

December 21, 2006

FOR PRIVATE CIRCULATION

Equity

	20 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,340	(0.3)	(2.0)	8.7
Nifty	3,816	(0.4)	(2.6)	7.4
Banking	6,842	(1.0)	(3.4)	19.3
IT	3,480	(0.3)	(1.8)	15.4
Healthcare	3,684	0.1	(0.2)	1.2
FMCG	1,903	(0.1)	(6.4)	(8.7)
PSU	5,889	0.2	(3.9)	2.5
CNX Midcap	4,923	(0.3)	(0.9)	8.6
World indices				
Nasdaq	2,427.6	(0.1)	(1.1)	8.5
Nikkei	17,011	1.4	8.5	7.8
Hangseng	19,240	1.5	1.1	9.0

Value traded (Rs cr)

	20 Dec 06	% Chg - 1 Day
Cash BSE	4,174	9.5
Cash NSE	10,067	11.0
Derivatives	46,081	5.0

Net inflows (Rs cr)

	19 Dec 06	% Chg	MTD	YTD
FII	(673.4)	268.6	(2,411)	37,458
Mutual Fund	10.7	(76.5)	(1,140)	13,245

FII open interest (Rs cr)

	19 Dec 06	% chg
FII Index Futures	11,599.4	10.1
FII Index Options	6,133.0	0.9
FII Stock Futures	15,575.1	(3.2)
FII Stock Options	146.3	(14.8)

Advances/Declines (BSE)

	20 Dec 06	A	B1	B2	Total	% Total
Advances	78	250	397	725	42	
Declines	130	383	416	929	54	
Unchanged	5	17	36	58	3	

Commodity

	20 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	63.2	(0.8)	5.1	2.7
Gold (US\$/OZ)	620.4	(0.4)	(0.9)	6.4
Silver (US\$/OZ)	12.5	(1.5)	(3.8)	12.3

Debt/forex market

	20 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.59	7.59	7.46	7.67
Re/US\$	44.74	44.75	44.98	45.95

Sensex



Source: Bloomberg

ECONOMY NEWS

- The empowered group of ministers on SEZs is scheduled to consider new restrictions, including a ceiling on land acquisition for multi-product SEZs and freeze on new IT SEZs in Tier-1 cities like Mumbai, Bangalore, Chennai and Hyderabad. (ET)
- In a significant step towards greater availability of long-term finance for the infrastructure sector, Finance Minister P Chidambaram has announced the setting up of a committee headed by HDFC Chairman Deepak Parekh to look into the gamut of issues. (BS)
- FDI inflows into India registered a 134.62% rise in April-October 2006 to touch \$6.1 bn as compared to \$2.6 bn in the same period last year. In October 2006, FDI inflows stood at \$1.7 bn as compared to \$0.412 bn received in the same month last year. (BL)
- The Center's net direct tax collections rose 42.5% in April 1-December 18 period to touch Rs.1334.61 bn. Corporate taxes were up 51.2% at Rs.836.14 bn for the period under review. (BL)
- India's exports during November 2006 stood at \$9.68 bn, a 57% rise on a YoY basis, as compared to \$6.16 bn in the same month last year. Exports during October this year stood at \$9.6 bn, indicating that the growth momentum is being maintained this year. (BS)

CORPORATE NEWS

- **Gitanjali Gems Ltd** has acquired 97% equity stake in the US jewelry retailer, Samuels Jewellers, from DDJ Capital Management LLC for Rs.2 bn. (ET)
- **Tech Mahindra** has bagged a \$1-bn contract from British Telecom (BT). This is the largest deal to be bagged by an Indian software services firm. (ET)
- **BPCL** plans to invest Rs.60 bn in the exploration and production business to transform itself into a fully integrated oil company. BPCL has set up a separate company, Bharat Petroresources, with an authorized capital of Rs.10 bn. (ET)
- The Appellate Tribunal for Electricity today directed **Tata Power Company (TPC)** to refund Rs.3.54 bn that **Reliance Energy** had paid it earlier as stand-by charges for electricity supply in Maharashtra, but TPC said it is considering challenging the verdict in the Supreme Court. (BS)
- **HCL Technologies** has bagged a \$200-mn, multi-service, five-year contract from financial services provider Skandia UK. Under this deal, HCL will hire about 250 employees of Skandia UK and continue to hire more at its Chennai center. (BL)
- An Oberoi-**L&T** joint bid has been chosen to set up a five-star, 321-room hotel at the upcoming Bangalore international airport at Devanahalli. (BL)
- **DLF** has won the bid for developing a 5.56-acre land in the heart of Chennai that belongs to Madras Race Club. The company intends to build a mall-cum-multiplex complex, a project that is expected to cost Rs.3 bn.
- There were reports of possible negotiations between UK telecom major Vodafone and the Essar Group. Speculation about Vodafone's entry into the race gained further ground with the company's recent sale of its Swisscom stake. (ET)
- Maxis of Malaysia is finalizing a bid for **Hutchison Essar**. The Maxis bid has the option of buying Hutchison's 49% stake in Hutchison Telecommunications International Ltd or directly acquiring HTIL's 67% stake (with its associates) in Hutchison Essar. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

COMPANY VISIT NOTE

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Stock details

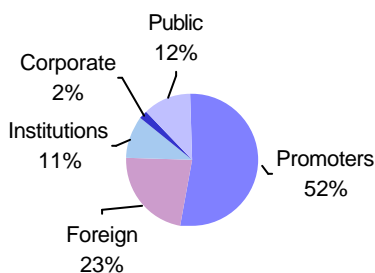
BSE code	: 500257
NSE symbol	: LUPIN
Market cap (Rs bn)	: 45.8
Free float (%)	: 48%
52-wk Hi/Lo (Rs)	: 655/452
2 Wk Avg Volume	: 19,281
Shares o/s (mn)	: 80.3

Summary table

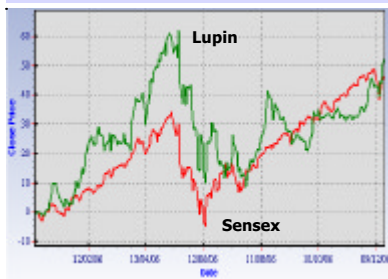
(Rs mn)	FY06	FY07E	FY08E
Revenues	17,518	20,528	23,232
Growth (%)	38.2	17.2	13.2
EBITDA	2,800	3,404	4,137
EBITDA margin (%)	16.5	17.0	18.2
Net profit	1,734	2,444	3,201
Net Margin (%)	10.2	12.2	14.1
EPS diluted (Rs)	21.6	27.7	36.3
Growth (%)	88.0	28.4	31.0
DPS (Rs)	6.5	4.0	5.0
RoE (%)	31.2	25.2	22.1
RoCE (%)	19.1	18.5	19.5
EV/Sales (x)	2.6	2.4	2.0
EV/EBITDA (x)	16.2	14.3	11.5
P/E (x)	23.6	20.6	15.7
P/BV (x)	6.6	3.8	3.2

Source: Company & Kotak Securities - Private Client Research

Shareholding pattern Q2FY07



One-year performance (Rel to sensx)



Source: Capitaline

LUPIN LIMITED (Rs.580, FY07E P/E: 20.6x, HOLD)

Lupin is an integrated pharmaceutical company with strong R&D base. It has product portfolio of over 200 molecules skewed towards anti-TB, anti-infective and cardiovascular segment. It has been ranked as the 12th largest pharma company in domestic market with 8 brands among top 350 brands by ORG-IMS (MAT July-06).

We expect revenues to grow at 15% CAGR during FY06-08E on the back of 14% and 17.5% compounded growth in sales in domestic and exports markets, respectively. Operating margin is expected to increase by 170bps to 18.2% over the next two years with improved product flow. The company has clocked a strong 88% earnings growth in FY06, and we expect the same to grow by 41% in FY07E and 31% in FY08E. We believe that existing products basket will continue to perform stably and generic Cefdinir would be big growth driver in FY08E. The company, which is targeting US\$1bn revenues by 2009, expects to achieve its goal by increasing the number of products, expanding into new therapeutic areas, entering new countries and making acquisitions.

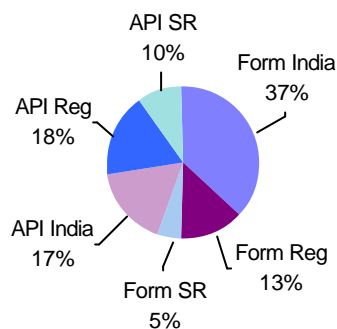
We are bullish on the prospects of Lupin Ltd, we recommend a HOLD with a target price of Rs.610. Any reaction in the price can be used as an opportunity to BUY at lower level.

Business seems to be on a strong growth footing

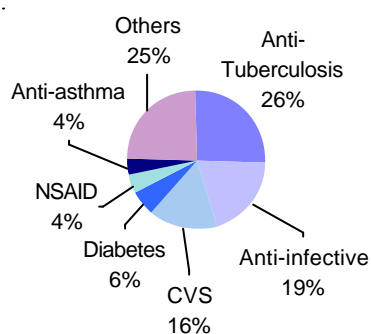
Lupin has turned out a robust performance with excellent result in FY06. It has delivered on all fronts including research, formulations APIs, intermediates and branded generics across all markets globally. The key attributes for this result were meticulous planning, investment and execution in research, marketing and production over the last three years. Last year, the company has announced its goal to reach US\$1 billion in sales by 2009 and based on the year's performance, it is hoping to achieve this goal. However, we believe that company has set very tough target and to achieve this target it has to grow at a CAGR of 30% until 2009, which the company has planned. The company is also looking for inorganic growth which makes good sense for the company if it provides a synergistic advantage, or helps in leapfrogging its growth. In a bid to capture such opportunity, it had raised US\$100mn in Dec-05 through convertible bonds to finance acquisition and/or capital expenditures.

Strong growth in domestic formulation portfolio led by changing therapeutic mix.

We expect domestic formulation sales to grow 20% to Rs7.28bn in FY07E and 15% to Rs8.37bn in FY08E led by shift in therapeutic focus, increase in number of combinations and delivery system based products. In FY06, it has clocked a growth of 23% to Rs6.07bn (despite a flat growth in top two segments) on the back of new products introduction and increased focus on chronic therapies like CVS, diabetic and Asthma which collectively grew by 78%. The company is optimistic about growth in domestic market for next few years and expects 20-25% revenue growth in FY07E and improvement in margins.

Geography wise Revenue Break-up

Source: Company Annual Report

Domestic Therapeutic mix

Source: Company Annual Report

(a) Changing therapeutic focus...

India remains the largest market for the company, contributing 52% of net sales (Formulations 36% and API 16%). The domestic formulation portfolio comprises of over 200 molecules, spread across several therapies. The domestic formulations segment, too, is dominated by anti-TB and cephalosporin, which constitute about 45% of domestic formulation sales (down from 56% in FY05). However, recently, Lupin has taken active steps to focus on growing segments like cardiovascular, diabetes, asthma, and NSAIDs that drove the growth in FY06. Besides, it has put a renewed thrust on combinations and delivery system based products, which has resulted in a growth that is 2.5 times the market growth.

Domestic formulation sales (Therapeutic breakup)

(Rs mn)	FY05		FY06		Growth (%)
	Sales	(%)	Sales	(%)	
Anti-Tuberculosis	1628	33	1578	26	-3
Anti-infective (Cephs)	1135	23	1153	19	2
Cardiovascular	543	11	971	16	79
Diabetes	247	5	364	6	47
NSAID	148	3	243	4	64
Anti-asthma	99	2	243	4	145
Others	1135	23	1517	25	34
Domestic formulation sales	4935	100	6069	100	23

Source - Company Annual Report

(b) New products launches...

New products launched during the last three years now constitute nearly 25% of the domestic formulations sales, of which 8% was from those launched in FY06 alone. The company ranked first in new product sales in 2005 (ORG IMS MAT Dec-05). Infact it was also categorized as a 'high growth, high turnover' company. The company ranks number two in the asthma segment, with market share of 5%. Infact Asthma was a logical extension, given the company's franchise with cough physicians (owing to anti-TB medicines).

(c) Improving field force productivity...

The company has increased its sales force by 450 last year, and restructured and formed separate divisions focusing on the growing segments. Its "Pinnacle" division focuses on cardiovascular and anti-diabetes. This division launched nine new products in FY05. The "Endeavour" division focuses on cephalosporin and NSAIDs and launched five new products. The "Lupin" division focuses on anti-TB, anti-asthma, anti-infective, anti-allergic, and supportive therapy products. Field-force productivity has improved to Rs3.4mn, but still lags industry average of Rs4mn.

Domestic marketing divisions

Marketing division	No. of Brands	Therapeutic Focus
Pinnacle	42	Chronic Therapy - Anti-diabetic, Cardiovascular.
Endeavour	25	Acute Therapy - Anti-infective (NSAID)
Lupin	98	Semi-acute Therapy - Respiratory (Anti-asthma, Anti-TB, Anti-biotic)
Lupinova	43	Anti-biotics, NSAID, Nutritional supplements.
Herbal	19	Gynaecology, Paediatrics Musculoskeletal and General medicine.
Total	227	

Source: Company, Kotak Securities - Private Client Group Research.

US formulation likely to touch US\$100mn sales by FY08E

Lupin entered the US generic pharmaceutical market in 2003 with the ANDA approval for cefuroxime axetil. Since then it has received total 16 ANDA approvals from US FDA, of which six were the first granted by the US FDA, reinforcing its ability to submit high quality dossiers and gain on time approvals.

Lupin is focusing on generics and branded pediatric segment in the US markets through its own sales and distribution channel (except for hospital products). In FY06, sales from US markets were US\$45mn, of which about 70% came from two major products. Going forward, we expect US sales to rise to US\$69mn in FY07 and US\$100mn in FY08E, contributing around 20% to FY08E revenues.

In FY08E, one more important launch in the US market is anti-biotic Cefdinir (Omnicef) which is going off-patent in May-07 and having approximate annual sales of US\$600mn. We have assumed US\$30mn sales from this product in FY08, assuming 80% price erosion and 25% market share. As of now, Lupin is the only company to have an approval for this product and only 3-4 other companies have filed/are expected to launch on patent expiry.

The company has recently received two more approvals for viz. injectable cephalosporin and small cardiovascular drugs (in the prils category) which will result in few more good launches. In total, the company has 25 ANDAs pending approval (16 approved), and hopes to make about 15 new filings each year.

Key product sales in the US market

(US\$ Mn)	FY06	FY07E	FY08E
Suprax (Cefixime)	15	18	18
Ceftriaxone	16	16	12
Cefdinir	0	0	30
Cefprozil	5	5	5
Lisinopril	5	10	10
Others	4	20	25
Total	45	69	100

Source - Company, Kotak Securities - Private Client Research Estimates

Currently, the company is selling Suprax (Cefixime, an antibiotic for kids, with about US\$15mn sales) and is making profits. The company plans to add two more products this year, so as to increase the throughput of its sales-force. It has moved from contract sales to own sales force, with about 50 people. While this highlight the company's confidence on its pipeline, it also highlights the risk of fixed costs attached with the sales force.

API business to remain steady and strong; to grow by 8-10%

The company has expanded its capacity for 7ADCA/7ACCA based products last year, for which it expects volumes to rise significantly in the next few quarters. The company expects the pricing for Pen G-based products to remain stable and rising volumes may have marginal positive impact on margins. For its Statins, the company is steadily increasing its product and market range. Presently, it is selling bulk actives largely to less-regulated countries and intermediates to regulated markets (directly or indirectly). APIs and Intermediates constitute around 44% of consolidated net sales and have grown at an annualized rate of 10% for the last two years. The company maintains that this business will remain strong and to be a stable revenue stream. It expects API business to register 8-10% growth for couple of years on the back of huge investments and improved efficiencies. However our model assumes only 8% growth in FY07E and 5% growth in FY08E.

API Sales - Therapeutic Break-up

(Rs Mn)	FY05		FY06		Growth (%)
	Sales	(%)	Sales	(%)	
Cephalosporin	3,586	54	4,875	65	36
Anti-TB	1,262	19	1,350	18	7
Cardiovascular	1,792	27	1,275	17	-29
Total API sales	6,640	100	7,500	100	13

Source - Company Annual Report

Today, Lupin is the biggest manufacturers in the world of APIs and Intermediate Ethambutol, Rifampicin, Pyrazinamide, 7 ACCA, 7 ADCA and Lisinopril.

Global Position in API & Intermediates

Products	Therapeutic Area	Global Rank
Ethambutol	Anti-TB	1
Rifampicin	Anti-TB	1
Pyrazinamide	Anti-TB	1
7 ACCA	Cephalosporin-Inter.	2
7 ADCA	Cephalosporin-Inter.	1
Lisinopril	CVS	1

Source: Company

50% jump in revenues expected from Non-Regulated Markets

We expect revenues from non regulated markets to grow by about 50% to Rs1.2bn in FY07E from Rs802mn in FY06, mainly driven by more approvals, new product launches and lower base. In fact, revenues from these markets have tripled to Rs400mn in Q1 FY07E from Rs131mn in corresponding period. It has also entered into agreements with three companies (Aspen SA, Ranbaxy and GSK Philippines) for supplying its anti-TB range for select markets in Africa and Asia.

Leveraging field force through in-licensing alliance

In an effort to leverage its strong field force, Lupin has entered into in-licensing marketing pact with Italfarmaco of Italy to market their cardiovascular critical care product, Enoxaparin Sodium Injection, in pre-filled syringes under the brand name "LUPENOX" in the Indian market. We believe that success of this arrangement would improve the visibility and establish Lupin as a preferred marketing partner (for Indian region) for global life science companies who are looking at India to launch their drugs.

Focusing on partnership model to enter into new markets

The company is on the look out for partnership (supply agreements) through joint ventures to enter into new markets viz. Europe, Australia and Japan to expand its horizon and increase revenues from its existing product portfolio as competition and government price controls at home may impact earnings growth. We view this as a rational move because such type of arrangement not only saves upfront capital cost in setting up infrastructure and distribution network but also helps in mitigating the operational risk. For instance, it recently has entered into a joint venture agreement with one company in Australia (where it seeks to expand) and plans to invest around US\$7.6mn in joint venture unit for 87.5% stake. The company has also increased its focus on emerging markets where it expect to register a growth of more than 50% due to low base effect.

Plans to foray into CRAMS business

Going forward, Lupin is planning to enter into contract research and manufacturing business, so that it can leverage its skills in complex chemistry, world class USFDA approved manufacturing facilities and strong relationships with global life science companies. The company expects revenue from this business to start flowing in two years time.

Margins are on an upward trend

With an improvement in product mix, better efficiency, and modest increase in general and administration expenses and R&D costs, we expect EBITDA margin (including other operating income) to rise to 18.2% in FY08E, up from 16.5% in FY06.

On the prowl for acquisition, raised US\$100mn through FCCB.

Like other pharma companies, Lupin is also on the prowl for inorganic growth which makes good sense for the company if it provides a synergistic advantage, or helps in leapfrogging its growth. The company had raised US\$100mn in Dec-05 through convertible bonds, for the purpose of financing future acquisition and partly for capital expenditures.

The company has issued 1000 five-year zero coupon convertible bond of a face value of US\$100000, priced at Rs567, or 50% premium over market price Rs378 on Dec 6th 2005 with 6.05% YTM. After full conversion share capital will increase by Rs78.7mn, thus diluting equity by 10%.

Valuation and recommendation

We recommend a HOLD on Lupin with a price target of Rs.610 (upside 5%)

- We believe that the company can clock revenue growth of 17% in FY07E and 13% in FY08E. Operating margin was 15.6% in Q2FY07, which the company hopes to better, with improved product flow and capacity utilization. Our model assumes operating margin (including other operating income) of 17% in FY07E and 18.2% in FY08E, up from 16.5% in FY06. We expect net profit of Rs2.44bn in FY07E and Rs3.2bn in FY08E, which implies a fully diluted EPS of Rs27.7 and Rs36.3 respectively.
- At current market price Rs580, the stock is trading at 21x FY07E and 16x FY08E earnings and 11.7x FY08E EV/EBITDA. We believe that the stock is fairly valued and initiate our coverage with a **HOLD** recommendation with a DCF-based target price of Rs.610 per share for one year time horizon.

Key risks and concerns

- Price cut and/or potential slowdown in domestic formulation market and risk of failure in NDDS research initiatives.
- Greater than anticipated pricing pressure and/or loss of market share in key products like Ceftriaxone, Cefprozil, Lisinopril, and Suprax could have negative impact on sales and profitability.
- Delay in ANDA filing and/or approval followed by delay in new product launch. Any delay in DMF or dossier filing and supply of APIs.

Financials: Lupin Limited

Profit and loss statement (Rs mn)				
Year end March	FY06	FY07E	FY08E	FY09E
Revenues	17,518	20,528	23,232	25,393
% Change Y-o-Y	38.2	17.2	13.2	9.3
Total Expenditure	14,718	17,124	19,095	20,910
EBITDA	2,800	3,404	4,137	4,483
% Change Y-o-Y	100.4	21.6	21.5	8.4
Other Income	177	300	300	300
Depreciation	409	424	465	482
EBIT	2,568	3,280	3,973	4,301
Interest	313	335	335	335
Profit before tax	2,255	2,945	3,637	3,966
Tax	521	501	436	476
as % of PBT	23.1	17.0	12.0	12.0
Net Income	1,734	2,444	3,201	3,490
% Change Y-o-Y	88.0	41.0	31.0	9.0
Shares outstanding (Mn)	80.3	88.2	88.2	88.2
EPS - Fully diluted (Rs)	21.6	27.7	36.3	39.6
CEPS (Rs)	26.7	32.5	41.6	45.1
BVPS (Rs)	78	149	180	214
DPS (Rs)	6.5	4.0	5.0	5.0

Balance sheet (Rs mn)				
Year end March	FY06	FY07E	FY08E	FY09E
Shareholder's Equity	401	882	882	882
Reserves	5,831	12,257	14,956	17,944
Total Network	6,233	13,139	15,837	18,825
Minority Interest	16	16	16	16
Secured Loans	4,410	4,410	4,410	4,410
Unsecured Loans	4,840	378	378	378
Total Loans	9,249	4,788	4,788	4,788
Net deferred tax liability	939	998	1,071	1,150
Total Liability	16,437	18,940	21,711	24,778
Net Fixed Assets	6,718	7,294	7,829	7,847
Investments	28	28	28	28
Inventory	3,429	3,894	4,420	4,840
Debtors	3,112	3,338	3,789	4,149
Cash & Bank Balance	4,774	6,163	7,615	10,071
Loans & Advances	2,360	2,403	2,728	2,987
Current Liabilities	3,147	3,180	3,561	3,900
Provisions	837	1,001	1,137	1,245
Net Current Assets	9,691	11,618	13,854	16,903
Total Assets	16,437	18,940	21,711	24,778

Cash flow statement (Rs mn)				
Year end March	FY06	FY07E	FY08E	FY09E
PAT	1,734	2,444	3,201	3,490
Depreciation	437	483	537	561
Change in NWC	1,128	538	784	593
Operating Cash Flow	1,042	2,389	2,955	3,458
Investments	2	-	-	-
Capex	769	1,000	1,000	500
Investment Cash Flow	(767)	(1,000)	(1,000)	(500)
Loans	4,677	(4,462)	-	-
Dividend	298	402	502	502
Issue of capital	(58)	4,863	-	-
Financial Cash Flow	4,321	(1)	(502)	(502)
Change in Cash	4,504	1,388	1,452	2,456
Opening Cash	271	4,775	6,163	7,615
Closing Cash	4,775	6,163	7,615	10,071

Source: Company, Kotak Securities - Private Client Research

Ratio analysis				
Year end March	FY06	FY07E	FY08E	FY09E
Debt-Equity Ratio	1.5	0.4	0.3	0.3
Current Ratio	3.4	3.8	3.9	4.3
Inventory Turnover	72.8	70.0	70.0	70.0
Debtors Turnover	66.1	60.0	60.0	60.0
Fixed Assets Turnover	2.2	2.3	2.3	2.3
Interest coverage (x)	8.2	9.8	11.9	12.8
EBITDA Margin (%)	16.5	17.0	18.2	18.0
PAT Margin (%)	10.2	12.2	14.1	14.0
RoE (%)	31.2	25.2	22.1	20.1
RoCE (%)	19.1	18.5	19.5	18.5
EV/Sales (x)	2.6	2.4	2.0	1.8
EV/ EBITDA (x)	16.2	14.3	11.5	10.0
Price to earnings (x)	23.6	20.6	15.7	14.4
Price to book value (x)	6.6	3.8	3.2	2.7
Price to cash earnings (x)	19.1	17.5	13.7	12.7

Peer valuation*								
Company	Price (Rs)	EPS (Rs)	P/E (x)	P/B (x)	EV/EBITDA (x)	RoE (%)	EBITDA (%)	NPM (%)
Lupin Ltd	580	27.7	20.9	3.9	14.6	25%	17%	12%
Glenmark Pharma	570	21.7	26.3	7.6	19.2	40%	31%	22%
Nicholas Piramal	237	10.9	21.7	4.4	13.8	21%	16%	10%
Orchid Chemicals	192	15.4	12.5	1.4	7.5	12%	28%	10%
Sun Pharma	937	34.0	27.6	8.1	22.6	34%	37%	32%
Wockhardt**	331	17.6	18.9	2.8	10.1	19%	23%	13%

Source: Kotak Securities - Private Client Group Estimates; * Estimates based on FY07 earnings; ** December Year End

COMPANY UPDATE

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KSB PUMPS

(Rs.608, CY07E P/E: 17.7x, BOOK PROFITS)

We had recommended a HOLD with a price target of Rs.600 on KSB Pumps. The stock has achieved our price target and in view of this, we are recommending that investors BOOK PROFITS.

KSB Pumps is the Indian subsidiary of one of the largest manufacturers and sellers of pumps and valves in the world, the German KSB AG. The annual turnover of KSB AG is about €1.2 bn. The company caters to the building services segment, industry and water utilities and the energy and mining sectors. KSB AG has 29 manufacturing sites in 19 countries and over 125 years of experience.

KSB India's performance for CY06 has been lackluster so far. It reported sluggish revenue growth, which has been lower than our growth expectations. For 9MCY06, KSB Pumps reported 9% growth in revenues and 34% rise in net profits. Earnings growth has been aided by margin expansion.

Summary table

(Rs mn)	CY05	CY06E	CY07E
Sales	3599	3969	4744
Growth (%)	18.2	10.3	19.5
EBITDA	652	805	984
EBITDA margin (%)	18.1	20.3	20.7
Net profit	376	511	598
Net cash (debt)	368	547	824
EPS (Rs)	21.7	29.4	34.4
Growth (%)	25.8	35.4	17.0
CEPS	27.4	34.8	42.3
DPS (Rs)	4.0	4.0	4.0
ROE (%)	25.3	27.4	25.5
ROCE (%)	35.9	37.9	35.9
EV/Sales (x)	2.8	2.5	2.1
EV/EBITDA (x)	15.7	12.5	9.9
P/E (x)	28.0	20.7	17.7
P/Cash Earnings	22.2	17.5	14.4
P/BV (x)	6.4	5.1	4.0

Source: Company & Kotak Securities - Private Client Research

We recommend BOOK PROFITS

Quarterly performance

	Q3CY06	Q3CY05	% chg	9MCY06	9MCY05	% chg
SalesTurnover	902	877	3	2,981	2,729	9
Other income	14	11	27	47	33	42
RM costs	378	369	2	1,242	1,235	1
Staff costs	128	126	2	403	375	7
Other exp	233	219	6	708	629	13
Op exp	739	714	4	2,353	2,239	5
Operating profit	163	163	0	628	490	28
Interest	1	2	-50	3	4	-25
Depreciation	21	23	-9	63	68	-7
PBT	155	149	4	609	451	35
Tax	60	51	18	213	156	37
PAT	95	98	-3	396	295	34
OPM (%)	18.1	18.6		21.1	18.0	
Tax rate (%)	39	34		35	35	
Other exp to sales (%)	26	25		24	23	
RM costs to sales (%)	42	42		42	45	
Staff costs to sales (%)	14	14		14	14	

Source: Company

The stock is currently trading at 17.7x CY07 earnings and a forward EV/EBITDA of 9.9x. We recommend **BOOKING PROFITS**.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
20-Dec	Axtel Industr	Brijal Yogesh Parikh	B	64,700	12.17
20-Dec	Bilpower Lt	Yogita Mundada	B	47,200	138.43
20-Dec	Bindu Syn.	Lehman Lb Holding Cayman	S	120,000	229.35
20-Dec	Filat Fash	Raghu Ram Vallam Setty	S	35,000	6.73
20-Dec	Intern Diamo	Surekhaven Shah	S	30,000	5.65
20-Dec	Kew Industr	Credo Capital Plc Acc Kii	B	150,000	29.91
20-Dec	Kew Industr	Neetish R Doshi	S	93,330	29.85
20-Dec	Kotawala(I)	Padma Rathi	B	26,400	66.05
20-Dec	Kotawala(I)	Seema Rathi	B	35,000	66.05
20-Dec	Mahar Polybu	Simran Sunil Raheja	B	110,088	13.96
20-Dec	Mefcom Agr I	Mangesh D Rajadhyaksha	B	19,800	115.25
20-Dec	Morarjetex	Hardik B Patel	B	180,000	63.35
20-Dec	Navin Fluori	Kotak Mahindra UK Ltd Ac	S	133,869	297.79
20-Dec	Osian Lpg Bo	Own	S	80,000	15.95
20-Dec	Pantaloon In	Jhawar Commodities Pvt Lt	B	29,907	381.76
20-Dec	Paramo Commu	Manulife Global Fd India	B	95,000	215.10
20-Dec	Patel Airtem	Harsiddh Specific Family	S	50,000	44.90
20-Dec	Ramsarup Ind	Manulife Global Fd India	B	191,500	135.14
20-Dec	Tripex Over	Lakhani Marketing Private	B	57,500	164.98
20-Dec	Vamshi Rubbe	Vinay Mahavir Mehta	B	22,700	12.58
20-Dec	Var Polytex	Adish Oswal	B	75,500	110.00
20-Dec	Var Polytex	UTI Bank Ltd	S	145,000	110.00
20-Dec	Velan Hotels	IDBI Ltd	S	40,000	19.15
20-Dec	Vinay Ceme L	Bhamaribai B. Jain	S	59,020	26.91
20-Dec	Vivimed Labs	D K Jain.	B	70,000	214.25
20-Dec	Vivimed Labs	Search Finvest Limited	S	74,762	215.45
20-Dec	Vyapar Inds	Mohib Noman Khericha	B	100,000	107.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Wipro	555	(2.0)	(3.3)	1.4
Hindustan Lever	218	(3.1)	(3.1)	3.9
TCS	1,129	(1.2)	(2.6)	0.9
Losers				
ONGC	858.1	1.5	5.5	2.6
ITC	170.4	1.2	1.5	9.1
Infosys Tech	2,170.7	0.6	1.5	1.3

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
21-Dec	Great Offshore listing on BSE & NSE; Tata MF holds press conference to announce its new initiatives; HCL Infosystems organises event for HCL Beanstalk 2007
22-Dec	Indian Oil Corp to announce interim dividend
23-Dec	ONGC to announce interim dividend
26-Dec	Bharat Petroleum Corp to announce interim dividend; Glenmark to announce interim dividend
28-Dec	Union Bank to announce interim dividend

Source: Bloomberg

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