



Economy News

- ▶ The government appears to have averted a potential crisis over foreign direct investment in multibrand retail, with the Samajwadi Party and the Bahujan Samaj Party not insisting on a parliamentary discussion on the issue under the rule that entails voting. (ET)
- ▶ The UPA government has made its intentions clear of exploiting Aadhaar-based direct cash transfer system as a political plank in the impending Lok Sabha Polls, which is due in 2014. Paving the way for implementation of direct cash transfer of government subsidies and entitlements to the beneficiaries in their bank accounts from January 1, PM cleared the timeline for implementation of the system through Aadhaar-based platform across the country at the first meeting of the National Committee on Direct Cash Transfers. (BS)
- ▶ The government has asked RBI to draft an agreement that Delhi can sign with Washington to shield Indian banks from a controversial US legislation that seeks to penalize foreign banks failing to report dealings of American account holders to the US revenue authority. (ET)
- ▶ The government has said that states being allotted coal blocks for mining will have to introduce a mechanism for regular monitoring of mines and submit to it quarterly reports on the status of their development. (BS)

Corporate News

- ▶ In its biggest acquisition ever, **ONGC Videsh Ltd (OVL)** has agreed to invest around \$5 bn to acquire ConocoPhillips' 8.4% stake in the Kashagan field off North Caspian Sea. The deal is expected to be closed during the first half of next calendar year. (ET)
- ▶ According to the top officials in the ministry of civil aviation, **SpiceJet** is in advanced talks with AirAsia, the Malaysian low-cost carrier, for a stake sale. However, AirAsia's group chief executive, Tony Fernandes, said: "AirAsia rejects the speculation surrounding our possible expansion in India. These reports are completely incorrect. AirAsia has not filed a bid for the Indian budget carrier and has no intention of doing so. (BS)
- ▶ **GSK Plc** plans to raise its stake in its listed Indian unit to 75% by investing Rs.52.2 bn, signalling its increasing confidence in the country's growing consumer market. The UK-based maker of Horlicks milk drink and Sensodyne toothpaste has announced an open offer to buy 31.8% stake in its Indian arm GlaxoSmithKline Consumer Healthcare at RS.3,900 per share from existing shareholders. (ET)
- ▶ **Reliance Industries Limited (RIL)** has denied allegations of gas hoarding in the D6 field and also sought appointment of international experts to verify its claims. (BS)
- ▶ **Reliance Energy, Lanco** and **NIIT** along with three other Indian companies have joined hands with Chinese companies, banks and financial institutions for investment and project financing of over \$6.6 billion. (BL)
- ▶ **Praj Industries**, a bio-fuels manufacturing company has said that it launched its next set of biobased products - livestock health and nutrition range (LHN), as part of its strategy of extending its expertise in biotechnology and agri processes taking into consideration an increased consumption of animal proteins in emerging economies. (BS)
- ▶ **Claris Lifesciences** saw its stock price soar nine per cent on the BSE, at Rs 285 on Monday, buoyed by market talk that the company could be selling its injectibles business to a Japanese company for about \$400 million. (BL)
- ▶ **Vascon Engineers Limited**, an engineering, procurement and construction (EPC) services company said it bagged four EPC orders with a total worth of Rs.2.3 bn across Pune, Ludhiana and Chennai. In Pune, it will be a Godrej Group project worth Rs.1.0 bn for construction of a residential project of 6.7 lakh square feet expected to be completed by 2014 end. (BS)

Equity

	26 Nov 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,537	0.2	(0.5)	4.2
NIFTY Index	5,636	0.2	(0.5)	4.6
BANKEX Index	13,139	(0.3)	(0.6)	10.7
BSET Index	5,805	1.2	2.5	0.1
BSETCG INDEX	10,705	0.7	(5.5)	7.8
BSEOIL INDEX	7,968	(0.2)	(5.1)	(5.1)
CNXMcap Index	7,854	0.9	0.8	9.0
BSSEMCAP INDEX	7,117	0.9	0.4	8.3
World Indices				
Dow Jones	12,967	(0.3)	(1.1)	(1.4)
Nasdaq	2,977	0.3	(0.4)	(3.0)
FTSE	5,787	(0.6)	(0.3)	0.2
NIKKEI	9,389	0.2	5.5	3.7
HANGSENG	21,862	(0.2)	1.7	10.7

Value traded (Rs cr)

	26 Nov 12	% Chg - Day
Cash BSE	2,343	14.5
Cash NSE	9,477	9.1
Derivatives	130,858	(2.4)

Net inflows (Rs cr)

	23 Nov 12	% Chg	MTD	YTD
FII	501	174.2	5,942	99,994
Mutual Fund	(83)	(444.6)	(1,075)	(16,250)

FII open interest (Rs cr)

	23 Nov 12	% Chg
FII Index Futures	9,362	5.7
FII Index Options	52,730	(1.0)
FII Stock Futures	31,824	3.4
FII Stock Options	2,664	(6.5)

Advances / Declines (BSE)

	26 Nov 12	A	B	T	Total	% total
Advances	128	1,111	321	1,560	53	
Declines	72	908	240	1,220	42	
Unchanged	2	101	44	147	5	

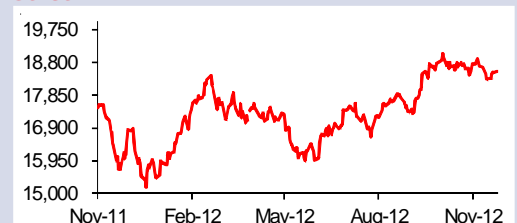
Commodity

	26 Nov 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	88.0	0.3	2.0	(7.8)
Gold (US\$/OZ)	1,750.2	(0.0)	2.2	4.6
Silver (US\$/OZ)	34.1	0.1	6.4	9.7

Debt / forex market

	26 Nov 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	N/A	8.3	N/A	8.3
Re/US\$	55.8	55.5	53.6	55.7

Sensex



INITIATING COVERAGE

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PIPAVAV DEFENCE AND OFFSHORE ENGINEERING (PDO)

PRICE: Rs.85
TARGET PRICE: Rs.92

RECOMMENDATION: ACCUMULATE
FY14E P/E: 24.9x

Set to meet future needs

PDO the new venture of the SKIL group is one of the five largest docks in the world and largest in the country and is well equipped to accommodate ship of any size. It is presently constructing commercial vessels (Panamax) and would also construct ships for the navy and the coast guard in the future. A part of the shipyard would be dedicated to the offshore segment involved in construction of jack up rigs, floating rigs and other offshore equipment. The strength of the shipyard involves 1) Huge Size; 2) Good Infrastructure and strong execution capabilities; and 3) Focus on defence sector. But weak shipping and shipbuilding market could lead to poor inflow of fresh orders in the commercial segment atleast for the next three to four quarters. However we estimate PDO to capitalize on the huge opportunities in defence and offshore market in future. We expect its revenues to grow at a CAGR of 30% over FY12 to FY14E to Rs 31bn. Taking into account a lackluster shipbuilding environment; we initiate coverage on the stock with an Accumulate rating.

Stock details

BSE code	: 533107
NSE code	: PIPAVAVDOC
Market cap (Rs mn)	: 59500
Free float (%)	: 55
52 wk Hi/Lo (Rs)	: 88/51
Avg daily volume	: 2,000,000
Shares (o/s) (mn)	: 691.2

Summary table

(Rs mn)	FY12	FY13E	FY14E
Sales	18,670	27,577	31,018
Growth (%)	117.1	47.7	12.5
EBITDA	4,203	6,205	6,979
EBITDA margin (%)	22.5	22.5	22.5
PBT	767	2,412	2,913
Net profit	214	1,930	2,331
EPS (Rs)	0.3	2.8	3.4
Growth (%)	-51.3	801.8	20.8
CEPS (Rs)	2.4	4.8	5.7
Book value (Rs/share)	30.6	33.6	37.3
Dividend per share (Rs)	0	0	0
ROE (%)	1.0	8.3	9.0
ROCE (%)	6.6	9.8	10.2
Net cash (debt)	(26,004)	(26,260)	(29,611)
NW Capital (Days)	219	240	234
EV/EBITDA (x)	20.4	13.8	12.8
P/E (x)	271.3	30.1	24.9
P/Cash Earnings	30.8	15.6	13.2
P/BV (x)	2.5	2.2	2.0

Source: Company,
Kotak Securities - Private Client Research

Key investment arguments

- ❑ **Size does matter - largest dry-dock in the country.** Pipavav Shipyard currently consists of two wet docks -one approximately 680 meters long and 60 meters wide, and the other approximately 680 meters long and 65 meters wide. These docks are largest in the country and one of the largest docks in the world, capable of accommodating vessels upto 400000 DWT. The company has already converted one of the wet docks into a dry dock and would be converting the 2nd wet dock into dry dock in 2nd phase of the yard expansion by FY15E.
- ❑ **Orderbook growth would be driven by defence orders and orders from the offshore segment.** The current order book of the company stands at around ~ USD 1.8 bn- USD 985 mn in defence segment, USD 742 mn in commercial shipping, and USD112m in offshore. We estimate the orderbook growth to be driven by smaller orders from offshore business (FY13-14) and later by big-ticket orders from merchant shipping companies. Pipavav has already got warship building license from Indian Navy and has entered into a JV with Mazgaon Dock for building warships. We have factored in ~Rs 10bn new orders from the Navy each year. We estimate the company's orderbook to grow by Rs 15 bn per annum over FY12 to FY14E driven by defence and the offshore segment.

Strategic tie ups and JV - with the best in the industry

With	For (JV, MOUs)
Mazgaon (India)	JV for Defence orders
KOMAC (Korea)	Design support, material procurement
SembCorp (Singapore)	Technical support
Top global defence yards	Defence segment
Babcock group	Build aircraft carriers for the Indian Navy
Northrop Grumman Corp	To tap opportunities in the defence sector
Airbus	For aircraft maintenance, repair and overhaul (MRO)facility in India

Source: Company

We initiate coverage on Pipavav Defence and Offshore Engineering with an ACCUMULATE rating and a price target of Rs.92

- ❑ **Capacity utilization increasing; expect revenue CAGR of 30% over FY12-14E.** PDO's current capacity, which is currently Rs 60 bn (in terms of revenue potential), is likely, to shoot up to Rs 100 bn once the second dry dock becomes operational by 2015. In FY12, capacity utilization stood at Rs 18 bn (30% of total capacity). We now expect capacity utilization of Rs 30 bn (50% of total capacity) in FY12. We expect revenue to grow at a CAGR of 30% over FY12-14. Our earnings estimates largely factor in execution of the existing order book of ~Rs 100 bn. We have not factored in possibilities of increased defense orders.
- ❑ **Strong execution capabilities, but low revenue visibility in commercial segment.** Pipavav's strength lies in its ability to make ships of any kind, and it is modeling itself on the lines of Korean and Chinese shipyards. However, it has started operations at a time when merchant shipbuilding is going through a downturn and fresh orders are difficult to come. Thus we believe, the company has low revenue visibility in the commercial segment.
- ❑ **Macro headwinds for ship building hurting order inflow.** Shipbuilding industry is up against weak fundamentals. Very low freight rates for bulk carriers threatens the business outlook for builders of bulk carriers. We estimate the freight rates for dry bulk to remain under pressure atleast for the next three to four quarters. A fall in oil price (though unlikely) would also threaten the demand outlook for vessels catering to off shore oil exploration and production activity. We estimate that orders would be tough to come from the commercial shipbuilding segment and would be slow from offshore industry and the Indian Navy.
- ❑ **Initiating coverage with an ACCUMULATE rating.** We believe that PDO is well placed to exploit the massive opportunity that India's defense sector offers in the next few years. It has global-sized assets and best-in-class tie-ups. Also, PDO offers the only credible large-size exposure for investors to India's defense business. We estimate net profit at Rs 1.9 bn for FY13 and Rs 2.3 bn for FY14, translating into an EPS of Rs 2.8 for FY13 and Rs 3.4 for FY14. We value PDO based on replacement cost method at Rs 63.4 bn (Rs.92/share). Initiate coverage with an **ACCUMULATE** rating.

Risk and Concerns

- ❑ Delay in execution of large vessel orders
- ❑ Delay in subsidy payment could stress cash position
- ❑ Failure in bagging more orders for execution beyond FY14 could impact the company's revenue and profitability
- ❑ Fall in Crude oil price could impact the E&P capex cycle and result in reduced demand for offshore vessels
- ❑ Declining premium in prices of second hand vessels over new ones increases risk towards order inflows.
- ❑ Delay in payment from stressed ship-owners leading to higher working capital requirement

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
26-Nov	Ankush Finstock	Zobair Ahmad	S	37,806	14.2
26-Nov	Ashok Alcochem	Kodai Investment & Trd	B	259,258	22.0
26-Nov	Ashok Alcochem	Anil Manilal Kadakia	S	259,258	22.0
26-Nov	Associated Fin	Seema Gupta	B	60,000	40.3
26-Nov	Associated Fin	Ashok Kumar Aneja	S	29,750	40.4
26-Nov	Associated Fin	Umadevi Umadevi	S	35,000	40.8
26-Nov	Associated Fin	Sadhna Gupta	S	50,000	40.0
26-Nov	Centron Indl	Ratnadeep	B	15,000	174.6
26-Nov	Cubical Fin	Alka Agarwal	B	105,000	81.8
26-Nov	Dhanus Tech	Park Habitats Pvt Ltd	B	11,890,305	1.4
26-Nov	Dhanus Tech	Nirvana Mall Management Co	S	12,500,000	1.4
26-Nov	Diamant	Rakesh Shah	S	250,000	4.6
26-Nov	Diamant	S Praveen Kumar	B	373,903	4.8
26-Nov	Fact Enterprise	Atash Transport Pvt Ltd	S	200,000	6.1
26-Nov	Fact Enterprise	Mehul Securities	B	159,049	6.1
26-Nov	Glodyne Tech	IFCI Ltd.	S	230,293	32.7
26-Nov	Hit Kit Global	Sheetal Alok Bairagra	S	500,000	0.3
26-Nov	Hit Kit Global	Vora Construction Ltd	B	615,100	0.3
26-Nov	Jaihind Syn	Pravin Keshrimal Chouhan	B	25,000	4.1
26-Nov	Karma Ind	Stylecheck Garments Pvt Ltd	S	189,873	3.1
26-Nov	Lords Chemicals	Nishu Finlease Private Ltd.	B	100,000	19.0
26-Nov	Lords Chemicals	Gian Finance Ltd	B	375,001	18.2
26-Nov	Lords Chemicals	Jaldham Consultancy Pvt. Ltd.	B	100,000	18.4
26-Nov	Lords Chemicals	Majestic Sales Promotion Pvt Ltd	S	492,922	19.3
26-Nov	Lords Chemicals	Vertex Suppliers Pvt Ltd	B	400,000	19.0
26-Nov	Lords Chemicals	Almighty Finance & Investment	B	200,000	18.7
26-Nov	PFL Infotech	Ajmera Shares Trading Pvt Ltd	S	50,400	29.1
26-Nov	PFL Infotech	Subhash B Jain	B	104,601	28.9
26-Nov	Pix Trans	Kunverji Nanji Kenia	B	104,545	59.5
26-Nov	Pix Trans	Sudhir Shivaji Bheda	S	100,406	59.8
26-Nov	RCL Retail	Sheetal Kumarpal Baldota	B	70,000	9.5
26-Nov	Riga Sugar-\$	Amit Mittal	B	50,000	25.6
26-Nov	Roselabs Fin	Aashi Realities Pvt Ltd	B	75,000	5.5
26-Nov	Roselabs Fin	S J Infratech Pvt Ltd	S	65,299	5.5
26-Nov	Sanguine Media	Sally Real Estate Pvt Ltd	S	857,478	2.9
26-Nov	Scope Ind	Edulakanti Sumangoud	B	52,000	25.1
26-Nov	Shalibhadra Fin	Jayantkumar Shantilal Parikh	B	35,500	53.7
26-Nov	Shalibhadra Fin	Shah Anilbhai Naginlal	S	27,500	54.1
26-Nov	Shekhawati Poly	Madhukar Chimanlal Sheth	B	150,000	54.0
26-Nov	Shekhawati Poly	Paramount Club Llp	S	126,191	54.0
26-Nov	Shri Ganesh Spi	Whitetext Infrastructure Pvt Ltd	S	2,995,219	1.0
26-Nov	Soma Papers	Jayaben H Amlani	S	10,000	11.8
26-Nov	Soma Papers	Varsha Kasera	S	10,000	12.0
26-Nov	Soma Papers	Deepak Maganbhai Makwana	B	7,068	11.8
26-Nov	Women Netwks	Rajesh Pagaria	S	60,000	4.7
26-Nov	Women Netwks	Sanju Kabra	B	22,000	4.7
26-Nov	Zylog Systems	Haritha Bathina	B	260,000	81.8

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys Ltd	2,417	1.7	6.1	0.5
L&T	1,611	1.5	4.0	0.8
Hindustan Unilever	537	1.4	2.3	1.1
Losers				
M&M	922	(3.4)	(4.6)	2.1
HDFC Bank	662	(1.2)	(4.5)	1.4
ICICI Bank	1,018	(0.7)	(2.5)	2.0

Source: Bloomberg

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