

December 22, 2006

**FOR PRIVATE CIRCULATION**
**Equity**

	21 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,385	0.3	(2.3)	9.4
Nifty	3,834	0.5	(3.1)	8.2
Banking	6,815	(0.4)	(4.4)	20.0
IT	3,492	0.3	(2.5)	16.5
Healthcare	3,711	0.7	(0.3)	2.6
FMCG	1,909	0.3	(5.1)	(7.4)
PSU	5,863	(0.4)	(5.1)	2.7
CNX Midcap	4,974	1.0	(0.8)	10.2
<b>World indices</b>				
Nasdaq	2,415.9	(0.5)	(2.0)	8.9
Nikkei	17,048	0.2	6.9	8.8
Hangseng	19,223	(0.1)	(0.1)	9.3

**Value traded (Rs cr)**

	21 Dec 06	% Chg - 1 Day
Cash BSE	4,217	1.0
Cash NSE	7,937	(21.2)
Derivatives	34,624	(24.9)

**Net inflows (Rs cr)**

	20 Dec 06	% Chg	MTD	YTD
FII (19 Dec)	(673.4)	(268.6)	(2,411)	37,458
Mutual Fund	460.5	4,207.5	(680)	13,705

**FII open interest (Rs cr)**

	20 Dec 06	% chg
FII Index Futures	11,832.0	2.0
FII Index Options	6,449.7	5.2
FII Stock Futures	15,679.1	0.7
FII Stock Options	146.2	(0.1)

**Advances/Declines (BSE)**

	21 Dec 06	A	B1	B2	Total	% Total
Advances	116	355	449	920	54	
Declines	92	288	360	740	44	
Unchanged	2	6	32	40	2	

**Commodity**

	21 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	62.7	0.1	5.9	3.6
Gold (US\$/OZ)	618.5	(0.3)	(1.7)	5.0
Silver (US\$/OZ)	12.4	(0.6)	(4.7)	11.7

**Debt/forex market**

	21 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.60	7.59	7.47	7.62
Re/US\$	44.62	44.72	44.87	45.86

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The government is all set to allow public sector financial intermediaries to tap external commercial borrowings to finance domestic infrastructure. (ET)
- Private equity investments have, for the first time, exceeded the amount raised via IPOs and follow-on issues in India. While the amount raised via IPOs and follow-on issues in 2006 was Rs.241 bn, total PE funds invested in Indian companies were Rs.337.5 bn. (ET)
- A comprehensive review of the FDI policy will be carried out in early 2007 to open up more areas to foreign investment. Various areas, including financial services, civil aviation, trading, information & broadcasting and real estate, may benefit from the review. (ET)
- The Cabinet has given the nod to telecom service providers for hiring foreign nationals as CEOs and CFOs, subject to security clearance from the Ministry of Home Affairs. (BS)
- In a move that may see around 5% overall rise in mandatory annual savings of the salaried class and employers paying around 2.6% more towards employee cost, the EPFO may recommend to the Government to raise PF contribution rates from the existing 12% to 15%. (BL)

**CORPORATE NEWS**

- **HDFC Bank** has hiked its benchmark prime lending rate by 1.5% to 13.5% effective December 20. The bank last raised its PLR in June. It has also raised deposit rates by 50-75 basis points across various maturities over the last month. (BL)
- **Infosys** has finalized plans for the next phase of operations in Kerala, with the company poised to develop its own campus near the technopark. The state government handed over 50 acres to Infosys to develop its own campus in the state capital. (ET)
- Mukesh Ambani's **Reliance Life Sciences** is planning to invest £32.2 mn (\$63.2 mn) in UK bio-pharmaceutical company GeneMedix Plc. The initial investment will be made through subscription for 1,16,82,54,570 shares at 1.25 pence to raise £14.6 mn, representing a controlling interest of 74% of the enlarged share capital of GeneMedix. (BS)
- **Arcelor-Mittal** has signed an MoU with the Orissa government for a 12 MT steel plant. The company will invest \$9 bn to build the plant in the Patna tehsil of tribal-dominated Keonjhar district. (BS)
- The board of Vodafone Group met in London to consider a bid for Hutchison Essar, even as **Reliance Communications** - the other key potential bidder in the race - said it would make its move only after the UK-based mobile phone giant revealed its hand. (ET)
- The Government has decided to sell its residual 10.27% stake in **Maruti Udyog Ltd**, which at the current price would fetch about Rs.28 bn. (BL)
- **Essar Shipping and Logistics (ESOL)**, through its subsidiary Essar Oilfields Services, has acquired a semi-submersible rig for \$220 mn (nearly Rs.10 mn). The acquisition is in line with Essar Shipping's plan to gain a significant presence in contract drilling sector. (BS)
- **Tata Motors** will set up two new greenfield plants in the country as part of its Rs.100-bn expansion program to meet the target of more than doubling annual sales to 1 mn units over the next five years. (ET)

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

## SECTOR UPDATE

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**India spends 13% of its GDP on logistics**

## LOGISTICS: GROWTH OPPORTUNITY

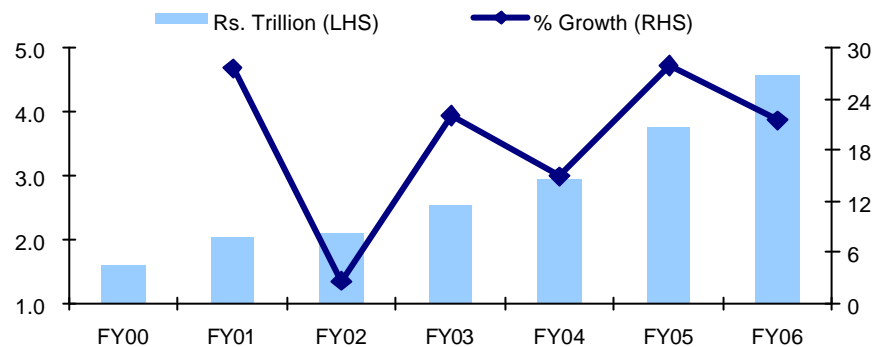
### India has higher logistics cost as a proportion of GDP

Worldwide, business activity of logistics is to the tune of US\$2 trillion. With a GDP of US\$12 trillion, the US expenditure on logistics has grown by 11.5% and currently stands at 8.7% of their GDP, which is approximately US\$1 trillion. In comparison, India, with a GDP of around US\$ 691 bn spends 13% of its GDP on logistics. As against this, the global average for logistics spend is approximately 8-10%.

The major reason for India having higher logistics cost is primarily due to higher transportation costs. Also, we have low level of investments in technology, warehouse management, track and trace systems etc. The Indian logistics industry is dominated by a large number of unorganized players with little or no value addition and lot of intermediaries in the total supply chain. This gives us an idea of the huge growth potential that the organised and integrated Indian logistics providers have on their hand.

### India Exports

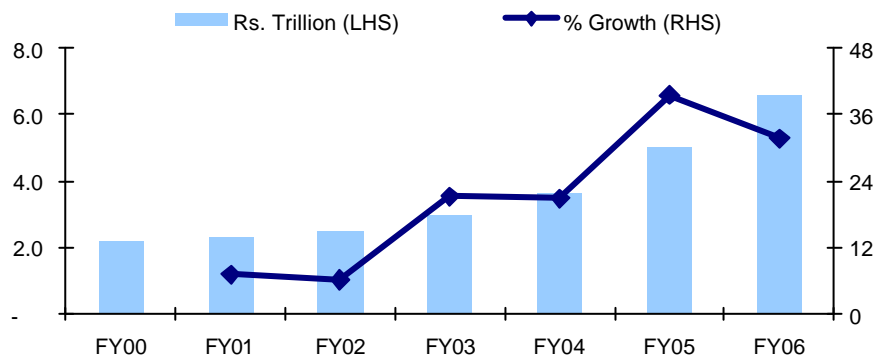
Rising exports



Source: Directorate General of Foreign Trade

### India Imports

Rising imports



Source: Directorate General of Foreign Trade

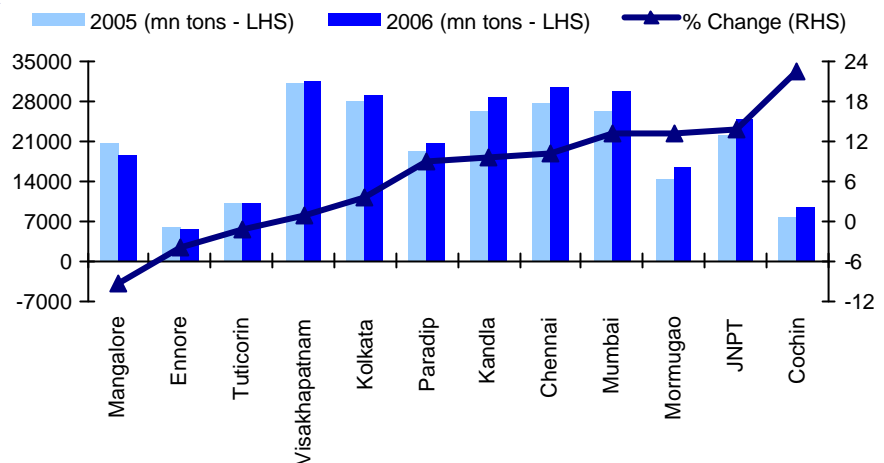
### Rise in export import trade to lead to higher handling of containers

**Exim trade has grown at a CAGR of 13.4% during the last decade**

India's export-import (Exim) trade has grown at a compounded annual growth rate (CAGR) of 13.4% during the last decade driven by the opening up of the country's economy. Also, recently, Exim trade has been growing much faster. This is well supported by the fact that in FY06 exports grew by 21.6% and imports grew by 31.8%. This has led to a rise in the container traffic, which grew by 9% in FY06. In the first half of FY07E, the growth is even higher at certain key ports like JNPT, which grew by 13.6%, Kochi grew by 22.4 and Chennai, which grew by 10.1%.

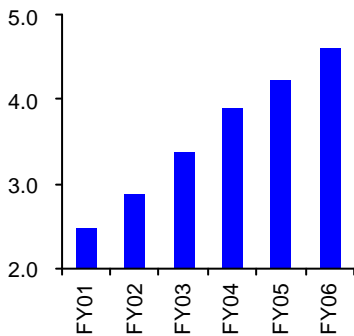
**Cargo traffic at major ports - April-October**

**Rising traffic at major ports**



Source: Indian Ports Association

**TEU handled at India's major ports**



Source: Indian Ports Association

The growth in Exim trade has translated into a huge opportunity for container handling and transportation from ports to various locations and vice-versa. Container traffic in India may go up from 4.6 mn TEU in FY06 to 20 mn TEU by 2015. Also, this has led to demand for container freight stations (CFS) and inland container depots (ICD) throughout the country. A lot of players are setting up CFS and ICD to meet future growth.

With growing trade in containers, the demand for transportation of container by railways has also increased significantly. To meet future demand, the Government is also setting up dedicated a rail freight corridor, which is expected to be operational in five years. The Government has allowed 14 players to run private container trains. These players are investing in wagons and rail linked terminals to be able to operate private container trains.

**Growth in organized retail offers tremendous opportunities in logistics**

**Organized retail offering big growth opportunity**

The success of today's world market leaders such as Wal-Mart, Dell, Cisco, Ikea, Toyota etc, is primarily due to their superior operational and logistics capabilities. These world giants are expected to increase their sourcing from India from current levels of 5% to around 30% in the next few years. They are also planning to set up their operations in India, which translates into a huge growth potential for Indian logistic service providers.

Organized retail is growing in India in a big way and this would further require lot of logistics services to be able to transport goods across the country. Large corporates like Pantaloons, Tata, Reliance and Bharti are also scaling up their retail plans. This is further expected to boost the demand for the logistics services.

**Express cargo market to double in less than five years**

**Growing express cargo market**

The Indian market for express cargo consisting of documents and non-documents shipment is about Rs.45 bn and is growing at a pace of Rs.9 bn per annum. It is expected to double its market size in less than five years. This is a multi-modal service involving rail, road, sea and air transportation for ensuring on-time and door-to-door delivery. A lot of companies are significantly increasing warehousing space in order to cater to the expected demand in future. Air cargo is also growing at double-digit rates and with the setting up of dedicated air freight terminals and addition of warehouse space at airports we expect this segment to continue to grow at double digits.

### Third party logistics and supply chain management

**Only 3% of Indian companies invest in SCM**

Outsourcing of the logistics function as a business dynamic is gaining importance across the globe. At present, only 3% of Indian companies are investing in logistics and supply chain management (SCM), thereby offering a huge opportunity for the Indian logistics providers to fill this gap. Also, high growth industries like auto ancillaries, hi tech electronics and processed foods are expected to outsource their logistics requirements.

Increasing number of companies are focusing on their core competencies of manufacturing and services and are looking to reduce their operational costs. Thus, they are increasingly outsourcing their logistics requirements to third party logistics (3PL) providers. A lot of companies have started outsourcing their logistics requirements and have already achieved success in terms of savings in costs. We feel the success of a few companies would actually make a lot of companies outsource their logistics requirements. Thus, we feel 3PL and SCM would continue to grow at a rapid pace in India.

### Cold chain logistics the next growth area

**Organized cold chain to grow at 25-30% CAGR**

Approximately 30-40% of the Indian agricultural produce is wasted due to lack of proper warehousing and cold chain facilities. The perishable commodities are not able to reach the markets and thus become worthless. India needs dedicated warehouse and cold storages for the agri business so that one can procure the agricultural produce during the season and sell them throughout the year.

There are approximately 3500 cold storage units in India out of which only the units of 10 players are in the organised area. The entire cold chain logistics sector is growing at slightly less than 10% per annum. However, in comparison to this, the organized players are growing at 25-30% annually. Hence, there is a huge growth opportunity to be tapped in the organised cold chain logistics business in India.

### Conclusion

To conclude, we believe India is fast emerging as a global manufacturing hub with strong growth in infrastructure coupled with retailing boom. We feel logistics will be one of the fastest growing businesses going forward and companies like Concor, Gateway Distriparks and GATI are well positioned to take advantage of the logistics boom that is going to unfold over next few years.

### Recommendation

We recommend **BUY** on GDL with a price target of Rs.252, which provides 38% upside potential.

We recommend **BUY** on Concor with a price target of Rs.2498, which provides 19% upside potential.

We recommend **HOLD** on Gati with price target of Rs.101, which provides 8% upside potential.

Peer valuation												
(Year end Mar)	Revenues			Net Profits			EPS (Rs)			P/E (x)		
	(Rs mn)	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E
Gateway Distriparks	1386	1925	2547	722	857	1092	7.8	9.3	11.8	23.6	19.8	15.6
CONCOR	24332	31593	38349	5258	7315	8233	80.9	112.6	126.7	26.0	18.7	16.6
GATI	4561	6215	7791	200	340	505	2.8	4.1	6.0	33.6	22.9	15.7

Peer valuation						
(Year end Mar)	Current price	Target price	upside potential	market cap	Diluted no of shares	Target P/E
	(Rs)	(Rs)	(%)	(Rs bn)	(mn)	(x)
Gateway Distriparks	184	252	37	17.0	92.2	21.4
CONCOR	2100	2498	19	136.5	65.0	19.7
GATI (year end June)	94	101	8	7.9	83.6	16.8

Source: Company, 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)
21-Dec	Aftek Ltd	Rakhi Tradiing Pvt. Ltd.	B	599,829	49.77
21-Dec	Axtel Indusr	Brijal Yogesh Parikh	S	59,700	13.79
21-Dec	Chamatkar.Nt	Sunil Pannalal Banthia	S	15,000	390.04
21-Dec	Class Diam I	Merrill Lynch Capital Mar	B	400,000	483.00
21-Dec	Class Diam I	Rajshah Enterprises Priva	S	85,470	483.01
21-Dec	Class Diam I	Giraben Atulbhai Shah	S	89,612	483.00
21-Dec	Class Diam I	Chauhan Finstock	S	173,933	483.00
21-Dec	Commit Cap S	Satyanarayana P V V	B	17,550	14.50
21-Dec	Crew Bos	V And U Caplease Pvt Ltd	B	85,000	250.20
21-Dec	Gemstone Inv	Manish Suresh Joshi	S	18,500	10.45
21-Dec	Gemstone Inv	Mradula Vijaykumar Shah	S	100,000	10.25
21-Dec	Kadamb Const	Laxmi Choudhary	S	15,800	22.65
21-Dec	Kew Industr	Athena Investment	B	240,000	33.56
21-Dec	Malu Paper	Obidant Exports Pvt Ltd	B	85,795	40.79
21-Dec	Mefcom Agr I	Edelweiss Securites Pvt.	B	25,000	120.95
21-Dec	Mefcom Agr I	Cosmo Corporate Services	S	21,387	120.53
21-Dec	Mefcom Agr I	ISF Securities Limited	S	35,700	121.00
21-Dec	Mefcom Agr I	Bijal Madhani Huf	S	15,000	120.93
21-Dec	Melst Inftec	Mackertich Consultancy Se	S	71,944	10.16
21-Dec	NCJ Internat	Nimbus India Ltd	B	39,201	7.82
21-Dec	Nitco Tiles	Indo Distillation Company	B	150,000	245.50
21-Dec	Pioner Embro	Admix Vinimay Pvt Ltd	B	83,517	240.80
21-Dec	Provogue Ind	The Indiaman Fund Mauriti	S	132,030	403.00
21-Dec	Sharyan Reso	Deutsche Securities Mauri	B	136,275	215.00
21-Dec	Sharyan Reso	Oman National Investment	S	239,031	219.00
21-Dec	Sundarammul	Amrabathi Investra Pvt Lt	B	295,247	16.50
21-Dec	Sundarammul	Prime Securities Limited	S	506,367	16.50
21-Dec	Texmaco Ltd	Fidelity MF Ac Fidelity E	B	111,618	1,149.05
21-Dec	Tripex Over	H B Company	B	60,000	162.12
21-Dec	Tripex Over	Kusumben B Shah	S	60,000	162.12
21-Dec	Unitd Spr	Clsa Mauritius Limited	B	2,600,000	875.00
21-Dec	Unitd Spr	USL Benefit Trust	S	3,028,000	875.02
21-Dec	Unity Infra	Indo Distillation Company	S	75,000	539.29
21-Dec	Vamshi Rubbe	Urmila Doshi	S	25,536	12.14

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Com	461	3.1	5.7	9.2
Reliance Ind	1,261	1.0	3.5	2.3
Bharti Airtel	612	1.2	2.7	1.3
<b>Losers</b>				
SAIL	81.9	(1.6)	-1.1	4.3
Infosys Tech	2,163.7	(0.3)	-0.8	0.8
HDFC Bank	1,009.3	(1.1)	-0.7	0.4

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
22-Dec	Indian Oil Corp to announce interim dividend; General Motors holds press conference for new launch; Reliance Communication holds press conference;
23-Dec	ONGC to announce interim dividend
26-Dec	Bharat Petroleum Corp to announce interim dividend; Glenmark to announce interim dividend
28-Dec	Union Bank to announce interim dividend

Source: Bloomberg

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