

September 10, 2007
FOR PRIVATE CIRCULATION
Equity

| | 7 Sep 07 | % Chg | | |
|-----------------------|----------|-------|-------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Indian Indices | | | | |
| Sensex | 15,590 | (0.2) | 4.9 | 10.9 |
| Nifty | 4,510 | (0.2) | 4.1 | 8.8 |
| Banking | 8,096 | (0.2) | 4.1 | 8.8 |
| IT | 3,642 | (0.1) | (0.5) | (2.6) |
| Healthcare | 3,706 | (0.3) | 2.9 | (0.9) |
| FMCG | 2,047 | 0.7 | 7.5 | 15.0 |
| PSU | 7,288 | 0.0 | 5.3 | 13.1 |
| CNX Midcap | 6,209 | 0.0 | 4.6 | 11.0 |
| World indices | | | | |
| Nasdaq | 2,566 | (1.9) | 0.8 | (0.3) |
| Nikkei | 16,122 | (0.8) | (5.9) | (11.2) |
| Hangseng | 23,983 | (0.3) | 9.0 | 15.8 |

Value traded (Rs cr)

| | 7 Sep 07 | % Chg - 1 Day |
|-------------|----------|---------------|
| Cash BSE | 4,470.7 | (9.5) |
| Cash NSE | 9,980.6 | 0.4 |
| Derivatives | 38,666.4 | (5.5) |

Net inflows (Rs cr)

| | 6 Sep 07 | % Chg | MTD | YTD |
|-------------|----------|-------|-------|--------|
| FII | 623 | 52 | 2,192 | 37,571 |
| Mutual Fund | 45 | (33) | 354 | 3,688 |

FII open interest (Rs cr)

| | 6 Sep 07 | % chg |
|-------------------|----------|-------|
| FII Index Futures | 16,107.6 | (1.7) |
| FII Index Options | 11,482.2 | 4.8 |
| FII Stock Futures | 25,796.7 | 0.9 |
| FII Stock Options | 136.6 | 7.5 |

Advances/Declines (BSE)

| | 7 Sep 07 | A | B1 | B2 | Total | % Total |
|-----------|----------|-----|-----|-----|-------|---------|
| Advances | 78 | 336 | 453 | 867 | 48 | |
| Declines | 134 | 392 | 355 | 881 | 49 | |
| Unchanged | 5 | 14 | 29 | 48 | 3 | |

Commodity

| | 7 Sep 07 | % Chg | | |
|--------------------------|----------|-------|-------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US\$/BBL) | 76.5 | (0.2) | 7.1 | 18.2 |
| Gold (US\$/OZ) | 701.0 | 0.8 | 4.1 | 8.0 |
| Silver (US\$/OZ) | 12.5 | 0.9 | (2.5) | (4.4) |

Debt/forex market

| | 7 Sep 07 | 1 Day | 1 Mth | 3 Mths |
|---------------------|----------|-------|-------|--------|
| 10 yr G-Sec yield % | 7.88 | 7.92 | 7.96 | 8.19 |
| Re/US\$ | 40.66 | 40.79 | 40.45 | 40.73 |

Sensex


Source: Bloomberg

ECONOMY NEWS

- For the first time ever, the Center's direct tax collections may surpass the indirect tax collections this fiscal, if the current trend in tax revenue mobilization is any indication. (BL)
- Mutual funds planning to launch schemes that invest abroad are likely to get a lot more freedom in terms of investment options and limits. The Government and financial sector regulators are working together to liberalize the norms that govern mutual funds. (ET)
- The RBI's tight monetary policy is likely to bring down the profitability of banks by 20 basis points during the current financial year. (BS)
- The Irda has decided to review the solvency margins of pure health insurance companies to enable them to use capital more efficiently. This, in turn, would enable them to work with thinner margins and, thereby, facilitate lower prices in a competitive market. (ET)
- With the list of companies wanting to start telecom services in India growing by the day, the department of telecommunications is taking a closer look at the applications to establish the real identities of all those who have sought licenses. (ET)
- India, seeking entry into the Asia-Pacific Economic Cooperation (Apec) forum, will have to wait for at least another three years as the group's leaders have decided to take up the issue of membership in 2010. (ET)

CORPORATE NEWS

- **Tata Tea's** open offer to public shareholders of Mount Everest Mineral Water continues to be stuck on the question of determining the 'offer price' for the shares. (BL)
- The **Aditya Birla group** plans to invest \$550-\$600 mn in ramping up its carbon black capacities in India and abroad over the next four years to meet growing demand and also increase market share in the competitive industry. (ET)
- **TCS** is raising its billing rates by 3-4% for existing clients and by 5% for new clients in the wake of rising wages and rupee appreciation against the dollar, company officials said. (BS)
- **DLF** and **Ansals** have entered into deals with **Power Trading Corporation** for buying power for their housing projects. The corporation is also negotiating with **Unitech** for a similar arrangement. (ET)
- **Ranbaxy Laboratories** plans to buy companies in India, a market that is expected to rank among the world's biggest in the next eight years. (BS)
- **Nicholas Piramal India** has decided to invest some Rs.2.5-3 bn in the next two years in its recently demerged innovative R&D unit. (ET)
- **JSW Steel's** move to acquire a coal block in Jharkhand seems to have run into trouble with Jai Balaji Sponge, one of its joint venture partners, walking out of the proposed consortium. (ET)
- **TV 18 Group** has been rechristened Network18, effective Monday. The Network18 brand will unify all existing businesses such as TV18, GBN, Web18, Homeshop18, Viacom18, Studio18, and Events18 under a unified banner. (BS)
- Godrej Aadhaar has tied up with **Eicher Motors** to provide commercial vehicles to rural India. The move is aimed at encouraging village entrepreneurs to venture into transportation business. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

COMPANY UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6634 1366

NUMERIC POWER SYSTEMS LTD.

PRICE : Rs.439
TARGET PRICE : Rs.615

RECOMMENDATION : BUY
CONS. FY09E PE : 6.1x

The Numeric stock has corrected in the recent volatile markets. However, the fundamentals remain intact. We continue to maintain BUY on Numeric with 40% upside potential from current levels.

We have gone through the annual report of Numeric Power Systems for FY07. The following are our key takeaways:

Summary table - Consolidated

| (Rs mn) | FY07 | FY08E | FY09E |
|-------------------|-------|-------|--------|
| Sales | 2,904 | 3,493 | 4,020 |
| Growth (%) | 20.4 | 20.3 | 15.1 |
| EBITDA | 286 | 404 | 498 |
| EBITDA margin (%) | 9.8 | 11.6 | 12.4 |
| Net profit | 205 | 294 | 364 |
| Net debt | 41.2 | 28.8 | (34.0) |
| EPS (Rs) | 40.9 | 58.1 | 71.6 |
| Growth (%) | 3.8 | 43.3 | 23.4 |
| DPS (Rs) | 4.5 | 5.0 | 5.0 |
| ROE (%) | 19.2 | 24.6 | 24.3 |
| ROCE (%) | 22.7 | 30.3 | 31.6 |
| EV/Sales (x) | 0.8 | 0.6 | 0.5 |
| EV/EBITDA (x) | 7.9 | 5.6 | 4.4 |
| P/E (x) | 10.7 | 7.6 | 6.1 |
| P/BV (x) | 2.1 | 1.7 | 1.3 |

Source: Company & Kotak Securities - Private Client Research

Focus on high margin service business

In FY07, NPSL added 45 sales and service centers, thereby taking the total tally to 201 by March 2007. This is expected to extend the market reach and move even closer to customers. NPSL provides services such as annual maintenance contracts of UPS and power conditioners of not only its own brands but also for other brands. The company has also established 27 test and repair centers across India as a part of a vast service network thereby ensuring faster turnaround time. Over 60% of the orders for service are received from existing customers and 98.5% are retained as Numeric satisfied customers.

The company has a highly efficient service team, all of whom are personally trained by NPSL. They provide 24x7 technical support to all important customers/projects. The company has over 600 factory-trained engineers for this important function of customer care. NPSL also has a well-managed inventory of spares. This gives it the edge over other UPS suppliers in India in terms of the service quality and reach, which NPSL offers.

The service business is typically a high-margin business for NPSL. The management has recognized the potential of this department. Hence, it is now laying more emphasis on the growth of the service department. In FY07, services contributed to 9% of the total revenues, which in our opinion, is expected to go up to 20% of the total revenues in two to three years. This is expected to improve overall operational profitability of the company, going forward.

Distribution

NPSL has developed partnerships with three major professional IT, sales and distribution companies. The sales through the entire network channel have grown 60% over last year. The company has 1800 channel partners spread across 400 towns in India, thereby expanding the width of distribution. NPSL also has two national distributors for fast moving UPS systems and accessories.

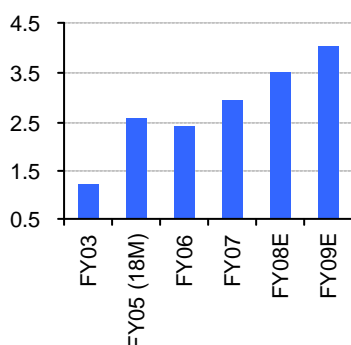
Product development

The company has adopted the latest power conversion techniques combined with advanced digital controls in the newly designed Numeric digital HPX series. It has been especially designed to address IT and industrial requirements including intelligent monitoring using the internet.

Commence Africa operations

In FY07, NPSL opened a sales and market development branch in Johannesburg in South Africa. The company has undertaken strong initiatives to grow in the African market. Results are expected to accrue from the current year onwards. NPSL is also actively looking to expand its presence in Africa. In our opinion, NPSL may go for some acquisition or JV in the future.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Awards

At the soft disk SD awards 2006, NPSL has been awarded No.1 power electronic company of the year for the fourteenth consecutive year. The company has also been awarded No.1 offline/line interactive UPS manufacturer of the year for the first time.

Numeric - Socomec JV

In order to move to high value-added products, which command better pricing power, NPSL has formed a JV with Socomec SA of France, which is Europe's leading switchgear and UPS Systems Co. Socomec has a turnover of more than €230 mn and a 30% market share in Europe. The company has 16 subsidiaries worldwide and eight manufacturing facilities.

The JV has been formed primarily to distribute market and service in India, three phase range of UPS systems of more than 10 KVA, which would be manufactured by Socomec. The JV would also provide all related services. The products have already been launched and its products and service has been successful.

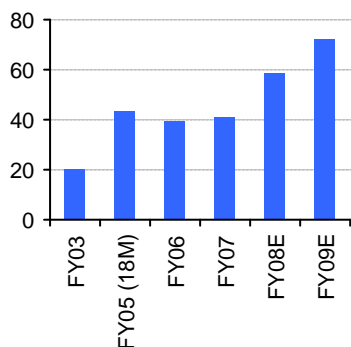
In a very short time, the JV has won many prestigious projects from Cisco, Oracle, BMW, Nokia, Goldman Sachs, Franklin Templeton, Yes bank, Yahoo data centre, Sify etc.

The above development is very positive. It is expected to lead to a significant rise in revenues and profitability of the company, going forward. However, we have not included any revenues or profitability out of this JV into our estimates, as we would like to see the business grow further and bring better results in its operations.

Recommendation & valuation

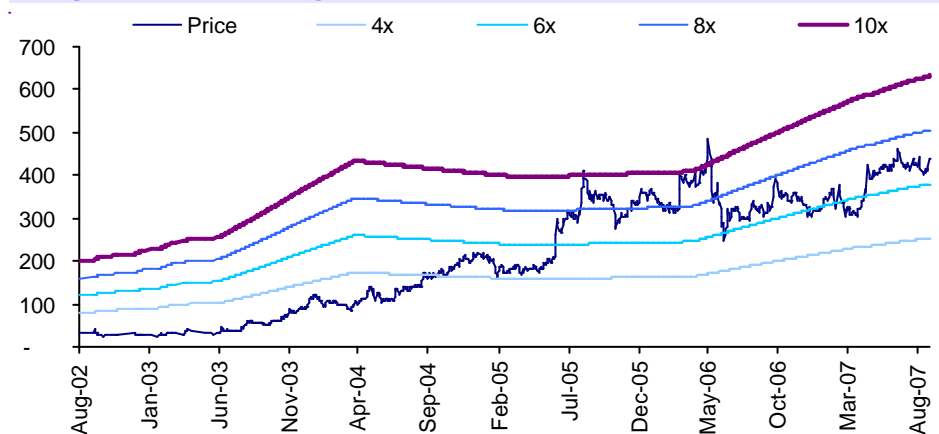
- Going forward, we expect the revenues of Numeric to grow at 17.6% CAGR for the next two years. More importantly, the net profit is expected to grow at 33.2% CAGR for the next two years, that is, from FY07 to FY09E.
- We maintain our earnings estimates for Numeric and expect it to report an EPS of Rs.58.1 in FY08E, moving up to Rs.71.6 in FY09E.
- With the recent volatile markets, Numeric has corrected by around 10% from its high of Rs.480, thereby making it attractive from current levels. Also, it is trading at the lower band of the 6 to 10x one-year forward estimates. This makes it attractive at current levels.

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

One-year forward rolling P/E band



Source: Capitaline, Kotak Securities - Private Client Research

We recommend a BUY on Numeric Power Systems with a price target of Rs.615 (40% upside)

- The current market price of Rs.439 discounts FY09E earnings at 6.1, which we believe is very attractive due to the clear growth prospects of the company, going forward.
- We remain positive and maintain BUY on Numeric Power Systems with target price of Rs.615, which provides an upside potential of 40%.

Bulk deals

| Trade details of bulk deals | | | | | |
|-----------------------------|--------------|--|--------------|-----------------------|--------------------|
| Date | Scrp name | Name of client | Buy/ Sell | Quantity of shares | Avg. Price (Rs) |
| 7-Sep | Commit Cap S | Bina Atul Chauhan | B | 50,000 | 18.24 |
| 7-Sep | Crazy Infote | Aditi M Gandhi | B | 33,935 | 201.35 |
| 7-Sep | Cupid Trade | Withal Commercial Pvt Ltd | B | 14,033 | 20.77 |
| 7-Sep | Dynamic Indu | Ajay Natavarlal Sh Stock P L | B | 50,000 | 42.99 |
| 7-Sep | Dynamic Indu | Ankit Rajendra Sanchaniya | S | 95,342 | 42.73 |
| 7-Sep | Gemstone Inv | Supreme India Cottex Pvt Ltd | B | 15,500 | 21.39 |
| 7-Sep | Gemstone Inv | Prem Mohanlal Parikh | S | 31,000 | 20.21 |
| 7-Sep | Gremac Infra | Anand Yogesh Shares and Cons | B | 109,858 | 182.92 |
| 7-Sep | Gremac Infra | Lotus Global Investments | S | 100,000 | 183.00 |
| 7-Sep | Hester Pharm | Kankaria Brothers Pvt Ltd | B | 45,000 | 153.12 |
| 7-Sep | Hexaware Ltd | Sonata Investments Ltd | B | 3,500,000 | 122.00 |
| 7-Sep | Hexaware Ltd | Macquarie Bank Limited | S | 3,710,000 | 122.20 |
| 7-Sep | Kadamb Const | Arvind Desai D | S | 31,463 | 35.00 |
| 7-Sep | Kalpitaru | Revive Securities P. Ltd. | B | 25,000 | 61.99 |
| 7-Sep | KDL Biotech | Zielle Ventures Private L | S | 85,000 | 13.57 |
| 7-Sep | Lakshmi Vila | M N Dastur and Company Pvt Ltd | B | 347,887 | 107.42 |
| 7-Sep | Madhucon Pro | Pricipal Pnb Long Term Equity Fund 3 Year Plan Series 1 | B | 550,000 | 240.00 |
| 7-Sep | Madhucon Pro | Pricipal Mutual Fund Pricipal Tax Savings Fund | B | 176,570 | 240.00 |
| 7-Sep | Madhucon Pro | Principal Mutual Fund Principal Resurgent India Fund | B | 250,000 | 240.00 |
| 7-Sep | Madhucon Pro | BSMA Limited Dr Account | S | 315,000 | 240.00 |
| 7-Sep | Madhucon Pro | BSMA Limited | S | 662,000 | 240.00 |
| 7-Sep | Mah Ind Leas | Shah Samir D | B | 131,885 | 41.04 |
| 7-Sep | Mah Ind Leas | Sunil J Anandpara | B | 57,000 | 41.00 |
| 7-Sep | Mah Ind Leas | Satyakunj Investment | B | 27,830 | 41.58 |
| 7-Sep | Mah Ind Leas | Pragnesh Harshadbhai Patel | S | 23,390 | 40.99 |
| 7-Sep | Mah Ind Leas | Global Film and Bord Casting | S | 125,000 | 40.96 |
| 7-Sep | Mah Ind Leas | Enca Finlease | S | 96,000 | 41.00 |
| 7-Sep | Mah Ind Leas | Satyakunj Investment | S | 25,400 | 40.94 |
| 7-Sep | Malar Hospit | Rajender Belide | S | 100,750 | 37.41 |
| 7-Sep | P G Foils Lt | Foils India Laminates | B | 36,040 | 51.15 |
| 7-Sep | Patel Airtem | Chamanlal C Shah | S | 28,570 | 48.26 |
| 7-Sep | Patel Airtem | Rajesh Shah | S | 43,163 | 47.29 |
| 7-Sep | Photoquip In | N C Jain | B | 55,529 | 19.57 |
| 7-Sep | Polychem Ltd | Rai Investments | B | 2,100 | 177.12 |
| 7-Sep | Prithvi Info | Pooja Mukund Jalan | B | 120,000 | 316.14 |
| 7-Sep | Pruden Pharm | Accord Capital Markets | S | 62,473 | 32.19 |
| 7-Sep | Rama Pul Pap | Prabha Farms Pvt Ltd | S | 45,000 | 50.72 |
| 7-Sep | Sanjiva Para | Leena Shashikantbhai Shah | B | 30,000 | 42.62 |
| 7-Sep | Scooters Ind | Chimanlal Maneklal Sec.Pvt.Ltd | B | 15,012 | 37.69 |
| 7-Sep | Scooters Ind | JMP Securities | B | 18,010 | 37.70 |
| 7-Sep | Scooters Ind | Kalpana Madhani Securities | B | 15,000 | 37.70 |
| 7-Sep | Sh Hari Ch E | Shivam Investments | B | 39,000 | 51.33 |
| 7-Sep | Usher Agro | Pritesh Ashok Patel | B | 200,000 | 76.45 |
| 7-Sep | Usher Agro | Chitra Jitendra Mayekar | S | 250,000 | 76.45 |
| 7-Sep | Vadilal Indu | Ruane Cunniff and Gold Farb Inc | B | 43,785 | 68.24 |
| 7-Sep | Vamshi Rubbe | Krunal Finvest | B | 97,488 | 25.63 |
| 7-Sep | Welsp Guj Sr | Morgan Stanley Mutual Fund | B | 1,050,000 | 232.99 |
| 7-Sep | Yashraj Secr | Maru Securities Pvt Limited | S | 10,553 | 48.15 |

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

| | Price (Rs) | % change | Index points | Volume (mn) |
|----------------|------------|----------|--------------|-------------|
| Gainers | | | | |
| ONGC | 851 | 1.6 | 5.6 | 1.1 |
| Bharti Airtel | 848 | 0.7 | 2.1 | 0.9 |
| ITC | 178 | 1.6 | 2.1 | 6.6 |
| Losers | | | | |
| Reliance Ind | 1,963 | (1.0) | (5.3) | 1.8 |
| SAIL | 168 | (1.9) | (2.6) | 7.1 |
| Sterlite Ind | 613 | (1.7) | (1.5) | 0.3 |

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

| Date | Event |
|--------|--|
| 10-Sep | Initial Public Offer of Power Grid Corporation opens, IL&FS Investment and Milestone Capital holds press conference, Koutons Retail India holds press conference to announce IPO |
| 20-Sep | SAIL holds annual shareholders meeting |

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 | Banking, Economy | +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 |

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.