

### Contents

#### Results

**Pantaloon Retail:** 4QFY07 results—Disappointment on revenue and margin fronts; maintain In-Line

### News Roundup

#### Corporate

- IFCI has shortlisted GE Capital, IDFC, the WL Ross-GoldmanSachs-Standard Chartered Bank-HDFC consortium, the Shinsei Bank of Japan-Punjab Naitonal Bank-JC Flowers consortium and Sterlite-Morgan Stanley consortium for selling a strategic stake in the financial institution. (BS)
- Two prominent Chinese construction equipment companies, Sany and Liugong, have ventured out of China for the first time, to set up facilities in India, to capitalise on the infrastructure boom here. (BS)
- Merrill Lynch and Citigroup have picked up 5% each in MCX. The transaction puts the total valuation of MCX at over US\$1 billion. (ET)
- F&B major Del Monte pacific is buying EL Rothschild's 40% equity in Bharti Enterprises-owned FieldFresh, reducing Rothschild as a minority partner with 10% equity. (ET)
- TCL, China's third largest electronic manufacturer, has entered into a technical joint venture with Pune-based real estate and automobile firm DS Kulkarni group (DSK) to manufacture and market the former's information technology and digital products in the Indian market. (ET)

#### Economic and political

- With six months to go in the current fiscal, public spend (Rs4,385 crore) on the national rural job guarantee scheme is well short of the half-way mark on the Budget allocation (Rs12,000). (BL)
- According to a study by global researcher Euromonitor International, the local kiranawala (grocer) in India still rules the roost, with traditional stores accounting for 98% of total grocery sales by value. (BS)
- The South India Cotton Association has called for an early end to the 3 per cent Central Sales Tax levy on cotton being bought on inter-state sale in view of the levy being non-VATable. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

### EQUITY MARKETS

| India                          | Change, % |                   |       |       |
|--------------------------------|-----------|-------------------|-------|-------|
|                                | 28-Sep    | 1-day             | 1-mo  | 3-mo  |
| Sensex                         | 17,291    | 0.8               | 12.9  | 18.0  |
| Nifty                          | 5,021     | 0.4               | 12.5  | 16.3  |
| <b>Global/Regional indices</b> |           |                   |       |       |
| Dow Jones                      | 13,896    | (0.1)             | 4.0   | 3.6   |
| Nasdaq Composite               | 2,702     | (0.3)             | 4.1   | 3.8   |
| FTSE                           | 6,467     | (0.3)             | 2.6   | (2.1) |
| Nikkie                         | 16,851    | 0.4               | 1.7   | (7.1) |
| Hang Seng                      | 27,142    | 0.3               | 13.2  | 24.7  |
| KOSPI                          | 1,968     | 1.1               | 5.1   | 12.9  |
| <b>Value traded - India</b>    |           |                   |       |       |
|                                |           | Moving avg, Rs bn |       |       |
|                                | 28-Sep    | 1-mo              | 3-mo  |       |
| Cash (NSE+BSE)                 | 250.4     | 156.5             | 161.9 |       |
| Derivatives (NSE)              | 570.0     | 573.4             | 605.0 |       |
| Deri. open interest            | 739.9     | 871.2             | 819.9 |       |

#### Forex/money market

|                   | Change, basis points |       |       |      |
|-------------------|----------------------|-------|-------|------|
|                   | 28-Sep               | 1-day | 1-mo  | 3-mo |
| Rs/US\$           | 39.8                 | -     | (109) | (89) |
| 6mo fwd prem, %   | 0.7                  | (25)  | 71    | 24   |
| 10yr govt bond, % | 7.9                  | (1)   | (3)   | (27) |

#### Net investment (US\$m)

|     | 26-Sep | MTD | CYTD   |
|-----|--------|-----|--------|
| FIs | 246    | -   | 10,829 |
| MFs | 23     | -   | 554    |

#### Top movers -3mo basis

| Best performers         | Change, % |       |       |        |
|-------------------------|-----------|-------|-------|--------|
|                         | 28-Sep    | 1-day | 1-mo  | 3-mo   |
| Reliance Energy         | 1,206     | 7.9   | 54.6  | 96.3   |
| Neyveli Lignite         | 105       | 1.2   | 37.5  | 70.4   |
| Chambal Fert            | 58        | 6.1   | 16.9  | 59.8   |
| SAIL                    | 207       | 2.8   | 23.0  | 57.9   |
| Tata Tele               | 44        | -     | 36.4  | 54.0   |
| <b>Worst performers</b> |           |       |       |        |
| i-Flex                  | 1,890     | (0.2) | (7.1) | (27.1) |
| Polaris                 | 123       | 0.0   | 8.1   | (19.8) |
| Novartis India          | 324       | 5.2   | 10.9  | (15.0) |
| HCL Tech                | 300       | (2.0) | (1.2) | (12.8) |
| Cipla                   | 182       | 3.5   | 9.0   | (12.5) |

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

**Retailing****PART.BO, Rs540**

|                      |           |
|----------------------|-----------|
| Rating               | IL        |
| Sector coverage view | Neutral   |
| Target Price (Rs)    | 425       |
| 52W High -Low (Rs)   | 580 - 344 |
| Market Cap (Rs bn)   | 79        |

**Financials**

| June y/e           | 2007 | 2008E | 2009E |
|--------------------|------|-------|-------|
| Sales (Rs bn)      | 35   | 53    | 74    |
| Net Profit (Rs bn) | 0.9  | 1.5   | 2.2   |
| EPS (Rs)           | 6.1  | 10.5  | 15.0  |
| EPS gth            | 27.5 | 75.3  | 44.0  |
| P/E (x)            | 89.2 | 51.5  | 36.1  |
| EV/EBITDA (x)      | 35.2 | 24.8  | 18.1  |
| Div yield (%)      | 0.6  | 0.7   | 0.8   |

**Shareholding, June 2007**

|           | % of<br>Pattern Portfolio | Over/(under)<br>weight |
|-----------|---------------------------|------------------------|
| Promoters | 44.7                      | -                      |
| FIs       | 25.9                      | 0.3                    |
| MFs       | 9.9                       | 0.6                    |
| UTI       | -                         | (0.2)                  |
| LIC       | -                         | (0.2)                  |

**Pantaloen Retail: 4QFY07 results—Disappointment on revenue and margin fronts; maintain In-Line**

Jigar Mistry : jigar.mistry@kotak.com, +91-22-6749-3571

Ravi Agarwal : ravi.agrawal@kotak.com, +91-22-6634-1348

- **PRIL reported 4Q operating net earnings of Rs66 mn (vs our expectation of Rs329 mn), down 58% on a yoy basis**
- **EBITDA margin for the quarter was 5.6% (vs expectation of 7%), down from 6.5% yoy and 7% over the last quarter**
- **Consolidated FY2007 sales were up 79% yoy, but reported PAT was down 34% yoy to Rs 355 mn, despite one-off income from investments of Rs862 mn**
- **We maintain our In-line rating on the stock and target price of Rs425**

PRIL, in its 4Q2007 results, reported net earnings of 181 mn, growth of 14% yoy. However, adjusting for Rs177 mn income from investments, operational income declined 58% yoy to Rs66 mn. Sales were 11% lower than expectation at Rs10.19 bn (77% yoy growth) and EBITDA margins were 140 bps below expectations. We maintain our In-Line rating on the stock.

**Net operating income declined 58% yoy, subsidiary EBITDA losses at Rs820 mn**

Reported PAT in 4QFY07 was up 14% yoy to Rs181 mn. However, adjusting for Rs177 mn income from sale in investments, operating income was down 58% yoy in the quarter. For FY2007, standalone reported profits were up 86% yoy to Rs1.19 bn but down 6% yoy after adjustments for Rs889 mn income from investments.

**EBITDA margins the lowest in the year**

Standalone EBITDA margins were 5.6%, 90 bps lower than 4Q2006 and 140 bps lower than 3Q2007, and the lowest for the year. EBITDA margins were impacted primarily by higher raw material costs, which were up 320 bps on a qoq basis, due to product mix issues. Encouragingly, fixed costs (as a % of revenue) were 150 bps lower qoq on a standalone basis. For FY2007, EBITDA margins were 6.7%, 90 bps lower qoq, again primarily due to higher raw material costs. However, on a consolidated basis (including Home Solutions), EBITDA margins declined 310 bps to 3.9% for FY2007.

**Sales growth a healthy 77%, but still 11% below expectationa**

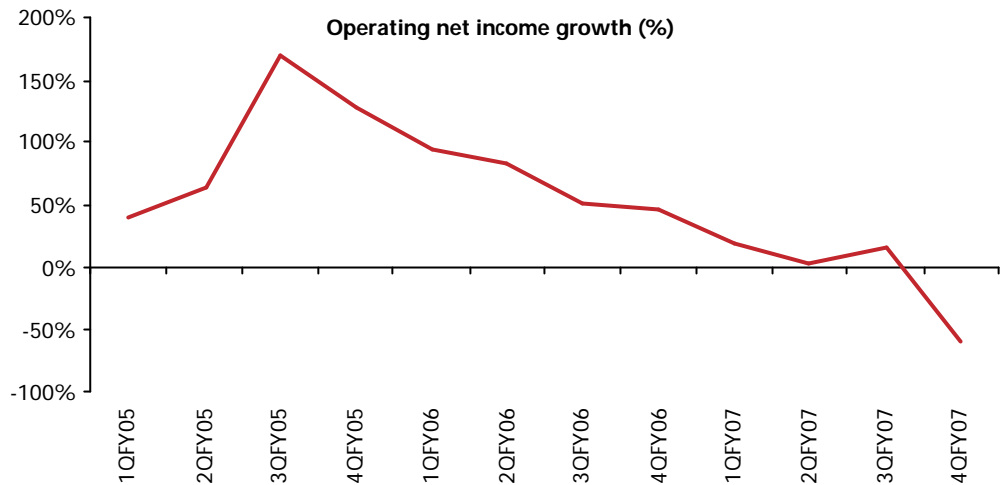
Sales, at Rs10.2 bn in 4Q2007, were up 77% yoy and 18% qoq, but 11% lower than our expectation. Lifestyle sales have declined 10% qoq, but have grown 63% on yoy basis. On a full-year basis, FY2007 value retailing grew 70% yoy while lifestyle retailing grew 49%.

**We maintain our target price and In-line rating**

We maintain our SOTP-based target price of Rs425, despite lower-than-expected operating earnings. We await more clarity from management on inventory write-offs.

**Operating Net Income growth in 4Q07 has declined for the first time in the last 3 years**

Year-over-Year growth in operating net income, June fiscal year-ends (%)



Source: Company data; compiled by Kotak Institutional Equities

**Interim Results of Pantaloon retail, June fiscal year-ends (Rs mn)**

|                                 | SA 2007A      | YoY           |              |       | QoQ           |              |       | Consol 2007A  | Consol 2006A  | % chg |
|---------------------------------|---------------|---------------|--------------|-------|---------------|--------------|-------|---------------|---------------|-------|
|                                 |               | 4Q2007        | 4Q2006       | % chg | 4Q2007        | 3Q2007       | % chg |               |               |       |
| <b>Net sales</b>                | <b>32,367</b> | <b>10,196</b> | <b>5,752</b> | 77%   | <b>10,196</b> | <b>8,610</b> | 18%   | <b>34,686</b> | <b>19,337</b> | 79%   |
| Total expenditure               | (30,211)      | (9,629)       | (5,379)      | 79%   | (9,629)       | (8,008)      | 20%   | (33,346)      | (17,979)      | 85%   |
| Raw materials                   | (22,095)      | (7,208)       | (3,750)      | 92%   | (7,208)       | (5,809)      | 24%   | (23,311)      | (12,772)      | 83%   |
| Staff Costs                     | (2,061)       | (579)         | (442)        | 31%   | (579)         | (537)        | 8%    | (2,705)       | (1,226)       | 121%  |
| Other expenditure               | (6,056)       | (1,842)       | (1,186)      | 55%   | (1,842)       | (1,662)      | 11%   | (7,330)       | (3,981)       | 84%   |
| <b>EBITDA</b>                   | <b>2,156</b>  | <b>568</b>    | <b>373</b>   | 52%   | <b>568</b>    | <b>603</b>   | -6%   | <b>1,340</b>  | <b>1,358</b>  | -1%   |
| EBITDA margin (%)               | 6.7           | 5.6           | 6.5          |       | 5.6           | 7.0          |       | 3.9           | 7.0           |       |
| Operating other income          | 31            | —             | 30           | -99%  | —             | 9            | -97%  | 79            | 37            | 117%  |
| Depreciation                    | (369)         | (126)         | (66)         | 91%   | (126)         | (93)         | 35%   | (482)         | (227)         | 113%  |
| Net finance cost                | (898)         | (337)         | (98)         | 244%  | (337)         | (229)        | 47%   | (1,001)       | (354)         | 183%  |
| <b>PBT</b>                      | <b>921</b>    | <b>105</b>    | <b>239</b>   | -56%  | <b>105</b>    | <b>290</b>   | -64%  | <b>(64)</b>   | <b>813</b>    | -108% |
| Extraordinaries (b)             | 889           | 177           | —            |       | 177           | —            |       | 862           | —             |       |
| Tax                             | (610)         | (95)          | (79)         | 20%   | (95)          | (103)        | -7%   | (597)         | (285)         | 109%  |
| Prior period/Minorities (c)     | (6)           | (6)           | —            |       | (6)           | —            |       | 154           | 10            | 1519% |
| <b>Reported PAT</b>             | <b>1,194</b>  | <b>181</b>    | <b>159</b>   | 14%   | <b>181</b>    | <b>187</b>   | -3%   | <b>355</b>    | <b>537</b>    | -34%  |
| <b>Operating net income (a)</b> | <b>604</b>    | <b>66</b>     | <b>159</b>   | -58%  | <b>66</b>     | <b>187</b>   | -65%  | <b>138</b>    | <b>537</b>    | -74%  |
| Income tax rate (%)             | 0.34          | 0.34          | 0.33         |       | 0.34          | 0.35         |       | 0.75          | 0.35          |       |

Notes:

- Operating net income is after adjusting the tax impact on extraordinary item.
- Extraordinaries represent profit on sale of investments
- The consolidated numbers have a minority contribution of Rs. 156mn

Source: Company data; compiled by Kotak Institutional Equities

**Segment Revenue**

| Revenue                         | YoY           |               |            |               |              |            | QoQ           |              |           |
|---------------------------------|---------------|---------------|------------|---------------|--------------|------------|---------------|--------------|-----------|
|                                 | FY2007        | FY2006        | % chg      | 4Q2007        | 4Q2006       | % chg      | 4Q2007        | 3Q2007       | % chg     |
| Lifestyle Retailing             | 9,365         | 6,301         | 49%        | 2,438         | 1,499        | 63%        | 2,438         | 2,696        | -10%      |
| Value Retailing                 | 22,483        | 13,247        | 70%        | 6,603         | 4,028        | 64%        | 6,603         | 5,929        | 11%       |
| Home retailing                  | 3,548         | —             |            | 1,223         | —            |            | 1,223         | 1,007        | 21%       |
| <b>Total</b>                    | <b>35,396</b> | <b>19,548</b> | <b>81%</b> | <b>10,264</b> | <b>5,528</b> | <b>86%</b> | <b>10,264</b> | <b>9,633</b> | <b>7%</b> |
| less: SIS and consignment sales | 1,964         |               |            | 569           | 214          | 166%       | 569           | 735          | -23%      |
| <b>Total Retail Sales</b>       | <b>33,432</b> | <b>19,548</b> | <b>71%</b> | <b>9,695</b>  | <b>5,314</b> | <b>82%</b> | <b>9,695</b>  | <b>8,898</b> | <b>9%</b> |

Source: Company data; compiled by Kotak Institutional Equities

**Key model assumptions for standalone business of PRIL, June fiscal year-ends (Rs mn)**

|   | FY2004       | FY2005        | FY2006        | FY2007E       | FY2008E       | FY2009E       | FY2010E       |
|---|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Number of stores (#)                      | 39           | 64            | 97            | 177           | 253           | 336           | 413           |
| New stores opened (#)                     | 17           | 25            | 33            | 72            | 76            | 83            | 77            |
| <b>Total retail space ('000 sq. ft.)</b>  | <b>944</b>   | <b>1,866</b>  | <b>2,771</b>  | <b>5,543</b>  | <b>8,191</b>  | <b>11,141</b> | <b>13,749</b> |
| Incr. in total retail space ('000 sq.ft.) | 423          | 922           | 905           | 2,772         | 2,648         | 2,950         | 2,608         |
| Weighted avg. sales per sq. ft. (Rs)      | 9,631        | 8,391         | 8,349         | 8,365         | 7,686         | 7,640         | 7,458         |
| <b>Total revenues (Rs mn)</b>             | <b>6,583</b> | <b>10,841</b> | <b>19,608</b> | <b>34,775</b> | <b>52,780</b> | <b>73,849</b> | <b>92,820</b> |
| Total revenues (US\$ mn)                  | 146          | 241           | 436           | 773           | 1,173         | 1,641         | 2,063         |
| Share of revs from value retailing (%)    | 48.6         | 56.9          | 67.3          | 71.5          | 72.6          | 73.7          | 73.5          |
| <b>Avg. 'same store' sales growth (%)</b> | <b>20</b>    | <b>28</b>     | <b>34</b>     | <b>17</b>     | <b>16</b>     | <b>15</b>     | <b>9</b>      |
| Gross margin-GM (%)                       | 31.8         | 32.2          | 31.8          | 33.5          | 32.1          | 31.3          | 30.5          |
| EBITDA margin (%)                         | 8.5          | 8.0           | 7.2           | 6.9           | 6.7           | 6.7           | 6.5           |
| EBIT margin (%)                           | 7.3          | 7.2           | 6.4           | 6.1           | 5.8           | 5.9           | 5.6           |
| <b>Net profit margin (%)</b>              | <b>3.0</b>   | <b>3.6</b>    | <b>3.3</b>    | <b>2.6</b>    | <b>2.9</b>    | <b>3.0</b>    | <b>2.9</b>    |

**Other metrics**

|                                       |            |            |            |            |            |            |            |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Employee cost/sales (%)</b>        | <b>4.2</b> | <b>4.7</b> | <b>5.7</b> | <b>6.9</b> | <b>6.5</b> | <b>5.8</b> | <b>5.8</b> |
| Sales/average capital employed (X)    | 2.0        | 2.5        | 2.3        | 2.4        | 2.8        | 3.1        | 3.4        |
| <b>Net FG inventory-days of sales</b> | <b>67</b>  | <b>83</b>  | <b>89</b>  | <b>85</b>  | <b>75</b>  | <b>70</b>  | <b>60</b>  |
| GMROF (Rs/sq.ft)                      | 2,614      | 2,253      | 2,222      | 2,608      | 2,284      | 2,146      | 1,990      |
| GMROL (Rs '000/employee)              | 709        | 638        | 656        | 649        | 692        | 773        | 829        |
| Average capex/sq.ft. (Rs)             | 1,708      | 735        | 1,333      | 983        | 969        | 964        | 966        |
| Capex/sales (%)                       | 17.7       | 8.8        | 16.0       | 11.7       | 12.6       | 12.6       | 12.9       |
| <b>RoACE (excl. cash) (%)</b>         |            |            |            |            |            |            |            |

Source: Company, Kotak Institutional Equities.

**Pantaloon Retail, income statement, March fiscal year end, FY2002-09E (Rs mn)**

|   | FY2003       | FY2004       | FY2005        | FY2006        | FY2007        | FY2008E       | FY2009E       | FY2010E       |
|---|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Gross operating revenue</b>                | <b>4,448</b> | <b>6,583</b> | <b>10,841</b> | <b>19,608</b> | <b>32,367</b> | <b>52,780</b> | <b>73,849</b> | <b>92,820</b> |
| <b>Operating expenses</b>                     |              |              |               |               |               |               |               |               |
| Cost of goods sold                            | 3,146        | 4,563        | 7,330         | 13,364        | 22,095        | 35,841        | 50,765        | 64,501        |
| Staff costs                                   | 168          | 275          | 507           | 1,121         | 2,061         | 3,449         | 4,273         | 5,364         |
| SG&A expenses                                 | 760          | 1,187        | 2,138         | 3,702         | 6,056         | 9,981         | 13,845        | 16,932        |
| <b>Total expenditure</b>                      | <b>4,074</b> | <b>6,025</b> | <b>9,974</b>  | <b>18,187</b> | <b>30,212</b> | <b>49,270</b> | <b>68,883</b> | <b>86,797</b> |
| (% of revenues)                               | 91.6         | 91.5         | 92.0          | 92.8          | 93.3          | 93.3          | 93.3          | 93.5          |
| <b>EBITDA</b>                                 | <b>374</b>   | <b>558</b>   | <b>866</b>    | <b>1,420</b>  | <b>2,155</b>  | <b>3,510</b>  | <b>4,966</b>  | <b>6,023</b>  |
| EBITDA margin (%)                             | 8.4          | 8.5          | 8.0           | 7.2           | 6.7           | 6.7           | 6.7           | 6.5           |
| Other income                                  | 8            | 13           | 43            | 42            | 31            | 40            | 40            | 40            |
| Depreciation                                  | 64           | 88           | 133           | 208           | 369           | 491           | 657           | 822           |
| <b>EBIT</b>                                   | <b>318</b>   | <b>484</b>   | <b>776</b>    | <b>1,254</b>  | <b>1,817</b>  | <b>3,059</b>  | <b>4,349</b>  | <b>5,240</b>  |
| Net finance cost                              | 177          | 239          | 244           | 335           | 898           | 682           | 959           | 1,117         |
| <b>Pretax profits before extra-ordinaries</b> | <b>142</b>   | <b>244</b>   | <b>532</b>    | <b>919</b>    | <b>919</b>    | <b>2,378</b>  | <b>3,390</b>  | <b>4,123</b>  |
| Exceptional items                             | (5)          | —            | —             | —             | 889           | —             | —             | —             |
| Prior period items                            | (2)          | (1)          | (0)           | (1)           | 6             | —             | —             | —             |
| <b>Profit before tax</b>                      | <b>149</b>   | <b>245</b>   | <b>532</b>    | <b>920</b>    | <b>1,802</b>  | <b>2,378</b>  | <b>3,390</b>  | <b>4,123</b>  |
| Current tax                                   | 9            | 15           | 75            | 128           | 414           | 422           | 600           | 729           |
| Deferred tax                                  | 11           | 31           | 70            | 149           | 196           | 417           | 595           | 724           |
| <b>Reported PAT</b>                           | <b>130</b>   | <b>199</b>   | <b>387</b>    | <b>643</b>    | <b>1,192</b>  | <b>1,538</b>  | <b>2,195</b>  | <b>2,671</b>  |
| <b>Adjusted net profit</b>                    | <b>122</b>   | <b>199</b>   | <b>386</b>    | <b>642</b>    | <b>603</b>    | <b>1,538</b>  | <b>2,195</b>  | <b>2,671</b>  |
| <b>Calculations</b>                           |              |              |               |               |               |               |               |               |
| <b>Margins (%)</b>                            |              |              |               |               |               |               |               |               |
| Gross margin                                  | 29.3         | 30.7         | 32.4          | 31.8          | 31.7          | 32.1          | 31.3          | 30.5          |
| SGnA to sales                                 | 17.1         | 18.0         | 19.7          | 18.9          | 18.7          | 18.9          | 18.7          | 18.2          |
| EBITDA margin                                 | 8.4          | 8.5          | 8.0           | 7.2           | 6.7           | 6.7           | 6.7           | 6.5           |
| EBIT margin                                   | 7.2          | 7.3          | 7.2           | 6.4           | 5.6           | 5.8           | 5.9           | 5.6           |
| PBT margin                                    | 3.4          | 3.7          | 4.9           | 4.7           | 5.6           | 4.5           | 4.6           | 4.4           |
| <b>Net profit margin (w/o extraordinary)</b>  |              |              |               |               |               |               |               |               |
| Effective tax rate (%)                        | 13.2         | 18.6         | 27.3          | 27.0          | 33.7          | 33.7          | 33.7          | 33.7          |

Source: Company data for historical, Kotak Institutional Equities for forecasts.

**Pantaloon Retail, balance sheet, March fiscal year end, FY2002-09E (Rs mn)**

|                                       | FY2003       | FY2004       | FY2005       | FY2006        | FY2007E       | FY2008E       | FY2009E       | FY2010E       |
|---------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
| <b>Equity</b>                         |              |              |              |               |               |               |               |               |
| Share capital                         | 182          | 191          | 220          | 269           | 294           | 294           | 294           | 294           |
| General reserves/surplus              | 343          | 391          | 714          | 1,279         | 2,216         | 3,167         | 4,702         | 6,639         |
| Capital reserve                       | 1,329        | 366          | 1,281        | 3,721         | 8,279         | 8,279         | 8,279         | 8,279         |
| <b>Net worth</b>                      | <b>1,854</b> | <b>949</b>   | <b>2,215</b> | <b>5,269</b>  | <b>10,788</b> | <b>11,739</b> | <b>13,274</b> | <b>15,212</b> |
| <b>Deferred tax liability</b>         | <b>29</b>    | <b>60</b>    | <b>130</b>   | <b>279</b>    | <b>673</b>    | <b>1,090</b>  | <b>1,685</b>  | <b>2,409</b>  |
| <b>Debt</b>                           |              |              |              |               |               |               |               |               |
| Secured loans                         | 1,413        | 2,153        | 2,562        | 4,281         | 3,781         | 6,781         | 9,281         | 9,281         |
| Unsecured loans                       | 42           | 214          | 300          | 1,733         | 1,733         | 1,733         | 1,733         | 1,733         |
| <b>Total debt</b>                     | <b>1,455</b> | <b>2,366</b> | <b>2,862</b> | <b>6,014</b>  | <b>5,514</b>  | <b>8,514</b>  | <b>11,014</b> | <b>11,014</b> |
| Current liabilities and provisions    | 665          | 729          | 1,449        | 2,623         | 3,820         | 5,496         | 7,483         | 9,262         |
| <b>Total capital</b>                  | <b>4,003</b> | <b>4,105</b> | <b>6,656</b> | <b>14,185</b> | <b>20,795</b> | <b>26,839</b> | <b>33,456</b> | <b>37,897</b> |
| <b>Assets</b>                         |              |              |              |               |               |               |               |               |
| Cash and cash equivalents             | 81           | 138          | 215          | 218           | 895           | 1,011         | 902           | 1,182         |
| Inventory                             | 1,144        | 1,576        | 2,759        | 5,070         | 8,468         | 11,245        | 14,603        | 15,748        |
| Sundry debtors                        | 223          | 176          | 123          | 170           | 93            | 110           | 110           | 110           |
| Loans and advances                    | 214          | 410          | 941          | 3,366         | 3,608         | 4,667         | 5,847         | 7,165         |
| <b>Gross block</b>                    | <b>1,230</b> | <b>1,847</b> | <b>2,511</b> | <b>3,660</b>  | <b>6,384</b>  | <b>8,950</b>  | <b>11,795</b> | <b>14,314</b> |
| Less: accumulated depreciation        | 157          | 243          | 374          | 566           | 905           | 1,395         | 2,052         | 2,874         |
| <b>Net fixed assets</b>               | <b>1,073</b> | <b>1,604</b> | <b>2,137</b> | <b>3,094</b>  | <b>5,479</b>  | <b>7,555</b>  | <b>9,743</b>  | <b>11,440</b> |
| Capital – WIP                         | 33           | 144          | 158          | 861           | 861           | 861           | 861           | 861           |
| <b>Net fixed assets (incl. C-WIP)</b> | <b>1,106</b> | <b>1,748</b> | <b>2,295</b> | <b>3,955</b>  | <b>6,340</b>  | <b>8,415</b>  | <b>10,604</b> | <b>12,300</b> |
| Investments                           | 53           | 53           | 319          | 1,406         | 1,406         | 1,406         | 1,406         | 1,406         |
| Miscellaneous expenditure             | 5            | 4            | 3            | —             | —             | —             | —             | —             |
| Intangibles (brands etc.)             | 1,177        | —            | —            | —             | —             | —             | —             | —             |
| <b>Total assets</b>                   | <b>4,003</b> | <b>4,105</b> | <b>6,656</b> | <b>14,185</b> | <b>20,795</b> | <b>26,839</b> | <b>33,456</b> | <b>37,896</b> |
| <b>Leverage and return ratios (%)</b> |              |              |              |               |               |               |               |               |
| Debt/equity                           | 78           | 235          | 122          | 108           | 48            | 66            | 74            | 63            |
| Debt/capitalization                   | 44           | 70           | 55           | 52            | 32            | 40            | 42            | 38            |
| Net debt/equity                       | 76           | 256          | 124          | 109           | 44            | 63            | 72            | 60            |
| Net debt/capitalization               | 43           | 72           | 55           | 52            | 30            | 39            | 42            | 37            |
| <b>Net debt/EBITDA (X)</b>            | <b>3.7</b>   | <b>4.0</b>   | <b>3.1</b>   | <b>4.1</b>    | <b>1.9</b>    | <b>2.1</b>    | <b>2.0</b>    | <b>1.6</b>    |

Source: Company data for historical, Kotak Institutional Equities for forecasts.

**PRIL cash flow statement, June fiscal year-ends (Rs mn)**

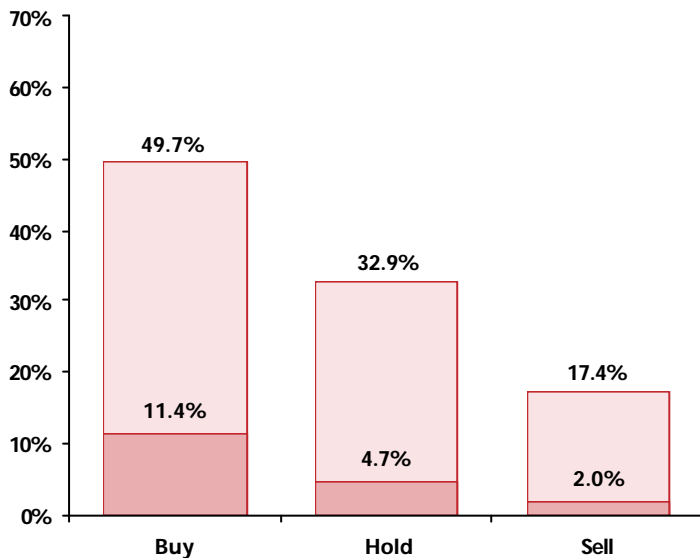
|   | FY2003       | FY2004       | FY2005         | FY2006         | FY2007E        | FY2008E        | FY2009E        | FY2010E        |
|---|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Operating</b>                                    |              |              |                |                |                |                |                |                |
| Pre-tax profits and extraordinary items             | 142          | 244          | 531            | 919            | 1,369          | 2,378          | 3,390          | 4,123          |
| Depreciation & amortization                         | 64           | 88           | 133            | 208            | 339            | 491            | 657            | 822            |
| Taxes paid  | (3)          | (27)         | (41)           | (105)          | (399)          | (422)          | (600)          | (729)          |
| Dividend and other income                           | 2            | (0)          | (11)           | (0)            | —              | —              | —              | —              |
| Interest expense                                    | 177          | 231          | 275            | 335            | 740            | 682            | 959            | 1,117          |
| Interest paid                                       | (177)        | (231)        | (275)          | (335)          | (740)          | (682)          | (959)          | (1,117)        |
| Foreign exchange loss/(gain)                        | 5            | 8            | (31)           | —              | —              | —              | —              | —              |
| Extraordinaries (incl. prior period items)          | (8)          | (1)          | (0)            | (10)           | 889            | —              | —              | —              |
| Other non-cash items                                | 1            | 1            | 1              | 1              | —              | —              | —              | —              |
| Working capital changes                             | (129)        | (515)        | (1,009)        | (2,244)        | (2,365)        | (2,177)        | (2,550)        | (684)          |
| <b>Cash flow from operations</b>                    | <b>73</b>    | <b>(202)</b> | <b>(427)</b>   | <b>(1,232)</b> | <b>(168)</b>   | <b>269</b>     | <b>897</b>     | <b>3,533</b>   |
| <b>Operating, excl. working capital</b>             | <b>203</b>   | <b>313</b>   | <b>582</b>     | <b>1,013</b>   | <b>2,198</b>   | <b>2,446</b>   | <b>3,447</b>   | <b>4,217</b>   |
| <b>Investing</b>                                    |              |              |                |                |                |                |                |                |
| Capex incl. capital issue expenses                  | (428)        | (730)        | (682)          | (1,868)        | (2,724)        | (2,566)        | (2,845)        | (2,519)        |
| (Purchase)/sale of assets/businesses                | 1            | —            | 1              | —              | —              | —              | —              | —              |
| (Purchase)/sale of investments (incl. inv. in subsc | (2)          | —            | (255)          | (2,625)        | —              | —              | —              | —              |
| Advances to subsidiary                              | —            | —            | (4)            | 148            | —              | —              | —              | —              |
| Interest/dividend received                          | —            | —            | (0)            | —              | —              | —              | —              | —              |
| <b>Cash flow from investing</b>                     | <b>(429)</b> | <b>(730)</b> | <b>(939)</b>   | <b>(4,345)</b> | <b>(2,724)</b> | <b>(2,566)</b> | <b>(2,845)</b> | <b>(2,519)</b> |
| <b>Financing</b>                                    |              |              |                |                |                |                |                |                |
| Proceeds from issue of share capital                | 43           | 107          | 914            | 2,492          | 4,582          | —              | —              | —              |
| Net proceeds from borrowings                        | 357          | 911          | 531            | 3,152          | (500)          | 3,000          | 2,500          | —              |
| Effect of FX changes                                | (5)          | (8)          | 31             | —              | —              | —              | —              | —              |
| Dividends paid (incl. tax)                          | —            | (21)         | (32)           | (63)           | (514)          | (587)          | (660)          | (734)          |
| <b>Cash flow from financing</b>                     | <b>396</b>   | <b>989</b>   | <b>1,443</b>   | <b>5,581</b>   | <b>3,569</b>   | <b>2,413</b>   | <b>1,840</b>   | <b>(734)</b>   |
| Net change in cash/cash equivalents                 | 40           | 58           | 76             | 3              | 678            | 116            | (108)          | 280            |
| Beginning cash                                      | 40           | 81           | 138            | 215            | 218            | 895            | 1,011          | 902            |
| <b>Ending cash</b>                                  | <b>81</b>    | <b>138</b>   | <b>215</b>     | <b>218</b>     | <b>895</b>     | <b>1,011</b>   | <b>902</b>     | <b>1,182</b>   |
| Discretionary cash flow                             | 40           | 37           | 44             | (59)           | 164            | (471)          | (769)          | (453)          |
| <b>Free Cash flow</b>                               | <b>(355)</b> | <b>(932)</b> | <b>(1,109)</b> | <b>(3,100)</b> | <b>(2,891)</b> | <b>(2,297)</b> | <b>(1,948)</b> | <b>1,014</b>   |

Source: Company data for historical, Kotak Institutional Equities for forecasts.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Jigar Mistry."

### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



- Percentage of companies covered by Kotak Institutional Equities, within the specified category.
- Percentage of companies within each category for which Kotak Institutional Equities and/or its affiliates has provided investment banking services within the previous 12 months.

\* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 06/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities.

As of June 30, 2007

### Ratings and other definitions/identifiers

#### Current rating system

##### Definitions of ratings

**OP = Outperform.** We expect this stock to outperform the BSE Sensex over the next 12 months.  
**IL = In-Line.** We expect this stock to perform in line with the BSE Sensex over the next 12 months.  
**U = Underperform.** We expect this stock to underperform the BSE Sensex over the next 12 months.

Our target price are also on 12-month horizon basis.

##### Other definitions

**Coverage view.** The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

##### Other ratings/identifiers

**NR = Not Rated.** The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

**CS = Coverage Suspended.** Kotak Securities has suspended coverage of this company.

**NC = Not Covered.** Kotak Securities does not cover this company.

**RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.

**NM = Not Meaningful.** The information is not meaningful and is therefore excluded.



---

**Corporate Office**  
**Kotak Securities Ltd.**

Bakhtawar, 1st Floor  
229, Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-6634-1100

**Overseas Offices**

**Kotak Mahindra (UK) Ltd.**

6th Floor, Portsofen House  
155-157 The Minories  
London EC 3N 1 LS  
Tel: +44-20-7977-6900 / 6940

**Kotak Mahindra Inc.**

50 Main Street, Suite No.310  
Westchester Financial Centre  
White Plains, New York 10606  
Tel: +1-914-997-6120

---

Copyright 2007 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.

**Kotak Securities Ltd.**

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453