

Contents

Results

Jindal Steel & Power: Sales, EBITDA growth marginally lower than expectations, Maintain Outperform

Kalpataru Power Transmission: 4QFY07 result update: Margins surprise positively; we raise estimates and target price

Updates

Sun Pharmaceuticals: Acquires Taro at 11X CY2005 EBITDA

News Roundup

Corporate

- In its third acquisition of an overseas company, Sun Pharmaceuticals, India's most valuable drug maker, is buying Israel's Taro Pharmaceutical Industries for US\$ 454 mn in an all-cash deal. The two companies today signed a definitive agreement to this effect. (BS)
- Reliance Industries is on the prowl again, this time for a rig operating company that will help it bring out oil and gas from its oilfields. The acquisition may turn out to be an expensive proposition given the current market dynamics where demand far outstrips supply. (ET)
- The Vietnam government gave the go-ahead to Vietnam Steel Corporation to work with Tata Steel to set up a US\$ 3.5 bn steel complex in the country's central region. Essar Steel along with South Korea's Posco and China's Bao Steel was also vying for the project. (ET)

Economic and political

- The Revised foreign direct investment (FDI) norms that could impact several crucial sectors like telecom, real estate, banking and retail may finally be out by July. Commerce minister said that a host of pending issues like direct and indirect holdings and beneficial ownership would be addressed in the revised guidelines (ET)
- Despite the tempering effect of an appreciating rupee, the Indian basket of crude oil touched its highest level this fiscal year — US\$ 67.40 a barrel — on May 18, a steep rise of 74 cents over the previous day's US\$ 66.76 per barrel. (BS)

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

EQUITY MARKETS

India	Change, %			
	21-May	1-day	1-mo	3-mo
Sensex	14,419	0.8	3.8	2.8
Nifty	4,261	1.1	4.3	5.5
Global/Regional indices				
Dow Jones	13,543	(0.1)	4.5	6.8
Nasdaq Composite	2,579	0.8	2.1	2.1
FTSE	6,637	(0.1)	2.3	4.0
Nikkie	17,649	0.5	2.1	(2.5)
Hang Seng	20,928	0.1	1.8	0.6
KOSPI	1,635	0.4	6.6	11.5
Value traded - India				
		Moving avg, Rs bn		
	21-May	1-mo	3-mo	
Cash (NSE+BSE)	153.2	138.0	125.7	
Derivatives (NSE)	311.0	366.1	481.5	
Deri. open interest	608.4	587.3	632.0	

Forex/money market

	Change, basis points			
	21-May	1-day	1-mo	3-mo
Rs/US\$	40.7	-	(101)	(358)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	(5)	5	17

Net investment (US\$m)

	17-May	MTD	CYTD
FIs	252	1,257	40
MFs	(33)	238	(303)

Top movers -3mo basis

Best performers	Change, %			
	21-May	1-day	1-mo	3-mo
Balaji Telefilms	241	19.9	42.9	90.9
Reliance Cap	970	7.1	34.7	45.1
Thomas Cook	70	2.7	39.6	44.5
Balrampur Chini	77	5.8	19.2	35.7
BoB	287	2.1	24.8	32.8
Worst performers				
Bajaj Auto	2,248	(1.7)	(7.9)	(22.8)
Wipro	535	(1.7)	(6.3)	(18.2)
Polaris	173	(0.6)	(14.4)	(16.8)
M&M	731	(0.1)	(1.6)	(16.6)
Cipla	208	(0.6)	(11.5)	(16.4)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Metals**JNSP.BO, Rs3144**

Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	2,975
52W High -Low (Rs)	3245 - 1151
Market Cap (Rs bn)	96.8

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	36.6	56.6	73.3
Net Profit (Rs bn)	7.4	9.8	13.2
EPS (Rs)	239.6	317.2	430.2
EPS gth	28.8	32.4	35.6
P/E (x)	13.1	9.9	7.3
EV/EBITDA (x)	10.2	7.8	5.7
Div yield (%)	0.6	0.6	0.7

Shareholding, March 2007

	% of Pattern Portfolio	Over/(under) weight
Promoters	59.0	-
FIs	23.1	0.3
MFs	4.5	0.3
UTI	-	(0.3)
LIC	-	(0.3)

Jindal Steel & Power: Sales, EBITDA growth marginally lower than expectations, Maintain Outperform

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Abhijeet Naik : abhijeet.naik@kotak.com, +91-22-6634-1220

- **4Q net profit at Rs2.0 bn grew 35% yoy, lower than our estimate of Rs2.4 bn**
- **Maintain OP with a revised target price of Rs2,975**

Jindal Steel & Power (JSPL) reported 4Q net profit at Rs2.0 bn (35% yoy growth) and 15% lower than our estimate of Rs2.4 bn. Lower-than-expected sales growth of 62% yoy (we expected 78% growth), additional cess levied on electricity sales levied for the full year during 4Q and marginally higher-than-expected operating cost accounted for much of the variation vis-à-vis our estimates. EBITDA margins for 4QFY07 at 37.2% (we estimated 38.7%) fell by 270 bps yoy and 20 bps qoq. Our consolidated EPS estimates for JSPL for FY08 remains unchanged at Rs317.2. Our revised consolidated EPS for FY09 at Rs430.2 (Rs445.4 previously) reflects higher interest costs for Jindal Power Limited. We have revised our SOTP-based target price to Rs2,975/share (Rs2,660 previously). We use 1.4X FY09 P/ABVPS (1.5X FY08 P/ABVPS) for valuation of steel business. We have also adjusted the valuation of Jindal Power Limited for a higher interest rate environment (affecting both interest costs and cost of equity). Though our target price is below the current stock price, we maintain our Outperform rating on JSPL noting two potential triggers⁽¹⁾ tie-up of merchant sale of power at higher rates and (2) change in debt: equity structure of Jindal Power Limited.

Steel business benefiting from improved realizations. JSPL's finished steel sales in 4Q grew 64% yoy on the back of higher production in its expanded capacity and improved steel prices. Sponge iron sales declined 17% yoy as the company is now using a greater proportion of its sponge iron production for internal production of steel. Sale of surplus power also declined 10% yoy in 4Q.

4Q operating performance continued to be robust with EBITDA margins at 37.2% declining 20 bps qoq. The segmental EBIT of power business during 4QFY07 is impacted by additional cess (of Rs0.02/unit) levied on external sale of electricity charged for the full year during this quarter. 4Q profits were also boosted by lower than expected interest costs and higher other income of Rs201 mn.

Our revised SOTP target price for JSPL now stands at Rs2,975/share. We value the steel business at Rs1,600 (Rs1,270 previously) at 1.4X FY09 P/ABVPS equivalent to 5X FY09 P/E and 5.3X FY09 EV/EBITDA. Our valuation of power business comprises Rs1,244 for Jindal Power Ltd based on DCF-to-equity methodology and Rs127/share as 50% of the potential value enhancement from surplus cash generated by power business. Our valuation of the 1,000 MW power project (first unit to likely commission by September 2007) now factors in a higher interest rate regime. We use (1) cost of debt at 10.5% compared to Rs8.5% previously and (2) higher cost of equity at 11% (10% previously).

Maintain Outperform rating noting potential upside triggers. (1) Higher tariffs for merchant sale of power. We note that 650 MW of power sale is yet to be tied up and could likely fetch a higher realization as compared to our estimate of Rs2.25/unit. We note that JSPL is currently selling power to the industrial units in the industrial estate. Jindal Power Limited will sell 350 MW to JSPL (for onward sale to industrial units at Rs2.5/unit. (2) Financial re-structuring of Jindal Power Limited could result in higher value enhancement for invested equity. JSPL has so far invested Rs6.5 bn out of the Rs12 bn equity investment required for completion of the 1,000 MW power project. JSPL will likely use subordinate debt to fund the balance equity requirement for completion of the power project, leaving surplus cash in JSPL for value accretive projects.

JSPL: 4QFY2007 results

(in Rs mn)	4QFY06	3QFY07	4QFY07	% chg.		Kotak estimates				
				qoq	yoy	4QFY07	% deviation	FY06	FY07	% chg.
Net sales	6,735	10,101	10,539	4.3	56.5	11,910	(11.5)	25,903	35,198	35.9
Operating costs	(4,048)	(6,327)	(6,622)	4.7	63.6	(7,305)	(9.3)	(15,626)	(21,174)	35.5
(Inc)/Dec in stock	582	(447)	397	(188.9)	(31.7)	(121)	(427.0)	1,588	601	(62.1)
Raw material consumed	(1,037)	(2,331)	(2,393)	2.7	130.8	(2,765)	(13.4)	(4,531)	(7,864)	73.5
Stores & spares	(935)	(1,009)	(820)	(18.8)	(12.4)	(1,240)	(33.9)	(2,703)	(3,420)	
Power & fuel	(1,255)	(715)	(1,745)	144.1	39.1	(855)	104.3	(4,532)	(3,807)	(16.0)
Staff costs	(242)	(229)	(243)	6.1	0.7	(257)	(5.4)	(728)	(937)	28.7
Other expenses	(1,161)	(1,596)	(1,818)	13.9	56.7	(2,067)	(12.1)	(4,719)	(5,748)	
EBITDA	2,687	3,773	3,917	3.8	45.8	4,606	(15.0)	10,276	14,024	36.5
Other income	70	24	201	749.4	189.2	50	301.8	275	290	5.3
Interest costs	(260)	(363)	(250)	(31.0)	(3.8)	(383)	(34.6)	(1,081)	(1,501)	
Depreciation	(823)	(919)	(1,183)	28.8	43.7	(1,067)	10.9	(2,192)	(3,365)	53.5
Extraordinaries										
PBT	1,673	2,516	2,685	6.7	60.4	3,206	(16.2)	7,279	9,448	29.8
Taxes	(167)	(617)	(657)	6.6	294.0	(831)	(20.9)	(1,549)	(2,419)	56.1
PAT	1,507	1,899	2,028	6.8	34.6	2,375	(14.6)	5,729	7,030	22.7
Key ratios										
EBITDA margin (%)	39.9	37.4	37.2	(0.2)	(2.7)	38.7	(1.5)	39.7	39.8	0.2
PAT margin (%)	22.4	18.8	19.2	0.4	(3.1)	19.9	(0.7)	22.1	20.0	(2.1)
Effective tax rate (%)	10.0	24.5	24.5	(0.0)	14.5	25.9	(1.4)	21.3	25.6	4.3
Segmental revenue										
Iron & Steel	7,298	10,361	11,951	15.3	63.8					
Power	1,181	1,389	1,285	(7.5)	8.8					
Others	150	144	45	(68.8)	(70.1)					
Sub-total	8,629	11,894	13,281	11.7	53.9					
Less: Intersegment revenue	988	776	1,325	70.8	34.1					
Net segment revenue (before excise)	7,641	11,118	11,956	7.5	56.5					
Segmental PBIT										
Iron & Steel	1,244	2,496	2,535	1.6	103.7					
Power	688	714	603	(15.5)	(12.3)					
Others	33	10	35	255.1	6.7					
Sub-total	1,965	3,220	3,174	(1.4)	61.5					
Less: Interest	260	363	250	(31.0)	(3.8)					
Less: Other un-allocable expenditure	31	341	238	(30.1)	661.7					
Total Profit before tax	1,673	2,516	2,685	6.7	60.4					
Segmental PBIT (%)										
Iron & Steel	17.1	24.1	21.2	(2.9)	4.2					
Power	58.2	51.4	46.9	(4.5)	(11.3)					
Others	21.7	6.8	77.7	70.8	55.9					
Sub-total	22.8	27.1	23.9	(3.2)	1.1					
Capital employed										
Iron & Steel	23,356	32,377	34,216	5.7	46.5					
Power	8,677	10,044	10,396	3.5	19.8					
Others	386	384	425	10.7	10.1					
Total	32,419	42,805	45,037	5.2	38.9					
Production (tons)										
Sponge Iron	309,104	292,005	303,112	3.8	(1.9)					
Steel Products	124,488	260,322	277,354	6.5	122.8					
Power (mn kwh)	598	685	671	(2.0)	12.2					
Sales (tons)										
Sponge Iron	189,830	138,382	158,207	14.3	(16.7)					
Steel Products	102,262	225,213	236,408	5.0	131.2					
Power (mn kwh)	311	316	281	(11.1)	(9.6)					

Source: Company data, Kotak Institutional Equities

SOTP based target price of Rs2,975/share

	Value assigned per share of JSPL (Rs)	Methodology
Core steel business of JSPL	1,600	1.4X FY2009 P/AB (Price to adjusted BVPS) equivalent to 5X FY09 P/E and 5.3X FY09 EV/EBITDA
Jindal Power Limited (100% subsidiary of JSPL)	1,244	1-yr forward DCF-to-equity
Value enhancement from future projects in power	127	50% of value enhancement based on reinvestment of surplus cash of JPL
SOTP target price for JSPL (Rs)	2,972	

Source: Kotak Institutional Equities estimates

Significant cash generation by Jindal Power Limited can be gainfully deployed in future projects

	Rs bn	Rs/share	Enhancement	
			(X)	(Rs/share)
Net investible surplus on books	-	-	0.8	-
Investible surplus likely generated over 9-years	26.1	848	0.3	254
Total				254
50% of value enhancement				127

Free cash flow to equity	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Jindal Power Limited		4.3	5.0	4.9	4.8	5.1	5.1	5.0	5.0
Dividend payout incl. tax (35% dividend payout assumed)		-1.3	-1.5	-1.5	-1.6	-1.8	-1.8	-1.8	-1.8
Investible surplus		3.0	3.5	3.4	3.3	3.4	3.3	3.2	3.1

Source: Company data, Kotak Institutional Equities estimates.

Potential upside from our assumption of Rs2.25/unit

Sensitivity of JPL's valuation (Rs/share) to tariff realized for merchant power

Discount rate %	Tariff realized for merchant power					
	2.00	2.25	2.50	2.75	3.00	
9.5	1,082	1,381	1,678	1,974	2,268	
10.0	1,044	1,332	1,618	1,903	2,187	
11.0	974	1,243	1,510	1,775	2,040	
11.5	942	1,203	1,460	1,717	1,972	
12.0	913	1,165	1,414	1,662	1,909	

Source: Kotak Institutional Equities estimates.

Transmission**KAPT.BO, Rs1283**

Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,495
52W High -Low (Rs)	1328 - 541
Market Cap (Rs bn)	34.0

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	15.6	19.0	21.9
Net Profit (Rs bn)	1.3	1.5	1.8
EPS (Rs)	52.5	63.1	72.9
EPS gth	46.3	20.2	15.4
P/E (x)	24.4	20.3	17.6
EV/EBITDA (x)	14.8	12.4	10.6
Div yield (%)	0.6	0.8	0.8

Shareholding, March 2007

	% of Pattern Portfolio	Over/(under) weight
Promoters	63.7	-
FIs	14.6	0.1
MFs	9.8	0.3
UTI	-	-
LIC	-	-

Kalpataru Power Transmission: 4QFY07 result update: Margins surprise positively; we raise estimates and target price

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

- **4QFY07 reported EBITDA margin of 18.1% is highest in KPT's history; and higher than competing companies in India. We expect margins to sober down going forward.**
- **Over 100% growth in net earnings FY2007 was driven by 80% growth in revenues and 270bps expansion in operating margins.**
- **KPT acquired 65% equity stake in Shubham Logistics to focus on agriculture warehouses in phase 1 and 3rd party logistics in phase 2 at estimated investments of Rs500mn. We await concrete plans for deployment of US\$75 mn raised through QIP last year.**
- **We raise FY2008E and FY2009E earnings by 30% each following higher than expected margins and execution. Also raise TP to Rs1,495 from Rs1,150 earlier.**

Kalpataru Power Transmission (KPT), in its 4QFY07 results, reported a PAT of Rs644 mn, up 112% yoy. OPM at 18.1% was higher by 430 bps, whereas revenues grew 45%. KPT ended the year with net earnings of Rs1.6 bn, up 102%. We expect 25% CAGR in net earnings over the next two years as strong growth in order-flows will likely more than offset the lower margin expectations. We raise our estimate of net earnings for FY2008E and FY2009E by approximately 30% each. We raise our SOTP-based target price to Rs1,495 per share and maintain Outperform rating on the stock.

4QFY07 OPMs at 18.1% positively surprised us. We expect OPMs to sober down over the next few years. For a tender-based, non-monopolistic contracting business, these margins are way too high and not sustainable over prolonged period of time. Although there are only a few pre-qualified domestic EPC contractors for transmission lines, we believe tender-based bidding and presence of enough competition will ensure margins trending to long-term sustainable levels of 12-15%. For the next two years, we model lower margins by 40bps.

Order-backlog of Rs23 bn is higher than Rs18 bn last year, which is commendable given an 81% growth in revenues for FY2007. We expect KPT to secure more orders from Powergrid Corporation in the domestic markets and expand its presence in the international front. We note the difference in reporting of order-backlog position. Whereas KPT and Jyoti Structures report order-backlog that includes L1 positions (orders where the company's bid is the lowest), KEC reports only confirmed orders as backlog.

KPT acquires 65% equity of Shubham Logistics for an undisclosed sum. We understand from the management that the sum paid is not material, but KPT will eventually invest close to Rs500 mn for developing its presence in the logistics management space. In the first phase, the company plans to build Agriculture warehouses and later move on to 3rd party logistics management in the second phase. KPT has raised US\$75 mn through QIP last year, which reside in short-term investments as of now. We await concrete plans from management on utilization of the amount raised.

We raise FY2008E and FY2009E earnings estimates by 30% each. Following higher-than-expected revenues and margins in FY2007, we raise our FY2008E and FY2009E revenue growth and margins expectations.

We raise our SOTP-based target price to Rs1,495 from Rs1,150 earlier. Our SOTP-based target price comprise of Rs1,358 in standalone business of KPT, Rs89 as stake in JMC projects and Rs49 in cash. The raise is partly owing to rolling target price forward to FY2009 estimates and partly owing to increased earning expectations. We have valued KPT's standalone business at 25% discount to target multiples of Kotak Institutional Equities' Electrical Equipment coverage universe. This implies a target multiple of 10X FY2009E EV/EBITDA. We have valued KPT's 52.2% stake in JMC based on market capitalization of JMC projects. We have valued net debt/cash at 1X book.

We believe incremental order-flows from Powergrid Corporation as well as announcement of plans for utilization of QIP proceeds are potential triggers for the stock. KPT has outperformed the benchmark Sensex over the last year and we maintain an Outperform rating on it.

Interim results for Kalpataru Power Transmission, March fiscal year-ends (Rs mn)

	4Q 2007	4Q 2006	yoy gr (%)	3Q 2007	qoq gr (%)	2007	2006	yoy gr (%)	Remarks
Net revenue	5,222	3,614	44.5	3,935	32.7	15,249	8,404	81.4	Volume growth across all businesses
Expenditure	(4,275)	(3,113)		(3,329)		(12,760)	(7,260)		
Stock adjustment	(23)	(71)		35		173	(54)		
Raw materials	(2,659)	(1,852)		(1,926)		(7,892)	(4,570)		
Staff cost	(240)	(136)		(185)		(716)	(389)		
Other expenditure	(1,354)	(1,053)		(1,253)		(4,325)	(2,246)		
EBITDA	947	501	88.9	606	56.1	2,488	1,144	117.5	Exceptionally high OPM in 4Q 2007
Other income	64	22		43		125	49		QIP money deployed in short-term invts
Interest	(54)	(32)		(48)		(168)	(88)		Higher WC-related debt; inline with expectations
Depreciation	(91)	(56)		(75)		(280)	(161)		
Pretax profits	866	435		526		2,166	944		
Current tax	(215)	(125)		(134)		(555)	(154)		
Deferred tax	(7)	(7)		(4)		(17)	(2)		
Extra-ordinary items	-	-		-		-	-		
Net income - Reported	644	303	112.2	388	65.9	1,594	788	102.4	
Net income - Adjusted	644	303	112.2	388	65.9	1,594	788	102.4	
Ratios (%)									
Material cost to revenues	51.3	53.2		48.1		50.6	55.0		
Total cost to revenues	81.9	86.1		84.6		83.7	86.4		
EBITDA margins	18.1	13.9		15.4		16.3	13.6		Expect OPMs to sober down going forward
Effective tax rate	24.8	28.7		25.5		25.6	16.3		ETR to stay stable for future years
Segmental revenue									
Segmental revenue	5,285	3,609	46.4	3,978	32.8	15,369	8,426	82.4	
Transmission and Distribution	4,734	3,330		3,228		13,521	7,591		Higher growth in International and RE projects
Real estate	0	6		4		5	282		
Biomass	115	51		73		284	182		
Infrastructure	391	222		633		1,465	371		Represents pipeline construction jobs
Others	45	-		40		95	-		
Segmental EBIT	904	465	94.6	562	61.1	2,339	1,079	116.8	
Transmission and Distribution	837	426		463		2,133	910		
Real estate	(1)	1		(0)		(2)	95		
Biomass	35	20		28		82	59		
Infrastructure	33	18		71		125	14		

Source: Company data

Sum-of-the-parts valuation of Kalpataru Power Transmission (Rs mn)

	Value	Per share (Rs)	Basis
Standalone business of KPT	35,991	1,358	10X FY2009E EV/EBITDA based on 25% discount to KIE Electrical Equipment universe
52.2% stake in JMC Projects	2,349	89	Based on market capitalization of JMC Projects
Enterprise value	38,340	1,447	
Less: Net debt	(1,301)	(49)	Money raised in QIP invested in short-term investments
Market capitalization	39,641	1,496	
Target price		1,495	Raised from Rs1,150 earlier

Source: Kotak Institutional Equities estimates

Kalpataru Power Transmission, Profit Model (standalone), March fiscal year-ends, 2004-2009E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Revenues						
Net revenues	3,447	5,418	8,404	15,249	19,272	22,572
Other operating income	-	-	-	-	-	-
Gross operating revenues	3,447	5,418	8,404	15,249	19,272	22,572
Operating expenses	-	-	-	-	-	-
Cost of goods sold	(1,956)	(2,921)	(4,586)	(7,720)	(10,600)	(12,415)
Staff costs	(142)	(236)	(389)	(716)	(788)	(906)
SG&A expenses	(959)	(1,553)	(2,023)	(4,325)	(4,817)	(5,653)
Total expenditure	(3,057)	(4,710)	(6,998)	(12,760)	(16,204)	(18,973)
(% of revenues)	88.7	86.9	83.3	83.7	84.1	84.1
EBITDA	390	708	1,406	2,488	3,068	3,599
EBITDA Margin (%)	11.3	13.1	16.7	16.3	15.9	15.9
Net finance cost	(141)	(162)	(309)	(280)	(437)	(474)
Other income	7	13	49	125	232	259
PBDT	256	560	1,146	2,333	2,863	3,384
Depreciation and amortisation	(56)	(80)	(88)	(168)	(128)	(141)
Pretax profits before extra-ordinaries	200	480	1,058	2,166	2,736	3,244
Exceptional items	(16)	(45)	(114)	-	-	-
Prior period items	-	-	-	-	-	-
Profit before tax	183	435	944	2,166	2,736	3,244
Current tax	(17)	(139)	(275)	(553)	(684)	(811)
Deferred tax	(25)	(8)	(3)	(18)	-	-
Minority / Associate earnings	-	-	-	-	-	-
Reported PAT	141	287	665	1,594	2,052	2,433
Adjusted net profit	158	332	780	1,594	2,052	2,433
Primary EPS (using wtd avg shares)	5.9	12.5	29.4	60.2	77.4	91.8
Diluted EPS	5.9	12.5	29.4	60.2	77.4	91.8
Shares outstanding (mn) - fully diluted	26.5	26.5	26.5	26.5	26.5	26.5
Margins (%)						
Gross margin	43.3	46.1	45.4	49.4	45.0	45.0
EBITDA margin	11.3	13.1	16.7	16.3	15.9	15.9
PBT margin	5.3	8.0	11.2	14.2	14.2	14.4
Net profit margin (w/o extraordinary)	4.6	6.1	9.3	10.5	10.6	10.8
Effective tax rate (%)	23.0	33.9	29.5	26.4	25.0	25.0
Growth (% p.a)						
Revenues	31.4	57.2	55.1	81.4	26.4	17.1
EBITDA	28.2	81.7	98.5	77.0	23.3	17.3
PBT	47.9	137.0	117.2	129.4	26.3	18.6
Net profit (w/o extraordinary)	57.8	111.0	134.6	104.5	28.7	18.6
Diluted EPS	61.6	111.0	134.6	104.5	28.7	18.6

Source: Company data, Kotak Institutional Equities estimates

Kalpataru Power Transmission, Balance Sheet (standalone), March fiscal ends, 2004-2009E, (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Equity						
Share capital	109	109	109	132	132	132
General reserves and surplus	796	1,021	1,563	6,405	8,192	10,360
Net worth	904	1,130	1,672	6,537	8,324	10,492
Revaluation reserve	-	-	-	-	-	-
Deferred tax liability	46	55	58	58	58	58
Debt	1,132	1,105	2,328	3,109	3,459	2,959
Secured	1,082	1,005	2,328	3,109	3,459	2,959
Unsecured	50	100	-	-	-	-
Current liability and provisions	1,221	1,947	3,763	5,638	6,355	7,259
Total capital	3,303	4,236	7,821	15,342	18,196	20,768
Assets						
Cash and cash equivalents	139	64	166	4,410	5,532	6,693
Inventory	1,150	1,227	1,387	1,800	2,185	2,502
Sundry Debtors	909	1,282	2,973	5,047	6,370	7,455
Loans and Advances	514	861	1,482	1,482	1,482	1,482
Gross block	805	970	1,587	2,531	2,681	2,831
Less: Accumulated depreciation	(220)	(271)	(354)	(521)	(649)	(790)
Net fixed assets	586	699	1,234	2,010	2,032	2,041
Capital -WIP	4	2	284	-	-	-
Net fixed assets (incl. C-WIP)	590	701	1,517	2,010	2,032	2,041
Investments	1	101	294	594	594	594
Miscellaneous expenditure	-	-	-	-	-	-
Total Assets	3,303	4,236	7,821	15,342	18,195	20,767
Leverage and return ratios (x)						
Debt/Equity	1.3	1.0	1.4	0.5	0.4	0.3
Debt/Capitalisation	0.3	0.3	0.3	0.2	0.2	0.1
Net Debt/Equity	1.1	0.9	1.3	(0.2)	(0.2)	(0.4)
Net Debt/Capitalisation	0.3	0.2	0.3	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA	2.5	1.5	1.5	(0.5)	(0.7)	(1.0)
ROE (%)	17.4	32.7	55.7	38.8	27.6	25.9
ROE (excl cash & interest income) (%)	18.5	26.9	44.2	74.9	73.5	64.0
ROCE (%)	12.0	18.0	27.8	26.2	22.1	22.0
ROCE (excl cash & interest income) (%)	8.9	10.8	12.7	17.1	19.7	20.7

Source: Company data, Kotak Institutional Equities estimates

Kalpataru Power Transmission, Cash Flow Statement (standalone), March fiscal year-ends, 2004-2009E, (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Operating						
Pre-tax profits and ex-ordinary items	183	435	944	2,166	2,736	3,244
Depreciation & amortisations	47	56	88	168	128	141
Taxes paid	(17)	(139)	(275)	(572)	(684)	(811)
Dividend and Other income	(0)	(6)	(10)	(10)	(10)	(10)
Interest expense	106	114	161	230	293	322
Interest paid	(106)	(114)	(160)	(230)	(293)	(322)
FX (Gain) / loss	-	(0)	(0)	-	-	-
Ex-od (incl prior period)	(0)	2	1	-	-	-
Other non-cash items	-	-	-	-	-	-
Working Capital changes	60	(44)	(679)	(600)	(992)	(497)
Cash flow from operations	273	303	70	1,152	1,177	2,066
Operating, excl. WC	213	347	749	1,752	2,170	2,564
Investing						
Capex incl capital issue expense	(98)	(169)	(904)	(660)	(150)	(150)
(Purchase)/Sale of assets / bussiness	-	(143)	(216)	(300)	-	-
(Purchase)/Sale of investments	-	-	-	-	-	-
Advances to subsidiary	-	-	-	-	-	-
Interest/dividend recd	0	6	10	10	10	10
Cash flow from investing	(98)	(307)	(1,111)	(950)	(140)	(140)
Financing						
Equity capital issues	-	-	-	3,470	-	-
Net from borrowings	(92)	(27)	1,223	781	350	(500)
Effect of FX changes	-	-	-	-	-	-
Dividends paid (incl. tax)	(18)	(37)	(62)	(199)	(265)	(265)
Cash flow from financing	(111)	(64)	1,161	4,052	85	(765)
Net chg in CCE	65	(68)	120	4,254	1,122	1,161
Beginning cash	38	103	35	156	4,410	5,532
Ending cash	103	35	156	4,410	5,532	6,693
Discretionary Cash Flow	83	(31)	182	4,453	1,387	1,426
Free cash Flow	369	634	98	1,781	2,610	3,763

Source: Company data, Kotak Institutional Equities estimates

Pharmaceuticals**SUN.BO, Rs1064**

Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	1,050
52W High -Low (Rs)	1196 - 640
Market Cap (Rs bn)	220.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	20.8	26.0	32.5
Net Profit (Rs bn)	7.7	9.0	11.3
EPS (Rs)	37.4	43.5	54.7
EPS <i>gth</i>	35.0	16.4	25.7
P/E (x)	28.5	24.5	19.5
EV/EBITDA (x)	23.3	18.5	14.2
Div yield (%)	0.6	0.7	0.8

Shareholding, March 2007

	% of Pattern Portfolio	Over/(under) weight
Promoters	68.3	-
FIs	15.8	(0.2)
MFs	3.2	(0.0)
UTI	-	(0.7)
LIC	-	(0.7)

Sun Pharmaceuticals: Acquires Taro at 11X CY2005 EBITDA

Pawan Nahar : pawan.nahar@kotak.com, +91-22-6634-1461

- **Sun agrees to acquire Taro at 1.5X CY2005 revenue and 11.2X EBITDA**
- **Payback criterion is 5 years; seems possible with synergies and cost efficiencies**
- **Portfolio is complimentary and seems to be a positive deal**
- **Our estimates are under review**

Sun, together with its subsidiaries, has signed definitive agreements to acquire Taro Pharmaceutical Industries Ltd. Deal price of US\$454 mn (including US\$224 mn in net debt) implies multiple of 1.5X CY2005 revenue and 11.2X EBITDA. Taro had operating margin of 14%. It has yet not reported its CY2006 results, barring an indication of substantial losses. Separately, Sun has agreed to provide interim financing, which would help keep Taro from default on its debt. Combined entity would have revenues of US\$765 mn; half of it from the US market. The combined entity, based on last reported numbers, is trading at a multiple of 5.3X revenue and 21X EBITDA. We think this is a good acquisition ' Taro brings a niche portfolio (ointments and creams) and Sun will help it compete (cost efficiencies and resources).

Taro is a generic manufacturer with operations in U.S., Israel and Canada. North America represents more than 90% of Taro's sales. Sun intends to build on Taro's expertise in dermatology and pediatrics, along with specialty and generic pharmaceuticals, and over-the-counter products.

This all-cash deal is subject to Taro shareholder approval and requisite regulatory clearances. Sun intends to fund this US\$454 mn acquisition with internal accruals and proceeds from its earlier US\$350 mn FCCB.

Taro had recently reported 2005 sales of US\$298 mn and profit of US\$5.7 mn. Taro's financial statements were restated in view of errors in estimating the chargebacks from wholesalers.

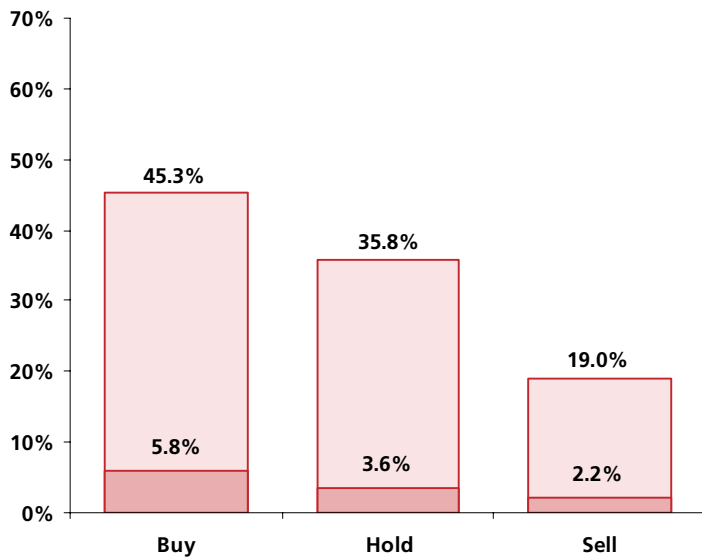
Taro has large sites with necessary regulatory approvals in Canada and Israel that manufactures topical creams and ointments, liquids, capsules and tablets dosage forms. Additionally Taro manufactures APIs, including complex chemistry and steroids that are made at its site in Israel. Over US\$225 mn has been invested by Taro in capex in the last three years, and the working capital was approximately US\$79 mn (excluding cash of US\$80 mn). It has more than 100 ANDA approvals in the US alone. One NDA as well as 26 ANDAs are awaiting approval with the USFDA.

Two shareholders have opposed the deal on count of differential treatment versus key shareholders: On May 10, Franklin Advisors and Templeton Asset Management (own 9%) filed a motion in Israel to prevent what they allege to be discrimination against minority shareholders and over the weekend filed for an injunction to prevent Taro from entering into any deals.

" 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: Abhijeet Naik, Jigar Mistry, Pawan Nahar . "

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 03/31/07 Kotak Institutional Equities Investment Research had investment ratings on 137 equity securities.

Source: Kotak Institutional Equities.

As of March 31, 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, Portsoken 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