

September 3, 2007

FOR PRIVATE CIRCULATION

Equity				
31 Aug 07	% Chg			
	1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>				
Sensex	15,319	1.3	1.2	5.1
Nifty	4,464	1.2	1.4	3.9
Banking	7,859	1.4	(2.4)	2.3
IT	3,627	0.9	(1.7)	(2.8)
Healthcare	3,573	2.0	(1.5)	(7.3)
FMCG	1,974	1.3	0.9	4.4
PSU	7,095	2.1	1.1	4.8
CNX Midcap	6,044	2.2	(0.1)	6.3
<b>World indices</b>				
Nasdaq	2,596	1.2	3.4	(0.7)
Nikkei	16,569	2.6	(3.1)	(8.4)
Hangseng	23,984	2.1	5.7	15.6

Value traded (Rs cr)		
31 Aug 07	% Chg - 1 Day	
Cash BSE	4,863.2	(10.2)
Cash NSE	11,088.2	(26.7)
Derivatives	45,012.6	(36.9)

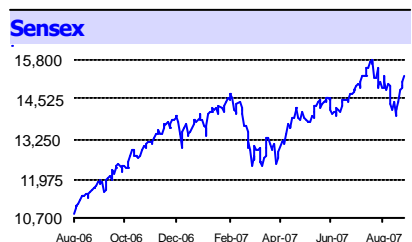
Net inflows (Rs cr)				
30 Aug 07	% Chg	MTD	YTD	
FII	(665)	(246)	(8,204)	34,702
Mutual Fund	726	1,115	3,787	2,870

FII open interest (Rs cr)		
30 Aug 07	% chg	
FII Index Futures	15,269.1	6.2
FII Index Options	9,067.2	19.5
FII Stock Futures	23,849.8	3.2
FII Stock Options	58.6	14.1

Advances/Declines (BSE)					
31 Aug 07	A	B1	B2	Total	% Total
Advances	169	484	458	1,111	62
Declines	47	245	355	647	36
Unchanged	2	12	29	43	2

Commodity				
31 Aug 07	% Chg			
	1 Day	1 Mth	3 Mths	
Crude (NYMEX) (US\$/BBL)	74.0	0.9	(5.3)	15.7
Gold (US\$/OZ)	673.4	1.2	(0.1)	0.1
Silver (US\$/OZ)	12.1	2.5	(7.4)	(11.8)

Debt/forex market				
31 Aug 07	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.93	7.94	7.85	8.12
Re/US\$	40.88	41.12	40.44	40.57



Source: Bloomberg

## ECONOMY NEWS

- The Government is all set to ease winding-up norms for companies to attract foreign investment in the manufacturing sector. It plans to adopt international best practices to facilitate winding up of a business venture in just a month. (ET)
- The demand for home loans has slowed down over the past few months due to rising property prices and high interest rates. (BL)
- The Finance Ministry is keen on a hike in petrol and diesel prices to offset losses of oil firms, although it has agreed to issue oil bonds to insulate them from skyrocketing global crude prices.
- The Ministry of Defense is understood to have indicated releasing about 50 MHz spectrum by December this year for use in mobile telecom services, and has asked for a list of important locations needing frequency immediately. (BS)
- The Ministry of Corporate Affairs has arrived at an understanding with the Finance Ministry on not using the criteria used in other sectors for regulating mergers in the banking sector. (ET)
- Power plants up to 500 MW generation capacity may no longer be required to comply with mandatory inter-state sale of power to avail tax incentives. (ET)

## CORPORATE NEWS

- The Government is of the view that **SBI** should first list its unlisted subsidiaries for greater unlocking of value before merging them with the parent bank. This, it says, will drive up valuation for the bank. (ET)
- **Reliance Industries** is in the process of setting up an optic fiber cable network in Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra and Gujarat, which will run alongside its gas pipeline from Kakinada to Bharuch. (ET)
- **Tata Motors** has proposed to set up an auto park at Adityapur in the Sareikela-Kharwsawan district of Jharkhand. The company will be investing around Rs.14 bn for the proposed auto park. (ET)
- **HPCL** will upgrade its lubricant making facility in Mumbai with an investment of Rs.4 bn in a bid to produce new range of lubricants and oil. (BS)
- Infrastructure major **GMR Group** is gearing up for a foray into nuclear power generation, aiming to be the first Indian private player to enter the sector. (BS)
- Decks have been cleared for India's first power exchange, with a proposal put forward by Multi Commodity Exchange of India and **Financial Technology India Ltd** to set up a nationwide power trading platform getting the regulatory nod. (BL)
- **TVS Motor Co** proposes to file a suit against Bajaj Auto if the latter does not withdraw its allegations that TVS infringed on Bajaj's proprietary know-how. (BL)
- **Sterlite Industries'** hopes of increasing its stake in **Hindustan Zinc** to around 95% by exercising an open-ended call option (right but not the obligation to buy) over the government's 29.54% residual stake have receded. (BS)
- **Gitanjali Gems** has received approval from the Union Government for establishing two SEZs - one at Nagpur and another at Aurangabad. (BL)
- FMCG major **Emami** has earmarked Rs.1 bn for acquiring personal and health care brands this year and will also launch products to expand its portfolio. (ET)

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

## COMPANY UPDATE

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

## VOLTAMP TRANSFORMERS

**PRICE : Rs.1258**  
**TARGET PRICE : Rs.1350**

**RECOMMENDATION : HOLD**  
**FY09E PE : 15.3x**

- The stock has posted a sharp up move post the first quarter results, as earnings estimates have been revised
- The balance sheet has revealed a dramatic improvement in working capital
- Cash generation has improved significantly
- The stock is trading at 19.8x and 15.3x FY08 and FY09 earnings, respectively. In view of the recent run-up in stock price, we revise rating to HOLD with a price target of Rs.1350

## Sustained industrial capex drives transformer demand

Voltamp's focus is on the industrial sector. Here, the company caters to EPC contractors like L&T, Siemens and ABB and also wind power generators like Suzlon Energy. Given that the Indian industry is in a capex up cycle, Voltamp is witnessing strong demand for its transformers.

## Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	4058.0	5458.8	6823.6
Growth %	63.1	34.5	25.0
EBITDA	613.5	939.7	1200.5
EBITDA margin %	15.1	17.2	17.6
Net profit	395.6	641.5	830.7
Net cash (debt)	86.3	901.5	1549.2
EPS (Rs)	39.2	63.5	82.2
Growth %	71.8	62.2	29.5
CEPS	41.3	67.1	86.0
DPS (Rs)	0.6	1.0	1.0
ROE %	47%	49%	41%
ROCE %	68%	74%	62%
EV/Sales (x)	3.1	2.2	1.6
EV/EBITDA (x)	20.6	12.6	9.3
P/E (x)	32.1	19.8	15.3
P/Cash Earnings	30.4	18.7	14.6
P/BV (x)	14.2	8.3	5.4

Source: Company & Kotak Securities - Private Client Research

## Capex prospects

Segment	Projects
Roads	NHDP Phase III-IV, USD 26 bn
Ports	Doubling of capacity, USD 13 bn
Airport Modernization	upgradation in 41 cities, USD 9 bn
Oil and Gas	Refineries USD 11 bn, Transportation \$22 bn
Power	Capacity addition of 60000 MW
Urban and Commercial infrastructure	USD 40 bn over the next 6 years
Aluminum	bauxite and smelting USD 7 bn
Cement	\$2 bn

Source: Company

## Dramatic improvement in working capital efficiency

Free cash flows generated by Voltamp have risen during FY07. This has been led by lower working capital requirements. Primarily, debtors as days of sales have declined from 49 in FY06 to 28.8 in FY07. On the current liabilities side, advances from customers have risen from Rs.151 mn in FY06 to Rs.384 mn in FY07. The overall working capital cycle has shrunk from 94 days to 49 days. Since the company's prime client segment is the industrial segment (non-SEB), it is able to negotiate favorable terms in view of the robust demand scenario.

## Margins have expanded

For the quarter, margins stood at 18.6%, which is substantially higher than the FY07 margins of 15.1%. During the quarter, material prices (copper and steel) remained range bound. This enabled manufacturers to manage the material price risk. This, coupled with larger volumes, resulted in attractive margins. Voltamp has also leveraged its cash availability to get better terms from suppliers. We see margins sustaining in the range of 16-18% over the next few quarters.

## Zero debt status and comfortable cash position

Healthy cash generation, as a result of working capital reduction enabled the company to repay Rs.181 mn in borrowings. Voltamp is virtually debt-free. Also, it has cash and liquid investment worth Rs.327 mn.

## Stock has re-rated post Q1 results

The Voltamp stock has gained 64% over the last month post the very strong earnings in the first quarter. At the current price, the stock is trading at 19.8x and 15.3x FY08 and FY09 earnings, respectively. We have incorporated the highly improved operating ratios in our forecast and DCF analysis and arrive at the price target of Rs.1350 per share. However, in view of the recent run-up in stock price we revise our rating to a **HOLD**.

**We recommend a HOLD on Voltamp Transformer with a price target of Rs.1350**

## Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
31-Aug	Aptech Ltd	UBS Securities Asia Ltd Ac Swiss Financxe Corp Mau Ltd	S	220,000	300.44
31-Aug	Aptech Ltd	BSMA Ltd	S	230,508	300.24
31-Aug	Ashco Indust	Shailesh Mulraj Ved	S	37,747	30.84
31-Aug	Autolite Ine	Vishal J Shah and Co.	B	74,273	68.95
31-Aug	Axon Infotec	Deendayal M Bohara	B	3,521	653.93
31-Aug	Bella Ste Al	JMP Securities Pvt. Ltd.	S	1,439,520	4.25
31-Aug	Dishman Phar	UBS Securities Asia Ltd	S	430,000	284.22
31-Aug	Dynamic Indu	Hemant Madhusudan Sheth	B	48,000	40.88
31-Aug	Dynamic Indu	Ankit Rajendra Sanchaniya	S	48,600	40.86
31-Aug	Ennore Coke	Giridhari Lal Foundations	B	99,000	17.60
31-Aug	Expo Ga Cont	Jayesh Patel	B	30,000	32.30
31-Aug	Expo Ga Cont	Yogesh Patel	S	30,000	32.30
31-Aug	Gemstone Inv	Bhavesh Prakash Pabari	B	20,030	23.05
31-Aug	Gemstone Inv	Prem Mohanlal Parikh	B	43,060	23.22
31-Aug	Gemstone Inv	Hemant Madhusudan Sheth	B	50,000	22.30
31-Aug	Gemstone Inv	Kishorbhai Balubhai Chauhan	S	21,165	23.20
31-Aug	Gemstone Inv	Ankit R. Sanchaniya	S	20,550	22.30
31-Aug	Geodinfo Sys	Citigroup Global Markets Mauritius	S	306,127	236.00
31-Aug	Gulshan Poly	Micro Management	B	50,368	50.95
31-Aug	Innocorp L	Naman Sec And Fin Pvt Ltd	S	42,073	48.70
31-Aug	Kadamb Const	Arvind Desai D	S	15,000	35.90
31-Aug	Novgol Petr	Yogeshkumar Narandas Parekh	B	50,000	6.31
31-Aug	Paramo Commu	Merrill Lynch Capital Markets España S.A. S.V.	S	506,539	28.66
31-Aug	Pasari Spin	Spjstockbroker	S	52,541	17.54
31-Aug	Pruden Pharm	Accord Capital Markets	S	75,000	27.66
31-Aug	Saksoft Ltd	Ward Ferry Management	B	300,000	207.99
31-Aug	Sanra Softw	Raj Kumar Jain	S	35,000	18.15
31-Aug	Simbhaol Su	Deutsche Securities Mauritius	S	125,000	32.26
31-Aug	Tribhvan Hsg	Mamta Jagdish Raimalani	S	30,000	66.74
31-Aug	Venus Remeds	Sonata Investments	B	68,024	524.07
31-Aug	Vertex Secur	Dilip Sadanand Utekar	B	70,000	31.12
31-Aug	Vertex Secur	Mahesh H Rathod HUF	S	58,900	31.15

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Ind	1,961	2.6	13.0	3.6
ONGC	860	2.3	7.8	0.9
Tata Steel	690	4.9	3.8	5.6
<b>Losers</b>				
Bharti Airtel	880	(0.5)	(1.6)	0.9
Infosys Tech	1,855	(0.6)	(1.2)	1.0
Sterlite Ind	631	(1.1)	(1.0)	0.8

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
10-Sep	Initial Public Offer of Power Grid Corporation opens
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.