212	15.2	522	407	28.2	314	243	29.0	20.5	12.3	12.6
Jubilant Organosys	5,549	4,124	34.5	1,007	699	44.0	749	449	66.9	18.1	13.5	5.2
Orchid Chemicals**	2,320	2,017	15.0	696	580	20.0	313	146	114.6	30.0	13.5	4.8
Panacea Biotec	2,462	2,334	5.5	800	848	(5.7)	510	498	2.5	32.5	20.7	7.8
Strides Arcolab*	2,091	1,673	25.0	355	213	66.5	141	59	139.5	17.0	6.7	4.0
Total	19,111	16,049	19.1	4,272	3,554	20.2	2,683	2,016	33.1	22.4	14.0	
Grand Total	62,141	51,346	21.0	11,949	10,337	15.6	8,764	6,206	41.2	19.2	14.1	

Source - Companies, Kotak Securities - Private Client Research Estimates; Note: * December Year End; ** Financials on standalone basis.

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW - ENGINEERING

India's buoyant economy, continued investment in power and other infrastructure sector and booming industrial sector indicate favorable conditions for the capital goods companies.

The Central Government's focus on power sector reforms and introduction of a national electricity policy in the past few years is reflected in increasing investment in the power sector. Capacity additions, development of a transmission network and power distribution improvements and reforms on the domestic front have resulted in strong order inflows. We are expecting the companies to report healthy revenue growth.

Healthy revenue outlook on strong order backlog

Our discussions with equipment manufacturers indicate that order inflows have continued to be strong.

Order book position of electrical equipment at the end of March 07

Rs bn	Order book	% change
Siemens	108.8	22%
ABB	42.6	59%
BHEL	550.0	47%
Crompton Greaves	20.6	41%
Voltamp	3.5	150%
Suzlon	94.9	187%
Bharat Bijlee	3.0	na

Source: Company

Order book position of Non-Electrical machinery sector at the end March 07

Rs bn	Order book	% change
Thermax	31.0	82%
L&T	368.8	50%
Voltas	21.9	18%

Source: Company

Companies are expanding capacities to cater to buoyant demand

The focus of equipment manufacturers has moved from asset utilization to profitable growth. With higher order backlogs, the thrust is on meeting delivery schedules. Companies are therefore expanding their capacity.

Capacity expansions announced / under implementation - Electrical equipment

Company	Capacity
Bhel	expanding capacity from 6000 MW to 10000 MW
ABB	factory for low-end relays and distribution automation products
Areva	Power and instrument transformer factory
Voltamp	capacity expansion from 7200 MVA to 9000 MVA
Bharat Bijlee	to expand capacity from 8000 MVA to 11000 MVA
Crompton Greaves	expansion in transformer capacity from 27000 MVA to 32000 MVA

Source: Company

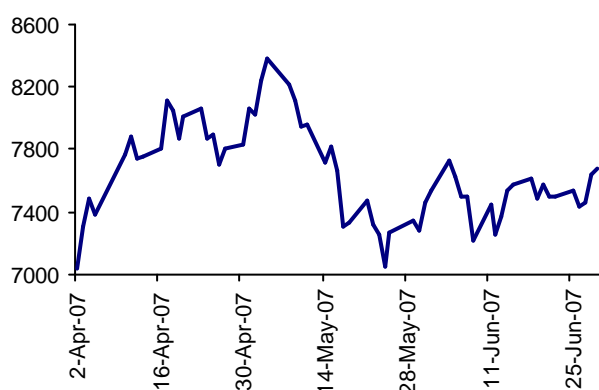
**Preferred picks are
Larsen & Toubro, KOEL and
Crompton Greaves. We
maintain a positive bias on
Easun Reyrolle and Voltamp.**

Capacity expansions announced / under implementation - Non-electrical equipment

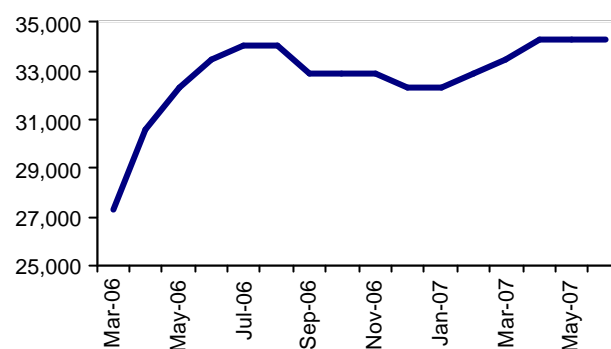
Company	Capacity
L&T	Capacity expansions at Powai and Hazira
Thermax	New boiler plant at Vadodara
KOEL	Greenfield engine plant at Kagal
Cummins	Low HP plant at Pirangut

Source: Company

Raw material prices have been stable in Q1: While steel and copper prices continue to remain firm, they have remained range-bound during this quarter. Manufacturers have taken strategic actions to remain cost-competitive and, hence appear to be better positioned to report margin expansion in Q1.

Earnings Outlook**Copper price on LME**

Source: Bloomberg

HR Coil prices (Rs per ton)

Source: Bloomberg

- **ABB - Sustained order momentum to drive earnings growth:** ABB's strategy, over the years, has been to increase the share of services and products revenue. Towards this, the company has been increasing its channel network and introduced new products. We are projecting a 47% increase in net profits.
- **Siemens - Forecast to report steep profit growth:** We are projecting a 62% rise in revenues in Q3 on the back of strong traction in the power and automation technologies segment. Siemens' power generation and power transmission and distribution (PTD) divisions had ended FY06 with a massive order backlog. In PTD, the company is executing some large export orders from Qatar. There could be a possibility of forex fluctuation impact during the quarter.
- **Areva:** Areva's numbers would not be comparable since the second quarter of the previous year included the non-T&D division, which was demerged from the third quarter. We see the trend in margin improvement to continue in Areva. The stock has been a major outperformer and valuations appear to be stretched.
- **Suzlon:** Suzlon's revenues would be driven by overseas orders with help coming from its plants in China and the US. Overseas revenues would contribute to the bulk of the revenues in Q1FY08. However, on the margins front we are cautious.

Preferred picks are Larsen & Toubro, KOEL and Crompton Greaves. We maintain a positive bias on Easun Reyrolle and Voltamp.

- **Crompton Greaves:** 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. Given the favorable demand conditions in Europe, it aims to replicate the same with Ganz and Microsol.

At the current price, CGL is currently trading at a P/E of 23.5x and 18.6x FY08 and FY09 earnings, respectively. We maintain **BUY** with a price target of Rs.280.

- **L&T:** We are expecting a 25% growth in revenue in the quarter on the back of a 50% rise in order backlog in FY07. Bias is towards margin expansion and we have factored in 50 bps improvement at EBITDA level. The company is accepting orders only above a particular threshold size and profitability. We maintain a **BUY** with a price target of Rs.2520.
- **KOEL:** Demand for power generation and infrastructure applications is likely to sustain high growth rates in the current year as well. The demand for marine propulsion engines has been on the rise and the company has a healthy order backlog in this segment. Valuations are attractive, we maintain a **BUY** with a price target of Rs.360.

Earning estimates

	Revenue		OP		NP	
	(Rs mn)	YoY (%)	(Rs mn)	YoY (%)	(Rs mn)	YoY (%)
Electrical Equipments						
ABB	14613.3	50	1564	53	1056	47
Areva	4266	9	576	27	378	37
Bharat Bijlee	901	27	113	48	63	47
Crompton Greaves	9480	28	957	33	547	51
Siemens	17020	62	1366	72	936	66
BHEL	71704	30	15775	32	11435	32
Easun Reyrolle	379	38	74	32	44	31
Suzlon	23096	116	3580	93	1794	87
Bharat Electronics	6010	24	902	25	822	36
Voltamp	1100	Na	154	Na	106	Na
Capital Goods						
Thermax	4517	40	551	44	413	50
M&P	409.4	36	65.5	11	39.6	43
Cummins	4815	23	770.4	24	618	22
KOEL	5413	24	568	32	284	21
L&T	43461	25	3260	34	2305	47
Voltas	7780	34	389	50	294	35

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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QUARTERLY RESULTS PREVIEW - CEMENT

The cement sector has continuously been in the limelight for several reasons owing to constant intervention on the part of the government to check rising cement prices. Changes in import duty and excise duty structure resulted in the underperformance of cement stocks. However, cement stocks have rallied in recent past due to some price hikes effected by a few cement companies.

Our interaction with cement dealers indicate that in Q1FY08 cement prices have not risen significantly across different regions except the southern region where prices have now got aligned with other regions. The retail prices have gone up in line with the increase in dealer margins. Cement companies are of the view that the cement price freeze is no longer valid post removal of the countervailing duty (CVD) and additional CVD on imports.

We believe that if cement companies increase cement prices in the coming months some short-term gains may be possible in the sector. Even if there is an increase in cement price, we expect it to be marginal. However, from a long-term horizon of one year, we remain cautious on the sector due to oversupply concerns and pricing pressures. Hence, in the longer run we maintain **SELL** on the cement stocks under our coverage.

The following events have turned out to be key reasons for the underperformance of cement stocks -

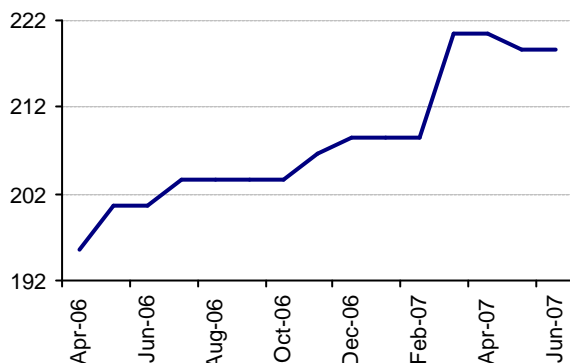
- Firstly, the **Government scrapped import duty** on portland cement from earlier levels of 12.5% to make imports cheaper and, thereby, meet the growing cement demand. We calculated the cost of cement for an importer to be around Rs.208 per bag after this move. Though logistically imports are not possible in large quantities, this move impacted the sentiments of cement stocks.
- Then, there was **an increase in excise duty** from Rs.408 per ton to Rs.618 per ton for cement sold above Rs.190 per bag in the retail market. This move had adverse implications for cement companies but they immediately increased retail prices to pass on the hike in excise duty to end users.
- Post that, **Freezing cement prices for a year** resulted in taking away pricing power from the hands of cement companies, which resulted in the de-rating of the sector despite a strong demand situation.
- Further, to control cement prices, the government announced the **removal of 16% CVD and 4% additional CVD** on portland cement, thereby further reducing the cost of imported cement to Rs.182 per bag. This move resulted in bringing the first consignment of cement from Pakistan into Indian markets at a price of Rs.150-155 per bag as against the prevailing Rs.225-240 per bag.
- Later **the excise duty structure was changed to the ad-valorem rate of 12%**, resulting in price cuts announced by a few cement companies to pass on the change in excise duty to end users.

Cement price movements

Though cement companies had agreed to freeze cement prices for one year, a few firms have increased cement prices in the last three months. Our interaction with cement dealers in different regions highlights the following things -

North: Cement prices had dropped by Rs.2 per bag in the northern region due to amendment in the excise duty structure. However, last week, a few companies increased cement prices by Rs.2 per bag in Rajasthan on account of strong demand. Further increases are expected post the Diwali season.

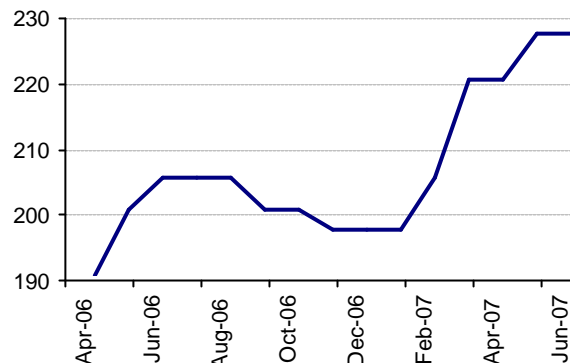
North



Source: Bloomberg

South: Cement prices have increased in the recent past in southern markets on account of strong demand. In May, cement prices in Chennai, Visakhapatnam and Bangalore went up by Rs.7.5, Rs.7.5 and Rs.5.0, respectively.

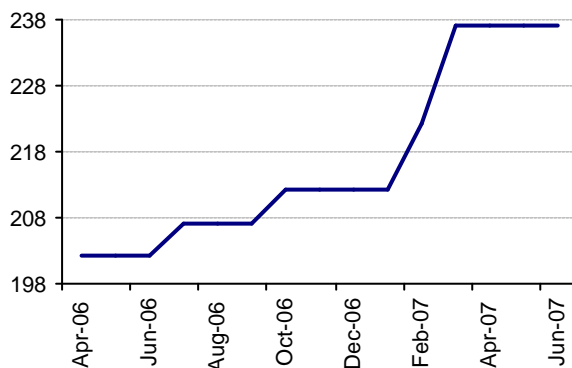
South



Source: Bloomberg

West: Changes in the excise duty structure to the ad-valorem rate had minimal impact on cement prices in the western region. Cement prices in most of the western region have remained stable and they may be under marginal pressure owing to the monsoon season, going forward.

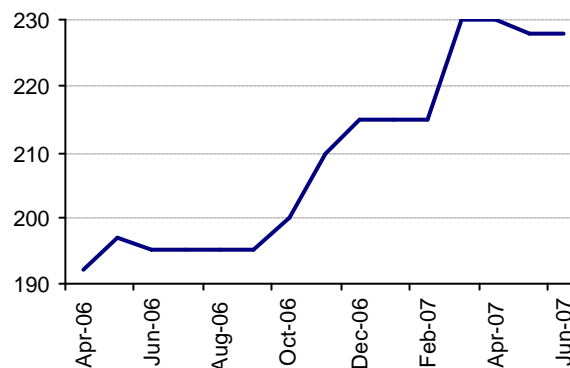
West



Source: Bloomberg

East: Cement prices dropped by Rs.2-3 per bag due to changes in the excise duty structure but then remained stable at those levels on account of strong demand.

East



Source: Bloomberg

Pricing movements in different regions indicate that in Q1FY08 prices have remained more or less constant in most regions apart from the southern region where prices rose by Rs.5-7.5 per bag on account of strong demand. Our interaction with different dealers indicates that company level prices did not change significantly in Q1FY08. However, due to very robust demand, price hikes are happening at the dealer level. A few companies have now increased cement prices in July.

Though subdued, inflation worries persist, government to maintain vigilance

We believe that though inflation has fallen under the levels of 5%, the government would continue to act as a watchdog to arrest any kind of unwarranted increase in commodity prices. While the government has indicated that there is no freeze on cement prices, we do not expect any major increase in cement prices to be made by cement companies keeping in view the government's concern on inflation. We maintain our cautious stance on the sector.

Oversupply concerns intact

We expect the demand for cement to grow at a CAGR of 10% for the next few years due to an increase in infrastructure activities. Supply in the country is expected to grow at a CAGR of 9.1% for the next three years driven by increasing capacities by different players and increased blending potential. Based on the expansion announcements made by different companies, we expect that by mid-FY09, capacities to the tune of 38 MT would become operational. This would result in creating an over-supply situation. Hence, it can impact cement prices adversely.

Q1FY08 result preview

- **Shree Cements.** Volume growth for Shree Cements for Q1FY08 is expected to be exceptionally good as compared to Q1FY07 owing to its new capacity expansion of 1.5 MT, which got operational in March 2007. We expect pricing to be quite similar to that in Q4FY07. However, it could be higher than that in Q1FY07, resulting in operating margins of approximately 43.8% in Q1FY08 translating into EBITDA/ton of Rs.1290, as compared to Rs.1207 for Q1FY07.
- **Ultratech cements.** Volume growth for UltraTech Cements for Q1FY08 is not expected to be significant since its plants are already operating at full capacity utilization. We expect pricing to be slightly better than Q4FY07 since companies in the western region have not passed on any price cut to customers due to the change in excise duty structure. Operating margins are expected to be in the range of 31-32% in Q1FY08, resulting in EBITDA/ton of Rs.915 as compared to Rs.839 for Q1FY07.
- **India Cements.** Volume growth for India Cements for Q1FY08 is not comparable with Q1FY07 due to the merger of Visaka Cement with India Cements (if it gets court approval). Cement prices have risen in southern regions in Q1FY08, resulting in operating margins of approximately 35.1% in Q1FY08. This translates into EBITDA/ton of Rs.1034 as compared to Rs.871 for Q1FY07.

Earning Estimates

(Rs mn)	Revenue			OPM (%)		PAT		
	Q1FY08E	Q1FY07	YoY (%)	Q1FY08E	Q1FY07	Q1FY08E	Q1FY07	YoY (%)
Shree Cements	4123	3094	33.3%	43.8	44.4	993	904	10
Ultratech Cement	13286	11803	12.6%	31.0	33.9	2250	2366	-5
India Cement*	6803	4852	40.2%	35.1	34.1	1454	1126	29

Source: Kotak Private Client Research estimates; Effective Tax rate -Shree Cements 25%, India Cements 22%, Ultratech Cements 33%
*India Cements results include the capacity of Visaka Cements also.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
11-Jun	Allianz Secu	Taib Sec Mauritius Ltd	B	105,156	61.87
11-Jun	Bihar Tubes	Aap Investments	B	18,392	149.75
11-Jun	Cupid Ltd	Manoj Sagar	B	50,199	56.19
11-Jun	Cupid Ltd	Aap Investments	S	112,000	55.69
11-Jun	Cupid Ltd	Hemant Madhusudan Sheth	S	70,000	58.91
11-Jun	Dollex Indut	Jasbir Singh	S	37,537	123.22
11-Jun	Dynamic Indu	Atulkumar Mansukhlal Shah	S	27,351	54.98
11-Jun	Evinix	Mahendra P Rathod	B	59,096	147.22
11-Jun	Filat Fash	Deendayal M Bahara	S	38,501	13.38
11-Jun	Financ Eye I	Suraj L Bhatia	S	15,500	47.23
11-Jun	Fluidomat Lt	Komac Inv and Fin	B	47,290	15.65
11-Jun	Fluidomat Lt	Apoorva L. Sanghvi HUF	B	48,995	15.55
11-Jun	Fluidomat Lt	Labh Subh Securities Int	S	199,900	15.63
11-Jun	Garnet Const	Aap Investments	S	145,000	52.63
11-Jun	Gemstone Inv	Kishor B Chauhan	B	30,000	30.33
11-Jun	Gemstone Inv	Bhavesh Prakash Pabari	B	15,074	30.44
11-Jun	Gemstone Inv	Prem Mohanlal Parikh	B	33,500	30.25
11-Jun	Gemstone Inv	Kishorbhai Balubhai Chauhan	B	16,200	30.32
11-Jun	Gemstone Inv	Hemant Madhusudan Sheth	S	26,000	30.25
11-Jun	Ind Infoline	DSP Merrill Lynch Capital	S	287,055	735.23
11-Jun	JM Financial	Citi Group Global Markets Mauritius	B	188,266	1,044.75
11-Jun	JM Financial	Tiger Global L P	S	184,966	1,044.75
11-Jun	Kalpitaru	Mak Impex Chemicals	B	25,015	91.32
11-Jun	Karut Net L	Morgan Stanley and Co Intl Ltd Ac			
		Morgan Stanley Invest Mau Ltd	B	750,000	185.47
11-Jun	Karut Net L	B K Khullar And Co	S	200,000	185.10
11-Jun	Kaveri Tele	Winro Commercial India Ltd	B	50,000	98.35
11-Jun	Lupin Ltd	Citicorp Banking Corporation Ac Fdi	S	438,823	705.09
11-Jun	Pritishn Com	HSBC Mutual Fund	B	100,000	113.03
11-Jun	RadhaMadhav	Rikeen Pradip Dalal	B	125,000	78.68
11-Jun	RadhaMadhav	Kiran M Bahl	S	100,000	77.52
11-Jun	Rama Paper	Mahendrapal R Bahl	B	50,000	34.99
11-Jun	Rama Paper	NVS Electrical	S	100,000	35.00
11-Jun	Rasoya Protn	Mukesh Kumar	B	44,000	117.59
11-Jun	Rasoya Protn	Daksh Professional Con.	S	44,448	116.94
11-Jun	RPG Transm	Pacific Corporate Services	B	85,000	275.00
11-Jun	RPG Transm	Ashok Finstock	B	137,771	269.89
11-Jun	Shilpa Medic	Pivotal Securites	B	30,000	446.00
11-Jun	Shilpa Medic	BeechportInvestment	S	50,000	446.03
11-Jun	Shiva Cement	Lotus Global Investments	S	599,014	9.67
11-Jun	Sup Syncot I	Upsurge Investment and Finance	S	85,000	2.17
11-Jun	Sup Syncot I	IDBI Ltd	S	75,000	2.17
11-Jun	Tripex Over	Adroit Financial Services	B	50,026	25.75
11-Jun	Vanasth Text	Kirit Shantilal Gandhi	B	100,000	12.88
11-Jun	Vanasth Text	Jitendra Mehta	B	100,000	12.92
11-Jun	Vanasth Text	Narendra B Gohil	S	100,000	12.92
11-Jun	Yashraj Secr	Bulls And Bears Portfolios	B	10,000	466.70
11-Jun	Yashraj Secr	Diamant Investment and Finance	S	28,185	461.05

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Tata Steel	656	3.4	2.5	3.3
SAIL	138	1.7	1.9	6.2
Grasim Ind	2,823	3.5	1.7	0.2
Losers				
Infosys Tech	1,930	(4.5)	(10.0)	4.7
TCS	1,149	(2.9)	(6.5)	1.5
Wipro	511	(1.6)	(2.3)	1.0

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
12-Jul	Initial Public Offer of Alpa Laboratories opens; Bajaj Auto to announce earnings and dividend; UTI Bank earnings expected; Omaxe Ltd holds press conference to announce IPO; Omnitel Infosolutions holds press conference to announce IPO
13-Jul	GSFC, CMC Ltd, Sobha Developers earnings expected
14-Jul	GNFC, Finolex Industries, Allahabad Bank, Corporation Bank, Jaiprakash Associates earnings expected
16-Jul	Geometric Software, TCS, Merck (India), Petronet LNG, Indo Rama Synthetics, Zee News, RPL earnings expected
17-Jul	LIC Housing Finance, Tata Tea, Jubilant Organosys, CESC, NDTV, Aventis Pharma, Aztecsoft, Gateway Striparks earnings expected
18-Jul	Tata Steel holds annual shareholders meeting; Polaris, Hexaware IDBI, Alembic, Infotech Enterprises, Reliance Energy earnings expected
19-Jul	Wipro, ACC, Tech Mahindra, SKF India, Ranbaxy, Micro Inks, Larsen & Toubro, Essel Propack, Lupin, Novartis, Welspun Gujarat Stahl Rohren, Ashok Leyland, DLF, Orchid Chemicals earnings expected
20-Jul	Satyam, Exide Industries, Neyveli Lignite Corp, BASF India, Finolex Cables earnings expected

Source: Bloomberg

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