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KSec Views

WEEK ENDED MARCH 30, 2007

US Dancing on Dollar Decline

The US dollar is considered as the reserve currency of the world. It is a currency in which most countries hold the reserves and prefer to invest in. However, the present scenario is such that US dollar is declining against major currencies consequent to a slowdown in US. This is a signal that the US dollar is under downward pressure in the international financial markets. Some of the factors contributing to the fall in the dollar are; concerns about the fiscal policies of US, speculation regarding economy slowdown, fluctuating monetary policies, concern regarding the trade deficit in balance of payments of US.

Decline of dollar arises numerous questions regarding whether it is advantageous or adverse to the global economy. There is still a misconception that declining dollar against the major currencies is unfavorable for US and preferable for the other countries. However the story could be completely different with explanations given further.

The US has made up its deficit by borrowing externally, but in its own currency. It is thus sitting pretty on its borrowings, while the creditors are anxious regarding their recovery as dollar is depreciating.

Although analysts and economists from all over the globe believe that the long-term health of the global economy rests on a weaker dollar and the decline in dollar is a welcome development, the truth is something different.

US has high trade deficit and it is a net debtor nation. If the countries invest in the form of bonds in dollars the proceeds out of exports to US, as the dollar declines the principal of these bonds declines in terms of other currencies. The repayment burden is reduced. Thus it's the foreign bondholders who are losing. The Americans are least affected since they have most of assets in the form of real assets and stocks. There is fewer amounts of cash saved. As the dollar is declining the foreign investors rush in to invest in the real assets of US since the assets would not be available at such cheaper rates further. This raises the value of the assets the domestic investors have invested in and they enjoy the appreciation.

The rest of the world can even go into recession while the US will get richer with continuous decline in the dollar. With the decline in dollar there would be more investments from the foreign investors in real assets and infrastructure. This could result in higher capacity utilization and optimum utilization of the resources in the US leading to more outflows of the products. Higher domestic production could reduce the reliance on imports. The domestic consumption could be easily met by domestic production itself. Eventually American products and services will become cheaper reducing the imports of US. This will cause rest of the world to suffer economically since US is the largest importer of products and services. . US products made more competitive by the lower dollar will crowd out demand for foreign products. The developing countries can't even think about not exporting to US.

Since the rate of appreciation of real asset values like stocks and real estate is higher than the decline in dollar, US is becoming richer as a nation. The increase in the investment in the real assets and the infrastructure will increase the domestic consumptions resulting in more of spending. Consequently there will be rise in the domestic rates of the country due to the demand for money. This will discourage the local investors to invest outside US. Similarly this will encourage the investors abroad to invest in the US securities. This will lead to fall in the global capital markets. This is true especially in case of the developing countries like India where the foreign institutional investors determine the fate of the capital markets of the country.

Another consequence of the decline in the dollar would be in the form of increased competitiveness of the US products in the global markets. Higher investments in the assets of US consequent to decline in the dollar would result into surplus production due to optimum utilization of the resources and more capacity utilization. This can increase the exports of the country due to availability of the surplus production. This will increase the competition in the global markets and there are chances that the American products and services are preferred over the products of other country. This could adversely affect the global market of the products of the other countries

The dollar's decline may add a good amount to the GDP of US in the near future owing to increased competitiveness of net exports. This GDP growth should translate into the job growth especially in the manufacturing sector. The US economy will be showing more favorable signs in the near future just because of the decline in the dollar. Allowing the dollar to decline can be viewed as a strategy of the US government to avoid a complete slowdown of the economy and improve the GDP of the country, which will be appreciated by the US officials in the future.

It can be concluded from the above explanations that the dollar decline cannot be taken as a favorable phenomenon to the global markets but as far as US

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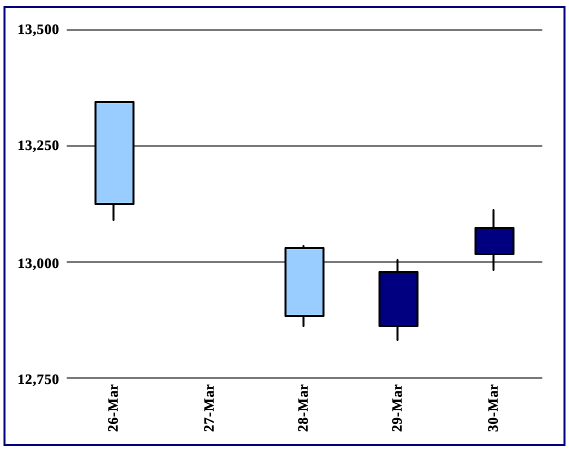
economy is considered it can be viewed as a strong hand of support for making the position of US even stronger. With trade deficit being high and being a net debtor nation decline in dollar is something, which can improve the balance of payment position and reduce the repayment burden also. As it is rightly said by one of the US former treasury secretaries **"THE DOLLAR IS OUR CURRENCY, BUT YOUR PROBLEM".**

Capital Market

High Liquidity leads to Bearish Trend

Market during the week closed negative. The benchmark BSE Sensex has down by 1.6% and closed at 13,072.1 where as the NSE Nifty closed at 3,821.6 down by 1%.

Sensex movement during the week:



Major gainers during the week were Ranbaxy up by 6.8%, Dr. Reddy's by 5.9% and ITC 4.3%. Major losers during the week include banking and technology stocks. Among the losers Tata motors down by 7.8%, HDFC bank by 6.2%, HDFC by 4.6%, ICICI bank by 4.6% and Infosys by 4%.

Major gainer in BSE sector indices includes BSE FMCG up by 2.9% backed by strong movements in ITC and HLL. BSE Healthcare index was also up by 2.1%. Bankex index was the biggest loser during the week down by 4.1% due to book profit on account of last week gain. During the week BSE Technology index was also down by 3.3% due to Rupee appreciation.

On 26 March 2007, Sparsh BPO Services settled at Rs 104.75. Sparsh BPO Services' listing on BSE followed a restructuring scheme of Spanco Telesystems and Solutions. A day ahead of its listing, BSE had set Rs 130.90 as base price for Sparsh, with 20% daily circuit filters.

The Securities and Exchange Board of India (Sebi) decided to allow short selling by institutional investors only in such stocks, which are also traded in the derivatives segment. At present, there are 159 stocks for which derivatives are available.

Foreign Institutional Investors were out to be net buyer during the week in Equity Markets as well as in Debt markets to the extent of Rs.1279.2 crore and Rs.252.1 crore respectively. During the week mutual funds were net seller to the extent of Rs.502.05 crore in equity and Rs.25.68 crore in Debt market up to 28 March 2007.

India's foreign exchange reserves rose by $1.789 billion in the week ended March 23, central bank data showed Friday and stood at $197.746 billion.

India's wholesale price index rose 6.46% in the 12 months to Mar 17, matching the previous week's increase, data showed on Friday.

The Reserve Bank of India (RBI) on Friday evening raised its short-term lending rate, the repo rate by 25 basis points, to 7.75% with immediate effect. Cash reserve ratio (CRR) has also been hiked by half a percentage point. The cash reserve ratio will rise to 6.50% in two trenches, the first on 14 April and the second on 28 April.

Market Outlook:

The latest move by the central bank is expected to impact banking scrips directly and all other interest rate sensitive sectors indirectly, hence the investors are adviced to be cautious. The next major trigger for the domestic bourses is Q4 March 2007 earnings, reports of which by corporates will start next month.

KSB Pumps Limited

Q4CY06 Results Analysis

KSB Pumps reported 25% growth in Net Sales at Rs 108.25 crore for the quarter ended Dec'06. The operating profit of the company registered a growth of 23% at Rs 19.89 crore for the same period. Aided by lower depreciation and taxation, the growth in sales was translated to a Net profit of Rs 12.04 crore, up by 41%.

KSB Pumps, Indian subsidiary of the German parent KSB AG is a leading producer of pumps and valves for fluid handling including waters in India. The company takes up project execution on turnkey basis and caters to niche industrial as well as highly competitive low margin agricultural and domestic (residential/commercial buildings) segments. On industrial front the company caters to diverse industries such as chemicals, petrochemicals/ refiners, breweries/distilleries etc and power generation (both thermal and nuclear for feeding water to boilers).

Standalone Results:

Performance for the Quarter ended December'06:

Net Sales of KSB Pumps registered a double-digit growth of 25% to Rs 108.25 crore for the quarter ended Dec '06. The operating profit margin dipped by 30 basis points to 18.4%, owing to a spurt in input costs. The operating profit stood at Rs 19.89 crore, up by 23%.

The raw material cost as a percentage to sales advanced by 410 basis points to 46%, causing a drag on the margins. Nevertheless, the company has made impressive savings in staff costs and other expenditure by 110 bps and 300 bps to 12.6% and 22.9%, respectively.

Other income was lower by 37% to Rs 1.01 crore. The interest outgo rose to 0.67 crore as against Rs 0.14 crore in the corresponding previous period whereas the depreciation costs fell by 22% to Rs 2.47 crore. As a result, the PBT appreciated by 23% to Rs 17.76 crore. After providing for a taxation of Rs 5.72 crore, down by 3%, the PAT finally registered an impressive growth of 41% to Rs 12.04 crore.

Results Update (Standalone):

Particulars (Rs. Crores)	Q4'06 Dec-06	Q4'05 Dec-05	Var. (%)	CY'06 Dec-06
Sales	**108.3**	**86.7**	***25.0***	**406.4**
OPM (%)	*18.4*	*18.7*		*20.4*
Operating Profit	**19.9**	**16.2**	***23.0***	**82.8**
Other Income	1.0	1.6	*(37.0)*	5.7
PBIDT	**20.9**	**17.8**	***18.0***	**88.5**
Interest	0.7	0.1	*379.0*	1.0
PBDT	**20.2**	**17.6**	***15.0***	**87.5**
Dep.	2.5	3.2	*(22.0)*	8.8
PBT	**17.8**	**14.5**	***23.0***	**78.7**
EO	-	-	-	-
PBT after EO	**17.8**	**14.5**	***23.0***	**78.7**
Prov. for Tax	5.7	5.9	*(3.0)*	27.1
PAT	**12.0**	**8.6**	***41.0***	**51.7**
EPS (Rs) (Annl)	**27.7**	**19.7**		**29.7**
Equity	17.4	17.4		17.4

Performance for the Year ended December'06:

For the full year ended Dec '06 the sales was higher by 13% to Rs 406.38 crore. Operating profit surged by 27% to Rs 82.80 crore, backed by growth in sales and improvement in OPM by 230 basis points to 20.4%. The other income was up by 17% to Rs 5.69 crore during the same period.

The interest cost swelled by 78% to Rs 0.96 crore whereas the depreciation charge dropped by 11% to Rs 8.83 crore. Thus the PBT posted a growth of 32% to Rs 78.70 crore on y-o-y basis. The provision for tax was up by 26% to Rs 27.05 crore, thereby resulting in a growth of 36% in PAT at Rs 51.65 crore.

Segment Results:

The company has three segments namely- Pump segment, Valves segment and others.

- ✓ **Pumps:** For the quarter ended Dec the segment revenue of pumps posted a growth of 16% to Rs 78.82 crore. PBIT for the segment was at Rs 10.60, up by 2%. For the year ended Dec '06, the pumps division registered a growth of 8% in revenues to Rs 304.52 crore (contributing to 71% of total sales), whereas the PBIT for the same improved by 22% to Rs 55.16 crore (contributing to 69% of total PBIT).
- ✓ **Valves:** This division came out with a strong growth of 57% in revenues at Rs 28.74 crore. Also, the PBIT soared by 64% to Rs 7.35 crore for the quarter ended Dec'06. For the year ended Dec '06, the company's valves division recorded double digit growth in revenues as well, going up by 30% to Rs 98.63 crore (contributing to 23% of total sales), while the PBIT for the same grew by 53% to Rs 24.21 crore (contributing to 30% of total PBIT).
- ✓ **Others:** The revenue from this segment for the quarter ended Dec'06 dipped by 7% to Rs 6.81 crore. However the PBIT more than doubled to Rs 0.06 crore. For the year ended Dec '06, the others division showed an increase of 12% in revenues to Rs 27.33 crore (contributing to 6% of total sales) whereas the PBIT of the same was at Rs 0.16 crore as against Rs 0.02 crore in the previous year.

Pfizer Limited

Q1FY07 Results Analysis

Pfizer witnessed a 14% increase in bottomline on a 6% increase in topline, backed by fall in interest, depreciation and extraordinary items (EO).

Pfizer reported jump in bottom-line by 14% against a 6% rise in sales and drop in operating margin by a modest 20 basis points during the first quarter of FY2006. The growth in sales was strongly supported by the healthy rise in profitability from pharmaceuticals (services) segment. Moreover, income related to clinical development operations, although at lower base, improved significantly. Sales in the month of December were impacted due to trade related issues in the state of Maharashtra.

The results of the quarter were modest over the sequential previous quarter, which registered 6% growth in sales and 14% rise in net profit on flat margin.

Performance of the quarter ended February 07:

The sales grew by 6% to Rs 155 crore during the quarter ended Feb 2006. The operating margin of the company declined by 20 basis points to 24.1%. As a percentage of net sales, cost of raw materials and other expenditure increased by 420 basis points and 260 basis points to 24.3% and 26.7% respectively, net sales (adjusted with stock). However, all other costs decreased. Staff costs were eased by 180 basis points to 13.6%.

Other income of the company decreased by 1% to Rs 11.97 crore. Other income includes service income for the three months ended 28 February 2007 of Rs 5.27 crore (corresponding three months in the previous year Rs 7.56 crore) and for the full year ended November 30, 2006 of Rs 26.12 crore)

Interest cost was nil as against negligible interest in the corresponding previous quarter depreciation costs were also down by 13% leading to a modest 5% increase in profit before tax (PBT) to Rs 46.67 crore. There was a 55% drop in EO leading to 14% increase in PBT after EO.

Exceptional items relates to amortization of compensation paid to employees under voluntary retirement scheme (VRS). The amortized expense for the three-month ended 28 Feb 2007 is Rs 2.60 crore (corresponding three months in the previous year Rs 5.84 crore) and for the full year ended 30 Nov 2006 was Rs 23.37 crore. Compensation paid under VRS is charged to profit and loss account over a period of five years.

The PBT after EO of the company rose by 71% to Rs 38.65 crore during the quarter.

Tax incidence of the company reduced to 36% during the current quarter from 40% during previous corresponding quarter. Therefore, tax provision increased by only 52% to Rs 15.80 crore resulting in 14% increase in profit after tax (PAT) at Rs 28.27 crore.

Restructuring of field force, new launches and market buoyancy is likely to result in strong growth. The recent launches (Caduet, Lyrica and Viagra) seem to have made a modest start however they are not expected to make a significant dent with these recent launches. Separate divisions now focus on GPs, cardiologists, critical care and institutional business. The company will mainly focus on cardiovascular, neurology, anti-infectives and multi-vitamins.

Results Update:

Particulars (Rs. Crores)	Q1'07 Feb-07	Q1'06 Feb-06	*Var. (%)*	FY'06 Nov-06
Sales	**155.0**	**146.0**	***6.0***	**662.4**
OPM (%)	24.1	24.3		21.0
Operating Profit	**37.4**	**35.5**	***5.0***	**139.1**
Other income	12.0	12.1	*(1.0)*	59.4
PBIDT	**49.4**	**47.6**	***4.0***	**198.5**
Interest	-	0.0	*(100.0)*	0.1
PBDT	**49.4**	**47.6**	***4.0***	**198.5**
Depreciation	2.7	3.1	*(13.0)*	13.1
PBT	**46.7**	**44.5**	***5.0***	**185.4**
EO	2.6	5.8	*(55.0)*	23.4
PBT after EO	**44.1**	**38.7**	***14.0***	**162.0**
Tax	15.8	13.9	*14.0*	56.3
Net Profit	**28.3**	**24.8**	***14.0***	**105.7**
EPS (Rs) (Annl)	**37.9**	**33.2**		**35.4**
Equity	29.8	29.8		29.8

Performance for the year ended November 2006:

The company's consolidated sales inclusive of Duchem Lab., its wholly owned subsidiary achieved 11% growth to Rs 666.79 crore in year ended November 2006. Sales of Duchem Lab. declined by 2% year-on-year (y-o-y) to Rs 4.44 crore. The operating profit margin (OPM) rose by 300 bps to 20.9%. The surge in the OPM is attributed to the operational efficiency by way of savings at the operating cost front over the quarters. Thus, the operating profit spurted by 29% y-o-y to Rs 139.68 crore.

The consumption of material as percentage to sales (net adjusted to stock) declined by 280 bps to 19%. Purchase of finished goods rose by 30 bps to 16%. Staff cost fell by 60 bps to 15%. Other expenditure reduced by 60 bps to 29%.

The other income widened by 45% y-o-y to Rs 59.47 crore. It included service income of Rs 26.12 crore (corresponding previous period included service income of Rs 26.65 crore) and profit on sale of properties totaling to Rs 11.83 crore – Rs 11.81 crore in the Hyderabad property and Rs 0.02 crore in the Ankleshwar property.

The Hyderabad property was sold in quarter May 2006 while the Ankleshwar property in quarter February 2006. Interest outgo contracted by 56% y-o-y and depreciation by 6% y-o-y. The consequent PBT before EO ascended by 38% y-o-y to Rs 186.01 crore. The EO of Rs 23.37 crore is on account of the amortization of the VRS compensation paid to the employees. The VRS compensation is charged to profit and loss account over a period of 5 years. The PBT after EO amounted to Rs 162.64 crore, higher by impressive 45% y-o-y. The tax provision, inclusive of fringe benefit tax increased by 37% y-o-y. The PAT was up by 50% y-o-y to Rs 106.33 crore.

Segment Performance:

Segments Results:

Company reports its results in three major segments, namely pharmaceuticals (including services), animal health (including services) and services relating to clinical development operations.

- ✓ **Pharmaceuticals (including services):** During the quarter, company reported 6% growth to Rs 138.28 crore from pharmaceutical segment, which is core business of the company with revenue contribution of 86%. However, profit before interest and tax (PBIT) from this segment jumped by 13% to Rs 41.01 crore.

  During the fiscal this segment reported 12% growth in revenue to Rs 603.55 crore and PBIT jumped by 23% to Rs 150.23 crore on stand alone basis.

- ✓ **Animal Health (including services):** Last quarter witnessed a modest increase in sales of 9% to Rs 16.86 crore. However, profitability, in terms of PBIT declined by 19% to Rs 3.03 crore.

  During the fiscal, sales inched were flat at Rs 59.27 crore but PBIT registered 26% growth to Rs 5.59 crore.

- ✓ **Clinical Development Operations:** Clinical development services contribute as low as 3% in revenues and income is not regular in nature. During the quarter, company registered a 19% decline at Rs 5.21 crore, while during the fiscal revenue growth stood at a modest 4% to Rs 25.66 crore.

  However, PBIT under this segment fell by 31% to Rs 0.55 crore and during the year it remained flat at Rs 2.62 crore.

Latest Developments:

Its Chandigarh property has been sold off on 'is where is' basis to M/s C.S.J.Infrastructure for a total consideration of Rs.278 crores. Out of a said consideration, the company had already received advance of Rs 27.8 crores, being 10% as initial advance and the same was accounted in the quarter ending 30 November 2006. The Chandigarh plant stopped operations in November 2003 and all the permanent employees had opted for VRS.