

June 27, 2007

FOR PRIVATE CIRCULATION

Equity

	26 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,501	0.1	1.1	10.5
Nifty	4,286	0.6	0.9	12.2
Banking	7,802	(0.4)	4.5	16.7
IT	3,704	0.3	(1.1)	3.2
Healthcare	3,794	0.0	1.3	6.6
FMCG	1,819	0.4	(4.9)	8.3
PSU	6,789	0.7	0.8	15.8
CNX Midcap	5,878	0.9	5.3	21.4
World indices				
Nasdaq	2,574.2	(0.1)	0.7	5.6
Nikkei	18,066	(0.1)	2.6	3.3
Hangseng	21,804	(0.1)	6.0	10.4

Value traded (Rs cr)

	26 June 07	% Chg - 1 Day
Cash BSE	4,519	9.9
Cash NSE	9,557	15.0
Derivatives	52,571.2	30.6

Net inflows (Rs cr)

	25 June 07	% Chg	MTD	YTD
FII	498	537	2,545	19,812
Mutual Fund	(69)	(158)	54	(422)

FII open interest (Rs cr)

	25 June 07	% chg
FII Index Futures	20,329	0.7
FII Index Options	8,455	4.0
FII Stock Futures	23,792	3.0
FII Stock Options	99	10.2

Advances/Declines (BSE)

	26 June 07	A	B1	B2	Total	% Total
Advances	108	392	568	1,068	55	
Declines	98	328	391	817	42	
Unchanged	2	22	37	61	3	

Commodity

	26 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	67.7	(0.1)	3.8	7.5
Gold (US\$/OZ)	640.9	(1.6)	(2.0)	(3.3)
Silver (US\$/OZ)	12.2	(4.8)	(5.1)	(7.4)

Debt/forex market

	26 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.18	8.17	8.19	8.02
Re/US\$	40.9	40.9	40.5	43.3

Sensex



Source: Bloomberg

ECONOMY NEWS

- The Centre has warned state governments that if pending state approvals for proposed SEZ projects are not granted within 60 days, the proposals would be taken off the list of cases to be considered by the board of approvals for SEZs. (ET)
- India Inc is set to increase its overseas investments by 15% over five years with a majority of domestic firms having big international expansion plans, a study has said. The study shows the country's share of global outward investment (FDI, mergers and acquisitions) has trebled over four years. (ET)
- The Government has exempted companies who are at an advanced stage of issuing partially convertible or non-convertible shares prior to April 30, from the purview of meeting overall external commercial borrowing cap and guidelines. (BS)
- Thailand and India are on track to conclude negotiations in the near future with a view to having a free trade agreement covering trade in goods by 2010, the visiting Prime Minister of Thailand has said. (BL)

CORPORATE NEWS

- **Jet Airways** has reported a net profit of Rs.880 mn for Q4FY07, down 61% from the same quarter in FY06. However, the figure for the previous year (Rs.2.27 bn) was boosted by a one-time income of Rs.2.7 bn from the sale and leaseback of aircraft. (BL)
- **Ashok Leyland** is scouting for a joint venture partner to expand the range of its trucks to serve the Southeast Asian market. It is currently in talks with a Thai component maker, Sammitr Motors Manufacturing Public Company Ltd. (BL)
- Saudi Telecom's purchase of 25% stake in Malaysian telecom company Maxis for \$3 bn may not give it automatic access to India through **Aircel Cellular**, which is 74% owned by Maxis Communications. Saudi Telecom may need to obtain clearance from the Foreign Investment Promotion Board before it gets a corresponding stake in Aircel. (ET)
- **Aurobindo Pharma** has said it has received tentative approval from the USFDA for Quinapril Hydrochloride and Hydrochlorothiazide tablets used for treating hypertension. (ET)
- **Reliance Energy's** wholly-owned subsidiary Rosa Power Supply has tied up long-term loans of around Rs.20 bn for the first stage of its 600 MW power project, company officials said. The first stage is estimated to cost Rs.26.41 bn, funded through debt and equity in the ratio of 80:20. (BS)
- **3i Infotech Ltd** has successfully priced a zero coupon FCCB offering of \$100 mn convertible over a five-year period, at a premium of 10% to the existing price. The FCCBs are proposed to be listed on the Singapore Stock Exchange. (BL)
- **Jet Airways** would require Rs.2 bn immediately to revive its 100% subsidiary and value carrier JetLite, which is expected to make profits by October-November this year. JetLite is the new brand name of Lucknow-based airline Air Sahara after Jet Airways acquired it. (BS)
- The Kerala Government has accorded technical clearance to the projects of wind power majors **Suzlon Energy** and Vestas Wind Technology Ltd. The two firms have proposed to set up wind power generation plants with an installed capacity of 13 MW. (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

COMPANY UPDATE

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

EASUN REYROLLE

PRICE : Rs.950

TARGET PRICE : Rs.1150

RECOMMENDATION : BUY

FY08E PE : 15x

Highlights

- Acquires a Canadian company NxtPhase
- Play on power T&D sector
- Ramp-up expected in new switchgear plant
- Earnings growth has the potential to surprise on the upside
- We reiterate BUY with a price target of Rs 1150.

Easun Reyrolle has approved the acquisition of the business of the protection relays and power system disturbance recorders (relay and recorder) Division of Nxtphase T&D Corporation, Canada, as an ongoing business, including all the related assets and liabilities of the division. For the purpose of this acquisition, the company is setting up a wholly owned subsidiary in Canada, under the name 'ERLPHASE Power Technologies Ltd', which will be responsible for conducting the business being acquired.

NxtPhase (relay and recorder division) is a fast growing and state-of-the-art technology business in North America providing protection, power system recording and wide area monitoring solutions to power utilities in the Americas and other global markets. The target division has its operations in Winnipeg, Canada and has its key customers and market presence in North America, South America, Europe, Australia, and Asian countries. Nxtphase has revenues of US\$4 mn in CY06.

This acquisition will enable the company to tap the North American markets in a major way. This will also help the company to significantly strengthen its technological base in the areas of power protection and automation technologies by synergizing its own R&D efforts with the strong R&D Team of the acquired division.

NxtPhase T&D

NxtPhase develops, manufactures and markets optical sensors and digital protection/recording solutions used in high-voltage electric power transmission. A privately held company, NxtPhase has sales and manufacturing operations in the US and Canada, with installations across the world. NxtPhase relay, recorder and optical sensing systems are installed in hundreds of sites across North America and worldwide. NxtPhase's products help in reducing customers' operating and capital costs.

The demand for NxtPhase's products is being driven by an aging infrastructure, deregulation and technological change in the electrical industry. The first market opportunity open to NxtPhase is the sale of advanced optical current and voltage transducers.

The second market opportunity NxtPhase is actively pursuing is the market in integrated digital systems to enable remote monitoring and interactive control, a market of similar size and opportunity as optical sensors.

The third market opportunity is for NxtPhase to become the dominant provider of information to all parties with a vested interest in the effective management of the electrical grid.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	1,330	1,835	2,386
Growth (%)	25	38	30
EBITDA	290	386	479
EBITDA margin (%)	21.8	21	20.1
Net profit	177	231	293
Net cash (debt)	(262)	(204)	(76)
EPS (Rs)	48.3	63.2	80.1
Growth (%)	35	30.9	26.7
CEPS	55.8	73	90.8
DPS (Rs)	7.8	7.7	7.7
ROE (%)	41.0	36.0	32.0
EV/Sales (x)	2.8	2.0	1.5
EV/EBITDA (x)	12.9	9.5	7.4
P/E (x)	19.7	15.0	11.9
P/Cash Earnings	17.0	13.0	10.5
P/BV (x)	7.3	5.1	3.7

Source: Company & Kotak Securities - Private Client Research

Other Investment Highlights

- **Strong presence in control relays and panels segment:** Easun Reyrolle is one of the leading companies in the field of power management providing end-to-end solutions covering power system protection, control and automation solutions. In the segment of relays and control panels, the company ranks third in the domestic market behind ABB and Areva T&D.
- **Massive investment in power T&D driving demand for control relays and panels:** Relays and control panels are used for the protection of power systems at substations. An investment of Rs.1400 bn has been envisaged in the Eleventh Plan for the upgradation of the power T&D sector. Assuming a ratio of 61:39 between transmission lines and substations, the investment required in substations infrastructure works out to Rs.546 bn. Typically, over 6-10% of the investment in substations is in switchgears and control relays, which work out to Rs.33-55 bn of new business opportunity over the next five to six years from PGCIL alone.
- **Strong product development and R&D backup:** Easun's focus continues to be on new product development

To take advantage of growth in the power sector, Easun is positioning itself as a provider of a wide range of technically and commercially competitive products, systems and solutions to the customers. New product launches have gained momentum in recent years. Easun Reyrolle's product 'Cluster Meter', won the best product award in the Elecrama 2006 fair.

The company's R&D efforts at Hosur, (Tamil Nadu) and Bangalore have been recognized by the 'Government of India (DSIR).

Key milestones

1996	Progression into numeric technology and HV applications
1998	Ramp-up in exports
2002	Entry into power system automation
2003	Entry into meters and metering solutions
2005	Entry into MV switchgear

Source: Company presentation

- **Expanding product portfolio to maintain growth:** Easun's focus is on providing 'one-touch' access to customers by giving them integrated solutions. Towards this end, the company has acquired switchgear technology from one of its associate companies. Easun has set up a new factory to make switchgears, which has been commissioned in January 2007. This plant has contributed Rs.120 mn in sales in FY07 and is expected to ramp up production in FY08.
- **Turnkey projects foray to take Easun up the value chain:** In line with the strategy to move up the value chain, the company has decided to enter turnkey projects. In this segment, Easun will focus on substation projects and automation projects (SCADA systems). To expand its business portfolio, the company is also considering inorganic growth. For FY07, 4% of the total revenue of Easun came from turnkey projects, which are expected to contribute substantially by FY09.

Promoters issued warrants at Rs 650 per share

The promoters of Easun have issued 330,000 warrants for themselves at Rs.650 per share. On conversion, the stake of promoters in the company would go up to 29.5% from 22.4% currently. The company's foreign co-promoter VA Tech has pruned their shareholding to 0.5% through sale in the secondary market.

Outlook

With the ramp-up in new business (that is, automation, metering, and turnkey projects) the company is expected to register 34% CAGR in revenue in the next two years. However, we have considered some easing-off of operating margins as projects business enjoys lower margins.

We project a net profit growth of 30.9% and 27% in FY08 and FY09, respectively. Accordingly, we expect the company to report an EPS of Rs.63.2 and Rs.80.1 per share in FY08 and FY09, respectively.

Valuations

**WE RECOMMEND A BUY ON Easun
Reyrolle with a price target
of Rs.1150**

At the current market price of Rs. 950, the stock is valued at 15x FY2008E and 11.9x FY09 earnings, respectively. We reiterate a **BUY** with a one-year price target of Rs.1150.

COMPANY UPDATE

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

BHARAT BIJLEE

PRICE : Rs.2269

TARGET PRICE : Rs.2550

RECOMMENDATION : HOLD

FY08E PE : 18.4x

- The stock has given a return of 90% since the beginning of the quarter
- We revise our rating on Bharat Bijlee to **HOLD** from **BUY** with a target price of Rs.2550

We attended the AGM of Bharat Bijlee. The main take aways are as under:

Ramp up in production of transformers in FY07

During FY08, the company sold 6383 MVA of power transformers, registering a growth of 63% over FY07. This was aided by buoyant order inflows of Rs.5.7 bn, which recorded a growth of 77% over FY06. During FY07, Bharat Bijlee entered into the 100 MVA transformer space and successfully established itself in the higher rating transformer segment. The motors business also recorded a healthy increase.

Expanding capacity to cater to buoyant demand

Considering the anticipated robust demand for power generation, transmission and distribution equipment over the next few years, the company plans to further invest in transformer facilities and enhance capacity to 11,000 MVA per annum from the present 8,000 MVA. The expansion may take place over FY08 and the full impact would materialize in FY09.

In the motors business, BBL has already made investments to expand facilities for larger motors. It has also got plans to further invest in plant and machinery during the following year to increase the maximum ratings of motors from 200 KW to 400 KW.

Order book remains strong

The company has an order book of Rs.2.7 bn, which is equivalent to ten months of transformer revenues (the motors business is not order based). The company is expecting another order worth Rs.940 mn in the near-term.

Outlook positive but upside limited due to recent price run-up

The electrical equipment sector continues to witness a buoyant demand environment in view of the investment by SEBs and PGCIL. Favorable demand conditions are likely to prevail over the next two years. Thus, we project earnings to grow 31% and 24% in FY08 and FY09, respectively.

At the current price, the stock is trading at 18.4x and 14.9x FY08 and FY09 earnings, respectively. Presented below are the comparative valuations of peers.

Bharat Bijlee is trading at a premium to Voltamp and Indotech in on account of the value of investments in its balance sheet. Among its major investments are 1.4 mn shares of Siemens and 0.1 mn shares of HDFC. The company has invested Rs.155 mn in NHB Capital gain bonds. The value of its liquid investments works out to Rs.2.1 bn. We have valued the stock at a 30% discount to these liquid investments

Peer Valuation

(FY08)	BBL	Voltamp	Emco	Indotech
EV/sales	1.94	1.5	1.00	1.80
EV/EBITDA	10.9	10.3	7.8	8.9
PER	18.4	15.0	13.2	14.8
Price/op cash per share	33.9	44.5	187.0	23.5

Source: Kotak Securities - Private Client Research Estimates

BBL posted an excellent set of numbers in Q4FY07, thereby leading to a re-rating in the stock. The stock has returned 90% since the beginning of the quarter. In view of this sharp run-up and limited upside, we revise our rating to a **HOLD** from a **BUY** with a price target of Rs.2550.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	4,693	6,007	7,328
Growth (%)	56.0	28.0	22.0
EBITDA	890	1,073	1,311
EBITDA margin (%)	19.0	17.9	17.9
Net profit	544	697	861
Net cash (debt)	(158)	125	735
EPS (Rs)	94.4	123.3	152.4
Growth (%)	67.9	30.6	23.6
CEPS	99.6	127.6	156.7
DPS (Rs)	9.0	9.0	9.0
ROE (%)	56.0	47.0	39.0
ROCE (%)	66.0	58.0	49.0
EV/Sales (x)	2.5	1.9	1.6
EV/EBITDA (x)	13.1	10.9	8.9
P/E (x)	24.0	18.4	14.9
P/Cash Earnings	22.8	17.8	14.5
P/BV (x)	11.6	7.4	5.0

Source: Company & Kotak Securities - Private Client Research

We recommend a HOLD on Bharat Bijlee with a price target of Rs.2550

Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
26-Jun	Bampsl Secur	Kantilal Jawanmalji Jain	S	548,788	1.38
26-Jun	Chan Guide I	Bakliwal Financial Ser I Pvt Ltd	B	52,000	22.45
26-Jun	Compuage Inf	Atul H Mehta	B	1,285,433	22.85
26-Jun	Compuage Inf	Falguni A Mehta	S	1,285,433	22.85
26-Jun	Decolight Ce	Kanubhai Prajapati	B	238,724	42.66
26-Jun	DMC Inter	JA Financial And Management Cons	B	9,935	69.01
26-Jun	FIEM Inds	Anil B Vedmehta	B	62,500	120.61
26-Jun	Filat Fash	Kishorilal Amrutlal Bissa	S	129,400	12.33
26-Jun	Foundry Fuel	Integra International Pvt Ltd	B	64,441	7.96
26-Jun	Foundry Fuel	BDS Share Brokers Pvt Ltd	S	38,408	8.10
26-Jun	Gayatri Proj	Citigroup Global Market Mauritius	S	54,627	305.50
26-Jun	Gemstone Inv	Mala Hemant Sheth	B	20,000	28.50
26-Jun	Glory Poly	Mitbhai Gopalbhai Shah	B	182,000	52.45
26-Jun	Glory Poly	Rajvee Prakash Shah	S	182,000	52.45
26-Jun	Glory Poly	Axiom Impex International Limited	S	125,815	52.04
26-Jun	Guj Apo Ind	Dhayabhai Somabhai Patel	S	59,200	170.10
26-Jun	IOL Broadban	Broadband India Limited	B	154,765	493.55
26-Jun	JRG Secur	Taib Bank E.C. Sub Account			
		Taib Securities Mauritius Ltd	B	75,872	41.25
26-Jun	Jupiter Bios	Dinesh Kumar Singhi	B	55,902	201.53
26-Jun	Pantal Retai	Passport India Investmts Mauritius	B	912,344	560.00
26-Jun	Pantal Retai	Goldman Sachs and Co Sub Ac			
		Goldman Sachs Investments Maurat	S	912,344	560.00
26-Jun	Pruden Pharm	Mercury Fund Management Co Ltd	S	100,000	21.25
26-Jun	Rasoya Protn	Vinay Jain	S	42,000	122.76
26-Jun	Roto Pumps L	Sharmin Nasser	B	16,700	60.25
26-Jun	Shamke Multi	Anup Jain HUF	B	100,000	4.90
26-Jun	Super Crop S	Hardik M Mithani	S	45,350	7.15
26-Jun	Tel Eighteen	Passport India Investmnets Mauritius	B	903,225	960.00
26-Jun	Yashraj Secr	Rajesh Shah	B	10,000	560.50

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	943	2.8	10.8	1.3
Bharti Airtel	853	2.5	7.6	1.1
Reliance Pet	107	5.7	4.9	32.1
Losers				
Wipro	509	(1.3)	-1.9	0.5
Infosys Tech	1,922	(0.8)	-1.6	0.8
Reliance Ind	1,703	(0.4)	(1.6)	1.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
27-Jun	Nelcast Ltd listing on BSE & NSE; Public offer of Bharat Earth Movers opens; MatexNet holds press conference for expansion plans; Global Vectra ; Helicorp holds meet to announce results for FY2007
28-Jun	IPO of Housing Development & Infrastructure opens; Pfizer to announce 2nd quarter earnings; Sun TV to announce earnings and dividend; TVS Motor Company to announce earnings and dividend
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol India earnings expected

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, Cement, Mid Cap	+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
Rohit Ledwani	Retail	+91 22 6634 1507	rohit.ledwani@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

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