kotak® Institutional Equities

INDIA DAILY

July 08, 2008

EQUITY MARKETS

	Change, %			
India	**7-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	13,526	0.5	(13.1)	(13.2)
Nifty	4,030	0.3	(12.9)	(14.4)
Global/Regional indices				
Dow Jones	11,232	(0.5)	(8.0)	(10.7)
FTSE	5,513	1.8	(6.7)	(8.0)
Nikkie	13,122	(1.8)	(9.4)	(1.0)
Hang Seng	21,580	(1.5)	(11.6)	(11.2)
KOSPI	1,555	(1.6)	(15.2)	(11.4)

Value traded - India

	Moving avg, Rs bn			
	7-Jul		**1-mo**	**3-mo**
Cash (NSE+BSE)	171.4		192.2	195.3
Derivatives (NSE)	446.3		428.9	323
Deri. open interest	693.4		728	550

Forex/money market

	Change, basis points			
	7-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	43.3	0	28	324
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	4-Jul		**MTD**	**CYTD**
FIIs	132		-	(5,255)
MFs	(15)		-	1,660

Top movers -3mo basis

	Change, %			
Best performers	**7-Jul**	**1-day**	**1-mo**	**3-mo**
i-Flex	1,478	(2.2)	16.4	49.7
Ingersoll Rand	367	4.4	34.2	36.7
Chambal Fert	64	(0.1)	(20.7)	29.0
Ballarpur Ind	32	(0.3)	(6.3)	23.2
Infosys	1,800	2.5	(9.7)	22.7
Worst performers				
Acc	497	4.2	(20.9)	(39.8)
BPCL	238	3.8	(20.8)	(39.6)
Tata Motors	393	(1.9)	(27.3)	(37.7)
Essel Propack	25	(0.6)	(20.5)	(34.3)
Wockhardt	184	1.1	(30.5)	(33.3)

Contents

Updates

News Roundup

Corporate

- Reliance Industries plans to buy some downstream assets of Chevron Corp in Africa. Essar goup is also in talks with Chevron for buying the assets, which include 1,500 fuel stations, refineries, terminals and depots. (ET)
- Essar Oil Ltd is still in the race to buy 50% in Kenya Petroleum Refineries and the Kenyan government was still evaluating Essar's proposal on the refinery. (ET)
- Daimler Hero Commercial Vehicles, the joint venture between Daimler AG and the Hero Group, has signed an MoU with the Tamil Nadu government to set up a truck manufacturing facility near Chennai for an investment of Rs30 bn. (BS)
- Bombardier would start its manufacturing unit in Gujarat by the end of this year. The firm has got a contract worth US$700 mn from Delhi Metro Rail Corp for supplying 424 Bombardier MOVIA metro cars. (ET)
- The coal ministry has objected to Reliance Power's plan to sell coal from its captive mines for Sasan project to the group's proposed 4,000 megawatt plant at Chitrangi, both in Madhya Pradesh. (BS)
- Indian drugmakers such as Ranbaxy Laboratories, Cipla, Cadila Healthcare, Piramal Healthcare and Wockhardt would soon withdraw about 60 drug combinations from the market. (BS)
- Regal Entertainment Group, Bain Capital, Texas Pacific Group and Goldman Sachs are in talks with the founders of Pyramid Saimira Theatre Ltd for about 14% stake. The deal, if struck, could be worth Rs2.5-3 bn. (ET)
- Bharat Heavy Electricals Ltd is likely to get an order worth Rs25 bn from Andhra Pradesh Power Generation Corp Ltd for boilers. (BL)
- Tata Motors Ltd has raised its stake in Automobile Corp of Goa Ltd by 3% to 40.6% in three months through open market purchases. (ET)

Economic and political

- Three days after tying up the requisite political support that guaranteed his government’s continued existence, an emboldened Prime Minister Manmohan Singh reiterated New Delhi’s resolve to proceed to the International Atomic Energy Agency, with an agreement on the agency’s nuclear rules for India. (Mint)
- Private oil firms such as Reliance Industries, Essar Oil and Cairn India may have to forego some profits to share the huge subsidy burden in the sector. (ET)
- India’s oldest mutual fund firm, UTI Asset Management Co. Ltd, has put off plans for a US$480 mn share sale after falling stocks hit sentiment, joining other firms that have pulled or deferred offerings. (Mint)

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

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Pharmaceuticals

NICH.BO, Rs295	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	530
52W High -Low (Rs)	389 - 195
Market Cap (Rs bn)	61.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	28.7	33.9	39.4
Net Profit (Rs bn)	3.7	4.6	5.6
EPS (Rs)	17.6	21.9	26.7
EPS gth	*58*	*24.3*	*22.0*
P/E (x)	16.8	13.5	11.1
EV/EBITDA (x)	12.4	9.6	7.6
Div yield (%)	1.2	1.4	1.5

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	49.8	-	-
FIIs	23.6	0.2	0.0
MFs	3.3	0.1	(0.0)
UTI	-	-	(0.2)
LIC	4.2	0.2	0.0

Piramal Healthcare: FY2008 Annual report update

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- **EBITDA margin improves 4.3% due to R&D demerger and increase in custom manufacturing revenues from India**
- **CMG business in Morpeth secures first non-Pfizer related revenues and Chennai facility added to PDS business**
- **Balance sheet quality improves due to lower inventory levels at overseas facilities**
- **We highlight accounting policy relating to R&D expenses and lack of detail on other operating income**
- **KIE 1QFY09E revenues and PAT of Rs8.6 bn and Rs1.2 bn, respectively**
- **Maintain BUY rating with an SOTP-based target price rolled forward to Rs530 (from Rs470)**

Company reports EBITDA margin excluding other income of 18% in FY2008, up 4.3% yoy due to (1) saving from R&D demerger (2) increase in CMG sales from India. PMS business secures first non-Pfizer related revenues while PDS services commence from Chennai facility. We expect these developments in CMG business to contribute to margin expansion in FY2009E. NPIL is trading at 14X FY2009E and 11X FY2010E estimated earnings. Maintain BUY rating with a SOTP-based target price rolled forward to Rs530 (from Rs470)

Profitability improvement of 4.3% due to R&D demerger and increase in custom manufacturing revenues from India. Company reported EBITDA margin of 19% in FY2008, up from 15.5% in FY2007. EBITDA margin excluding other income was up 4.3% to 18% in FY2008. This was primarily due to

1) R&D demerger which contributed to savings of 2.4% (R&D costs declined to 2.8% of sales in FY2008 vs 5.2% in FY2007)

2) Increase in CMG sales from India to Rs2.2 bn in FY2008 from Rs767 mn in FY2007. This contributed 1.9% towards the EBITDA margin improvement of 4.3%. CMG sales from Indian assets increased to 16% of Pharma Solutions (CMG division) revenues in FY2008 from 7% in FY2007 with additional sales from five new contracts which commenced during the year. These new contracts were for products in late lifecycle stage as shown in Exhibit 1. Due to higher profitability on these revenues, EBITDA margin before R&D improved to 20.8% in FY2008, up 1.9%. We estimate the Indian CMG business to grow to Rs4 bn in FY2009E as per company guidance from Rs2.2 bn in FY2008 leading to further profitability growth. With EBITDA margins at 25% according to our estimates, we expect increasing CMG business from India to add to profitability growth in FY2009E.

Besides the five products in PMS, the company added three products to its PDS business in 2HFY08 taking the total number of products to 180 (see Exhibit 1). Torcan facility reported an operating loss for FY2008E (see Exhibit 2) due to the adverse movement of Canadian dollar vs. US dollar. During the year, the company started to service its clients in the PDS business from its facility at Chennai. We expect this to contribute towards positive profitability in FY2009E. We estimate EBITDA margins of 11% for the PDS business in FY2009E.

CMG business in Morpeth secured first non-Pfizer related revenues. We consider this as an important development as the Morpeth facility was currently working exclusively for Pfizer and diversification of client base reflects the true potential of this manufacturing site. Since current capacity utilization is around 50% in our view, additional business from new clients will lead to sharp increase in profitability due to operating leverage. We had highlighted the same in our report dated March 25, 2008, "Margin expansion in CMG business to drive profitability growth in FY2009E". Refer to the report for details on the Morpeth facility.

Balance sheet quality improves due to lower inventory levels at overseas facilities. As seen in Exhibit 3, Piramal reported improvement in NWC (% of sales) to 17% in FY2008 from 21% in FY2007. The NWC deteriorated considerably in FY2007 due to the operations of UK and Canadian facilities. The improvement in NWC position is mainly due to lower inventory levels at the company's international facilities. Piramal has the best working capital position among the CMO companies we cover.

We highlight accounting policy relating to R&D expenses and lack of detail of other operating income. (1) PH reported other operating income of Rs1.2 bn for FY2008 at nearly the same level as FY2007. Details of this income remain sketchy. We understand that it includes sales of diagnostic products and tools and other operating income. We are unable to estimate its contribution to total PBT of Rs4 bn in FY2008.

(2) PH expenses all R&D costs except development costs relating to new/improved products incurred once phase I trials begin. These costs are treated as an intangible asset. This may not impact PH in the future as it has spun out research operation that will incur this expense into Piramal Lifescience. We note that Ranbaxy, Dr. Reddy's Labs did not follow this accounting policy in FY2007 according to their FY2007 annual reports. Glenmark followed a similar policy in FY2007 when it treated development cost relating to the new and improved products and process development as an intangible asset.

KIE 1QFY09E revenues and PAT of Rs8.6 bn and Rs1.2 bn.

We expect revenues to increase 12% qoq to Rs8.6 bn and EBITDA margins before R&D to improve by 150 bps qoq to 23%. This margin expansion comes from higher seasonal sales in India and favorable Rs/US$ rate. YoY comparisons are not really meaningful due to disruption in sales of its largest brand in India (Phensedyl) in Apr-June '07. QoQ comparison for PBT and PAT are not relevant since PH accounted for separation of Piramal Lifescience following court approval in Jan-Mar '08.

Maintain BUY rating with a SOTP-based target price rolled forward to Rs530. We continue to use SOTP method for valuation. There is no material change in our earnings estimates. Due to rolling forward, we change our price target to Rs530 (from Rs470 set in Feb, 2008). Our price target includes Rs15 of the R&D pipeline value of Piramal Lifesciences.

Pharma Solutions—portfolio of products

	FY2006	FY2007	1H FY08	FY2008
PDS				
Pre clinical	8	11	12	12
Phase I	23	26	28	29
Phase II	42	44	63	64
Phase III	9	12	17	18
PMS				
Launched	9	12	12	12
Late life cycle	16	39	40	45
Total products	**107**	**144**	**172**	**180**

Source: Company.

Subsidiary companies—headline numbers

	FY2006	FY2007	FY2008
Sales			
Pathlabs	450	695	1,200
NPIL UK	748	6,302	7,200
Torcan	312	1,142	917
Operating profits			
Pathlabs	103	118	251
NPIL UK	(254)	708	876
Torcan	7	106	(9)
Operating margins,%			
Pathlabs	23	17	21
NPIL UK	(34)	11	12
Torcan	2	9	(1)

Source: Company.

Net working capital (% of net sales)

	FY2005	FY2006	FY2007	FY2008
Biocon*	23	33	42	39
Dishman	64	53	62	
Divis	52	54	39	
Jubilant	14	22	22	
Piramal*	18	15	20	17

* Actuals for FY2008

Source: Company.

Pipes

WGSR.BO, Rs295	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	375
52W High -Low (Rs)	539 - 202
Market Cap (Rs bn)	55.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	40.1	69.8	98.0
Net Profit (Rs bn)	(0.3)	5.8	9.8
EPS (Rs)	22.6	31.8	52.0
EPS gth	*114.1*	*40.7*	*63.2*
P/E (x)	13.0	9.3	5.7
EV/EBITDA (x)	26.5	6.2	3.9
Div yield (%)	1.1	2.3	3.7

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	41.9	-	-
FIIs	16.8	0.2	0.2
MFs	14.7	0.7	0.7
UTI	-	-	-
LIC	-	-	-

Welspun Gujarat Stahl Rohren: Near-term concerns spoil opportunity to upgrade; maintain REDUCE

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- **Expect weak 1QFY09 on account of lower dispatches due to temporary imposition of export duty**
- **Domestic ERW pipe prices capped at Rs48,000/ton—account for 30-40% of Welspun's ERW volumes**
- **Revise estimates marginally for changes in exchange rate assumptions and lower captive utilization of the plate mill**
- **Despite sharp correction in stock maintain REDUCE and target price of Rs375 based on a 13% WACC (raised from 12.5% earlier)**

We expect 1QFY09 revenue growth to be slower (6.6% qoq) as the deliveries were postponed during the quarter due to temporary imposition of export duty on linepipes. We expect volumes to be about 160,000 for 1QFY09 compared to 696,000 for FY2009E. We model additional costs of Rs180 mn incurred during the quarter on account of export duty which will keep EBITDA margins under constraint. Recent cap on domestic ERW prices at Rs48,000/ton put by government may impact ERW margins and volumes negatively from 2QFY09 onwards as Welspun sells 30-40% of volumes domestically. We tweak our estimates marginally for changes in exchange rate assumptions and lower captive utilization of the plate mill. We model captive consumption of plate to begin in 3QFY09. Upward revision in exchange rates and higher external sales increase our revenue estimates for FY2009E and FY2010E higher by 6.4% and 3%, respectively. We revise our WACC assumption to 13% from 12.5% and maintain REDUCE and target price of Rs375.

Export duty impact—lower dispatches in 1QFY09 to result in slower revenue growth

We expect revenue growth in 1QFY09E to be slower at 6.6% qoq due to lower dispatches of around 160,000 tons versus 186,341 tons in 4QFY08. Deliveries in the quarter were delayed/postponed due to temporary imposition of export duty on linepipes. We expect the deliveries to take place in 2QFY09 as the export duty was subsequently removed. We estimate the impact of export duty and other demurrages paid on pipes delivered during the quarter to be around Rs180 mn. Management has applied to the government for the refund of the duty portion amounting to Rs140 mn; however, we currently do not model any refund of duty.

Domestic ERW pipe realizations capped at Rs48,000/ ton (US$1,150)

Steel pipe and tube manufacturers have agreed to cap the domestic ERW pipe prices at Rs48,000/ton to support government's initiative to curb inflation. Management guides that domestic ERW order book is for only around 30-40,000 tons and most of which has been booked at less than Rs48,000/ton. We believe the company may not be induced to bid for new domestic orders since the current coil price of US$1,100-1,200 is almost equal to the realization per ton making domestic sales non-profitable.

Capex cost increase—management explanations fail to justify the sharp increase

We reiterate our earlier concern for the sharp increase in capex cost estimates by 39% highlighted in our previous note dated April 30, 2008. Management attributes the increase in capex estimates to—(1) depreciation of Indian Rupee versus Euro since most of the machines are imported from Europe, (2) higher structural expense in the USA plant to give 100 years earthquake protection versus earlier 60 years and (3) addition of new double jointing and coating equipments.

However, we believe the company has always hedged its foreign currency payables hence the exchange rate fluctuation should not be impacting the total payout. Further for the Indian-LSAW plant the machinery was already with the company and only installation and other cost needed to be incurred. We therefore continue to remain confused by the more than 40% increase in project costs for both these plants over past 6-9 months (see Exhibit 3).

Plate mill—captive consumption could be the key to margins growth in 2HFY09

We highlight Welspun's captive consumption from its plate mill could be the key determinant of EBITDA margin expansion in 2HFY09. We model captive consumption of plates and coils from 3QFY09 onwards leaving only around 30-35% of the full year production available for captive usage against the 60-70% earlier guided by the management. We model 225,000 tons of plates and coils to be consumed for linepipe production. However, any delay in internal usage will continue to increase the risks as increasing plate capacities in India and other surrounding regions put pressure on currently lofty plate prices.

Revise estimates marginally for exchange rate realignment and lower captive plate consumptions

We tweak our estimates marginally for recent movement in currency exchange rate and a lower captive consumption of plates. Upward revision in exchange rates and higher external sales increase our revenue estimates for FY2009E and FY2010E higher by 6.4% and 3%, respectively. Lower captive consumption of plates and coils reduces our EBITDA margin assumption for FY2009E to 17.4% from 18.6%. We revise our PAT estimates for FY2009E and FY2010E upwards by 1.5% and 4.7%, respectively.

Valuations—revise discounting rate for higher cost of equity, maintain REDUCE and target price of Rs375

We maintain our REDUCE rating on the stock with a 12-month DCF-based target price of Rs375. We revise our WACC assumption to 13% from 12.5% earlier on account of higher cost of equity and increasing interest rates. Near-term concerns—incremental duty charge, realization cap on ERW pipes, slower order book addition and pending captive utilization of plate mill—may keep stock under pressure.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	18,298	1,980	837	5.8	19.1	50.6	21.5
2007	26,785	3,332	1,411	8.6	22.0	34.4	16.9
2008	40,105	6,530	3,694	19.9	29.6	14.8	10.7
2009E	69,771	12,106	5,820	31.0	27.5	9.5	6.2
2010E	97,954	18,250	9,759	52.0	32.5	5.7	3.9

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Welspun Gujarat, change in estimates, March fiscal year-ends, (Rs mn)

	2009E			2010E			
	New	Old	Change(%)	New	Old	Change(%)	Comments
Revenue	69,771	65,560	6.4	97,954	95,076	3.0	Increase due to change in currency estimate and higher external plate sales
EBITDA	12,106	12,079	0.2	18,250	17,580	3.8	
EBITDA margin (%)	17.4	18.4	—	18.6	18.5	—	FY09 margin drop due to lower captive utilisation of plate mill
Net profit	5,820	5,733	1.5	9,759	9,320	4.7	
Diluted EPS	31.0	30.5	1.5	52.0	49.6	4.7	

Source: Kotak Institutional Equities.

Exhibit 3: 39% increase in capital costs for announced projects
Welspun Gujarat, announced capex plans

	Capacity		Oct-07		Apr-08	Change	
	('000 tons)	Commissioning	(US$ mn)	(Rs mn)	(Rs mn)	(Rs mn)	(%)
HSAW - India	150	Q2FY09	25	1,000	1,000	—	—
HSAW - USA	300	Q3FY09	100	4,200	6,000	1,800	42.9
LSAW - India	300	Q1FY10	75	3,150	4,590	1,440	45.7
Total project costs				**8,350**	**11,590**	**3,240**	**38.8**

Note: (1) Oct-07 amounts converted at Rs42/US$1.

Source: Company presentations, Kotak Institutional Equities.

Exhibit 4: HSAW volumes from India to get subsituted from capacities in USA
Welspun Gujarat, operating assumptions, March fiscal year-ends, 2007-2012E

	2007	2008	2009E	2010E	2011E	2012E
Capacity (tons)						
HSAW - existing	400,000	400,000	400,000	400,000	400,000	400,000
HSAW - new	—	—	150,000	150,000	150,000	150,000
HSAW - USA	—	—	300,000	300,000	300,000	300,000
Total - HSAW	**400,000**	**400,000**	**850,000**	**850,000**	**850,000**	**850,000**
LSAW - existing	350,000	350,000	350,000	350,000	350,000	350,000
LSAW - new	—	—	—	300,000	300,000	300,000
Total - LSAW	**350,000**	**350,000**	**350,000**	**650,000**	**650,000**	**650,000**
ERW	**250,000**	**250,000**	**250,000**	**250,000**	**250,000**	**250,000**
Total Pipe capacity	**1,000,000**	**1,000,000**	**1,450,000**	**1,750,000**	**1,750,000**	**1,750,000**
Plate mill	—	—	**1,500,000**	**1,500,000**	**1,500,000**	**1,500,000**
Sales (tons)						
HSAW - existing	217,739	323,088	332,000	340,000	320,000	310,000
HSAW - new			30,000	75,000	90,000	100,000
HSAW - USA			78,750	135,000	180,000	210,000
Total - HSAW	**217,739**	**323,088**	**440,750**	**550,000**	**590,000**	**620,000**
LSAW - existing	175,000	261,667	271,250	271,250	262,500	262,500
LSAW - new				120,000	165,000	180,000
Total - LSAW	**175,000**	**261,667**	**271,250**	**391,250**	**427,500**	**442,500**
ERW	**110,000**	**50,448**	**62,500**	**87,500**	**112,500**	**125,000**
Total Pipe	**502,739**	**635,203**	**774,500**	**1,028,750**	**1,130,000**	**1,187,500**
Plate-cum-coil (production)	—	—	**525,000**	**750,000**	**975,000**	**1,125,000**

Source: Company, Kotak Institutional Equities estimates.

Exhibit 5: We expect realisations to move in line with increase in steel prices

Welspun Gujarat, pricing assumptions, March fiscal year-ends, 2008-2012E

	2008	2009E	2010E	2011E	2012E
Realisation (US$/ton)					
HSAW	1,417	1,598	1,742	1,742	1,664
ERW	1,147	1,307	1,427	1,427	1,363
LSAW	1,650	1,881	2,069	2,069	1,986
HSAW- USA	—	1,598	1,742	1,742	1,664
Plate	—	1,206	1,379	1,379	1,304
Raw material cost (US$/ton)					
HR coil	875	1,024	1,162	1,162	1,104
Plates	1,109	1,331	1,504	1,504	1,429
Slabs	—	885	991	991	942
EBITDA (US$/ton)					
HSAW	230	253	245	241	222
ERW	67	70	41	38	34
LSAW	266	264	266	262	256
HSAW- USA	—	233	225	220	201
Plate - external sale	—	201	265	264	237
Plate - captive use	—	311	375	374	347

Source: Company, Kotak Institutional Equities estimates.

Exhibit 6: Profit model, balance sheet, cash model for Welspun Gujarat, March fiscal year-ends, 2005-2011E, (Rs mn)

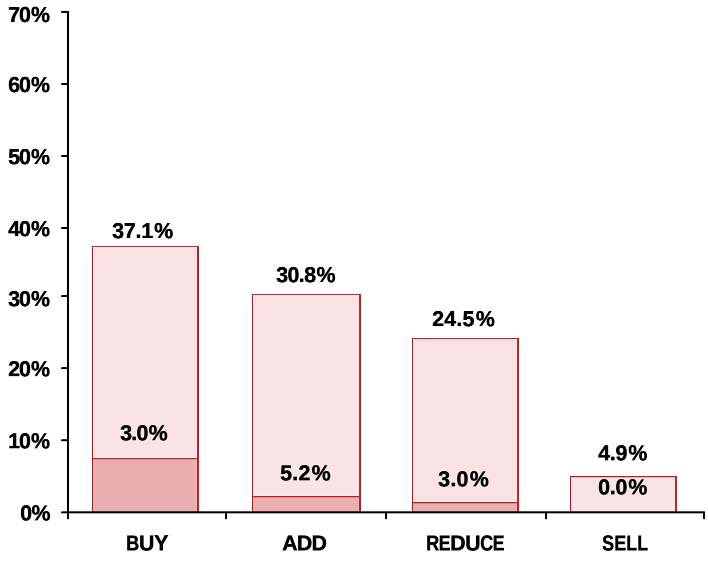
	2005	2006	2007	2008	2009E	2010E	2011E
Profit model							
Net revenues	10,385	18,298	26,785	40,105	69,771	97,954	103,831
EBITDA	**684**	**1,980**	**3,332**	**6,530**	**12,106**	**18,250**	**20,352**
Other income	27	19	19	186	100	100	100
Interest (expense)/income	(203)	(419)	(708)	(622)	(2,063)	(2,137)	(1,260)
Depreciation	(241)	(352)	(476)	(572)	(1,449)	(1,833)	(2,002)
Adjusted pretax profits	**266**	**1,228**	**2,167**	**5,522**	**8,694**	**14,380**	**17,191**
Tax	(39)	(127)	(672)	(965)	(1,718)	(3,184)	(4,318)
Deferred taxation	(124)	(162)	(93)	(863)	(1,097)	(1,438)	(1,031)
Adjusted consolidated net income	**658**	**180**	**837**	**1,411**	**3,694**	**5,820**	**9,759**
Diluted Earnings per share (Rs)	**1.5**	**5.8**	**8.6**	**19.9**	**31.0**	**52.0**	**63.1**
Balance sheet							
Total equity	2,707	4,795	6,535	15,993	21,986	31,061	41,439
Deferred taxation liability	539	701	794	1,657	2,754	4,192	5,224
Total borrowings	4,068	8,248	15,146	19,198	22,460	18,565	8,806
Current liabilities	7,785	9,393	10,558	15,607	23,108	30,157	32,406
Total liabilities and equity	**15,098**	**23,137**	**33,103**	**52,524**	**70,378**	**84,045**	**87,945**
Cash	2,461	3,067	3,574	1,229	1,800	1,800	8,363
Other current assets	7,233	9,958	12,781	23,188	37,804	51,703	50,334
Total fixed assets	5,351	10,113	16,492	24,203	29,978	29,746	28,452
Investments	53	0	256	3,904	1,155	1,155	1,155
Total assets	**15,098**	**23,137**	**33,103**	**52,524**	**70,738**	**84,405**	**88,304**
Free cash flow							
Operating cash flow, excl working capital	430	1,056	2,002	5,141	8,325	12,929	14,775
Working capital changes	702	(1,076)	(2,601)	(4,354)	(7,116)	(6,849)	3,618
Capital expenditure	(1,781)	(5,323)	(6,294)	(8,201)	(7,224)	(1,601)	(708)
Investments	(55)	53	(256)	(3,648)	2,749	-	-
Other income	115	107	46	186	100	100	100
Free cash flow	**(589)**	**(5,184)**	**(7,102)**	**(10,876)**	**(3,165)**	**4,579**	**17,785**
Ratios (%)							
Debt/equity	0.6	0.7	1.6	1.1	0.9	0.5	0.2
Net debt/equity	(0.1)	0.2	1.1	0.8	0.8	0.5	0.0
RoAE	6.2	19.1	22.0	29.6	27.5	32.5	28.9
RoACE	**4.4**	**11.6**	**10.3**	**13.8**	**17.1**	**22.0**	**23.1**

Source: Company, Kotak Institutional Equities estimates.

"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: Prashant Vaishampayan, Nitin Bhasin."

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 31/03/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities. As of March 31, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% 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.