RR Information & Investment Research Ltd.

Railways on Fast Track

Rs. 2.5 trillions Wheels of Growth!!!

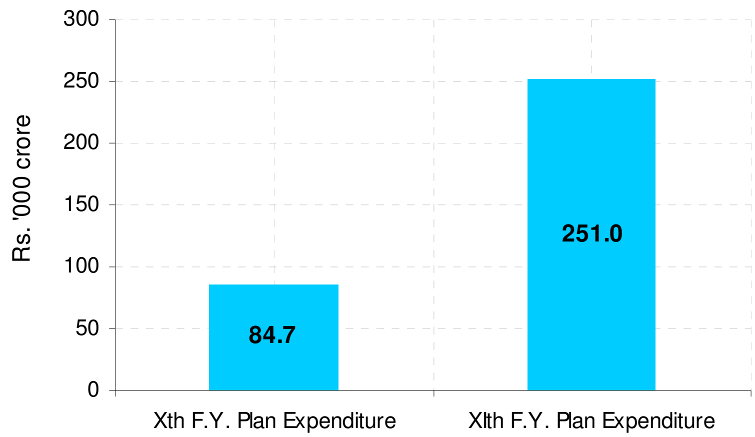
As the benchmark Indian-market Index hits one new high after another, stretching the valuations of most stocks, we still see opportunities in a few companies which will benefit immensely from large scale expansion plans of Indian Railways. Keeping in mind the gigantic opportunities in locomotives ancillary and related service for railways; we highlight six such companies that are operating in this space.

Railways' Mega Expansion Plans

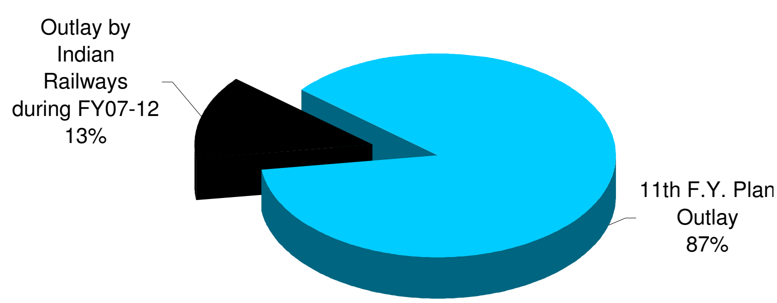
After turning around Indian Railways, now Lalu's ministry is on track to make it the largest network in the world.

"Bigger, Faster, Safer and Timely", working on this theme Railways will spend about Rs. 2,51,000 crores during 11th Five Year plan, about 3 times of what it spent during the 10th Five Year Plan on expansion, safety and efficiency enhancement. The total planned outlay by Indian Railways during this period accounts for 13% of total outlay by India during FY2007-12.

200% jump in Planned Expenditure



13% of Total Planned Outlay



Key Beneficiaries

Rs. 2,51,000 crores planned expenditure augurs well for companies engaged in the business of locomotive ancillary and related services. Initiatives such as, high speed rails, new lines, dedicated freight corridor, higher number of coaches, focus on safety & performance; containerization and electrification will benefit companies in the space.

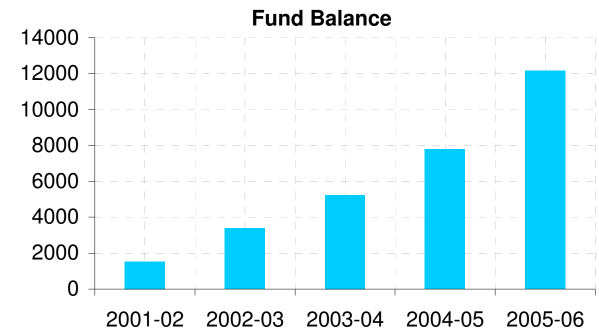
Railways' Initiatives	Key Beneficiaries
Rs. 59,475 cr planned expenditure on Rolling Stock (locomotive, wagons etc.), a jump of more than 120% over 10th F.Y. Plan	Texmaco, Hind Rectifiers
Investment in tracks to increase by more than 120% over 10th F.Y. plan to Rs. 76,865cr	Kalindee Rail
More than 2.5 times investment in Signaling and Telecom works over 10 F.Y. Plan to Rs. 12,000cr	Integra Hindustan Control
Dedicated Freight Corridor project	Texmaco, Integra Hindustan Control, Gateway Distriparks
Thrust on Safety	Kernex Microsystem

Turnaround in Railways' Performance

Higher operating cash flows, provides leverage to fund its ambitious plans.

Indian Railways, which was declared to be heading towards bankruptcy as per the experts on Indian Railways in 2001, is today the second largest profit making PSU after ONGC. The fund balance which reached a low of Rs. 149 crores at the end of 1999-00, surged to Rs. 5228 crores by the end of 2003-04 and further, to Rs. 12141 crores in 2005-06.

As a recognition of this 'turnaround', some of the world's biggest asset managers, investment bankers and consultants including Goldman Sachs, Deutsche Bank, HSBC, Mckinsey etc have shown interest in working with IR.



Till FY2002, the stagnant revenues and overrunning costs of Railways resulted in negative or negligible operating cash flows, thereby limiting its power to commit capital expenditure. However, ever since Mr. Lalu took over as Railway Minister, Indian Railways saw a remarkable turnaround in its performance in terms of revenue growth and operating efficiency. Going forward, on the back of buyout economy and industrial upsurge, we expect the momentum in revenues to continue, thereby providing sufficient leverage to Indian Railways to fund their mega expansion plans.

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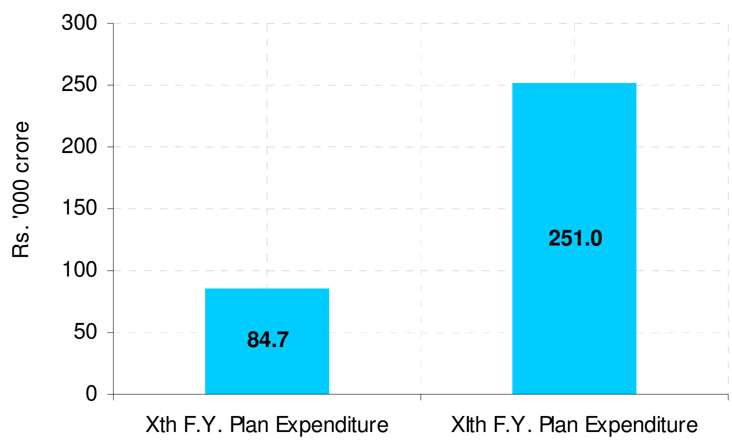

Total Expenditure during the 11thive Year Plan

Plan Head	Xth Plan	(%)	XIth Plan	(%)	(%)Change
ROLLING STOCK	26807	31.6	59475	23.7	121.9
TRACK RENEWALS	15363	18.1	23165	9.2	50.8
DOUBLING	3461	4.1	19000	7.6	449.0
GAUGE CONVERSION	6240	7.4	18700	7.5	199.7
NEW LINES	9202	10.9	16000	6.4	73.9
SIGNALLING & TELECOM WORKS	4447	5.2	12000	4.8	169.8
Road Safety-ROB/RUB	863	1.0	11000	4.4	1174.6
TRAFFIC FACILITIES -YARD REMOD	1623	1.9	7500	3.0	362.1
COMPUTERISATION	608	0.7	5200	2.1	755.3
ELECTRIFICATION PROJECTS	810	1.0	3500	1.4	332.1
OTHER ELECTRICAL WORKS	787	0.9	3460	1.4	339.6
BRIDGE WORKS	1740	2.1	2895	1.2	66.4
Road Safety-Level Crossing	641	0.8	1000	0.4	56.0
Others Expenditure	12115	14.3	68105	27.1	462.2
Total	**84707**	**100**	251000	100.0	196.3

Source: Planning Commission

KEY theme

The key themes we like are

- **Hefty investment in Rolling Stocks**

  Rs. 59475 crores of investment for 22500 coaches, 3600 locomotives and 62000 wagons………

  During the 10th Five Year Plan Indian Railways' planned to spend about Rs. 59,475 crores on coaches, Locomotives, Wagons etc. New wagons will be produced to replace the aging fleet of Indian Railways. During this period, IR will add more than 22500 coaches including EMU/MEMU/DMU, 3600 locomotives, and 62000 wagons. Rs. 4871 crores are planned to spend on Track Machines and other related rolling stock.

- **Large scale capacity enhancement**

  Rs. 77050 crores to be spent on new line projects, gauge conversion, doubling, electrification, metropolitan projects

  In a thrust to make it the largest network in the world, Indian Railways will spend about Rs. 77050 crores on new line projects, gauge conversion, doubling, electrification, metropolitan projects and other works. Further, in order to achieve 100 million tonnes of container traffic, Indian Railway has planned to build Dedicated Freight Corridors. Dedicated Railway Freight Corridor Projects on Western and Eastern Routes have already been sanctioned in the Rail budget of 2006-07. The costs of Western (1469 kilometers-Jawaharlal Nehru Port-Dadri/TKD) and Eastern (1232 kilometers - Ludhiana-Sonnagar) corridors are Rs. 16,592 crores and Rs. 11,589 crores respectively. The eastern corridor will be extended to Kolkata to connect the proposed deep-sea port in the region. Apart from the above-named two corridors, planning for Dedicated Freight Corridors would be initiated in the 11th period for North-South, East-West, East-South, and South-South routes.

  Railways have formed a Special Purpose Vehicle, *Dedicated Freight Corridor Corporation of India Ltd.*, to implement current and future DFC projects.

- **Signaling and Telecommunication works**

  Provision for On Board Train Collision Prevention System on 40000 Rkms, replacement of over-aged signaling assets on 1250 stations and Rs. 2000 crores for telecommunication works…..

  Rs. 12,000 crores will be spent on signaling and telecommunication works for enhancing efficiency, reliability and safety. Rs. 3200 crores have been allocated for On Board Train Collision Prevention System on 40000 Rkms. About 1250 stations will witness Rs. 2625 crores of investments on replacement of over-aged signaling assets. More than Rs. 2000 crores has been allocated for telecommunication works.

Likely Winners of Indian Railways Capex

Finally who will be the likely winners in the stock market?

We expect companies like Hind Rectifiers, Integra Hindustan, Gateway Distriparks and Texmaco could show healthy growth in their earnings on the back of the huge capex plans by Indian Railways.

Railways' Initiatives	Key Beneficiaries
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Dedicated Freight Corridor project	Texmaco, Integra Hindustan Control, Gateway Distriparks
Thrust on Safety	Kernex Microsystem

Kalindee Rail Nirman which generates about 70% of its revenues from construction of tracks and gauge conversion and signaling & communication products will gain directly from Indian Railways' network expansion. Further, development of metropolitan transport including metro rails will boost up company's topline.

Integra Hindustan Control, a leading player in installation of railway signal and safety system, traffic control and automation, electrification, traction equipment etc. will benefit from renewal of existing lines and signaling and telecommunication works.

Manufacturer of anti-collision system, **Kernex Microsystems** will respond to tremendous opportunities arising from Indian Railways' thrust on higher safety measures.

Hind Rectifiers manufacturers a wide range of products used for railways, AC electric locomotives and AC electrical multiple units. The management expects to see increased requirements from rolling stock demand.

Holding 20-22% share in railway freight wagon cars, **Texmaco** will drive substantial growth from hefty demand of freight wagon cars by Indian Railway.

In an effort to decongest the existing railway lines and to achieve a 100 million tonnes of container traffic, Indian Railways has planned to lay Dedicated Freight Corridors (DFC). Railways has announced an investment of Rs. 35000 crore for the eastern and western DFC, which will commence operation in 2007-08. Further, Rs. 55000 crores will be spent on North-South, East-West, East-South, and South-South routes. **Gateway Distriparks** is among the few players that have been allowed in the freight movement business.

KEY Risks

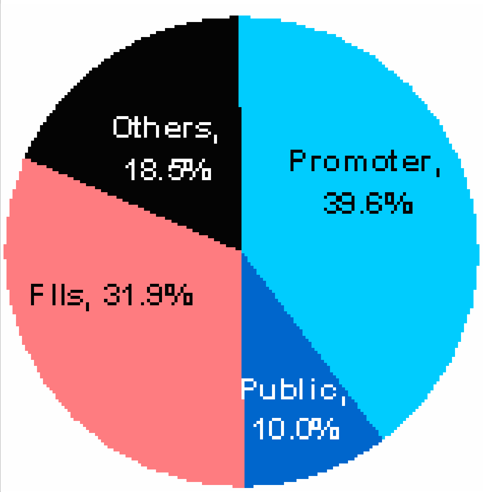
One of the major concern these companies faces is the uncertainty on the government's expenditure. Most of these companies drive a substantial part of their revenues from Indian Railways; any delay in governmental expenditure could significantly impact their topline growth.

Gateway Distriparks Ltd. (GDL) BUY

Company Details

CMP	:	**155**
Target	:	**200**
Upside	:	**29%**
Time Frame	:	**6 months**
P/E	:	**23.26**
P/B	:	**2.81**
Beta	:	**1.05**
Market Cap	:	**1792**
52 High/ Low	:	**172/110**
Free Float	:	**10%**

Shareholding Pattern



Price Chart

Holding 18% share in port-related logistic service provider, Gateway Distriparks has three Container Freight Service (CFS) facilities and one inland container depot…

Gateway Distriparks is amongst the largest port-related logistic support service provider in India with a market share of about 18%. It has established three container freight stations (CFS) facilities at JNPT (Mumbai), Chennai, and Vishakapatnam, and one inland container depot (ICD) at Garhi, Haryana. The CFS facility at JNPT is largest in the Mumbai catchment area. To make it a pan India player, it is expanding in all verticals which include CFS, ICD, Container rail and cold chain operations. The company plans to have a network of CFS and ICD covering northern, western, and southern India with a rail link connecting western and northern India.

Investment Rationale

- **Major expansion plan in Railway haulage business**

  Expanding the existing rail-linked 18 acres ICD terminal into mega terminal which will be linked to proposed western DFC…

  GDL started its railway haulage operation in June 2007 through its subsidiary, Gateway Rail Freight (GRF), in joint venture with Concor. As per the agreement, GDL is operating 18 acres ICD at Garhi Harsaru, Gurgaon and Concor is providing it the rail connectivity. As of now, the JV has two trains operating on domestic circuit between Orrisa and NCR. It is transporting raw material for one of its client from Orrisa to NCR and wheat from NCR back to Orissa. The company has achieved throughput of around 500 TEUs (twenty foot equivalent unit) per month and is expected to increase to 5000 TEUs per month by end FY2009.

  This business venture complements as well as supplements GDL's traditional CFS/ICD business as rail connectivity provides compelling economics – 2.5 times cheaper than road in hauling containers to and from port gateways.

  Aiming to consolidate the cargo volumes of North India for double-stack container train operation on the diesel route from NCR to JN Port, Mundra and Pipavav, GDL and Concor have planned to increase the existing rail linked terminal into a mega terminal. The terminal will also have a link to proposed western DFC. The mega terminal will be developed over an additional area of 80 acres and will have new rail handling and transshipment area, multiple CFS & a warehousing complex. When fully operational it will handle about 4,00,000 TEUs per annum.

  The company has already ordered for 10 additional rakes which it intends to deploy on EXIM route once the JV with Concor at the Garhi become operational.

- **Strengthening its position in CFS business – Acquired Punjab Conware CFS facility**

  Acquisition of Punjab Conware will bolster its position in CFS business…

  GDL is the largest private sector service provider in the container freight station (CFS/ICD) business having three CFS and one ICD. The company holds 18% market in the segment and handled over 240000 TEUs in FY07. In order to ease the congestion at the existing facility and to proved room for further growth, GDL acquired another facility – Punjab Conware located from 7 km from JNPT, Mumbai for a period of 15 years. The CFS has total capacity of 100000 TEUs but is not operating completely. Punjab Conware is expected to achieve throughput of 65,000 TEUs in FY2008. With India's containerized traffic set to double to 10 mn TEU over the next five years, GDL is well positioned to capitalize on the same.

- **Acquisition of Snowman makes it an integrated player in Logistic Business – Right move**

  Acquisition of Snowman, the largest player in organized retail market having pan-India distribution network not only makes GDL integrated player in logistic business but also puts it in a position to cash on the huge opportunity arising out of cold chain logistic industry…

Gateway Distriparks Ltd. (GDL) BUY

Last year, GDL acquired Snowman, the largest player in organized cold chain logistics segment having a pan-India distribution network. Snowman provides transportation, storage, handling and retail distribution of frozen and chilled foods for its clients. Snowman has 16 cold stores with a total capacity of 8600 pallets and 90 refrigerated trucks. The pan-India distribution network of Snowman and huge growth opportunities in the cold chain logistics industry, GDL stands to benefit in the long run from the move.

Valuation

Substantial capacity enhancement, market leadership position and an attractive industry should bolster GDL's topline by almost 50% during FY08E. Further, due to marginal decrease in EBITDA margins, we expect the bottomline to witness slower growth of 26%.

We rate stock with a STRONG BUY with a price target of RS. 200. Our price target values the stock at 20x FY08E. Given the attractive industry, company's market leadership and substantial capex, we believe our valuation is quite reasonable.

Key Financials

(Rs. Crore)

	2003-04	2004-05	2005-06	2006-07	2007-08E
Net Sales	59.2	93.7	136.6	160.1	232.1
% Change	*29.4*	*58.3*	*45.8*	*17.2*	*45.0*
Total Expenditure	31.8	42.1	54.9	79.7	118.4
EBITDA	**27.4**	**51.6**	**81.7**	**80.4**	**113.8**
% of Net Sales	*46.2*	*55.1*	*59.8*	*50.2*	*49.0*
Depreciation	4.0	6.5	8.4	9.4	13.9
Other income	0.6	1.3	11.9	24.2	20.0
PBIT	**24.0**	**46.4**	**85.2**	**95.2**	**119.8**
Interest & Financial charges	1.7	4.6	2.4	0.7	0.0
PBT	**22.3**	**41.9**	**82.9**	**94.4**	**119.8**
Tax provision	3.2	7.1	8.7	12.1	15.6
PAT before Extraordinary items	**19.1**	**34.8**	**74.2**	**82.3**	**104.2**
% Change	*39.7*	*81.7*	*113.5*	*11.0*	*26.6*
Extraordinary items	0.0	0.0	0.0	0.0	0.0
APAT after Extraordinary items	**19.1**	**34.8**	**74.2**	**82.3**	**104.2**
Capital	64.0	64.0	75.0	92.2	105.0
Earnings per share (diluted)	3.0	5.4	9.9	8.9	9.9

Growth (%)					
Net Sales	29.4	58.3	45.8	17.2	45.0
Total Expenditure	35.0	32.2	30.6	45.2	48.5
EBITDA	23.5	88.7	58.3	-1.6	41.5
PBIT	24.2	93.6	83.6	11.6	25.9
PBT	35.1	87.8	98.0	14.0	26.9
APAT	27.6	81.7	113.5	11.0	26.6

Profitability (%)					
EBITDA / Net Sales	46.2	55.1	59.8	50.2	49.0
PBIT / Net Sales	40.5	49.6	62.4	59.4	51.6
PBT / Net Sales	37.7	44.7	60.7	59.0	51.6
APAT / Net Sales	32.3	37.1	54.3	51.4	44.9

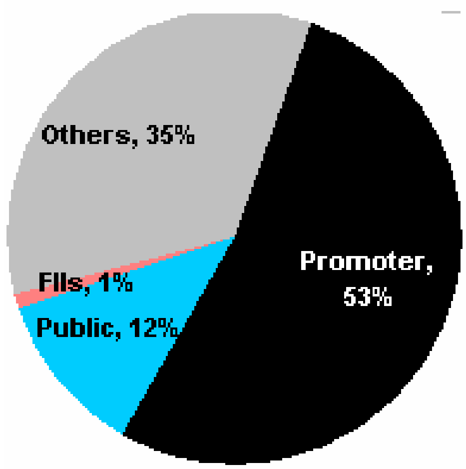
(Source: Prowess, RR Research)

Texmaco BUY

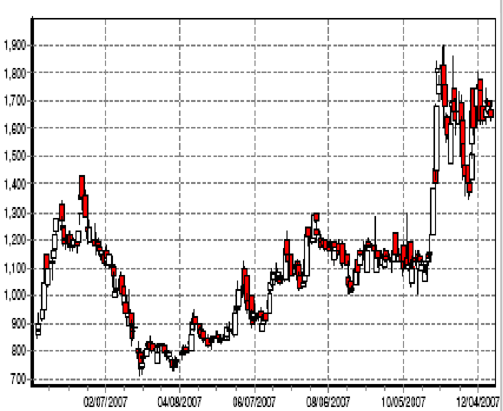
Company Details

CMP	:	1645
Target	:	2000
Upside	:	22%
Time Frame	:	6 months
P/E	:	40.41
P/B	:	9.85
Beta	:	1.15
Market Cap	:	1699
52 High/ Low	:	1900/710
Free Float	:	12%

Shareholding Pattern



Price Chart



Texmaco, KK Birla Group Company holds leadership position in hydro-mechanical equipment and freight wagon cars…enjoys 20-22% share in freight wagon cars market… freight wagon business contributes to about 50% to its topline….

KK Birla Group' arm Texmaco was promoted in the year 1939 as a textile machinery manufacturing company. Over the year, it has emerged as a diversified engineering company servicing core sector projects and process industries within the country and abroad. It manufactures range of products, including railway wagons, hydro-mechanical equipment for dams and barrages, industrial boilers and pressure vessels, sugar mill machinery, textile spinning machinery, switches & crossing for railway tracks, steel castings, forging, agro mechanical equipments etc. Company holds leadership position in hydro-mechanical equipment and freight wagon cars. Freight wagon business contributes to about 50% of company's total revenue. The company has five factories, located on the outskirts of Kolkata. Texmaco enjoys 20-22% share in freight wagon cars market.

Investment Rationale

- **Rs. 1500 crores Order backlog**

With 20-22% market share in freight wagon market, Texmaco is rightly placed to exploit the opportunities emerging out of huge demand for wagons….

Texmaco's order backlog at the end of Q2FY08 stood at Rs. 1500 crores comprising largely orders for wagons of ~4500 vehicular units. Of this, orders worth Rs. 280 crores for 2539 vehicular units were received during FY08.

Planning commission (Working Group Report) has projected requirement of 1.3 lacs Four Wheeler Unit during 11th Five Year Plan to meet the normal traffic growth on Railways alone.

The recent opening up of freight container business to private players and dedicated freight corridor is expected to generate Rs. 10000 crores of additional demand for wagons in the next five-six years. Texmaco, with a 20-22% share in the freight wagon business will be one of the key beneficiaries of these emerging opportunities.

- **Augmented Foundry division's capacity to 27000 metric tonnes per annum from 12000 metric tonnes**

Foreseeing the huge demand from Indian Railways Texmaco has increased its steel casting capacity by 15000 metric tonnes… facility has stabilized and is operating at 60% level which is expected to clock full capacity by the end of the year….

Texmaco's foundry division has an annual capacity of 12000 metric tonnes of steel casting and enjoys approximately 30% market share Indian Railways. Foreseeing the robust demand from increased demand of railway wagons, Texmaco has recently increased its casting capacity to 25000 metric tonnes. New steel foundry unit has stabilized and is operating at 60% level which will reach full utilization by the end of current year. Further, we expect margins to improve led by better valuations from exports from January 2008 onwards.

- **34 acres land near Delhi University**

Texmaco has 34 acres land near Delhi University which is currently under litigation. On liquidation, the land development rights to Texmaco will lead to better valuation.

Texmaco BUY

Valuation

Surging demand for wagons by Indian Railway coupled with huge hydel power capacity addition during the 11th Five Year Plan, points towards buyout prospect for Texmaco. On the back of robust performance during the first two quarters, huge order backlog and expected order flows from Indian Railways, we expect Texmaco's topline to grow by 56.5% in FY08 to Rs. 585 crores. Net profit during the year FY08 is expected to grow by more than 58% to Rs. 46.3 crores.

The CMP of Rs.1645 discounts FY08E EPS of Rs.44.8 by 36.7. Taking into consideration the historical PE of Texmaco, valuation of engineering & steel forging business, and peers valuation, we expect Texmaco to trade at a PE multiple of 45. We recommended investors to BUY this counter with a price target of Rs. 2000, i.e. an upside of 22% with a time horizon of 6 months.

Key Financials

(Rs. Crore)

	2003-04	2004-05	2005-06	2006-07	2007-08E
Net Sales	**135.43**	**227.97**	**311.54**	**373.96**	**585.2**
% Change	*8.3*	*68.3*	*36.7*	*20.0*	*56.5*
Total Expenditure	120.78	202.64	278.83	325.94	506.2
EBITDA	**14.7**	**25.3**	**32.7**	**48.0**	**79.0**
% of Net Sales	*10.8*	*11.1*	*10.5*	*12.8*	*13.5*
Depreciation	3.24	3.97	4.28	5.23	7.6
Other income	2.85	2.26	2.59	3.2	2.5
PBIT	**14.3**	**23.6**	**31.0**	**46.0**	**73.9**
Interest & Financial charges	5.83	4.59	2.29	2.85	4.1
PBT	**8.4**	**19.0**	**28.7**	**43.1**	**69.8**
Tax provision	2.08	1.7	9.33	13.91	23.5
PAT before Extraordinary items	**6.4**	**17.3**	**19.4**	**29.2**	**46.3**
% Change	*356.8*	*172.9*	*11.9*	*50.7*	*58.4*
Extraordinary items	12.44	-1.67	-0.39	-0.75	0.0
APAT after Extraordinary items	**18.8**	**15.7**	**19.0**	**28.5**	**46.3**
Capital	5.2	10.3	10.3	10.3	10.3
Earnings per share (diluted)	36.4	15.2	18.4	27.6	44.8

Growth (%)					
Net Sales	8.3	68.3	36.7	20.0	56.5
Total Expenditure	3.9	67.8	37.6	16.9	55.3
EBITDA	65.2	72.9	29.1	46.8	64.5
PBIT	36.6	65.6	31.3	48.3	60.7
PBT	92.9	125.7	51.0	50.2	61.8
PAT	356.8	172.9	11.9	50.7	58.4

Profitability (%)					
EBITDA / Net Sales	10.8	11.1	10.5	12.8	13.5
PBIT / Net Sales	10.5	10.4	10.0	12.3	12.6
PBT / Net Sales	6.2	8.3	9.2	11.5	11.9
PAT / Net Sales	13.9	6.9	6.1	7.6	7.9

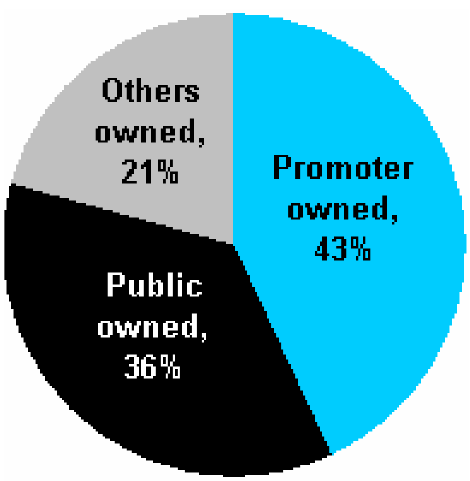
(Source: Prowess, RR Research)

Hind Rectifiers BUY

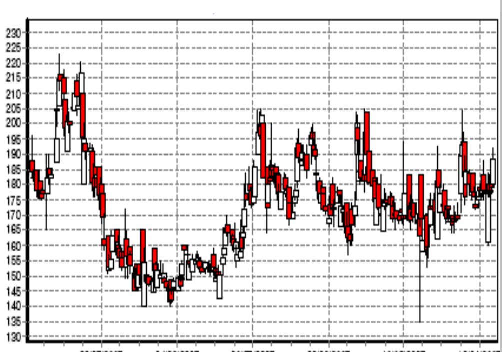
Company Details

CMP	**:**	**188**
Target	**:**	**250**
Upside	**:**	**33%**
Time Frame	**:**	**6 months**
P/E	**:**	**12.86**
P/B	**:**	**4.45**
Beta	**:**	**1.16**
Market Cap	**:**	**142**
52 High/ Low	**:**	**223/135**
Free Float	**:**	**36%**

Shareholding Pattern



Price Chart



Generating 45% of its revenues from Railways, Hindustan Rectifiers Ltd. is a leading manufacturer of rectifiers, semiconductors and electrical components used by AC electrical locomotives and AC electric units…

Founded in 1958 in collaboration with Westinghouse, Brake & Signal, United Kingdom, Hindustan Rectifiers Ltd. (popularly known as Hirect) is a leading manufacturer of rectifiers and semiconductors. It also manufactures a wide range of electrical components used by the railways in AC electric locomotives and AC electric units. It generates around 45% of its revenues from Indian Railways. Its plants are located at Mumbai & Nashik, having capacity of 239850 (numbers) rectifiers/apparatus, 120000 (kw) silicon apparatus and 310000 semi-conductor devices.

Investment Rationale

- **Cashing on the huge capex by IR on Rolling Stock**

Hefty demand of 360 locos and 660 AC coaches each year during the 11th five year plan will create extensive demand for Hirect's products …. Hirect holds 20-25% pie of rectifiers and transformers used in locomotives….

Over the year, Hirect has captured 20-25% pie of rectifiers and transformers market, used in locomotives. Planning commission has projected an annual demand of 360 locos per year during the 11th Five Year Plan. This will generate substantial demand for rectifiers and transformers by Indian Railways. Further, it provides invertors for AC coaches. Going forward, Indian Railways will require about 3300 AC coaches during the 11th Five Year Plan, i.e. 660 AC coaches per year.

With 45% revenues from Indian Railways, Hirect will be one of the key beneficiaries of Indian Railways hefty expenditure in rolling stock.

Valuation

A good product mix, hefty demand from Indian Railways and other industries, we expect Hirect's topline to grow by more than 24.5% to Rs.108.5 crores during the FY08. EBIDTA margins are expected to improve a tad to almost 13%. APAT is expected to surge by more than 30% to Rs. 14.6 crores.

The CMP Rs. 188 discounts FY08E EPS of Rs. 19.3 by 9.7. Historically, Hirect traded at discount to its peers, we expect the trend to continue in future too. Applying a PE multiple of 13, we arrive at price target of Rs. 250, i.e. an upside of 33% with a time horizon of 6 months.

Key Financials

(Rs. Crore)

	2003-04	2004-05	2005-06	2006-07	2007-08E
Net Sales	35.2	51.9	70.7	87.2	108.5
% Change	*4.3*	*47.4*	*36.4*	*23.3*	*24.5*
Total Expenditure	33.1	45.7	56.5	68.5	83.8
EBITDA	**2.1**	**6.1**	**14.3**	**18.7**	**24.7**
% of Net Sales	*6.1*	*11.8*	*20.2*	*21.5*	*22.8*
Depreciation	0.3	0.4	0.6	1.4	1.6
Other income	0.2	0.1	0.1	0.6	0.0
PBIT	**2.0**	**5.8**	**13.7**	**17.9**	**23.1**
Interest & Financial charges	0.7	0.8	0.8	0.8	1.1
PBT	**1.3**	**5.1**	**12.9**	**17.1**	**22.0**
Tax provision	0.2	2.0	4.0	5.9	7.4
PAT before Extraordinary	**1.1**	**3.1**	**8.9**	**11.2**	**14.6**
% Change	*15.1*	*185.0*	*191.5*	*25.8*	*30.4*
Extraordinary items	0.3	0.1	-1.8	0.3	0.0
APAT after Extraordinary	**1.4**	**3.2**	**7.1**	**11.5**	**14.6**
Capital	1.0	1.0	1.5	1.5	1.5*
Earnings per share (diluted)	12.7	21.0	58.5	74.6	19.3

Hind Rectifiers BUY

Growth (%)					
Net Sales	4.3	47.4	36.4	23.3	24.5
Total Expenditure	4.5	38.4	23.4	21.3	22.5
EBITDA	2.4	187.3	133.0	31.3	31.9
PBIT	5.8	189.1	135.3	30.3	28.8
PBT	28.7	289.2	154.9	32.4	28.7
PAT	15.1	185.0	191.5	25.8	30.4

Profitability (%)					
EBITDA / Net Sales	6.1	11.8	20.2	21.5	22.8
PBIT / Net Sales	5.7	11.3	19.4	20.5	21.3
PBT / Net Sales	3.7	9.8	18.2	19.6	20.3
PAT / Net Sales	4.0	6.2	10.1	13.2	13.4

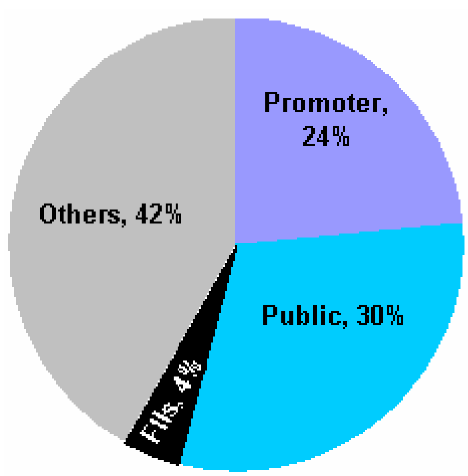
(Source: Prowess, RR Research)

Kalindee Rail Nirman (Engineers) Limited — Accumulate

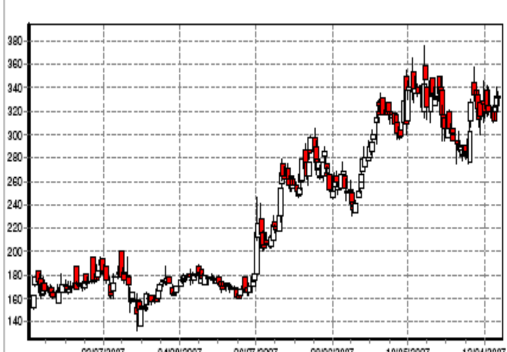
Company Details

CMP	:	331
Target	:	365
Upside	:	10%
Time Frame	:	6 months
P/E	:	27.8
P/B	:	4.63
Beta	:	1.27
Market Cap	:	348
52 High/ Low	:	375/132
Free Float	:	30%

Shareholding Pattern



Price Chart



Forerunner in railway related infrastructure works including construction of new line, gauge construction and Signaling & communication works….constructed a 22kms of track on DMRC's underground corridor between Vishwa Vidyalaya and Central secretariat….

Kalindee Rail Nirman (Engineers) Limited, an ISO9001 certified company has experience of over two decades in execution of railway related infrastructure works. The company is a forerunner in railway construction work which includes conversion from meter gauge to broad gauge, new railway line construction, modernization of railway yards, and up-gradation of railway sidings in ports, power plants, petroleum sidings, and access control systems for metro rail and fiber optic networks. It involves design, supply, installation, and communication of railway safety signaling systems, and optical fiber and copper cable-based railway communication systems and microwave towers; and survey, design, and construction of roads, bridges, and buildings. It has executed the prestigious project of construction of 22kms of Ballast-Less Track for Delhi Metro Rail Corporation's (DMRC) underground corridor between Vishwa Vidyalaya and Central secretariat.

Investment Rationale

Proven track record

Execution of projects such as construction of 22 kms of track for DMRC's underground corridor between Vishwa Vidyalaya and Central secretariat will serve as reference point and help in order book accretion….

In railway contracts experience plays a crucial role as these orders are on tender based bidding process. With a proven track record of almost two and half decades, Kalindee is well placed to exploit the emerging opportunities from huge capex by Indian Railways. To its credit, the company has successfully executed many prestigious projects ranging from railway telecommunication to track construction and civil work. One of the most prestigious projects under its belt is the construction 22 kms of Ballast-Less Track for Delhi Metro Rail Corporation's (DMRC) underground corridor between Vishwa Vidyalaya and Central secretariat. Till date the company has done 860 Kms of gauge conversion, 128 Kms of new line construction, 182 stations signaling etc. It has set a record of constructing 2 kms of railway track per day.

Rs. 470 crores order book is all set to augment further

On the back of gigantic Railway expenditure on capacity building including Metropolitan Transport and Signaling and Telecommunication Works, the current order book of Rs. 470 crore will head northwards….

Kalindee has a current order book of Rs. 470 crores and has bid for further orders worth Rs. 400 crores. With, its proven track record, Rs. 77050 crores of investment on new line projects, gauge conversion, doubling, electrification, metropolitan projects and Rs. 12000 crores of investment in signaling & communication work, the order book will head northwards only.

Rs. 35000+Rs.55000 crores of investment in DFC projects

DFC will bolster the current order book…

In an effort to decongest the existing railway lines and to achieve a 100 million tonnes of container traffic, Indian Railways has planned to lay Dedicated Freight Corridors (DFC). Railways has announced an investment of Rs. 35000 crore for the construction of the eastern and western DFC, which will commence operation in 2007-08. Further, Rs. 55000 crores will be spent on North-South, East-West, East-South, and South-South routes. This will bolster the current order book of Kalindee Rail Nirman.

Kalindee Rail Nirman (Engineers) Limited — Accumulate

Valuation

On the back of hefty investment by Indian Railways, we expect Kalindee Rail Nirman's topline to grow 60% to Rs.295.7 crores. However, company will witness cost pressure in 2008, due to higher raw material prices such as cement & steel. Consequently we expect margins to fall a tad to 11.1% from 11.4%. We expect, Kalindee to post a bottomline of Rs.14.6 crores which translates into an EPS of Rs. 14.

At the CMP of Rs. 331 the stock trades at 23.6x its FY08E EPS of Rs. 14. The stock got re-rated significantly after 2005. Going forward, we expect Kalindee to trade at around a P/E multiple of 26, i.e. a PEG Ratio of 0.43. Based on our estimated EPS and applying a P/E multiple of 26 we arrive at a target price of Rs. 365, an upside of 10% within next 6 months. We suggest investors to buy Kalindee Rail Nirman on dips.

Key Financials

(Rs. Crore)

	2003-04	2004-05	2005-06	2006-07	2007-08E
Net Sales	35.8	53.0	87.1	184.8	295.7
% Change	*19.9*	*48.0*	*64.3*	*112.2*	*60*
Total Expenditure	32.3	45.6	75.5	163.8	262.9
EBITDA	**3.5**	**7.4**	**11.6**	**21.1**	**32.9**
% of Net Sales	*9.8*	*14.0*	*13.3*	*11.4*	*11.1*
Depreciation	0.4	0.5	0.5	0.6	0.7
Other income	0.22	0.29	0	0	0
PBIT	**3.4**	**7.2**	**11.1**	**20.4**	**32.1**
Interest & Financial charges	2.1	4.1	4.4	5.8	10.1
PBT	**1.2**	**3.1**	**6.7**	**14.6**	**22.1**
Tax provision	0.5	1.1	2.4	5.1	7.4
PAT before Extraordinary items	**0.8**	**2.0**	**4.3**	**9.5**	**14.6**
% Change	*-14.4*	*158.4*	*113.6*	*124.0*	*53.9*
Extraordinary items	0.5	0.0	-0.6	-0.1	0.0
APAT after Extraordinary items	**1.2**	**2.0**	**3.6**	**9.4**	**14.6**
Capital	4.95	4.95	4.95	10.5	10.5
Earnings per share (diluted) (Rs.)	2.6	4.0	7.3	16.6	14.0
Growth (%)					
Net Sales	19.9	48.0	64.3	112.2	60.0
Total Expenditure	19.0	41.1	65.6	116.9	60.5
EBITDA	28.7	112.3	56.4	81.2	56.0
PBIT	16.7	115.5	53.5	84.5	57.1
PBT	-16.3	154.5	113.4	118.7	51.0
PAT	-14.4	158.4	113.6	124.0	53.9
Profitability (%)					
EBITDA / Net Sales	9.8	14.0	13.3	11.4	11.1
PBIT / Net Sales	9.4	13.6	12.7	11.1	10.9
PBT / Net Sales	3.4	5.9	7.7	7.9	7.5
PAT / Net Sales	3.5	3.7	4.1	5.1	5.0

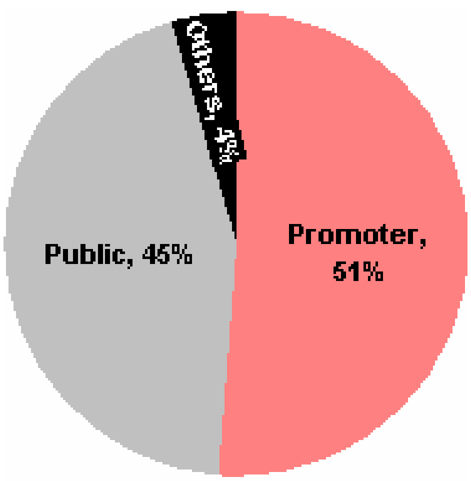
(Source: Prowess, RR Research)

Integra Hindustan Control Ltd. Not Rated

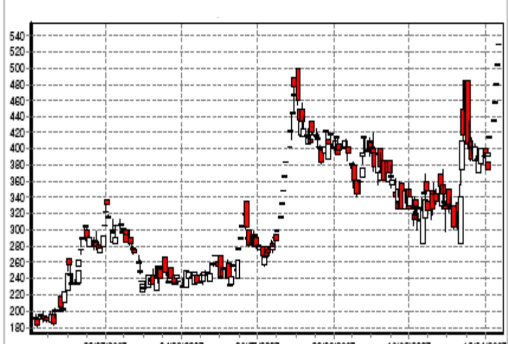
Company Details

CMP	**:**	**529**
Target	**:**	**N.A.**
Upside	**:**	**N.A.**
Time Frame	**:**	**N.A.**
P/E	**:**	**62.51**
P/B	**:**	**9.89**
Beta	**:**	**1.32**
Market Cap	**:**	**58**
52 High/ Low	**:**	**529/181**
Free Float	**:**	**45%**

Shareholding Pattern



Price Chart



Promoted jointly by Integra Holding AG, Switzerland and ABB, India; IHC manufacturers and supplies world class signaling system to Railways....introduced first ever Audio Frequency Track circuits on Indian Railways in the year 1992

Integra Hindustan Control Ltd. (IHC) was jointly promoted by Integra Holding AG, Switzerland and ABB, India in the year 1987. It manufacturers and supplies world class signaling system to Railways which includes relays along with functional relay groups (Pre Wired Base Plate), Audio Frequency Track circuits (AFTC) and operating cum indication panel (Domino type). It also undertakes turnkey signaling projects related to indoor/outdoor and automatic signaling. In 1992, IHC introduced the first ever Audio Frequency Track Circuit on Indian Railways. Till date it have supplied more than 4,00,000 nos. relays 5000 nos. pre-wired functional relay groups and 100 nos. of Domino type Control and Operating Panel for Relay based Interlocking, 2200 sets of Audio Frequency Track Circuits.

Investment Rationale

- **Excellent Product Mix – Thrust area for Indian Railways**

  Rs. 17000 crores non-lapsable Special Railway Safety Fund augurs well for safety products such as Interlocking system and AFTC

  - **Interlocking System a big opportunity**
    The relay system used by Indian Railways necessitates a high level of human supervision and hence entailed low safety levels. To improve safety levels, Indian Railways, in 2005, decided to replace all major stations with a computerized algorithm system - automated electronic interlocking systems i.e. RRIs.
  - **Audio Frequency Track circuits – Huge Untapped opportunity**
    AFTC is primarily a train detection system that helps prevent direct collision between two trains by providing information to interlocking systems about track occupancy. In to this it offers maintenance solution for track maintenance and redundancy to much expensive rail joints. Despite, Indian Railway has widely accepted this unique product, only 6000Rkm (route kilometers) have been fitted with AFTC out of 63000Rkm, presenting huge untapped opportunity.

Going forward, On the back of Indian Railway's thrust on safety and allocation of Rs. 17000 crore for Special Railway Safety Fund (SRSF), both these products are expected to witness hefty demand and bolster Integra's top line.

Key Financials

(Source: Prowess, RR Research) (Rs. Crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Net Sales	6.7	9.6	12.4	13.4	14.5
% Change	*-5.7*	*42.9*	*28.9*	*8.3*	*8.0*
Total Expenditure	6.6	9.2	11.1	11.7	13.2
EBITDA	**0.1**	**0.4**	**1.3**	**1.8**	**1.4**
% of Net sales	*1.9*	*4.5*	*10.8*	*13.1*	*9.4*
Depreciation	0.1	0.1	0.1	0.2	0.3
Other income	0.1	0.0	0.1	0.1	0.2
PBIT	**0.1**	**0.4**	**1.3**	**1.7**	**1.2**
Interest & Financial charges	0.0	0.0	0.0	0.0	0.1
PBT	**0.1**	**0.4**	**1.3**	**1.7**	**1.1**
Tax provision	0.2	0.2	0.7	0.7	0.5
PAT before Extraordinary items	**-0.1**	**0.2**	**0.6**	**1.0**	**0.6**
% Change	*-127.3*	*-311.1*	*221.1*	*59.0*	*-36.1*
Extraordinary items	0.3	0.1	0.2	0.2	0.2
APAT after Extraordinary items	**0.2**	**0.2**	**0.8**	**1.2**	**0.8**
Capital	1.1	1.1	1.1	1.1	1.1
Earnings per share (diluted) (Rs.)	1.64	2.18	7.55	10.45	7.55

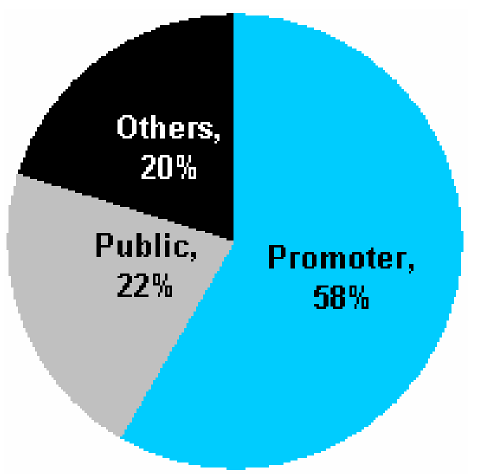
Kernex Micro System

Not Rated

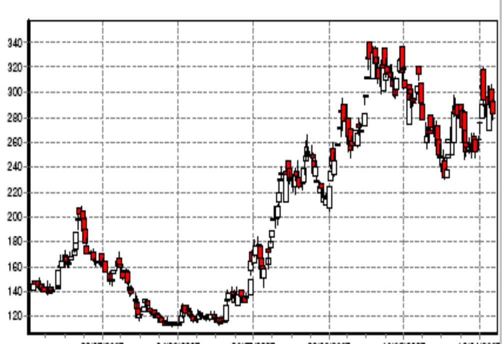
Company Details

CMP	**:**	**282**
Target	**:**	**N.A.**
Upside	**:**	**N.A.**
Time Frame	**:**	**N.A.**
P/E	**:**	**72.48**
P/B	**:**	**2.74**
Beta	**:**	**N.A.**
Market Cap	**:**	**353**
52 High/ Low	**:**	**340/112**
Free Float	**:**	**22%**

Shareholding Pattern



Price Chart



Incorporated in 1991, Kernex Micro System has carved out a niche for itself in railway safety solutions...holds exclusive rights for manufacturing, installation, commissioning and maintenance of anti-collision systems developed by KRCL, "Train Shield"...

Incorporated in 1991, Kernex Micro System is a software and hardware development, system integration and project consultancy company. It is engaged in manufacturing, installing and maintaining of anti-collision systems as well as conceptualizing, designing, and developing, certain railway safety and signal systems for Konkan Railways Corporation Ltd (KRCL). It holds exclusive license for manufacturing, installation, commissioning and maintenance of anti-collision systems in India. They are also technology partner for the development and implementation of ADDs for Metro Sky-Bus Urban Transportation System, Advanced Railway Signal Systems (Sat-Dham) and other safety systems.

Investment Rationale

- **Monopoly Position**

Being the sole licensee for manufacturing, installation, commissioning and maintenance of anti-collision systems, Kernex puts strong entry barriers for new players....

Kernex operates in the niche segment of supplying safety solutions to IR. It is amongst the handful companies, which are RDSO approved suppliers of safety solution to IR.

Kernex is the sole licensee for manufacturing, installation, commissioning and providing maintenance support for Anti collision device developed by KRCL, “Train Shield”, in India. Further, as per the agreement it also has exclusive right for international marketing for ACDs. This places Kernex in monopolistic situation.

It is also entitled to hold intellectual property rights for the Auto Driving Devices for Metro Sky Bus Urban Transport System and the sole supplier of the ADDs to KRCL.

- **Anti Collision Device ...Plethora of Opportunity**

With less than 4% area under ACD coverage, there exists huge untapped market....

Despite its usefulness, ACD is grossly under penetrated and therefore presents immense opportunity for the company. The total Indian Railway network spans 65000Rkms, out of which, Kernex has already implemented ACD on 736Rkms of railway tracks and stations for the Konkan Railway and on 1,736Rkms of rail tracks from Bihar to Assam in the northeast region. This is still less than 4% of total Indian Railway network, thus point towards a huge untapped market.

Key Financials

(Source: Prowess, RR Research) (Rs. Crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Net Sales	6.4	14.8	45.0	35.6	24.3
% Change	*79.1*	*129.7*	*204.4*	*-20.8*	*-31.7*
Total Expenditure	5.0	9.4	28.8	22.0	16.7
EBITDA	**1.4**	**5.3**	**16.1**	**13.6**	**7.6**
% of Net Sales	*22.2*	*36.1*	*35.9*	*38.1*	*31.2*
Depreciation	0.4	0.5	1.3	1.1	2.1
Other income	0.4	0.5	0.7	1.6	6.0
PBIT	**1.5**	**5.4**	**15.5**	**14.1**	**11.4**
Interest & Financial charges	0.4	0.9	0.9	1.4	1.7
PBT	**1.1**	**4.5**	**14.6**	**12.7**	**9.7**
Tax provision	0.5	1.8	5.8	4.3	4.3
PAT before Extraordinary items	**0.7**	**2.7**	**8.8**	**8.4**	**5.5**
% Change	*-15.6*	*313.8*	*225.3*	*-3.9*	*-35.0*
Extraordinary items	0.0	0.4	0.2	0.2	0.9
APAT after Extraordinary items	**0.7**	**3.1**	**9.0**	**8.6**	**6.4**
Capital	0.0	0.0	0.0	11.4	11.4
Earnings per share (diluted)	-	-	-	7.6	5.6

Disclaimer

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