

**December 10, 2007**
**FOR PRIVATE CIRCULATION**
**Equity**

	7 Dec 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	19,966	0.9	5.6	28.0
Nifty	5,974	0.3	5.5	32.5
Banking	11,378	2.4	11.4	40.5
IT	3,873	2.7	6.6	7.4
Healthcare	4,007	0.4	3.9	7.7
FMCG	2,177	(1.0)	8.5	4.4
PSU	9,869	(0.9)	0.3	34.7
CNX Midcap	8,475	0.1	14.7	35.9
<b>World indices</b>				
Nasdaq	2,706	(0.1)	3.0	5.7
Nikkei	15,956	0.5	1.8	0.7
Hangseng	28,842	(2.4)	1.0	21.2

**Value traded (Rs cr)**

	7 Dec 07	% Chg - 1 Day
Cash BSE	8,255	(11.1)
Cash NSE	20,606	(5.9)
Derivatives	61,359.4	(7.7)

**Net inflows (Rs cr)**

	6 Dec 07	% Chg	MTD	YTD
FII	822	(24)	2,038	69,093
Mutual Fund	98	151	321	3,216

**FII open interest (Rs cr)**

	6 Dec 07	% chg
FII Index Futures	17,686	2.2
FII Index Options	7,437	5.4
FII Stock Futures	48,160	0.5
FII Stock Options	76	10.7

**Advances/Declines (BSE)**

	7 Dec 07	A	B1	B2	Total	% Total
Advances	97	319	559	975	50	
Declines	119	433	401	953	49	
Unchanged	-	5	17	22	1	

**Commodity**

	7 Dec 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	87.8	(0.5)	(8.8)	13.3
Gold (US\$/OZ)	794.8	(0.9)	(4.3)	13.3
Silver (US\$/OZ)	14.4	(0.6)	(7.2)	14.5

**Debt/forex market**

	7 Dec 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.87	7.88	7.92	7.83
Re/US\$	39.41	39.49	39.33	40.68

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- Duty entitlement pass book scheme may not be replaced with the duty drawback scheme in the forthcoming fiscal if the Finance Ministry does not agree to remit state taxes paid by exporters. (ET)
- States will demand power to levy tax on all taxable services along with the Center under the proposed goods and services tax that is to be implemented from April 1, 2010. (ET)
- The Finance Ministry has locked horns with the corporate affairs ministry over certain provisions of the new company law that deal with issues like investor protection and corporate governance which are now regulated by Sebi. (ET)
- Securities transaction tax is all set to become an effective tool to generate intelligence about income from market operations. The Central Board of Direct Tax is examining ways of using the STT data on the lines of annual information return to nab tax evaders. (ET)
- Wholesale price-based inflation softened in the third week of November to 3.01%, from 3.21% in the previous week, on account of lower food and vegetable prices. (ET)

**CORPORATE NEWS**

- **Indian Oil** has tied up with Egyptian General Petroleum Corporation to build a refinery in Egypt. According to Egyptian officials, IOC and EGPC could jointly build a \$9-bn refinery-cum-petrochemical complex near Gamasa or Port Said. (ET)
- Swedish truck giant Volvo is believed to be the finalist in the race to buy a majority stake in domestic truck maker **Eicher Motors**. According to people familiar with the situation, Eicher is likely to make an announcement to this effect on Monday.
- **Bharti**, Vodafone-Essar and **Idea Cellular**, have come together to set up an independent tower company Indus Towers. Bharti and Vodafone-Essar would have 42% equity stake each in the new company while Idea Cellular will have a stake of 16%. (BS)
- **Reliance Communications** has slammed the claims made by GSM operators **Bharti Airtel** and Vodafone Essar before the spectrum panel set up by the Government. (BL)
- Triggering speculation of a mega initial public offer in 2008, **Reliance Industries** has intensified restructuring of its retail venture to create up to 30 independent business activities, each targeted to be a profit center. (BS)
- **Bhushan Steel**, which is investing Rs.88 bn to set up a steel unit in West Bengal, has said land acquisition will be a critical factor in the company's decision to move ahead with its proposed 2 MT steel project. (ET)
- Reliance Gas Transportation Infrastructure has signed a framework agreement with state-owned **GAIL (India) Ltd** for transporting natural gas from **Reliance Industries'** asset in the Krishna-Godavari Basin. (BL)
- **Wockhardt**, which recently acquired ailing Morton Grove Pharmaceuticals, plans to turn around the US company by sourcing bulk drugs for its manufacturing from India and China, the Wockhardt chairman has said. (ET)
- **Abhishek Industries** is set to enter high-end paper manufacturing business. It is setting up production facilities to produce 275 tons per day of high-end papers that would take its projected revenue of Rs.1.5 bn in the current fiscal for the paper business to Rs.4 bn next year. (ET)
- **Ispat Industries** is planning an investment of over Rs.100 bn in expanding its steelmaking capacity. (BS)

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

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### COMPANY UPDATE

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## KPIT CUMMINS

**PRICE : Rs.134**

**RECOMMENDATION : HOLD**

**TARGET PRICE : Rs.135**

**FY09E PE : 14x**

- **Price target achieved post sharp up-move over past few trading sessions.**
- **The company progressing aggressively in the auto embedded space; achieved Automotive SPICE maturity level 5.**
- **No impact of the potential US economic slowdown, as yet.**
- **Expect EPS of Rs.7.4 and Rs.9.5, respectively, for FY08E and FY09E.**
- **Recommend HOLD till emergence of further clarity on the actual impact, if any, of the slow-down in the US economy and its automobile industry.**
- **Acquisition of large accounts on the lines of the Renesas ODC and F&A deal with Cummins may significantly increase the revenue visibility for KPIT and consequently, our earnings estimates/recommendation.**

### Automotive SPICE maturity level 5 certification achieved

KPIT has achieved the Automotive SPICE maturity level 5 certification. Automotive SPICE certification scheme recognizes the organizational maturity of software service providers for automotive manufacturers.

The Automotive SPICE assessment model has been developed under Automotive SPICE initiative by consensus of the car manufacturers within the Automotive Special Interest Group (SIG), a joint special Interest group of The Procurement Forum and The SPICE User Group. The members of the Automotive SIG include AUDI AG, BMW Group, DaimlerChrysler AG, Fiat Auto S.p.A, Ford Werke GmbH, Jaguar, Land Rover, Dr. Ing. h.c.F. Porsche AG, Volkswagen AG and Volvo Car Corporation.

KPIT is currently, one of the only two companies in the world which are Automotive SPICE level 5 certified. The company has extensive experience in every subsystem of automotive electronics. This experience, coupled with strong process focus, has helped the company in meeting the stringent requirements of the Automotive SPICE.

Over the years, KPIT has gained experience in Auto Electronics through working with / partnering 13 automotive OEMs and 30 Tier-1 suppliers. It is the only company in India with a networking product IP that is used in vehicle programs on 49 ECUs and 20 microcontrollers.

### Only company in the world with 3 premium memberships

With the membership of AUTOSAR, JasPar and now the Automotive SPICE Maturity Level 5 Certification, KPIT is the only company in the world to be recognized by all the three organization at one time.

KPIT became the first and the only Indian IT services company be invited to JasPar (Japan Automotive Software Platform and architecture) consortium, which is formed by leading Japanese automotive corporations to define standards for next generation in-vehicle electronics systems architecture.

We opine that, this should allow the company to get a head-start as far as new standards / technologies being introduced by OEMs are concerned.

## Price target achieved, recommend HOLD

After significant under-performance, the stock price has moved up over the past few trading sessions and has crossed our target price.

In our opinion, the spike has come about due to reducing pessimism on the future state of the US economy. The recent announcements by the US government on interest rate freezes have improved the sentiments, in our view. We have been of the opinion that the US economy may not go into a recession, though the growth rates are expected to come down due to the sub-prime issues.

Post the recent spike in prices, we recommend a **HOLD** on the stock. The Q3FY08 results and the accompanying management commentary will provide better visibility on the future prospects of the company.

**We recommend HOLD on the stock till emergence of further clarity on the actual impact, if any, of the slow-down in the US economy and its automobile industry**

<b>Financials</b>					
<b>(Rs mn)</b>	<b>FY07</b>	<b>FY08E^</b>	<b>% chg</b>	<b>FY09E</b>	<b>% chg</b>
<b>Turnover</b>	<b>4,637</b>	<b>6,079</b>	<b>31.1</b>	<b>7,593</b>	<b>24.9</b>
Expenditure	3,922	5,116		6,419	
<b>EBDITA</b>	<b>715</b>	<b>963</b>	<b>34.6</b>	<b>1,174</b>	<b>21.9</b>
Depreciation	121	229		267	
<b>EBIT</b>	<b>594</b>	<b>734</b>	<b>23.6</b>	<b>907</b>	<b>23.5</b>
Interest	45	75		64	
Other Income	6	6		17	
<b>PBT</b>	<b>555</b>	<b>665</b>	<b>19.8</b>	<b>860</b>	<b>29.3</b>
Tax	52	75		108	
<b>PAT</b>	<b>503</b>	<b>590</b>	<b>17.2</b>	<b>752</b>	<b>27.6</b>
Minority Int	(2)	1		3	
<b>Adjusted PAT</b>	<b>505</b>	<b>589</b>		<b>749</b>	
Shares (mns)	74.8	79.2		79.2	
<b>EPS (Rs)</b>	<b>6.8</b>	<b>7.4</b>	<b>10.2</b>	<b>9.5</b>	<b>27.1</b>
<b>Margins</b>					
EBDITA (%)	15.4	15.8		15.5	
EBIT (%)	12.8	12.1		11.9	
PAT (%)	10.9	9.7		9.9	

Source : Company, Kotak Securities - Private Client Research; ^ - Enhanced equity post issue of shares to Cargill, Cummins

- We are keeping our earnings estimates unchanged. We have assumed the rupee to appreciate to Rs.38.50 per US\$ by FY09 end.
- For FY08, we expect the company to achieve revenues and PAT of Rs.6.08bn and Rs.589mn, respectively. This translates into an EPS of Rs.7.4 on the expanded equity post allotment to Cargill and Cummins. We have considered the 1.8% dilution in equity arising from the placement to Cummins.
- For FY09, we estimate a 25% growth in revenues to Rs.7.59bn on the back of growing traction in its business segments like auto electronics and semi conductor design. We expect margins to taper slightly to 15.5% on account of wage hikes and assumptions on the rupee.
- We expect KPIT to report profits of Rs.749mn, a YoY growth of 27%. The EPS works out to Rs.9.5.

## Concerns

- An accelerated slowdown / recession in major user economies and a sharper-than-expected appreciation in the rupee v/s major currencies are pronounced risks for KPIT Cummins. In our projections, we expect the rupee to appreciate to Rs.38.50/\$ over FY09.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
7-Dec	Aftek Ltd	Morgan Stanley Mauritius	S	1,175,000	79.43
7-Dec	Ahlcon Paren	20th Century Holding	B	50,000	65.35
7-Dec	Ahmednagar F	Macquarie Bank Limited	B	384,461	227.50
7-Dec	Ahmednagar F	Blackstone Asia Advisors Llc	S	421,060	227.60
7-Dec	Birla Cap	Ayodhyapati Investment	S	80,000	9.35
7-Dec	Bomba Swa St	Rhodes Diversified	B	150,000	152.57
7-Dec	Cenlub Indus	Pramila Sinhal	S	75,000	27.00
7-Dec	Chan Guide I	Rajesh Anant Dongre	B	48,000	28.35
7-Dec	Comp-U-Learn	Ace Bpo Services	B	53,719	6.68
7-Dec	Comp-U-Learn	Nandimandalam Venkatasubbaraju	B	200,000	6.68
7-Dec	Comp-U-Learn	Mukesh Kumar Agarwal	S	350,000	6.68
7-Dec	Deep Inds	Sundaram Mutual Fund	B	100,000	216.15
7-Dec	Dolat Inv Lt	Shailesh D Shah	S	2,310,645	11.69
7-Dec	Dynamic Indu	Ankit Rajendra Sanchaniya	B	20,000	48.50
7-Dec	Dynamic Indu	Hemant Madhusudan Sheth	S	20,000	48.50
7-Dec	EIH Asociati	Oberoi Hotels	S	130,000	205.00
7-Dec	EL Forge Ltd	Arihant Advertising	S	100,000	85.77
7-Dec	Elpro Intern	Religare Securites Ltd Caterpi	S	24,398	481.80
7-Dec	Empower Inds	Dewang D Master	S	158,564	18.69
7-Dec	Gemstone Inv	Prem Mohanlal Parikh	S	35,676	25.05
7-Dec	Greycells En	Tanivin Trade Fin Private Ltd.	B	32,000	399.73
7-Dec	Ind-Swift Lt	Morgan Stanley Mauritius Co	S	386,187	38.23
7-Dec	Indo Borax C	Sumandas Govindprasad Jain	B	21,000	147.41
7-Dec	K Sera Sera	Oudh Finance Investment	S	137,791	35.10
7-Dec	Kachchh Min	Sweety Investment	S	28,800	22.65
7-Dec	Kancha Inter	Kaushalya Chawla	S	30,624	12.47
7-Dec	Kashyap Tec	Money Managers	S	600,000	3.98
7-Dec	Kashyap Tec	Mavi Investment Fund Ltd Ac GDR	S	900,000	3.90
7-Dec	Kashyap Tec	Lotus Global Investments Ac GDR	S	900,000	3.90
7-Dec	Kitex Garmen	Equity Intelligence India	S	649,593	7.71
7-Dec	Liberty Phos	Bharat Equity Services Ltd	S	22,500	29.80
7-Dec	Lloyd Steel	JMP Securities Pvt. Ltd.	B	1,012,031	29.98
7-Dec	Lokesh Mach	Sudhir Jain	S	100,000	120.00
7-Dec	Machino Pla	Rajesh Jain	B	50,000	97.34
7-Dec	Macmilan Ind	Damani Estates and Finance	B	100,000	218.00
7-Dec	Macmilan Ind	Bright Star Investments	S	100,000	218.00
7-Dec	Mudra	Triple M Investments Limited	B	857,872	87.00
7-Dec	Nepc India	JMP Securities Pvt. Ltd.	B	335,685	32.26
7-Dec	Nicco Corp	Arena Textiles and Ind.Ltd.	B	852,377	37.00
7-Dec	Nouvea Multi	Comfort Intech Ltd	S	59,775	33.32
7-Dec	Nouvea Multi	Eureka Credit Finance	S	42,950	33.34
7-Dec	Plati Corp	S K Investment	B	40,000	1.71
7-Dec	Rai Sh Rek M	Lovin Trading Co P Ltd	B	70,000	112.95
7-Dec	Rai Sh Rek M	C S Buildwell Pvt Ltd	S	100,000	112.95
7-Dec	Saamya Bio	Ultra Engineers	S	125,000	23.97
7-Dec	Softpro Syst	Badrinath Advisory	S	34,475	180.12
7-Dec	Tips Industr	Nima Specific Family Trust	B	300,000	84.25
7-Dec	Zensar Tech	Morgan Stanley Mauritius Co	S	155,000	185.45

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
ICICI Bank	1,248	3.9	9.1	3.3
Infosys Tech	1,722	5.3	8.8	2.7
Bharti Airtel	959	1.9	6.1	6.7
<b>Losers</b>				
Reliance Ind	2,841	(1.1)	(8.3)	3.3
SAIL	274	(2.3)	(4.6)	12.5
BHEL	2,746	(1.6)	(3.8)	0.5

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
10-Dec	Initial Public Offer of Brigade Enterprises opens; Porwal Auto Components holds press meet to discuss on IPO; Manaksia holds press meet to discuss on IPO; ICICI Bank holds press meet for its new initiatives; Aries Agro holds press meet to discuss on IPO
12-Dec	Edelweiss Capital listing on BSE & NSE
14-Dec	MRF to announce earnings and final dividend Initial Public Offer of Aries Agro opens

Source: Bloomberg

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