

Sector Report - Pipes



Indsec Securities & Finance Ltd.



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EXECUTIVE SUMMARY

We are of the opinion that, Indian pipe companies are well positioned to capture the advantage of the increasing global as well as domestic demand for pipes on the back of the estimated global demand for \$ 79 bn. and domestic demand for around \$ 17.37 for LSAW and HSAW pipes over next 5 years. Indian pipe manufacturers with the handsome order books, decent revenue visibility and the valuations provide a scope for potential upside. We recommend **BUY** on Welspun Gujarat, Maharashtra Seamless, Jindal Saw and PSL.

The global economy literally runs on energy. To support the continued economic progress for the world's growing population, more energy will be required. The growing economy therefore demands energy security in terms of new energy sources, be it domestically in the form of oil & gas finds or internationally, through tie-ups with oil & gas rich regions like the Middle East.

The demand arising from all the mixed economies has realized a need for transportation of energy, which has given an upward push to the demand for oil and gas transportation. **All this has led to an unprecedented time for the pipe industry especially SAW pipes, a backbone on which oil & gas transportation from source to customer will become imperative.**

Key advantages of pipe transportation:

- Cost effective;
- Stability;
- Multi-product transportation;
- Eco friendly;
- Unaffected supply.

Global outlook:

Global markets have been unable to keep pace with the rising demand of oil & gas. The demand arising across the globe has identified a need for transportation of energy which has given an upward push to the demand for oil & gas transportation.

Globally demand for pipes is estimated at around US \$ 79 bn. over the next 5 years and is likely to go up further considering the various international growth drivers for pipes.

Domestic outlook:

In India pipeline is not the prime mode of transportation for petroleum products and only 28 to 30% of the petroleum products are transported through pipelines as compared to around 65% in other developed nations. In near future the scenario is expected to change with the domestic oil & gas majors now increasingly becoming aware of the inherent benefits and growing need to invest in pipeline infrastructure as compared to the other expensive modes of transportation like rail and road.

Domestic players like GAIL, GSPL and other players have planned various cross-country and cross-regional pipelines, which will create demand of around \$ 17 bn. for line pipes over next 5 years.

Major demand drivers:

- Increase in oil and gas and E&P budget;
- Increasing reliance on imported oil and gas ;
- E&P activities taking place in more complex environment ;
- Large gas discoveries;
- Shift from traditional mode of transportation;
- Enhancement of water and sewage transportaion;
- Need for replacement;
- India becoming refining hub;
- Development of national gas grid for common gas market .

Major industry concerns:

HR Coils and HR Plates are the main raw materials for HSAW and LSAW pipes and account for almost 80% of the total input cost. The steel industry is cyclical in nature and looking at the recent re-rating and consolidation in the steel industry across the globe may push steel prices upward, which may affects margins of pipe players

INDIAN PIPE SECTOR

25 January, 2008

Introduction:-

The economy worldwide literally runs on energy. To support the continued economic progress for the world's growing population, more energy will be required. Despite of significant improvements in energy efficiency, the world's total energy demand is expected to be approximately 40 percent higher by 2030 than it was in 2005. The growing economy therefore demands energy security in terms of new energy sources, be it domestically in the form of oil & gas finds or internationally, through tie-ups with oil & gas rich regions like the Middle East.

Globally, most of the countries are also busy in utilizing their oil & gas assets to the maximum through further exploratory and development activities. Additionally, they are entering into long-term strategic tie-ups with other rich oil & gas producing nations. The demand arising from all the mixed economies has realized a need for transportation of this energy, which has given an upward push to the demand for oil and gas transportation. **All this has led to an unprecedented time for the pipe industry especially SAW pipes, a backbone on which oil & gas transportation from source to customer will become imperative.**



Pipelines are the preferred mode of transportation of liquids and gases globally. Increasing prices of fuels and various developments in the oil & gas exploration and procurement sector is providing an increasing need to create logistics infrastructure to market oil & gas. This will result in increased demand for pipeline. Going forward, the demand for pipes is expected to increase sharply, contributed by not only the large demand anticipated for new pipes but also stemming from the replacement of the large number of existing pipe lines.



Besides transportation of oil & gas, pipe usage in water and sewage transportation is also rising. The building and construction activities are also major market places for pipes. Also, with the boom in the real estate and construction market across India, the future for the steel pipe industry undoubtedly looks positive.

Key advantages of pipe transportation: -

Cost effective:

The one time capex cost in pipelines is higher as compared to roads and rails, but the logistics cost and transportation cost in the case of pipes works out to be much lower, which results in higher benefits. On a comparative basis, transporting through pipeline costs around Rs. 1.5 km/ton, Railway costs around Rs. 2.30 km/ton and Roadways costs around Rs. 3.40 km/ton;

Stability:

Transportation through pipelines is stable with the life span of around 15 to 20 years as compared to other means of transportation;

Multi-product transportation:

More than one product can be transported through the same pipeline without cleaning procedure;

Eco friendly:

Pipelines offer eco friendly transportation without emission of gases and pollutants in the atmosphere;

Unaffected supply:

Transportation through pipelines are unaffected by strikes or other natural calamities that may affect other means of transport.

Different types of pipes & their applications:-

Pipes are mainly manufactured from steel, concrete and plastics. Steel pipes have major application in oil & gas sector and are preferred for long distance high-pressure transportation of oil, gas and water. SAW pipes are large diameter pipes and are manufactured by welding the edge of plates or by spiral welding of hot rolled coil.

The SAW pipes manufactured from plates are called LSAW pipes as they are rolled and longitudinally welded to form a pipes shape. HSAW pipe are manufactured from HR coil, wherein HR coils are welded spirally to give shape of pipe. In HSAW pipe the length of welding is larger as compared to LSAW pipes.

Based on the welding length, the HSAW pipes have less strength as compared to LSAW pipes. But with the advancement in the welding technology, there is almost meager difference in the pressure bearing strength of the two pipes.



The different categories of pipes based on their manufacturing process are given below:-

Types	Raw Material Used and Process	Application	Size	Key Differentiator
Spiral/Helical Saw Pipes (HSAW)	Made by spirally welding HR Coils	Oil & Gas transportation, Water transportation and sewage disposal	18' to 120' diameter	Offshore use limited due to wall thickness beyond 25 mm. Find application in trunk lines Use lighter equipment which can be re-located
Longitudinal Saw Pipes (LSAW)	Made by longitudinally submerged arc welding of Steel Plates	Oil & Gas transportation	16' to 56 diameter	Suited for offshore pipelines due to higher wall thickness capability Find application in trunk lines Use heavy machinery and hence no re-locatable
Seamless Pipes	Made by piercing steel billets	Petroleum exploration, general engineering, boilers & automotives	½' to 14' diameter	Find application in branch lines
Electric Resistant Welded Pipes (ERW)	Made from hot-rolled steel coils using electrical resistance welding process	Oil & Gas and water distribution	½' to 22' diameter	Limitation on size, thickness and grade

Gas transportation and distribution: -

Transportation:

The efficient and effective movement of natural gas from producing regions to consumption regions requires an extensive and complex transportation system. In many cases natural gas produced from a particular well has to travel a great distance to reach its point of use. The transportation system for natural gas consist of a complex network of pipelines, designed to quickly and efficiently transport natural gas from its origin to the areas of high natural gas demand.

There are **three major** types of pipelines along the transportation route – the gathering system, the inter-state pipeline, and the distribution system.

The gathering system consist of low pressure, low diameter pipelines that transport raw natural gas from wellhead to the processing plant. In case the natural gas consist of high sulfur and carbon dioxide contents then it require a specialized sour gas gathering pipe installation system.

Inter-state pipelines carry natural gas across state boundaries and in some cases across the countries as well.

Intra-state pipelines on the other hand transport natural gas within a particular state.



Distribution:

Distribution is the final stage in delivering natural gas to end-users. Some large industrial, commercial and electric generation enterprises receive natural gas directly from high capacity inter-state and intra-state pipelines and most other consumers receive natural gas from a local distribution company. Local distribution companies typically transport natural gas from delivery points along inter-state and intr-astate pipelines through thousand of miles of small-diameter distribution pipes.

**Domestic – organized pipe players:-**

(Rs. Mn)

	Welspun Gujarat Stahl Rohren Ltd.	PSL Ltd.	Maharashtra Seamless Ltd.	Jindal Saw Ltd.
Period Ended	30th Sep. 07	30th Sep. 07	30th Sep. 07	30th Sep. 07
Months	6 Months	6 Months	6 Months	12 Months
Sales (Net)	17,344	9,066	7,376	51,761
EBIDTA	2,896	1,017	1,821	6,204
Net Profit	1,519	363	1,163	3,025
As on 24th January 2008				
Market Cap. Rs. mn	77,003.5	17,184.7	29,296.1	40,405.2

Company wise Installed Capacity (in mt.):-

Particulars	Welspun Gujarat Stahl Rohren Ltd.	PSL Ltd.	Maharashtra Seamless Ltd.	Jindal Saw Ltd.
LSAW	350,000	--	--	800,000
HSAW	400,000	1,175,000	--	150,000
ERW	250,000	--	200,000	--
Seamless Pipe	--	--	350,000	245,000
DI Pipes	--	--	--	200,000

Demand for Pipes**Global Outlook****Rising Energy Transportation Demand:**

Global markets have been unable to keep pace with the rising demand of oil & gas. Consumption of natural gas worldwide is expected to increase from 100 trillion cubic feet in 2004 to 163 trillion cubic feet by 2030. By energy sources, the projected increase in natural gas consumption is second only to coal. The demand arising across the globe has identified a need for transportation of energy, which has given an upward push to the demand for oil & gas transportation.

Globally demand for pipes is estimated at around US \$ 79 bn. over next 5 years and this amount is further likely to go up considering the various growth drivers for pipes internationally.

Indian pipe companies enjoy established track record of executing large International and Domestic orders. In recent past, Indian players have gained global foothold with the major big orders coming from Oman, Iran, Libya, Vietnam and including USA-the most

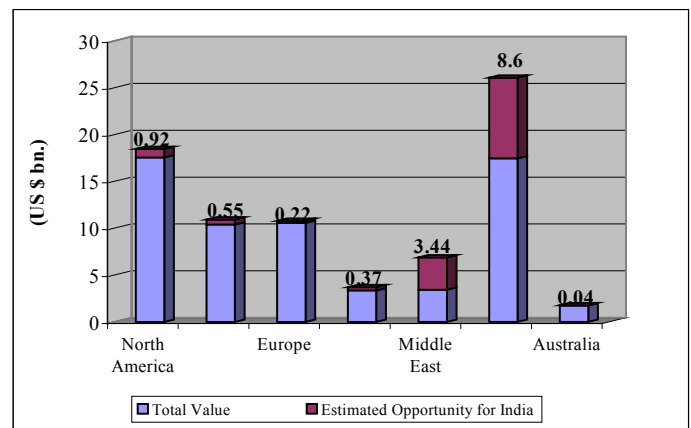
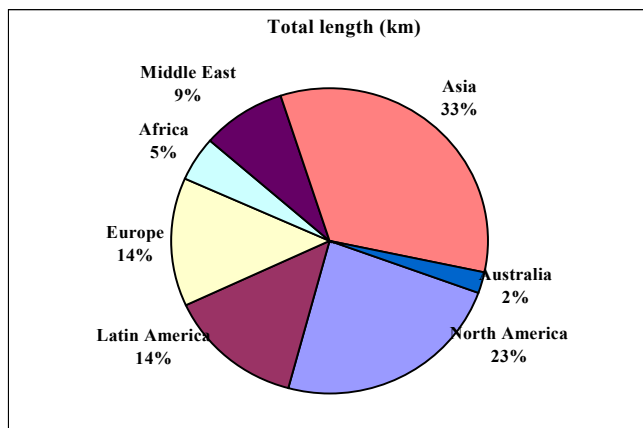
stringent market, which speaks volume about quality standard and cost competitiveness. Having secured the required accreditations, Indian players are well-placed to tap around 18% of the US \$ 79 bn. global demand (excluding India).

Estimated Global Demand over next 5 Years

Region	Total length (km)	Equivalent (mn. Tonne)	Value (US \$ bn.)	Estimated Market for Indian Players (%)	Estimated Opportunity for India (US \$)
North America	57920	17.58	18.46	5%	0.92
Latin America	34278	10.40	10.92	5%	0.55
Europe	33822	10.27	10.78	2%	0.22
Africa	11610	3.52	3.70	10%	0.37
Middle East	21541	6.54	6.87	50%	3.44
Asia	81736	24.81	26.05	33%	8.60
Australia	5566	1.69	1.77	2%	0.04
Total	246473	74.81	78.55		14.14

#Sources: Simdex

#Assumption: 1Km=303.50 tonne, Average realization=US \$1050 per tonne.



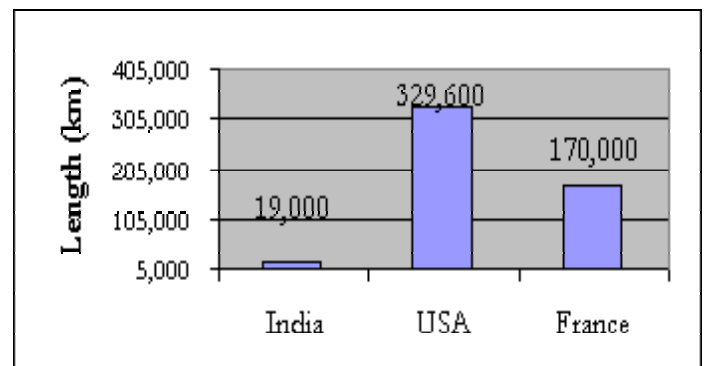
Domestic Outlook

In India for oil & gas transportation, pipeline is not the prime mode of transportation and only about 28 to 30% of the petroleum products are transported through pipelines as compared to around 65% in other developed nations. However in near future the scenario is expected to change with the domestic oil & gas majors are now increasingly becoming aware of the inherent benefits and growing need to invest in pipeline infrastructure as compared to the other expensive modes of transportation like rail and road.

In India percapita consumption of natural gas is around 29 cubic meter (cum), which is amongst the lowest in the world, with the world average of around 538 cum. Also the current share of natural gas in the energy basket is around 9% in India as compared to the world average of around 24%. In future the share of natural gas in the fuel mix is expected to go up to 22% by 2031-2032 and for this to happen, it will need a large infrastructure in terms of gas network, which in turn will boost the demand for pipes.

Existing Pipe Network in India

Country	Length (km)	Penetration (%)
India	19,000.00	30%
USA	329,600.00	59%
France	170,000.00	75%

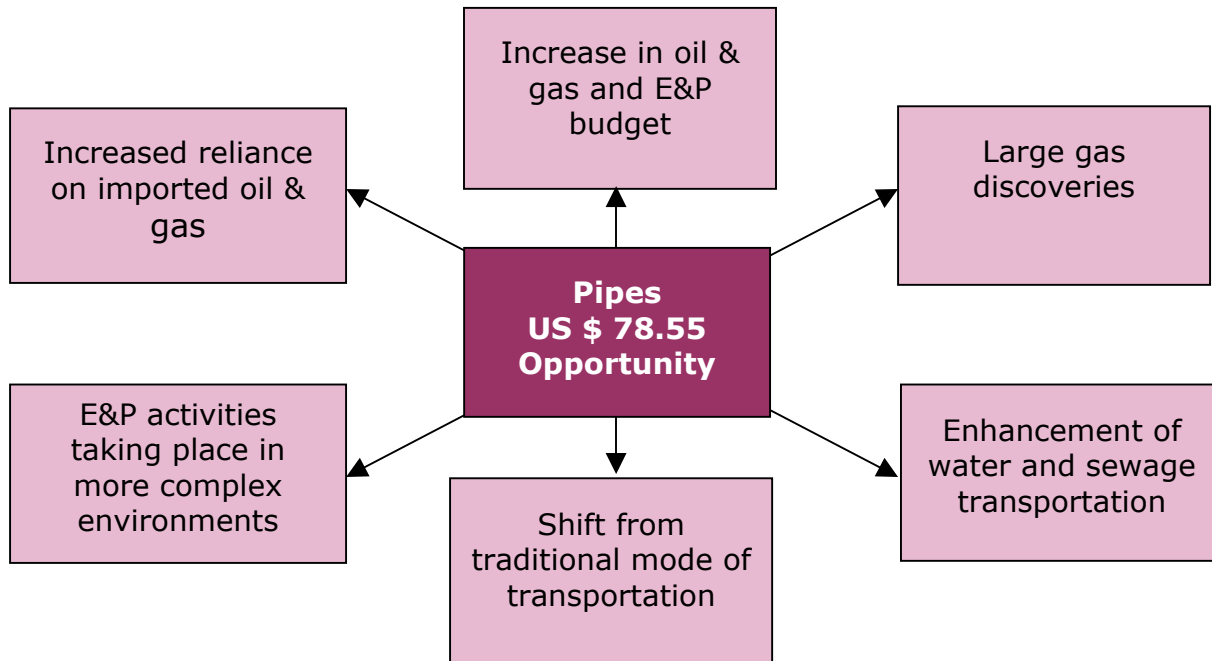


The total pipeline network in India is only around 19,000 kms. which is highly insignificant as compared to other developed nations, thereby providing a huge room for further expansion in India. Oil & gas majors have already lined up plans to lay more than 22,000 kms. of pipeline over next few years and more projects are expected to be announced going forward.

GAIL, GSPL and other players have planned various cross country and cross regional pipelines, which will create demand for line pipes for around \$ 17 bn. over next 5 years. With the cross country creation of gas transportation infrastructure, domestic demand for line pipes is expected to grow much faster and majority of demand would emerge from the natural gas segment. Pipeline infrastructure in India is likely to see around two fold expansion in next 5 years to 39,000 km. from current network of around 19,000 km.

GAIL itself has planned around 5,200 km. network over next 3 years with the project cost of around Rs. 20,000 cr. Also, GSPL has planned investment of Rs. 2,500 cr. to add 850 kms. of gas pipeline next year and for its 2,200 kms. long gas grid project it has already commissioned a pipeline network of 1,130 kms. and the work is in the progress for the remaining 1070 kms.

Major demand drivers:-



Increase in oil and gas and E&P budget:

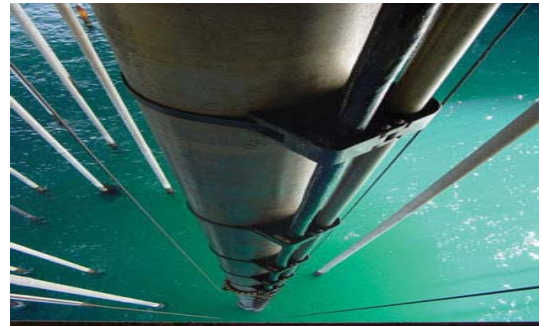
Continued firmness and record high crude oil prices (near \$ 100 mark), depleting output from productive oilfields and increasing demand have compelled large investment from oil majors in E&P activities. Booming E&P activities have led to a surge in demand for line pipe and tubular products.

Increasing reliance on imported oil and gas:

The OECD countries (Organization for Economic Cooperation and Development) accounts for 59% of the global oil and 52% of natural gas consumption. However, with the demand-supply mismatch, these countries are increasingly becoming reliant on imported oil and gas. This has warranted demand for oil and gas transportation infrastructure. The share in global demand from the Middle East and Asia, is high at 34%. This is a major demand driver for Indian players.

E&P activities taking place in more complex environments:

In regions like USA, Europe, Middle East, Far East and Africa, where the large quantities of oil and gas have been discovered, robust and complex E&P activities (deep sea waters) are taking place. This has set a long term and sustainable demand for pipes with the billions of dollars to be invested solely on these activities.



Large gas discoveries:



In the recent past, large gas finds in the Middle East, Russia and Alaska on the international front and the domestic gas finds by players like Reliance and ONGC in K.G Basin etc. provide major growth opportunity to pipe industry. With the improved availability and discovery of new gas fields and setting up of huge LNG terminals and pipes being the only mode of transporting gas it creates a big opportunity for the sector.

Shift from traditional mode of transportation:

With the low penetration level in India in respect of gas distribution and transportation network and the inherent advantage of lower logistic and transportation cost the share of pipelines in oil and gas transportation will be significantly high in future.

Enhancement of water and sewage transportation:

After the industrial uses of pipes, water management forms another area of growth for the pipe industry. Rapid economic growth in India has created an urgent need to develop and improve water supply system in urban areas. The government's thrust on providing clean, safe and continuous drinking water in last few budgets has prompted a number of state governments to initiate various projects of pipe infrastructure for water management. International organizations like World Bank and Asian Development Bank are also funding such projects across the country.

Need for replacement:

The average life of a pipe used for transportation is approximately 25 to 30 years. In the major markets like USA and Russia these pipes had been laid between 1960-1970. More than 1 million miles (around 65%) of gas pipelines out of 1.5 million miles in USA were laid prior to 1975. These pipelines have already crossed their economic life and have led to an urgent need for replacement to ensure the smooth flow of operations. Hence, replacement segment has added further to growing demand.

India becoming refining hub:

India enjoys significant advantage in refining due to lower construction and cash operating costs. India possesses surplus refining capacity and has already turned into a net exporter of petroleum products. The inability of global oil producers to expand the capacities during the last decade coupled with the growing demand from China and other developing nations has caused deficit. In India major refineries have planned around 90 MMTPA over next 4 to 5 years to the existing capacity of around 149 MMTPA. For eg. RPL is constructing 28 MMTPA refineries at Jamnagar and HPCL has entered into a JV with Mittal Group to setup a 9



MMTPA refinery –cum-petrochemical complex at Bhatinda. Similarly IOC has planned investment of Rs. 230 bn. for several refineries. Also HPCL and BPCL have planned similar investments for their Vishakhapatnam and Mumbai refineries respectively.

Development of national gas grid for common gas market:

The New Gas Pipeline Policy announced by the Government provides a framework for development of National Gas Grid and with the setting up of the Petroleum and Natural Gas Regulatory Board private interest is expected to increase tremendously in the pipeline infrastructure segment.

Major industry concerns:

HR Coils and HR Plates are main raw materials for HSAW and LSAW pipes and accounts for around 80% of the total input cost. The steel industry is cyclical in nature and looking at the recent re-rating and consolidation in the steel industry across the globe may push steel prices upward, which may affects margins of pipe players.



For HR Plates Indian pipe manufacturers are highly dependent on import, as at the current stage the domestic HR Plates capacity is limited. With the current demand supply mismatch, the plates have a long enough lead time of almost 12 months, thus restricting orders with the shorter delivery schedule for industry players. However, certain domestic players are in a process of enhancing/setting up HR Plates capacity.



WELSPUN GUJARAT STAHL ROHREN LIMITED
(Welspun/ Welspun Gujarat)



Share Price	: Rs. 449.05
BSE Sensex	: 17221.74
Nifty	: 5203.40
Sector	: Pipe
High / Low	: Rs. 538/90
Year end	: March
Listed on	: BSE, NSE
Market Cap Rs.	: 77003.5 mn
BSE Scrip Code	: 532144
NSE Scrip Code	: WELSPUNGUJR
Shares in issue	: 171.48 mn.

Shareholding	31 st December 07
Promoters	36.90%
Institutions	15.10%
Public & Others	21.70%
FIIs	26.30%

All currency in INR unless otherwise stated

Welspun Gujarat is Asia's (excluding Japan) largest high grade SAW pipe manufacturer with the one stop solution for all transportation pipes. It manufactures LSAW, HSAW and ERW pipes and is also having coating facilities at its plant located in Anjar and Dahej in Gujarat. It is positioned as one of the preferred supplier in the world, for entire range of the products with the varying sizes and diameters, ranging from as small as ½ inch to as large as 100 inches higher grades, up to X80 and also offers coating and bending solutions.

Largest capacities of saw pipes in Asia:

Welspun has one of the largest high-grade SAW pipes capacities in Asia, excluding Japan. Within India, its capacities for HSAW and LSAW are non-comparable in the industry. It has a sustainable competitive advantage of manufacturing pipes of various qualities, size, grades that has major application in long distance transportation of oil and gas for critical purposes and in complex region. The following matrix provides an idea of Welspun's existing capacities;



Parameters	Capacity (Mtpa.)	Technology Support/ Equipment Supplier	Outer diameter (OD) (Inches)	Wall Thickness (Millimeters)
Longitudinal (LSAW)	350,000	JCO, SMS Meer, Germany	16" to 60"	Up to 40 mm
Spiral (HSAW)	400,000	Stellco, Canada & Capello Tubi, Italy	18" to 100"	Up to 25 mm
Electrical Resistance Welded (ERW)	250,000	Geneva Steel, US	0.5" to 16"	Up to 14 mm
Total Installed Capacity	1,000,000	--	--	--
Production Up to H1 FY 08	330,607	--	--	--
Capacity Utilisation	~ 67%	--	--	--

Other capacities

Pipe Coating	Capacity of 6.24 Mn. Sq. Mts. PA.	OD-6" to 64"
Bending Facility	Size range of 6" to 42"	
M.S Plate	12000 MT	

Timely capacity expansion to augment revenue:

Welspun is expanding its HSAW pipe capacity from 400,000 mtpa. to 550,000 mtpa. i.e. addition of 150,000 mtpa. with the project cost of \$ 25 mn. (Rs. 100 cr.), and is also adding 300,000 mtpa. capacity to its LSAW pipes from the current 350,000 mtpa. with the project cost of \$ 75 mn. (Rs.300 cr.) at the SEZ in Gujarat. The expansion of HSAW pipe and LSAW pipe would be finished by June 2008 and March 2009.

Capacity buildup in USA to save transportation cost:

Welspun is also setting up a 300,000 mtpa. tubular steel pipe manufacturing facility with the project cost of \$ 100 mn. in Little Rock, Arkansas, USA, on a 140-acre site adjacent to the Little Rock Port authority. The project is going as per schedule and the facility is likely to be commissioned by July 2008. With this facility Welspun would address the demand flowing from US region and would be able to save the transportation cost, which will further improve its bottom line.

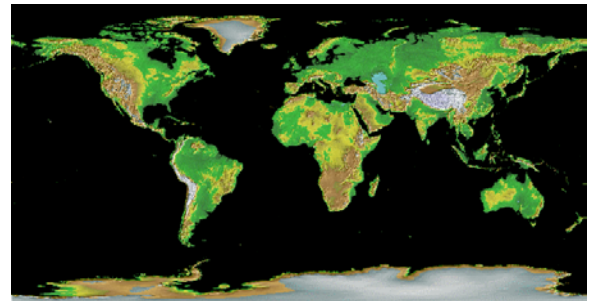
Hence the company is adding the said capacities at the right time and will be able to enjoy the expected booming demand over next 5 years. By March 2009, the company

will have total capacity of 1.75 mn. mtpa. and will become largest pipe company in the world.

Parameters	Current Capacity (mtpa.)	Post Expansion (mtpa.)
Longitudinal (LSAW)	350,000	650,000
Spiral (HSAW)	400,000	550,000
Electrical Resistance Welded (ERW)	250,000	250,000
USA Facility	--	300,000
Total	1,000,000	1,750,000

Global foothold:

Welspun is approved vendor for around 45 oil and gas majors globally. Approval from these oil and gas majors needs compliance of stringent and undefined (company specific) parameters, as the pipes are a long-term investment and is extremely important for oil and gas companies to enter into definitive agreements with the pipe manufacturers that possess the requisite qualities.



Some of the major approvals from global oil and gas giants are:

Chevron	Total
Shell	Saudi Aramco
Exxon Mobil	Petronas, Malaysia
British Petroleum	PGN, Indonesia
British Gas	MITCO, Malaysia
Texas Gas	Kinder Morgan
Trans Canada	China National Petroleum

Welspun has supplied pipes to the world's deepest offshore gas pipeline project in the Gulf of Mexico, USA. It was one-of-its kind project and was conducted for the first time in History. It was a major achievement on the part of Welspun and can act as a strong reference for other oil and gas major to source their pipe requirements. Additionally approvals from these major players will enable Welspun to bid for upcoming projects and will augment its order book and thereby its revenue.

Backward integration through plate cum coil mill:

Having realized the demand supply mismatch for steel plate and the margins that can be generated from captive production of steel plate, Welspun has set up 1.5 mn. tpa. 'Plate cum Coil Mill' at Anjar in Gujarat. The company has already achieved trial production from this facility in September 2007 and full commercial production will be on stream by March 2008. This facility will provide better operation flexibility and give a direct boost to the margins and will sizably add to its bottom line from 2009.



Benefit from captive production of Steel Plate

- Reduction of transportation cost of raw material;
- Protection from steel price fluctuation;
- Significant reductions in deliver time.

Project cost and funding pattern

Particulars	Rs. mn
Land & Site Development	200
Building	2,065
Plant & Machinery	12,471
Others	1,335
Pre-operative Expenses	1,289
Contingency	250
Power Plant	500
Total	18,110

Instrument	Rs. mn
Equity/ Warrants	1,126
FCCB (US \$ 75 mn.) (0% Coupon, convertible at Rs. 162.6 per share)	3,346
Loan @ 8.5% p.a	12,900
Internal Accruals	738
Total	18,110

Strong order book:

As on October 2008, Welspun was having an out standing order book of \$ 1.38 bn. (Rs. 55.32 bn.), which is around 2.2 times of its FY 07 sales. These orders are to be executed over next 12-15 months. Nearly 85 to 90% of order book consists of export and sizeable amount of order book consist of orders from USA and North American market.

In the last 6 months the company has recived orders worth \$ 1 bn. and recently its has recived an order from Trans Canada for \$ 457 mn. which is the single largest order to any pipe manufacturing company globally. Also with the approvals from 45 oil and gas

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major will enable it to participate in bids for the upcoming projects and will ensure continuous order flow over next year as well.

Concerns:

Welspun is deriving major (85 to 90%) revenue from overseas market i.e. through exports and further its present order book consists of sizeable orders from USA. With the Rupee appreciation and failure to hedge its currency exposure in an adequate manner can dent its revenue and thereby the overall profitability.

However the company source its ~50% raw material requirement from the overseas markets, so to that extent company enjoys natural hedge against Rupee appreciation.

Valuations:

At CMP of Rs. 449.05 per share, the stock trades at PER of 26.12x of its FY08E earnings and 14.96x of its FY09E earnings. ***Thus we recommend a BUY on Welspun.***

Quarterly results Q3 FY08:

Welspun reported topline growth of 39% with the net sales at Rs. 10,364 mn. as compared to Rs.7,451 mn in Q3 FY07. It reported net profit of Rs. 974 mn. up by 136% on YoY basis. The topline growth was on account of higher growth in production volume and higher realization, which grew at 12% and 25% respectively. EBIDTA margins of the company have expanded by around 400 basis points at 17.0% on YoY basis.

For 9 months ended 31st December 2007, it reported topline growth of 42.5% and bottomline growth of 146.6% to Rs. 27,670 mn and Rs. 2,493 mn. respectively.



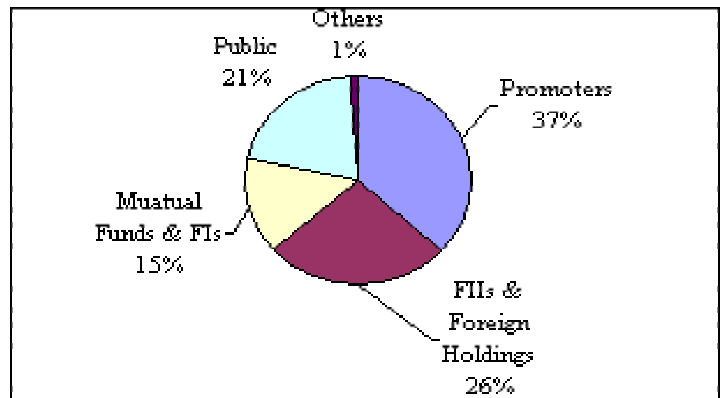
Earning Summary for Welspun Gujarat Sthal Rohren Ltd. (Rs mn.)						
	Q3 FY07	Q3 FY08	YoY	9M FY07	9M FY08	YoY
	3 mths	3 mths	%	9 mths	9 mths	%
Income from operations	7451	10364	39.1%	19419	27670	42.5%
Other Income	5	22		13	36	
Expenditures	6498	8623		17703	23062	
Op. Profit	958	1763	84.0%	2437	4644	90.6%
Interest	192	143		530	454	
Gross Profit	766	1620		1907	4190	
Depreciation	122	145		354	392	
PBT	644	1475		1553	3798	
Tax	232	501		542	1305	
Profit	412	974	136.4%	1011	2493	146.6%
OPM (%)	12.9	17.0		12.5	16.8	213.1
GPM (%)	10.3	15.6		9.8	15.1	
NPM (%)	5.5	9.4		5.2	9.0	
Basic EPS (Rs)	3.1	5.7	83.2%	7.6	15.5	104%
Diluted EPS (Rs)	2.5	5.3	109%	6.2	13.6	119%



Earning Summary for Welspun Gujarat Stahal Rohren Ltd.					(Rs mn.)	
	FY 06	FY 07	YoY		FY2008 (P)	FY2009 (P)
	12 mths	12 mths	%		12 mths	12 mnths
Income from operations	17879.9	25551.3	42.9%		40196.76	53327.7
Other Income	548.3	1316.1			2411.81	3199.66
Expenditures	16910.7	23412.2			36359.65	46121.93
Op. Profit	1785.7	3414.5	91.2%		6248.91	10405.43
Interest	530.3	747.8			1003.89	1129.91
Gross Profit	1255.4	2666.7	112.4%		5245.03	9275.51
Depreciation	351.9	475.6			744.38	1410.79
PBT	903.5	2191.1	142.5%		4500.64	7864.73
Tax	289.8	765.2			1552.72	2713.33
Profit	619.4	1426.6	130.3%		2947.92	5151.4
Equity capital	644.22	699.10			857.40	857.40
OPM (%)	10.0	13.4			15.5	19.5
GPM (%)	7.0	10.4			13.0	17.4
NPM (%)	3.5	5.6				
EPS (Rs)	4.8	10.2				
CEPS (Rs)	7.5	13.6				

Share holdings 31-12-07

Particulars	Holding
Promoters	36.90%
FII's & Foreign Holdings	26.30%
Mutual Funds & FIs	15.10%
Public	20.90%
Others	0.80%
	100.00%



PSL Limited (PSL)



Share Price	:Rs 417.10
BSE Sensex	: 17221.74
Nifty	: 5203.40
Sector	: Pipe
High / Low	: Rs. 588 /191
Year end	: March
Listed on	: BSE, NSE
Market Cap Rs.	:17814.7 mn
BSE Scrip Code	: 526801
NSE Scrip Code	: PSLTLD
Shares in issue	: 42.71 mn.

Shareholding	31 st December 07
Promoters	48.36%
Institutions	14.87%
Public & Others	20.70%
FIIs	16.07%

All currency in INR unless otherwise stated

PSL is India's largest manufacturer of high-grade large diameter HSAW pipes, with a capacity to produce up to 1.175 mn. tonnes per year. PSL produces only HSAW pipes and has 11 HSAW pipe-manufacturing facilities located at 5 different strategic locations in India viz. Chennai, Varsana, Ahmedabad, Vizag and Nanichirai.

Main business activities:

1. Manufacture of HSAW Pipes
2. Provision of different kinds of anti-corrosive Coatings on pipes
3. Execution of turnkey projects
4. Ancillary products and services relating to pipe manufacture

PSL is one of the four pipe manufacturers in India with an integrated pipe coating capability. PSL through its subsidiary provide corrosion protection for reinforcing steel bars used in laying reinforced concrete in the construction industry by fusion bonded epoxy coating process.

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HSAW pipes manufactured by PSL are used primarily in the transmission of oil, gas and water. The pipes made by PSL are of API (American Petroleum Institute) standard and are eventually used for both onshore and offshore oil and gas activities.

In addition to the core business of pipe making and pipe coating PSL has also offers competitive range of services, which include cross-country pipeline construction, maintenance and integrated Upgradation, fabrication etc.



Sharjah Facility:

PSL has recently commissioned its new pipe manufacturing facility in Sharjah, UAE. The facility is located in the Hamriah Free Trade Zone, and has an installed spiral pipe capacity of 75000 tpa., with an internal and external coating plant and a concrete-weight coating plant.

Raw Material advantage:

As stated earlier PSL is engaged only in production of HSAW pipes. PSL's competitors are largely LSAW manufacturer with limited HSAW capacity. HSAW pipes are made from long steel roll strips known as HR Coils whereas LSAW pipes are made from large steel plates.

PSL is able to procure an adequate supply of HR Coils domestically, whereas supply of plates is limited in India. Also limited availability of plates in domestic market makes plates more expensive than HR Coil.

Lower Operating and Capital cost advantage:

LSAW Pipe manufacturing require heavy equipment installations like presses, which require heavy foundations and these are built out of heavy steel components by specialised manufactures. On the other HSAW pipe require lighter equipments making it re-locatable/mobile. Hence PSL has enjoys lower capital cost to build and operate its pipe mills compared with the other players.

Re-locatable HSAW mills:

PSL manufactures HSAW pipes in 11 mills and pipe coating mills located in five cities geographically spread throughout India. As mentioned earlier HSAW technology uses lighter equipment, which can be relocated, nearer to the project site. On the other hand

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LSAW technology uses heavy presses for plates, which are heavy and non- economical to relocate. Hence it enables PSL to offer competitive bid as compared to its peers due to saving in transportation and freight cost.

Multi location operation:

Majority of PSL's mills are located near ports, which helps PSL in making competitive export bids as compared to competitors due to reduced transportation cost. Internationally, many oil and gas pipelines that have been announced out side India, especially in the Middle East, North and East Africa and South East Asian Countries. The close proximity of these regions to India provides Indian players and especially PSL with the cost advantage over many other international players located further away in Japan and Europe.

Expansion strategy:

PSL has a strategy to expand its capacity in the region, which shall be closer to the areas of demand. And it is visible from its operation through 11 pipe mills and pipe coating mills located in five cities geographically spread across India.

One Stop services for oil and gas pipelines:

PSL offers wide range of products and services as compared to its peers. It offers offshore weight pipe coating with experience accumulated over many completed projects and production of induction pipes bends. PSL also offers design, engineering and supply of sacrificial anodes (a form of anti-corrosion for deep sea pipe) in-house and also own iron ore mines to provide iron ore for some of its coating services.

PSL's all facilities has an integrated anti-corrosion external and internal pipe coating system and its is therefore in a position to offer comprehensive pipe coating services without having to subcontract services to the third parties.

Robust order book to drive revenue growth:

PSL has order book position of around Rs. 24750 mn., which is around 1.55 times of its FY07 revenue, thereby providing a good revenue visibility for next 12-15 months. Some of the recent orders recived by PSL are enumerated below.

Date	Project /Company	Products	Length	Value Rs mn.
20 Dec. 07	Dullanjan Numaligarh Pipeline (Assam)	Coated line pipe & Radius Bend	200 km	1250
19 Sep. 07	Fusion Provida Ltd. (UK)	Coated Line Pipe	124000 mtr	680
22 Aug. 07	Oman Water Network	--	--	960
08 Aug. 07	Indian Oil Corp. Ltd	API Grade Pipe	134 km	1650
24 Jun. 07	Sharjha and Petronas (Malaysia)	Various Pipes	--	3760
15 May. 07	GAIL	30' Diameter Line Pipe	124 km	1350

Insulation from rupee appreciation:

PSL is in fact in an advantageous position with the appreciation of Rupee as it sources most of its key raw materials from overseas market and more than 75% of its current order book is to be executed within the country.

Recent developments:

PSL to raise long-term funds

PSL is planning to raise long-term fund up to US \$ 125 mn. The board has approved to raise this money by way of issuance of shares under QIP and/or under FCCB for further expansion.

Mississippi Venture

Recently PSL has achieved financial closure for the development of its integrated pipe manufacturing and coating joint venture at Bay St. Louis, Mississippi. PSL has raised \$ 78 mn. by issue of a 25 years bond by the Mississippi Business Finance Corporation. PSL is investing \$ 103 mn. through a JV company PSL North America.

The first phase of the project entails setting up an integrated pipe facility that will manufacture, coat and internally-line large diameter API grade pipe in diameters ranging from 24 inches to 60 inches, with wall thickness of quarter inch to 1 inch and length up to 80 ft.

Concerns:

HR Coils are primary raw material for PSL and account for around 78-80% of the total raw material cost. Also company is sourcing its entire HR Coils requirement from market hence any sharp increase in the HR Coils price can impacts company's margins and results.

The contracts terms for the most of the orders that are bid by PSL are fixed price terms and do not contain price escalation clauses. There is always time lag between the time that PSL bid for an order and, if it successful, the time that it sign the contract for the order based on the prevailing market price with some buffer. Hence PSL is exposed to any steel price increase during the time it place its bid and the time it place order for HR Coils.

Valuations:

At CMP of Rs. 417.10 per share, the stock trades at PER of 12.23x of its FY08E earnings and 10.69x of its FY09E earnings. **Thus we recommend a BUY on PSL.**

Quarterly results Q3 FY08:

In Q3 FY08 PSL reported topline and bottomline growth of 32.1% and 45.1% at Rs. 6590.5 mn. and Rs.301.9 mn. respectively on YoY basis. OPM and GPM margins were almost at the same level as compared to earlier year however, NPM have surged by 40 basis points.

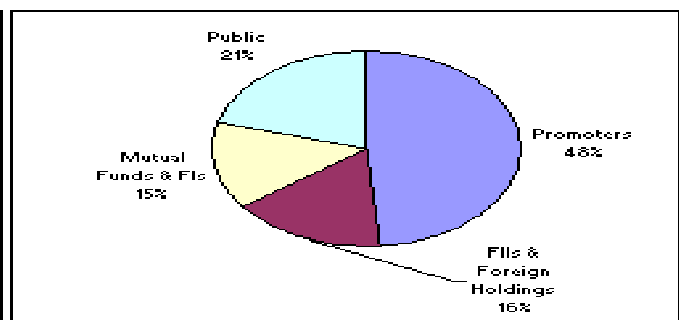
Earning Summary for PSL Ltd.				(Rs mn.)		
	Q3 FY07	Q3 FY08	YoY	9M FY07	9M FY08	YoY
	3 mths	3 mths	%			%
Income from operations	4988.4	6590.5	32.1%	11819.3	15656.3	32.5%
Other Income	60.2	188.6		148	300.1	0
Expenditures	4509.2	6071.6		10956.3	14622.1	0
Op. Profit	539.4	707.5	31.2%	1339.2	1724.6	28.8%
Interest	134.4	162.6		328.7	418.4	0
Gross Profit	405	544.9		1010.5	1306.2	0
Depreciation	116.5	130.2		328.3	390.3	0
PBT	288.5	414.7		682.2	915.9	0
Tax	80.5	112.8		190.2	251.4	0
Profit	208	301.9	45.1%	492	664.5	35.1%
OPM (%)	10.8	10.7		11.3	11.0	88.6
GPM (%)	8.1	8.3		8.5	8.3	0.0
NPM (%)	4.2	4.6		4.2	4.2	108.0
Basic EPS (Rs)	7.7	6.5	-16.1%	15.3	17.0	11%
Diluted EPS (Rs)	7.1	6.5	-8%	11.9	16.7	41%



Earning Summary for PSL Ltd.				(Rs mn.)	
	FY 06	FY 07	YoY	FY2008 (P)	FY2009 (P)
	12 mths	12 mths	%	12 mths	12 mths
Income from operations	14502.6	14433.4	-0.5%	21228.9	27479.92
Other Income	192.7	274.4		274.4	274.4
Expenditures	13021.8	13564.4		19204.0	24926.16
Op. Profit	1741.8	1916.1	10.0%	3072.0	3600.86
Interest	689.1	563.1		473.8	542.57
Gross Profit	1052.7	1353.0	28.5%	2598.2	3058.29
Depreciation	344.4	445.0		583.8	755.70
PBT	708.3	908.0	28.2%	2014.4	2302.59
Tax	189.3	255.2		557.0	636.67
Profit	519	652.8	25.8%	1457.41	1665.92
Equity capital	319.55	340.61		427.11	427.11
OPM (%)	12.0	13.3		14.5	13.1
GPM (%)	7.3	9.4		12.2	11.1
NPM (%)	3.6	4.5		6.9	6.1
EPS (Rs)	16.2	19.2		34.1	39.0
CEPS (Rs)	27.0	32.2		47.8	56.7

Share holding pattern: - 31-12-07:

Particulars	Holding
Promoters	48.36%
FIIs & Foreign Holdings	16.07%
Mutual Funds & FIs	14.87%
Public	20.70%
Total	100.00%



Maharashtra Seamless Limited (MSL)



Share Price	: 415.35
BSE Sensex	: 17221.74
Nifty	: 5203.40
Sector	: Pipe
High / Low	: Rs. 675 / 350
Year end	: March
Listed on	: BSE, NSE
Market Cap Rs.	: 29296.1 mn
BSE Scrip Code	: 500265
NSE Scrip Code	: MAHSEAMLES
Shares in issue	: 70.53 mn.

Shareholding	: 31 st December, 2007
Promoters	: 42.04%
Institutions	: 15.81%
Public & Others	: 29.43%
FII's	: 12.72%

All currency in INR unless otherwise stated

Maharashtra Seamless is a part of D.P. Jindal group and is a market leader in seamless steel pipes and tubes segment, with the installed capacity of 3,50,000 tpa. MSL is equipped with state-of-the-art machinery and is having a technical collaboration with Mannesmann Demag Huttentechnik of Germany.

MSL has also diversified itself into manufacturing of large diameter ERW pipes with the size ranging from 8" to 20" and wall thickness of 3.2 mm. to 12.7 mm. MSL is the only company in India with the largest outer diameter ERW pipe facility with the installed capacity of 2,00,000 tpa. with the welding speed of 33 meters per minute.

The company has also set up a 7 MW wind power generation plant at Satara in Maharashtra. The project was entirely financed by MSL through internal accruals and was a strategic investment on the part of MSL. MSL will benefit from it in terms of low power cost for around 20 years and lower variable cost power generation at 0.55 paise per unit.

MSL is a global player with its products being exported to USA, Singapore, Australia, Dubai, Iran, Saudi Arabia, Kuwait and so on. MSL enjoys enviable position in all segments of seamless pipe and ERW pipe industry globally. In India oil and gas major ONGC is a major client for MSL.



Recently MSL has also commissioned Coating Facility, which will improve its market penetration in Pipe segment. It has also started manufacturing 13 Crome Seamless pipes, which is a value added product.

Value added and multi application products:

MSL's products viz. seamless pipe and ERW pipes comes under value added products category and find major applications in Hydrocarbon and Infrastructure sectors, Refineries, Fertilizers, Automotives and General Engineering. Hence MSL is not prone to any substantial slow down of its products demand due to slow down in a particular sector.



Strong crude oil prices to drive the demand:

Hydrocarbon sector is one of the largest consumers of seamless pipes. The outlook for sector is strongly linked to growth in Expiration and Production activities, which is being driven up by strong crude oil prices. With the crude oil prices at record high level and expected firmness in future as well to push up the demand for MSL's products.

Strong order book:

MSL has current order book of around Rs. 12.6 bn., which provides a strong revenue security over next 12 to 15 months. Also with the increasing Exploration and Production activities across the glob and expected growth in infrastructure, power, and power construction and housing sector would further create demand for MSL products and will build its order book.

Capacity expansion:

Recently (4th January 2008) MSL has acquired seamless plant in Romania on an asset sale basis without any liability. The pant has manufacturing range up to 7' Outer Diameter with an annual capacity of 2,00,000 tpa. The plant will be dismantled and

relocated in India at a strategic location and will be operation in next 2 years. The total project cost including setting up of the infrastructure at a new location and complete modernisation is estimated to Rs. 3000 mn.

Current installed capacity

Particulars	Installed Capacity	Production Mar.2007	Capacity Utilisation
Seamless Pipe (MT)	3,50,000	2,28,616	65.3%
ERW Pipe (MT)	2,00,000	85,533	42.8%
Wind Power (Kwh)	6,13,20,000	1,02,05,172	16.6%

Also, with the completion of Coating facility and 13 Crome Seamless pipe, the value added products MSL has rightly poised itself to meet the growing demand for its products. There is a significant demand for coated pipes due to its increased durability and this trend is expected to continue in as well.

Highest margins:

MSL enjoys highest margins in the industry as compared to its peers due its presence in the value added product segment. For the H1 FY 08 it has reported EBIDTA margin of 22.42% and PAT margin of 15.8%, which is highest in the industry.

Concerns:

Steel billets are a primary raw material for manufacturing seamless pipes; hence securing adequate quantity of steel billets at an advantageous price could be a concern for the company. Which may impact it margins and profits.

Valuation:

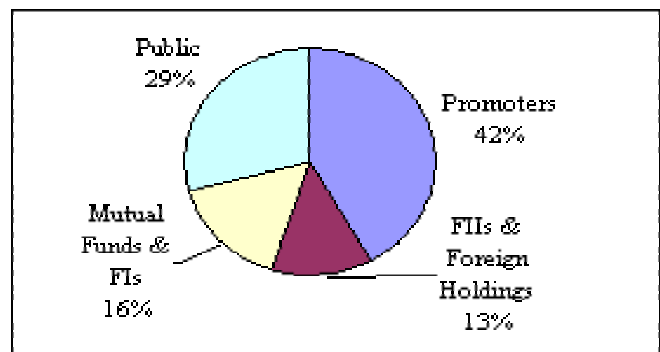
At CMP of Rs. 415.35 per share, the stock trades at PER of 10.26x of its FY08E earnings and 8.10x of its FY09E earnings. ***Thus we recommend a BUY on MSL.***



Earning Summary for Maharashtra Seamless Ltd. (Rs mn.)					
	FY 06	FY 07	YoY		
	12 mths	12 mths	%		
				FY2008 (P)	
				12 mths	
				FY2009 (P)	
				12 mths	
Income from operations	9661.8	13899.7	43.9%	17261.6	21818.3
Other Income	182.3	314.5		314.5	314.5
Expenditures	7888.7	10356.1		12951.2	16311.7
Op. Profit	2262.3	3724.5	64.6%	4491.3	5687.5
Interest	48.3	35		43.2	54.5
Gross Profit	2214	3689.5	66.6%	4448.2	5633.0
Depreciation	145.5	162		215.8	272.7
PBT	2068.5	3527.5	70.5%	4232.4	5360.2
Tax	677.6	1188.6		1375.5	1742.1
Profit	1390.9	2338.9	68.2%	2856.9	3618.2
Equity capital	288.23	349.67		352.67	352.67
OPM (%)	23.4	26.8		26.0	26.1
GPM (%)	22.9	26.5		25.8	25.8
NPM (%)	14.4	16.8		16.6	16.6
EPS (Rs)	24.1	33.4		40.5	51.3
CEPS (Rs)	26.7	35.8		43.6	55.2

Share holding 30-09-07

Particulars	Holding
Promoters	42.04%
FII's & Foreign Holdings	12.72%
Mutual Funds & FIs	15.81%
Public	29.43%
	100.00%



Jindal Saw Limited (Jindal Saw)



Share Price	: Rs.790.05
BSE Sensex	: 17221.74
Nifty	: 5203.40
Sector	: Pipe
High / Low	: Rs. 1225 / 405
Year end	: December
Listed on	: BSE, NSE
Market Cap Rs.	: 40405.2 mn
BSE Scrip Code	: 500378
NSE Scrip Code	: JINDAL
Shares in issue	: 51.14 mn.
Shareholding : 31 st December 07	
Promoters	: 44.60%
Institutions	: 16.86%
Public & Others	: 26.12%
FIIs	: 12.42%
<i>All currency in INR unless otherwise stated</i>	

Jindal Saw is a part of the O.P. Jindal Group Companies, and is a fully diversified player in the pipe segment with the global presence. It offers complete pipe solution with the product mix of LSAW Pipe, HSAW Pipes Seamless Pipe and Tubes and Ductile Iron (DI) Pipes.

Jindal Saw’s products find application in both oil and non-oil sectors across various business segments. Hence it stands insulated from risk of slowdown in any of its product segments.

Jindal Saw’s business operations:

Its business operations are divided into three distinct Strategic Business Units, the SAW pipe unit, the seamless tube & pipes unit and Ductile pipes unit. Each business is operationally independent and has distinct production, sales and marketing targets.

LSAW pipes are primarily used in transportation of oil and natural gas under high temperature and pressure conditions and also find application in refineries and petrochemicals units. While HSAW pipes are chiefly

used for water and sewage transportation.

It produces seamless tubes and pipes from various grades of stainless steel, carbon steel and alloy steel. Seamless pipes and are used in oil and gas and engineering segments.

Jindal Saw manufactures and markets DI pipes that conform to Indian and global standard to cater to Indian and International market requirements. DI pipes are used in transportation of water and sewage. The main customers of these pipes are Govt. and Municipal Authorities.

Current capacities:

Particulars	Installed Capacity (MT)
LSAW Pipes	8,00,000
HSAW Pipes	1,50,000
Seamless Pipes & Tubes	2,45,000
DI Pipes	2,00,000

Increasing exploration and transportation activities to drive the demand for LSAW/HSAW Pipes:

The demand for LSAW/HSAW pipes is mainly driven by oil and gas exploration and transportation activity in petroleum exporting countries and key consumer countries. The total global pipeline demand for transportation of oil and gas over next 5 to 7 years is estimated at ~ 2,46,000 km. It gives an average global demand in excess of 35,000 km. per annum (assuming 7 years). The production however does not match the required demand of 35,000 km. thus there is a huge demand /supply mismatch expected over next couple of years.

Rising exploration and production and drilling activity to drive the demand for Seamless Pipes:

With the demand for oil expected to grow at 1.6% CAGR over FY 2005-2025 and that of the gas at 2.3% over the same period, the drilling activity is likely to grow at a much faster rate. With the high cash flow generated by oil and gas companies on the back of high crude oil prices realization, the same will be deployed into drilling activities to curtail demand-supply gap. The demand for seamless tubes is expected to grow at a CAGR of 20% and more for next 2 years with the increased E&P activities across the world.

In order to take the advantage of increased demand, the company has gearing up its Nashik unit's capacity from current 75,000 tpa. to 2,20,000 tpa. Further a cold mill is

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under commissioning and total expansion would be completed by August 2008. The expansion of Nashik unit has been accorded the status of the 'Mega Project' by the Maharashtra Govt.

Increased thrust on water and sewage transportation to drive the demand for DI pipes:

DI pipes are mainly used in transportation of water and sewage. With the increasing demand and low penetration of water distribution and sewage infrastructure in India, the growth prospect for DI pipes is favorable. India has around 16% of the world's population but is estimated to have just 4-5% of the world's water resources.

Also with the increased focus on the part of Central Govt., State Govt. and local bodies for pipeline network for water transmission, coupled with the financial assistance from World Bank and ADB the path have been cleared for the development of the infrastructure. The demand for DI Pipes is expected to grow at a CAGR of 15% over next 2 years.

Accreditation from global majors and strong order book:

Jindal Saw is an approved supplier for various oil and gas majors like Saudi Aramco, Pemex, China National Petroleum Corporation, GAIL, Reliance, ONGC, HPCL, BPCL etc. It has current order book of Rs. 34 bn. and these orders are to be completed by January 2009, thereby providing the good revenue visibility over next 12 months. Further approvals from various oil and gas majors will enable it to bid for various up coming projects by them, which in turn will further propel its order book.

US operations hived off:

Jindal Saw has hived off its US operations to JSW Steel at an enterprise value of \$ 900 mn. Post taxes the transaction has yielded around \$ 200 to Jindal Saw. Jindal Saw will gradually invest the said proceeds for modernisation and capacity expansion, pending the deployment of the proceeds will be use for reducing the debts.

Concern:

Fluctuation in the price and availability of key raw material like steel plates, coils, steel billets, iron ore and low ash content coal may have an adverse impact on the business of the company.

Jindal Saw derives ~25% of its revenue from export market; hence Rupee appreciation can have adverse impact its profitability.

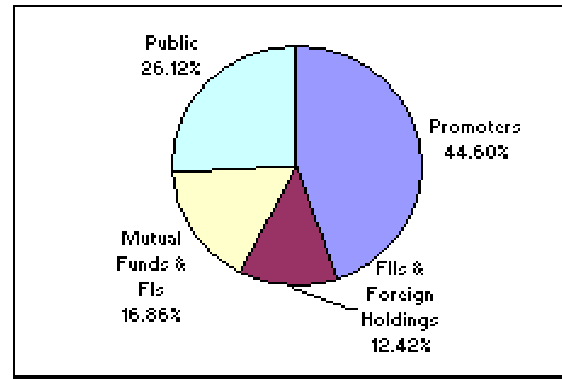
Valuation:

At CMP of Rs. 790.05 per share, the stock trades at PER of 11.17x of its FY08E earnings and 10.39x of its FY09E earnings. **Thus we recommend a BUY on Jindal Saw.**

Earning Summary for Jindal Saw Ltd.				(Rs mn.)	
	FY 06	FY 07(P)	YoY	FY2008 (P)	FY2009 (P)
	12 mths	15 mths	%	12 mths	12 mths
Income from operations	37903.5	64183.3	69.3%	53286.9	61857.5
Other Income	1587.2	73.4		1321.4	1494.2
Expenditures	38072	57515.5		47158.9	54743.9
Op. Profit	4593.1	7494.6	63.2%	8202.8	9361.4
Interest	1537.9	1435.1		2131.5	2474.3
Gross Profit	3055.2	6059.6	98.3%	6071.4	6887.1
Depreciation	537.1	719.7		932.5	1082.5
PBT	2518.1	5339.9	112.1%	5138.9	5804.6
Tax	867.2	1723.2		1695.8	1915.5
Profit	1652.6	3616.7	118.8%	3443.0	3889.0
Equity capital	483.65	511.43		511.43	511.43
OPM (%)	12.1	11.7		15.4	15.1
GPM (%)	8.1	9.4		11.4	11.1
NPM (%)	4.4	5.6		6.5	6.3
EPS (Rs)	32.4	70.7		67.3	76.0
CEPS (Rs)	43.5	84.8		85.6	97.2

**Share holding Pattern 31-12-07:**

Particulars	Holding
Promoters	44.60%
FIIs & Foreign Holdings	12.42%
Mutual Funds & FIs	16.86%
Public	26.12%
	100.00%



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