

Equity indices	% Chg			
	8-Feb	1-day	1-mth	3-mth
India				
Sensex	17,465	(0.4)	(16.1)	(7.6)
Nifty	5,120	(0.3)	(17.4)	(9.6)
Global/Regional markets				
Dow Jones	12,182	(0.5)	(3.4)	(6.6)
Nasdaq	2,305	0.5	(5.5)	(12.3)
FTSE	5,784	1.0	(6.7)	(8.3)
Nikkei	13,017	(1.4)	(7.8)	(16.5)
Hang Seng	23,095	(1.6)	(15.0)	(22.3)

Value traded (Rs bn)	BSE	NSE
Cash	63.5	135.5
Derivatives	11.1	394.2
Total	74.6	529.7

Net inflows (Rs bn)	Recent trends (days)			
	7-Feb	-7d	-15d	-30d
FII	(1.7)	7.2	(103.0)	(105)
MF	(0.8)	27.5	73.5	76.3

Forex / Crude	% Chg			
	8-Feb	1-day	1-mth	3-mth
Rs/US\$	39.6	(0.0)	(0.9)	(0.7)
Euro/US\$	1.5	0.2	(1.6)	0.0
Crude (\$/bbl)	92.1	0.3	(0.7)	(4.4)

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
Top gainers			
Balkrishna Indu	786.1	732.6	7.3
Bank of Rajasthan	136.1	127.2	7.0
NIIT	118.9	111.9	6.3
Top losers			
GujaratStatePetro	69.1	76.4	(9.6)
Provogue India	1,164.9	1,273.5	(8.5)
Vakrangee Soft	189.8	205.1	(7.5)

In focus

Opto Circuits (India) – Results Update

Dream run continues CMP: Rs 400 Target: Rs 568 BUY

Balaji Telefilms – Results Update

Subdued growth but expected to pick up pace CMP: Rs 217 Target: Rs 375 BUY

Parsvnath Developers – Results Update

Solid performance CMP: Rs 274 Target: Rs 512 BUY

Mercator Lines – Results Update

Strong performance CMP: Rs 107 Target: Rs 177 BUY

News track

- ❖ In a move aimed at discouraging rice exports, the Centre plans to further raise the minimum export price (MEP) of non-basmati shipments. This comes even as India's rice production is said to have touched an all-time high of 94.1mn tonnes, as per the Agriculture Ministry's 'second advance' estimate for 2007-08. (BL)
- ❖ M&M is in talks with Chrysler for its 'Jeep' brand range of vehicles. The company will also set up five engineering institutes for training of personnel and to bring new talent into the company. (ET)
- ❖ Eastern Silk Industries (ESI) is foraying into the manufacture of velvet fabric, primarily targeting the home furnishings market, and will invest Rs 400mn to set up eight new looms at its Bangalore plant for this purpose. (BS)
- ❖ Moser Baer India is investing ~US\$ 1.5bn in increasing its thin-film photovoltaic capacity to 600MW over the next two years from the existing project capacity of 40MW. (ET)
- ❖ Shipping Corporation of India (SCI) plans to foray into the door-to-door logistics business through tie-ups with players who are already in the logistics segment. (BS)
- ❖ Russian conglomerate JSFC Sistema is looking to enter into the market for real estate, hotels, hi-tech electronics, infrastructure and highway development in India. (BS)

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

Volume shockers

(No of shares)	8-Feb	2-mth avg	Chg (x)
Container Corp	313,756	23,899	13.
United Breweries	626,110	61,423	10.
KEC International	63,432	9,842	6.4

Delivery toppers

Company	Del (%)	Tot. vol	Cons days up
Aban Offshore	54.8	57,714	(3)
ABB India	44.4	212,138	6
Alstom Proj	44.0	32,241	(3)

Opto Circuits (India)

Results Update

CMP: Rs 400

Target: Rs 568

BUY

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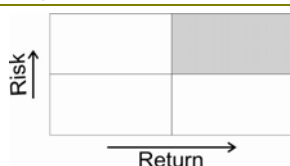
Company data

Particulars	
Market cap (Rs bn / US\$ mn)	37.7/954.0
Outstanding equity shares (mn)	94.2
52-week high/low (Rs)	585/250
3-month average daily volume	50,066

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	2,515.7	4,537.4	6,552.4
Growth (%)	80.0	80.4	44.4
Adj net inc (Rs mn)	742.2	1,320.9	1,910.9
Growth (%)	91.8	78.0	44.7
FDEPS (Rs)	7.7	13.8	19.9
Growth (%)	89.1	79.2	44.7
P/E (x)	52.1	29.1	20.1
ROE (%)	50.2	46.3	44.6

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	30.4	30.4
FIs	25.5	24.1
Banks & FIs	4.5	4.3
Public	39.6	41.2

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Opto Circuits	400	(17.6)	3.6	48.4
Sensex	17,527	(16.0)	(8.0)	14.5
BSE HC	3,640	(15.3)	(5.7)	(0.9)

Company website www.optoindia.com

Dream run continues

Opto Circuits (India) has once again reported above-expected quarterly numbers. Increasing demand for non-invasive products like SpO2 sensors and pulse oximeters, coupled with growing acceptance of stents and an increasing market reach has led to a 103% YoY growth in sales for the quarter. However, the EBITDA margin declined by 420bps to 28.3% on account of higher material cost, increasing R&D expenditure for clinical trials in the US, and increased marketing spend on stents during the quarter. Opto is in the process of effecting a price hike on its products to protect margins. Higher other income in Q3FY08 drove PAT growth of 79% YoY to Rs 358mn.

Opto continues to outperform our estimates quarter on quarter. Rising demand for non-invasive products, growing market penetration and quality product offerings like Dior, Magical and Taxcor remain key growth drivers for the company. In addition, the procedure for obtaining USFDA approval for its stents is progressing smoothly and the first product is on track to be launched in 2009.

We have raised our EPS estimates for FY08 by 7% to Rs 13.8 and for FY09 by 1.5% to Rs 19.9 to factor in the strong 9mFY08 performance. We introduce FY10 numbers and maintain a Buy on the stock with a target price of Rs 568 based on 19x FY10 earnings. We believe Opto deserves rich valuations considering the increasing visibility in the business and significant entry barriers to fresh competition.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,273.2	1,016.7	25.2
EBITDA	359.7	337.0	6.7
Adj net income	357.5	312.0	14.6
FDEPS (Rs)	3.8	3.3	14.6

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Growth	9mFY08	9mFY07	% Growth
Sales	1,273.2	628.0	102.7	3,475.8	1,673.6	107.7
Expenditure	(913.5)	(423.9)	115.5	(2,455.1)	(1,150.3)	113.4
Operating profit	359.7	204.1	76.2	1,020.7	523.3	95.0
Other income	37.1	16.8	120.8	61.3	36.7	67.0
Interest	(27.8)	(13.4)	107.5	(73.0)	(50.5)	44.6
Depreciation	(7.5)	(5.9)	27.1	(22.2)	(16.1)	37.8
PBT	361.5	201.6	79.3	986.8	493.4	100.0
Tax	(4.0)	(1.3)	207.1	(10.3)	(2.9)	252.6
PAT	357.5	200.3	78.5	976.6	490.5	99.1
OPM (%)	28.3	32.5	(4.2)	29.4	31.3	(1.9)
EPS (Rs)	3.8	2.1	78.5	10.4	5.2	99.1

Source: Company, Religare Research

Result highlights

Rising demand for non-invasive products; SpO2 market share on the rise

Growth recorded across segments

Opto's sales and PAT numbers are once again ahead of our estimates. The company is witnessing increasing demand for non-invasive products like SpO2 sensors and pulse oximeters. It has increased its market share in the SpO2 space from 2.5% in 2005 to over 7%. In addition, new product launches in the patient monitoring space have driven the quarter's performance.

EuroCor's stents are also gaining acceptance in Europe and the company is now selling products in over 30 markets. Its business is still at a nascent stage and we expect the company to meet with higher acceptance for its products through superior quality offerings like Dior, Magical and Taxcor. In addition, the process for obtaining USFDA approval for its stents is progressing smoothly and the first product is on track for launch in 2009. We estimate EuroCor to contribute 42% to total sales by FY10.

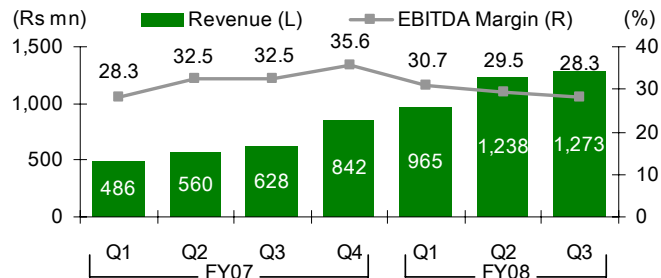
EBITDA margin dips due to higher material and SG&A cost

The EBITDA margin has declined by 420bps YoY to 28.3% mainly due to higher material cost for the quarter and increasing R&D expenditure for clinical trials in the US. In addition, the rupee appreciation against the dollar had a negative impact on margins. Further, higher marketing spend on stents during the quarter in the form of free samples to doctors and increased advertising for products led to a 200bps increase in SG&A cost.

While the EBITDA margin was slightly lower than our estimate during 9mFY08, Opto is looking at effecting a price hike for its products. This would have a positive impact on margins going forward. We estimate EBITDA margins to expand 110bps to 32.1% over FY08-FY10.

EBITDA margin dips 420bps; price hike on the cards to protect margins

EBITDA margin trend



Source: Company, Religare Research

Higher other income leads to 79% PAT growth

With the decline in the EBITDA margin, PAT failed to keep pace with sales growth for the quarter. However, higher other income (up 121% YoY to Rs 37mn) led to a PAT growth of 79% to Rs 358mn for the quarter.

Valuation

Earnings estimates raised to factor in strong 9mFY08; Buy

Estimates raised; Reiterate Buy

We have raised our EPS estimates for FY08 by 7% to Rs 13.8 and for FY09 by 1.5% to Rs 19.9 to factor in the strong 9mFY08 performance. We introduce FY10 numbers and maintain a Buy on the stock with a target price of Rs 568 based on 19x FY10 earnings. We believe Opto deserves rich valuations considering the increasing visibility in the business and significant entry barriers to fresh competition.

The key triggers to growth over FY07-FY10 would be as follows:

- ❖ EuroCor's stents achieving a wider geographical base and gaining greater acceptance
- ❖ Dior's strong leverage on its first-mover advantage
- ❖ Continued strength in the base business, leveraging on new product launches and the low-cost advantage. Competitors are expected to take at least two to three years to receive FDA and CE approval.

Revised estimates

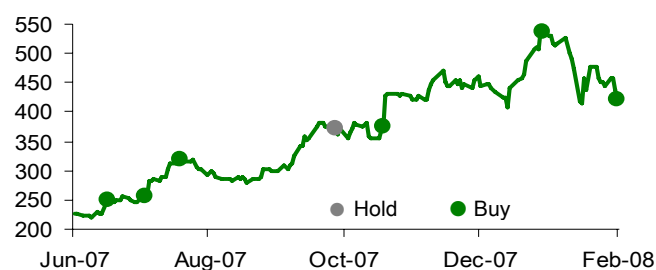
(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Net sales	4,034.6	4,537.4	12.5	6,012.8	6,552.4	9.0
Adj net income	1,229.0	1,320.9	7.5	1,868.6	1,910.9	2.3
FDEPS (Rs)	12.9	13.8	7.0	19.6	19.9	1.5

Source: Religare Research

Recommendation history

Date	Event	Reco price	Tgt price	Reco
25-Jun-07	Initiating Coverage	251	304	Buy
10-Jul-07	Results Update	257	304	Buy
26-Jul-07	Results Update	317	345	Buy
4-Oct-07	Company Update	370	345	Hold
26-Oct-07	Results Update	375	428	Buy
7-Jan-08	Quarterly Preview	543	568	Buy
11-Feb-08	Results Update	400	568	Buy

Source: Religare Research

Stock performance

Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	2,515.7	4,537.4	6,552.4	9,581.8
Growth (%)	80.0	80.4	44.4	46.2
EBITDA	825.7	1,406.6	2,064.0	3,075.8
Growth (%)	93.5	70.3	46.7	49.0
Depreciation	24.0	31.3	38.1	45.8
EBIT	801.7	1,375.3	2,025.9	3,029.9
Growth (%)	98.7	71.5	47.3	49.6
Interest	74.1	104.3	121.4	137.4
Other income	36.6	90.7	65.5	67.1
EBT	764.3	1,361.7	1,970.0	2,959.6
Income taxes	22.1	40.9	59.1	88.8
Effective tax rate (%)	2.9	3.0	3.0	3.0
Adjusted net income	742.2	1,320.9	1,910.9	2,870.8
Growth (%)	91.8	78.0	44.7	50.2
Min. int / inc. from associates	(9.6)	(8.5)	(12.2)	(14.0)
Reported net income	732.5	1,312.4	1,898.7	2,856.8
Growth (%)	89.1	79.2	44.7	50.5
Shares outstanding (mn)	61.6	94.2	95.4	95.4
Basic EPS (Rs) (adj)	11.9	13.9	19.9	30.0
FDEPS (Rs) (adj)	7.7	13.8	19.9	29.9
DPS (Rs)	5.1	6.3	7.5	9.0

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	742.2	1,320.9	1,910.9	2,870.8
Depreciation	24.0	31.3	38.1	45.8
Other adjustments, net	36.8	16.6	20.7	31.1
Changes in working capital	(680.8)	(1,188.5)	(1,283.5)	(1,851.6)
Cash flow from operations	122.1	180.3	686.2	1,096.2
Capital expenditure	(874.3)	(112.9)	(125.0)	(140.0)
Change in investments	237.5	-	-	-
Other investing inc/(exp)	338.1	-	-	-
Cash flow from investing	(298.7)	(112.9)	(125.0)	(140.0)
Free cash flow	(176.5)	67.4	561.2	956.2
Issue of equity	348.0	325.7	12.0	-
Issue/repay debt	(130.0)	100.9	75.0	75.0
Dividends paid	(366.2)	(676.8)	(822.6)	(987.1)
Other financing cash flow	644.2	425.6	378.0	378.0
Cash flow from financing	496.1	175.3	(357.6)	(534.1)
Change in cash & cash eq	319.6	242.7	203.6	422.1
Opening cash & cash eq	101.6	421.1	663.7	867.3
Closing cash & cash eq	421.1	663.8	867.3	1,289.4

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	421.1	663.7	867.3	1,289.4
Accounts receivable	1,187.4	1,938.2	2,641.8	3,434.9
Inventories	1,054.6	2,092.9	2,266.3	3,941.8
Others current assets	419.6	680.6	1,179.4	1,724.7
Current assets	3,082.6	5,375.5	6,954.8	10,390.8
Long-term investments	2.9	2.9	2.9	2.9
Net fixed assets	458.5	537.2	624.1	718.3
CWIP	12.2	15.0	15.0	15.0
Intangible assets	338.1	338.1	338.1	338.1
Other assets	-	-	-	-
Total assets	3,894.2	6,268.7	7,934.9	11,465.1
Accounts payable	591.1	1,163.0	1,126.6	2,143.9
Others	418.8	710.9	839.6	984.6
Current liabilities	1,009.9	1,873.9	1,966.2	3,128.5
Debt funds	645.1	746.0	821.0	896.0
Other liabilities	78.1	100.9	133.8	178.8
Equity capital	616.0	941.7	953.7	953.7
Reserves	1,545.0	2,606.2	4,060.3	6,308.1
Shareholder's funds	2,161.0	3,547.9	5,014.0	7,261.8
Total liabilities	3,894.2	6,268.7	7,934.9	11,465.1
BVPS (Rs)	35.1	37.7	52.6	76.1

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	32.8	31.0	31.5	32.1
EBIT margin (%)	31.9	30.3	30.9	31.6
Net profit margin (%)	29.5	29.1	29.2	30.0
FDEPS growth (%)	89.1	79.2	44.7	50.5
Receivables (days)	139.9	125.7	127.6	115.7
Inventory (days)	199.8	183.5	177.2	174.1
Payables (days)	123.6	102.3	93.1	91.7
Current ratio (x)	3.1	2.9	3.5	3.3
Quick ratio (x)	2.0	1.8	2.4	2.1
Interest coverage ratio (x)	11.0	13.7	16.7	21.9
Debt / equity (x)	0.3	0.2	0.2	0.1
ROE (%)	50.2	46.3	44.6	46.8
ROA (%)	23.7	26.0	26.9	29.6
ROCE (%)	35.4	37.8	39.1	42.4
EV/Sales (x)	15.0	8.3	5.8	3.9
EV/EBITDA (x)	45.7	26.8	18.3	12.3
P/E (x)	52.1	29.1	20.1	13.4
P/BV (x)	11.4	10.6	7.6	5.3

Source: Company, Religare Research

Balaji Telefilms

Results Update

CMP: Rs 217

Target: Rs 375 

BUY

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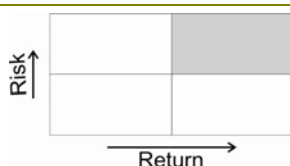
Company data

Particulars	
Market cap (Rs bn / US\$ mn)	14.1/349.3
Outstanding equity shares (mn)	65.2
52-week high/low (Rs)	388/104
3-month average daily volume	34621

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	3,202.2	4,321.3	6,339.9
Growth (%)	14.2	35.0	46.7
Adj net inc (Rs mn)	795.4	921.2	1,199.4
Growth (%)	33.4	15.8	30.2
FDEPS (Rs)	12.2	14.1	18.4
Growth (%)	33.4	15.8	30.2
P/E (x)	17.8	15.4	11.8
ROE (%)	27.5	26.9	29.4

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	40.0	40.0
FII's	10.7	7.7
Banks & FI's	0.6	0.6
Public	48.7	51.7

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Balaji Tele	(34.4)	(23.4)	(12.3)	
Sensex	(16.0)	(7.3)	(17.9)	

Company website www.balajitelefilms.com

Subdued growth but expected to pick up pace

Balaji Telefilms (BTL) has posted below-expected results for Q3FY08 with a 6% YoY decline in revenue to Rs 799.7mn. The revenue de-growth can be attributed to a steep 19% reduction in programming hours (both commissioned and sponsored), which was partially offset by a slight improvement in commissioned realisations. Consequently, the EBITDA margin fell 690bps YoY, and PAT dropped 12% to Rs 188mn.

The company has released new commissioned programmes during the quarter, which we believe would drive realisations along with its established, long-running serials. Further, sponsored shows are continuing to run successfully. BTL's renewed thrust on the movie business through its subsidiary would also generate substantial value. In addition, we expect the commencement of regional commissioned programming through the Balaji-Star joint venture to contribute significantly going forward.

We have moderated our realisation estimates for FY08 and FY09, while raising our estimate for programming hours in view of new launches during the quarter. We are also raising our revenue estimates for the movie business which is now picking up steam. Our target price thus stands raised from Rs 365 to Rs 375. Buy.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	799.7	903.3	(12.9)
EBITDA	265.7	332.7	(25.2)
Adj net income	188.1	239.7	(27.4)
FDEPS (Rs)	11.5	14.7	(27.4)

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Change	Q2FY08	% Change
Net sales	799.7	850.3	(6.0)	779.5	2.6
a) Inc /dec in stock	(32.2)	(1.9)	1,567.0	(5.6)	471.5
b) Cost of prodn	452.2	400.2	13.0	350.4	29.0
c) Staff cost	32.7	42.1	(22.2)	34.3	(4.7)
f) Other expenditure	81.3	69.0	17.8	69.9	16.3
Total expenditure	534.0	509.3	4.8	449.0	18.9
Operating profit	265.7	341.0	(22.1)	330.5	(19.6)
Depreciation	29.8	29.1	2.2	30.7	(3.0)
EBIT	236.0	311.9	(24.3)	299.8	(21.3)
Other income	36.9	12.8	188.9	64.3	(42.6)
PBT	272.8	324.6	(16.0)	364.0	(25.1)
Provision for tax	84.7	109.9	(22.9)	101.3	(16.4)
PAT	188.1	214.8	(12.4)	262.8	(28.4)
OPM (%)	33.2	40.1	-	42.4	-
EPS (Rs)	11.5	13.2	(12.4)	16.1	(28.4)

Source: Company, Religare Research

Result highlights

BTL's revenue has declined 6% YoY to Rs 799.7mn due to a lower number of programming hours, both commissioned and sponsored. The impact of reduced volumes was partially offset by a marginal improvement in per hour realisations of commissioned programmes.

Programming hours have dropped from 451 in Q3FY07 to 364

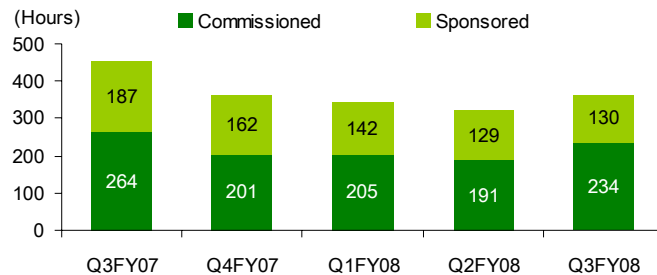
Decline in programming hours...

The company has experienced a 19% YoY decline in overall programming volumes during the quarter to 364 hours from 451 hours in Q3FY07. Commissioned programme hours have declined 11% YoY to 234 since some popular shows either wound up or went off the air due to shrinking TRPs.

Although new shows were introduced during the quarter (leading to a marked improvement in commissioned hours QoQ), the number of programming hours is yet to match that prevailing during Q3FY07. BTL has launched two new serials, namely *Kahe Naa Kahe* and *Kya Dill Main Hai*, on the 9X channel and a third, *Kuchh Is Tara*, on Sony during the quarter.

In the sponsored segment, programming hours dropped 30% YoY to 130 from 187 in Q3FY07. However, this is because of a conscious effort by the management to bring down the number of sponsored hours, with a view to focussing on commissioned shows in the Hindi segment. Further, the company had also expected its joint venture with Star to commence operations, which would have entailed programming for new regional channels.

Programming mix



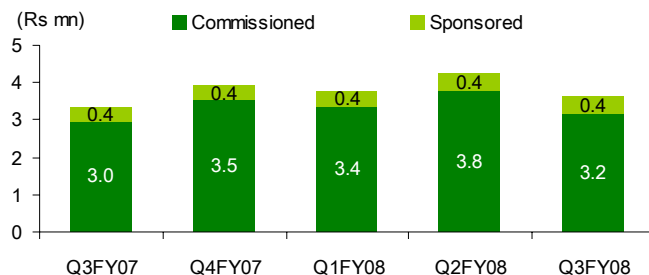
Source: Company, Religare Research

Commissioned realisation up 76% YoY to Rs 3.2mn

...slightly offset by improved realisations

BTL recorded higher realisations per hour than in Q3FY07 due to the launch of fresh programmes on new channels like 9x and Zoom. While sponsored programmes have registered flat per-hour realisations, commissioned shows have witnessed a 7% increase in pricing to Rs 3.2mn/hour.

Realisation per hour



Source: Company, Religare Research

690bps dip in EBITDA margin to 33%, but recovery expected

EBITDA margin drops 700bps YoY but new launches to aid recovery

With the lower programming volumes, BTL's operating profit has declined 22% YoY to Rs 265.7mn, with a 690bps contraction in its operating margin to 33%. However, considering BTL's track record of highly successful serials, we expect the new commissioned programmes to also garner higher TRPs. This in turn would allow the company to command better realisations and expand margins.

The fall in BTL's net profit was restricted to 12.4% YoY due to a tripling of other income to Rs 36.9mn and the absence of interest costs.

Financial outlook

We revise estimates

We have moderated our programming realisation estimates for FY08 and FY09. At the same time, we are raising our estimate for in-house programming hours in view of new launches during the quarter and the absence of any significant development toward the launch of new channels by the Star-Balaji JV.

We are also raising our revenue estimates for the movie business which is now picking up steam. The company's wholly owned film subsidiary Balaji Motion Pictures released its second distribution film *Bhool Bhulaiyaa* during the quarter which was a box office hit.

Revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Net sales	3661.0	4321.3	18.0	4704.5	6339.9	34.8
Adj net income	804.8	921.2	14.5	903.7	1199.4	32.7
FDEPS (Rs)	12.3	14.1	14.5	13.9	18.4	32.7

Source: Religare Research

We now expect the company to register a 41% CAGR in its consolidated revenue over FY07-FY09. Operating profit is expected to record a 24% CAGR during the same period, with net profit clocking a 23% CAGR.

Valuation

Valued at 18x FY09E earnings based on peer valuations

The BTL stock is currently discounting its FY08 and FY09 expected earnings by 15.4x and 11.8x respectively. After considering the cash and cash equivalents, the stock is quoting at 12.6x and 9.4x respectively. Although BTL is not strictly comparable with any listed media player, we have used a comparative analysis of media companies like UTV, Zee Entertainment, NDTV and Adlabs Films as a benchmark for our valuation.

Comparative valuation

Company	CMP(Rs)	FY08E		FY09E	
		EPS (Rs)	P/E (x)	EPS (Rs)	P/E (x)
UTV Software	807.0	34.0	23.7	47.9	16.9
Zee Entertainment	258.0	8.4	30.7	10.7	24.1
NDTV	410.0	5.3	77.4	7.7	53.2
Adlabs Films	1023.0	20.9	49.1	25.4	40.3
Balaji Telefilms	217.0	14.1	15.4	18.4	11.8
Average (excl. Balaji Telefilms)			45.2		33.6

Source: Religare Research

Maintain Buy with revised target price of Rs 375

As the above table shows, the average FY09E P/E multiple for these companies is 33.6x. We have assigned a P/E multiple of 18x on revised FY09E earnings of Rs 18.4 for BTL, which is a 46% discount to the industry average. The discount is attributed to the following: a) BTL's presence in only two media segments, television software and movies, vis-à-vis other vertically integrated peers, and b) the upcoming JV channels, which are yet to be launched. We thus arrive at a fair value of Rs 331 for Balaji. On including expected cash & cash equivalents of Rs 44, we arrive at a target price of Rs 375/share. We maintain our Buy recommendation on the stock.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
22-May-07	Initiating Coverage	241	317	Buy
31-Jul-07	Results Update	250	317	Buy
7-Sep-07	Company Update	255	341	Buy
2-Nov-07	Results Update	287	341	Buy
7-Jan-08	Quarterly Preview	348	365	Buy
11-Feb-08	Results Update	217	375	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	2,803.7	3,202.2	4,321.3	6,339.9
Growth (%)	42.5	14.2	35.0	46.7
EBITDA	936.6	1,194.9	1,416.2	1,846.1
Growth (%)	39.1	27.6	18.5	30.4
Depreciation	143.3	112.9	125.1	132.9
EBIT	793.3	1,082.1	1,291.1	1,713.2
Growth (%)	37.7	36.4	19.3	32.7
Interest	0.5	0.0	-	-
Other income	86.9	94.4	90.0	85.0
EBT	879.8	1,176.4	1,381.1	1,798.2
Income taxes	283.4	381.0	459.9	598.8
Effective tax rate (%)	32.2	32.4	33.3	33.3
Adjusted net income	596.4	795.4	921.2	1,199.4
Growth (%)	44.4	33.4	15.8	30.2
Reported net income	596.4	795.4	921.2	1,199.4
Growth (%)	44.4	33.4	15.8	30.2
Shares outstanding (mn)	65.2	65.2	65.2	65.2
Basic EPS (Rs) (adj)	9.1	12.2	14.1	18.4
FDEPS (Rs) (adj)	9.1	12.2	14.1	18.4
DPS (Rs)	3.0	4.0	5.0	6.0

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	596.4	795.4	921.2	1,199.4
Depreciation	143.3	112.9	125.1	132.9
Other adjustments, net	-	-	-	-
Changes in working capital	50.9	(126.1)	(275.0)	(567.8)
Cash flow from operations	790.6	782.2	771.3	764.5
Capital expenditure	(111.6)	(108.7)	(50.0)	(50.0)
Change in investments	(504.7)	(357.9)	(500.0)	(300.0)
Cash flow from investing	(616.3)	(466.5)	(550.0)	(350.0)
Free cash flow	174.3	315.7	221.2	414.5
Issue of equity	27.4	-	-	-
Dividends paid	(220.7)	(294.2)	(367.8)	(441.3)
Other financing cash flow	37.7	29.8	20.0	10.0
Cash flow from financing	(155.6)	(264.5)	(347.8)	(431.3)
Change in cash & cash eq	18.8	51.2	(126.5)	(16.8)
Opening cash & cash eq	108.4	127.1	178.3	51.8
Closing cash & cash eq	127.1	178.3	51.8	35.0

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	127.1	178.3	51.8	35.0
Accounts receivable	714.4	815.9	1,041.9	1,493.8
Inventories	207.4	236.9	343.3	503.7
Others current assets	248.7	284.1	383.3	562.4
Current assets	1,297.6	1,515.2	1,820.3	2,594.9
Long-term investments	1,642.1	2,000.0	2,500.0	2,800.0
Net fixed assets	309.2	303.6	228.5	145.6
CWIP	8.6	10.0	10.0	10.0
Deferred tax assets, net	(125.2)	(155.0)	(175.0)	(185.0)
Other assets	1.0	2.0	3.0	4.0
Total assets	3,133.2	3,675.7	4,386.8	5,369.5
Accounts payable	199.7	228.1	307.8	451.6
Others	292.2	304.0	381.0	460.8
Current liabilities	491.9	532.1	688.9	912.4
Other liabilities	1.0	2.0	3.0	4.0
Equity capital	130.4	130.4	130.4	130.4
Reserves	2,509.9	3,011.1	3,564.6	4,322.7
Shareholder's funds	2,640.3	3,141.5	3,695.0	4,453.1
Total liabilities	3,133.2	3,675.7	4,386.8	5,369.5
BVPS (Rs)	40.5	48.2	56.7	68.3

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	33.4	37.3	32.8	29.1
EBIT margin (%)	28.3	33.8	29.9	27.0
Net profit margin (%)	21.3	24.8	21.3	18.9
FDEPS growth (%)	14.1	33.4	15.8	30.2
Receivables (days)	81.2	87.2	78.5	73.0
Inventory (days)	43.6	40.4	36.4	34.4
Payables (days)	33.2	38.9	33.7	30.8
Current ratio (x)	2.6	2.8	2.6	2.8
Quick ratio (x)	2.2	2.4	2.1	2.3
ROE (%)	24.5	27.5	26.9	29.4
ROA (%)	21.3	23.4	22.9	24.6
ROCE (%)	32.5	37.4	37.7	42.0
EV/Sales (x)	5.0	4.4	3.2	2.2
EV/EBITDA (x)	14.9	11.7	9.9	7.6
P/E (x)	23.7	17.8	15.4	11.8
P/BV (x)	5.4	4.5	3.8	3.2

Source: Company, Religare Research

Parsvnath Developers

Results Update

CMP: Rs 274
Target: Rs 512
BUY
Suman Memani

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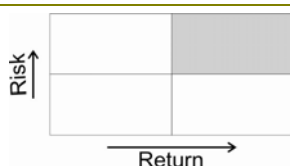
NSE code PARSVNATH

Company data

Particulars	
Market cap (Rs bn / US\$ mn)	50.6/1.3
Outstanding equity shares (mn)	184.6
52-week high/low (Rs)	599/221
2-month average daily volume	676,727

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	15,103.0	25,740.0	43,243.6
Growth (%)	134.6	70.4	68.0
Adj net inc (Rs mn)	2,922.5	5,552.7	9,702.8
Growth (%)	175.1	90.0	74.7
FDEPS (Rs)	15.9	30.2	52.7
Growth (%)	175.1	90.0	74.7
P/E (x)	17.1	9.0	5.1
ROE (%)	34.5	31.9	39.7

Risk-return profile

Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	80.3	80.3
FIs	8.4	7.3
Banks & FIs	3.7	3.9
Public	7.6	8.5

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
PDL	274	(49.8)	(13.0)	(19.8)
Sensex	17,465	(16.3)	(8.4)	14.1

Company website www.parsvnath.com
Solid performance

Parsvnath Developers (PDL) has reported a 56% YoY rise in net sales to Rs 4.7bn, in line with our estimates. The EBITDA margin for the quarter has risen significantly to 40.1% compared to 31.4% in Q3FY07. The sharp expansion has come about due to increased revenue booking in the commercial and residential segments and higher price realisations on its properties.

PDL has substantially enlarged its land bank during the quarter from 160mn sq ft as at the end of June 2007 to 209.8mn sq ft at present. It has also begun work on additional properties with the total area under construction now at 76mn sq ft. Of this, 32.8mn sq ft has already been sold. We expect the management to book revenues on close to 15mn sq ft in FY08 (11mn sq ft booked in 9mFY08) and 25mn sq ft in FY09.

At the current price of Rs 274, PDL discounts our FY08E and FY09E EPS of Rs 30.2 and Rs 52.7 by 9x and 5.1x respectively. We have a Buy rating on the stock with a target price of Rs 512 based on the company's one-year forward NAV.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	4,653.1	4,850.0	(4.0)
EBITDA	1,866.5	2,015.0	(7.3)
Adj net income	1,125.7	1,220.0	(7.7)
FDEPS (Rs)	6.1	6.6	(7.7)

Source: Company, Religare Research
Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Chg YoY	9mFY08	9mFY07	% Chg QoQ
Sales	4,653.1	2,981.9	56.0	12,695.0	8,364.2	51.8
Other Income	317.9	82.0	287.6	547.0	123.2	343.9
PBIDT	1,866.5	937.5	99.1	5,045.9	2,299.6	119.4
PBIDT margin (%)	40.1	31.4	-	39.7	27.5	-
Interest	83.1	87.6	(5.1)	212.6	138.6	53.4
PBBDT	1,783.4	850.0	109.8	4,833.3	2,161.0	123.7
Depreciation	61.8	38.2	61.9	156.3	91.9	70.1
PBT	1,721.7	811.8	112.1	4,676.9	2,069.1	126.0
Tax	595.9	273.1	118.2	1,501.7	675.7	122.2
PAT	1,125.7	538.7	109.0	3,175.2	1,393.4	127.9
Eq Capital	1,847.0	1,847.0	-	1,847.0	1,847.0	-

Source: Company, Religare Research

Result highlights

Delivered 782 residential and commercial units

Sales up 56% YoY; 8 projects launched during the quarter

PDL has logged a 56% increase in net sales to Rs 4.7bn during Q3FY08 as against Rs 3bn in Q3FY07. The company has booked revenues for 782 units of development, whereas it accounted for 7mn sq ft in H1FY08. We expect PDL to scale up execution in Q4FY08 to ~5mn sq ft, which would translate to higher sales growth. In FY07, the company had booked two-thirds of its full-year revenues and 50% of its net profit in the first nine months. We expect the same trend to continue for the current fiscal as well.

During Q3FY08, the company has delivered possession of 782 units in and around the national capital region (NCR) as compared to 46 units in the same period last year. Of these, three projects are residential and two are in the commercial space.

Projects sold during the quarter

Project name	Location	Type	Units
Prestige	Noida-J Block	Group housing	152
Green Ville	Gurgaon	Group housing	234
Paradise	Mohannagar	Group housing	49
City Mall	Faridabad	Shopping mall	132
Manhattan Mall	Faridabad	Shopping mall	215
Total			782

Source: Company, Religare Research

8 projects launched in Q3 with a total area of 12.8mn sq ft

PDL has launched eight projects in Q3FY08 with a total area of 12.8mn sq ft and realisable value of Rs 27.3bn. This includes an area of 6.5mn sq ft for group housing, 0.4mn sq ft for commercial space and a township covering 5.9mn sq ft. The company is expected to launch 13 .2mn sq ft in the fourth quarter.

Operating margin to be sustained above 38%

The operating margin for the quarter has increased to 40.1% in comparison to 31.4% in Q3FY07. The higher margin is on account of better realisations on its properties and increased revenue booking in the high-end commercial and residential segments. We expect PDL's margin to settle at ~38% going ahead.

While property prices in and around the NCR have fallen, we believe that premium players like PDL would not lower pricing until there is a substantial slowdown in the realty market. With input costs moving up we believe operating margins may come under moderate pressure. We expect builders to counter this pressure by raising prices or increasing the gap of super built-up to carpet area.

Other highlights

Land bank now close to 210mn sq ft

PDL has substantially enlarged its land bank during the quarter from 160mn sq ft as at end-Q1FY08 to 209.8mn sq ft (including joint ventures). The saleable area is spread across 48 cities in 17 states, with close to 58% of the land situated in the NCR, metro and 'A' class cities.

The management has indicated that it has begun construction on 75.8mn sq ft and expects its total saleable land bank to be executed over a six to seven year timeframe at a cost of Rs 289.5bn (see table below). In comparison, its market capitalisation as on date is only Rs 54bn, which signifies tremendous growth potential for the company as it realises revenues on its mega land bank.

Vertical Segment

Segments	Projects	Saleable area	Land cost	Construction cost	Cost per sq ft	Total cost	Under construction
		(mn sq ft)	(Rs mn)	(Rs mn)		(Rs mn)	(mn sq ft)
Residential	34	34.5	12,230.0	40,140.0	1,164.8	52,370.0	20.01
Commercial	21	4.8	8,110.0	8,800.0	1,844.9	16,910.0	2.26
Townships	18	80.2	13,770.0	63,150.0	787.4	76,920.0	52.05
DMRC (BOT)	6	2.0	4,430.0	3,890.0	1,994.9	8,320.0	1.03
Hotels	17	2.3	1,450.0	6,060.0	2,669.6	7,510.0	0.47
IT Parks	5	9.5	60.0	14,060.0	1,486.3	14,120.0	-
SEZs	7	76.6	900.0	112,450.0	1,467.2	113,350.0	-
Total	108	209.8	40,950.0	248,550.0	1,185.0	289,500.0	75.8

Source: Company, Religare Research

Formal approval received for six SEZs covering 63.6mn sq ft

Major presence in SEZ development

PDL proposes to develop 17 SEZs (special economic zones) covering an aggregate area of 4,540 acres, implying 367.5mn sq ft of developable area. So far, it has acquired land for six SEZs totalling 63.6mn sq ft, with formal approval received for all six and central government notification for four of these. Government approvals are pending for the balance 11 zones. We have considered only the six SEZs for which the land acquisition has been concluded as part of our land bank estimate for PDL.

All the SEZ projects are owned and managed by the company's 100% subsidiary Parsvnath SEZ. This company will build IT/ITES, single product and multi product zones on a 50:50 sale-lease model. This will drive growth in the longer term and de-risk PDL's business model. PDL plans to start construction work in the notified SEZs during the current quarter or in the first quarter of FY09.

SEZ projects

Location	Sector	Area (acres)	Land status	Developable area (mn sq)
Notified				
Gurgaon	IT/ITES	105.5	Acquired	11.6
Dehradun	IT/ITES	33.5	Acquired	3.8
Indore	IT/ITES	76.5	Acquired	12.4
Nandad	Pharma	370.0	Acquired	19.7
Total		585.5		47.4
Formal approval				
Hyderabad	Biotechnology	25.0	Acquired	4.0
Kochi	IT/ITES	76.0	Acquired	12.2
Sub total (A)		101.0		16.2
Awaiting government approval				
Pallakad, Kerala	IT/ITES	36.0	Acquired	5.5
Mysore	IT/ITES	118.0	Acquired	13.1
Kancheepuram	IT/ITES	74.1	Under Acquisition	8.2
Ajmer, Rajasthan	Gems & Jewellery	25.0	Under Acquisition	2.8
Bangalore, Karnataka	IT/ITES	25.0	Under Acquisition	2.8
Kundli	Food Processing	247.0	Under Acquisition	19.5
Agra	Leather	249.6	Under Acquisition	19.6
Moradabad	Handicraft	247.9	Under Acquisition	19.5
Jaipur	Gems & Jewellery	113.0	Under Acquisition	7.7
Pune	Automotive	247.1	Under Acquisition	19.4
Kancheepuram	Multi Product	2,471.1	Under Acquisition	186.1
Sub Total (B)		3,853.7		303.9
Total (A+B)		4,540.3		367.5

Source: Company; Religare Research

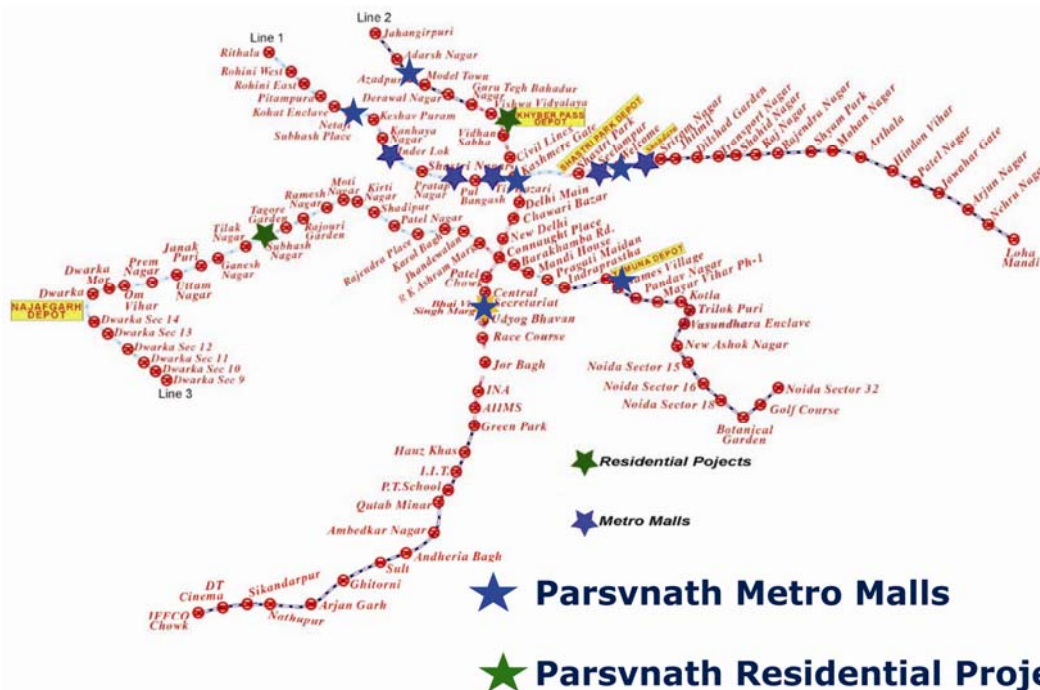
Completed 7 metro rail projects with lease area of 370,000sq ft

Seven DMRC projects complete

PDL has been contracted by the Delhi Metro Rail Corp (DMRC) to develop 13 metro stations on a BOT basis at prime locations in Delhi. The company also has the right to develop properties at the stations for commercial use, on which it will earn rental income. The total area available for the 13 projects will be 2.3mn sq ft. The company has already completed seven projects with 370,000sq ft available for lease.

The cost of the entire project is estimated at Rs 9.2bn with a payback period of three years after completion. The total area for lease is likely to be 0.47mn sq ft and will fetch an annual rental of Rs 3.3bn from FY11 onwards. Strong brands like McDonalds, Big Bazaar, Spencer and Pizza Hut are among the likely clients for the lease space.

PDL metro malls



Source : Company: Religare Research

PHL – Hotel locations



Source: Company: Religare Research

Hotel business gathering steam

Parsvnath Hotels, a subsidiary of PDL, has 17 hotels under development with 2,600 rooms covering 2.3mn sq ft. Construction is underway at Mohali, Shirdi, Hyderabad, Ahmedabad and Bhiwadi. The company plans to build nine five-star hotels, five in the four-star and two in three-star categories, and one service apartment. The total development cost is estimated at Rs 7.5bn.

In addition, Parsvnath Hotels has recently signed an MoU with Fortune Park Hotels (FPHL), a wholly owned subsidiary of ITC, to manage 50 hotels across the country in the next three to five years. FPHL will manage 7 of the 17 projects mentioned above.

Parsvnath Hotels plans to invest ~Rs 25bn in the balance 43 hotel projects. The strategic tie-up would have 20 hotels each in the five-star and four-star space, 10 three-star hotels and a budget offering. All these hotels are expected to commence operations by 2010.

Valuation

Maintain Buy with target of Rs 512

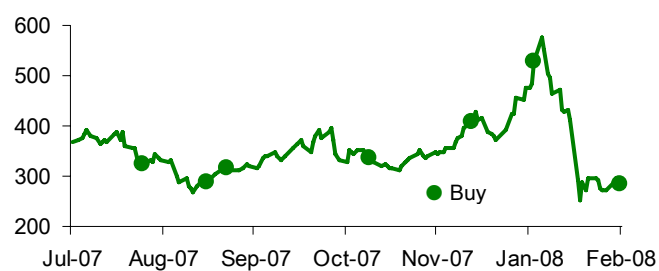
We believe that PDL's efforts towards creating a pan-India presence together with the projected scale up in execution capability and diversified business model would fuel growth. At the current price of Rs 274, the stock discounts its FY09E EPS of Rs 52.7 by 5.1x which is attractive in comparison to peers. We maintain our NAV-based target price of Rs 512 and reiterate our Buy recommendation on the scrip

Recommendation history

Date	Event	Reco price	Tgt price	Reco
6-Aug-07	Initiating Coverage	326	512	Buy
29-Aug-07	Company Update	287	512	Buy
5-Sep-07	Company Update	316	512	Buy
1-Nov-07	Results Update	338	512	Buy
11-Dec-07	Company Update	407	512	Buy
8-Feb-08	Results Update	274	512	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	6,438.3	15,103.0	25,740.0	43,243.6
Growth (%)	-	134.6	70.4	68.0
EBITDA	1,444.1	4,174.1	9,467.8	16,479.2
Growth (%)	-	189.0	126.8	74.1
Depreciation	58.8	143.3	190.0	270.0
EBIT	1,385.3	4,030.8	9,277.8	16,209.2
Growth (%)	-	187.8	117.1	74.7
Interest	26.9	193.2	1,160.0	2,030.0
Other income	99.3	66.0	-	-
EBT	1,457.8	3,903.6	8,117.8	14,179.2
Income taxes	395.5	981.1	2,565.1	4,476.5
Effective tax rate (%)	27.1	25.1	31.6	31.6
Adjusted net income	1,062.4	2,922.5	5,552.7	9,702.8
Growth (%)	-	175.1	90.0	74.7
Reported net income	1062.4	2922.5	5552.7	9702.8
Growth (%)	-	175.1	90.0	74.7
Shares outstanding (mn)	98.9	184.7	184.7	184.7
Basic EPS (Rs) (adj)	10.7	15.9	30.2	52.7
FDEPS (Rs) (adj)	5.8	15.9	30.2	52.7
DPS (Rs)	0.7	2.5	2.5	3.0

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	1,457.8	4,080.1	8,117.8	14,179.2
Depreciation	58.8	143.3	190.0	270.0
Other adjustments, net	132.6	16.8	1,160.0	2,030.0
Changes in working capital	(2,671.9)	(17,607.2)	(18,310.3)	(17,878.8)
Cash flow from operations	(1,022.7)	(13,367.1)	(8,842.4)	(1,399.6)
Capital expenditure	(417.3)	(720.7)	(720.4)	(832.0)
Change in investments	-	(453.8)	-	-
Other investing inc/(exp)	8.8	-	-	-
Cash flow from investing	(408.5)	(1,174.6)	(720.4)	(832.0)
Free cash flow	(1,431.2)	(14,541.6)	(9,562.8)	(2,231.6)
Issue of equity	-	361.4	-	-
Issue/repay debt	1,146.0	9,336.5	8,805.5	4,999.5
Dividends paid	(18.8)	(74.3)	(540.2)	(537.9)
Other financing cash flow	(124.6)	9,963.1	(1,160.0)	(2,030.0)
Cash flow from financing	1,002.6	19,586.7	7,105.3	2,431.6
Change in cash & cash eq	(428.6)	5,045.0	(2,457.5)	200.0
Opening cash & cash eq	841.0	412.4	5,457.5	3,000.0
Closing cash & cash eq	412.4	5,457.5	3,000.0	3,200.0

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	412.4	5,457.5	3,000.0	3,200.0
Accounts receivable	637.7	5,578.8	9,100.0	13,324.3
Inventories	3,894.2	16,438.4	23,000.0	33,500.0
Others current assets	3,609.1	7,168.2	12,246.6	15,383.9
Current assets	8,553.4	34,642.9	47,346.6	65,408.2
Long-term investments	80.1	534.0	534.0	534.0
Net fixed assets	356.3	716.8	1,226.8	1,788.8
CWIP	172.7	389.6	410.0	410.0
Other assets	-	-	-	-
Total assets	9,162.5	36,283.3	49,517.4	68,141.0
Accounts payable	4,542.4	8,865.6	5,950.0	8,500.0
Others	250.1	804.5	3,133.9	5,148.3
Current liabilities	4,792.5	9,670.1	9,083.9	13,648.3
Debt funds	2,358.5	11,695.0	20,500.5	25,500.0
Other liabilities	-	-	-	-
Equity capital	989.1	1,847.0	1,847.0	1,847.0
Reserves	1,022.4	13,071.2	18,086.0	27,145.7
Shareholder's funds	2,011.5	14,918.1	19,932.9	28,992.6
Total liabilities	9,162.5	36,283.3	49,517.4	68,141.0
BVPS (Rs)	20.3	80.8	107.9	157.0

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	22.4	27.6	36.8	38.1
EBIT margin (%)	21.5	26.7	36.0	37.5
Net profit margin (%)	16.5	19.4	21.6	22.4
FDEPS growth (%)	-	175.1	90.0	74.7
Receivables (days)	36.2	75.1	104.1	94.6
Inventory (days)	284.6	339.5	442.3	385.3
Payables (days)	332.0	223.9	166.2	98.5
Current ratio (x)	1.8	3.6	5.2	4.8
Quick ratio (x)	1.0	1.9	2.7	2.3
Interest coverage ratio (x)	53.7	21.6	8.2	8.1
Debt / equity (x)	1.2	0.8	1.0	0.9
ROE (%)	105.6	34.5	31.9	39.7
ROA (%)	23.2	12.9	12.9	16.5
ROCE (%)	63.4	26.0	27.7	34.2
EV/Sales (x)	1.7	0.7	0.4	0.3
EV/EBITDA (x)	7.8	2.7	1.2	0.7
P/E (x)	46.9	17.1	9.0	5.1
P/BV (x)	13.3	3.4	2.5	1.7

Source: Company, Religare Research

Mercator Lines

Results Update

CMP: Rs 107
Target: Rs 177
BUY

Piyush Parag **Abhishek Banerjee**
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BSE code 526235
 NSE code MLL

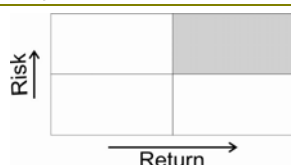
Company data

Particulars	
Market cap (Rs bn / US\$ mn)	24.6/623.6
Outstanding equity shares (mn)	230.2
52-week high/low (Rs)	185/31
6-month average daily volume	3,137,051

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	11,227.6	13,711.1	17,639.0
Growth (%)	35.9	22.1	28.6
Adj net inc (Rs mn)	1,348.6	2,373.8	3,245.8
Growth (%)	(31.9)	76.0	36.7
FDEPS (Rs)	7.1	10.2	13.9
Growth (%)	(31.9)	42.9	36.7
P/E (x)	15.0	10.5	7.7
ROE (%)	23.3	27.8	26.5

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	38.9	45.4
FIs	21.8	21.1
Banks & FIs	8.5	9.7
Public	30.8	23.8

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Mercator Lines	107	(27.3)	(15.4)	114.5
Sensex	17,527	(16.0)	(8.0)	14.5

Company website www.mercatorlines.com

Strong performance

Mercator Lines' (MLL) consolidated net revenue for the third quarter was in line with our expectations, growing a robust 51% YoY to Rs 3.7bn. However, profitability surpassed our estimates primarily due to lower-than-anticipated operating expenses and a lower effective tax rate. EBITDA has expanded 195% YoY to Rs 1.6bn, while PAT recorded a 98% growth to Rs 587mn.

Despite the higher profitability recorded during the quarter, we maintain our full year estimates for FY08 as we expect dry docking and other expenses to increase in Q4FY08. The stock is currently trading at a P/E of 7.7x, P/BV of 1.7x and an EV/EBITDA of 6.1x on FY09E. We maintain our target price of Rs 177 arrived at by using the replacement cost valuation method. Our price target signifies an appreciation of 65% from current levels. Buy.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	3,722.1	3,774.2	(1.4)
EBITDA	1,582.6	1,425.2	11.0
Adj net income	587.2	461.2	27.3
FDEPS (Rs)	2.6	2.4	4.7

Source: Company, Religare Research

Quarterly results (consolidated)

(Rs mn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Net sales	3,722.1	2,470.0	50.7	3,630.8	2.5
EBITDA	1,582.6	645.1	145.3	1,315.3	20.3
EBITDA margin (%)	42.5	26.1	1,640bps	36.2	630bps
Depreciation	453.4	234.5	93.4	441.1	2.8
Interest	366.5	200.7	82.6	362.1	1.2
Other income	26.8	109.3	(75.4)	436.7	(93.9)
PBT	789.5	319.2	147.3	948.8	(84.5)
Income tax	15.8	22.3	(29.3)	25.3	(215.8)
Effective tax rate (%)	2.0	7.0	(500bps)	2.7	(70bps)
PAT	587.2	296.9	97.8	905.5	(35.1)
PAT margin (%)	15.8	12.0	380bps	24.9	(910bps)
EPS (Rs)	2.6	1.6	62.6	4.6	(44.4)
Cash EPS (Rs)	4.5	2.8	61.0	6.8	(33.8)
Core EPS (Rs)	2.4	1.0	145.6	2.4	2.4

Source: Company, Religare Research

Result highlights

Net revenue experiences robust growth

MLL's consolidated net revenue has increased by 50.7% YoY to Rs 3.7bn supported by firm freight rates and fleet augmentation over the last one year. The enhanced fleet has resulted in an increase in total operating days for the company during Q3FY08.

The company's freight rates are expected to remain firm going forward since it derives 70% of its revenue from secure long-term charters. Further, freight rates in dry bulk transport are likely to hold firm primarily as a result of the high demand for raw material dry bulk transportation in South and Southeast Asia. MLL continues to expand its fleet to take advantage of the rising demand for its services and has acquired a dredger during the quarter. However, we have not included this vessel into our estimates due to the lack of detailed information.

EBITDA margin rises sharply; improved operating performance fuels PAT

The consolidated EBITDA margin has increased 1,640bps YoY to 42.5% owing to a decline in ship operating expenses and a 4.5% YoY dip in dry docking expenses to Rs 101mn. We had estimated higher dry docking expenses for Q3 and thus the margin expansion came as a positive surprise. The company's operating profit has expanded 145.3% YoY to Rs 1.6bn.

The PAT margin has risen 380bps YoY to 15.8% as a result of the improved operating performance and a lower effective tax rate of 2% during Q3FY08 as compared to 7% in Q3FY07. FDEPS grew 62.6% YoY to Rs 2.6 in Q3FY08.

FCCB conversion to dilute equity

During the quarter, FCCBs amounting to US\$ 4.9mn were converted into 3.6mn equity shares. Consequently, the outstanding shares have increased to 230.2mn. We have revised our estimate for the number of shares outstanding for FY08 to 233.1mn, assuming full FCCB conversion during Q4FY08 (rather than in FY09 as expected previously).

EBITDA margin up 1,640bps to 42.5% due to lower docking costs

23% equity dilution assumed for FY08 due to FCCB conversion

Valuation

Maintain target of Rs 177

The stock is currently trading at a P/E of 7.7x, P/BV of 1.7x and an EV/EBITDA of 6.1x on FY09E. We maintain our target price of Rs 177, which is based on the replacement cost valuation method (19 owned vessels valued at current market price). At our target price, the stock will discount FY10E EPS by 9.3x, which we believe is justifiable considering the projected earnings CAGR of 39% over FY07-FY10 with sustainable ROE of above 26%. We maintain our Buy recommendation on the stock.

Asset-based valuation

Particulars	Value (US\$ mn)	Value (Rs mn)	Rs/share (fully diluted)
MLL (Holding company)	500.0	19,650.0	84.3
MISL (Subsidiary company)	760.5	29,887.7	128.2
Value attributable to MLL (72.4% stake)	550.1	21,620.7	92.7
Fair value of MLL	1,050.1	41,270.7	177.0

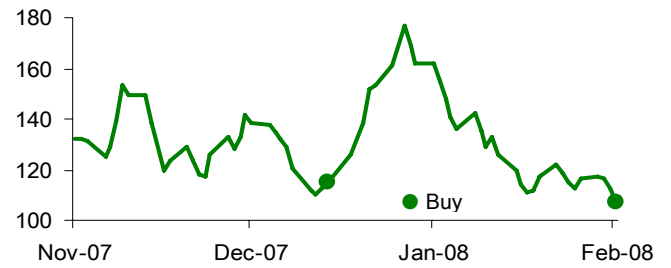
Source: Religare Research

Recommendation history

Date	Event	Reco price	Tgt price	Reco
24-Dec-07	Initiating Coverage	115	177	Buy
8-Feb-08	Results Update	107	177	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	11,227.6	13,711.1	17,639.0	20,397.8
Growth (%)	35.9	22.1	28.6	15.6
EBITDA	2,956.5	5,187.6	7,099.4	8,361.2
Growth (%)	(15.1)	75.5	36.9	17.8
Depreciation	1,038.0	1,688.1	2,139.8	2,255.1
EBIT	1,918.5	3,499.5	4,959.6	6,106.1
Growth (%)	(24.6)	82.4	41.7	23.1
Interest	807.7	1,273.4	1,376.8	1,062.6
Other income	272.7	1,166.7	1,085.1	1,096.3
EBT	1,383.4	3,392.8	4,667.8	6,139.8
Income taxes	34.1	515.7	830.0	1,011.6
Effective tax rate (%)	2.5	15.2	17.8	16.5
Adjusted net income	1,348.6	2,373.8	3,245.8	4,418.9
Growth (%)	(31.9)	76.0	36.7	36.1
Extra-ordinary items	0.8	503.3	592.1	709.4
Reported net income	1,349.3	2,877.1	3,837.8	5,128.2
Growth (%)	(31.9)	113.2	33.4	33.6
Shares outstanding (mn)	189.2	233.1	233.1	233.1
Basic EPS (Rs) (adj)	7.1	10.2	13.9	19.0
FDEPS (Rs) (adj)	7.1	10.2	13.9	19.0
DPS (Rs)	1.0	1.5	1.5	1.8

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	1,349.3	2,877.1	3,837.8	5,128.2
Depreciation	1,038.0	1,688.1	2,139.8	2,255.1
Other adjustments, net	487.6	-	-	-
Changes in working capital	755.1	129.7	(46.6)	62.2
Cash flow from operations	3,630.2	4,694.9	5,931.0	7,445.5
Capital expenditure	(7,932.8)	(4,524.0)	(11,293.1)	(1,370.5)
Change in investments	127.1	(87.1)	(95.8)	(105.4)
Other investing inc/(exp)	2,602.6	-	-	-
Cash flow from investing	(5,203.1)	(4,611.1)	(11,388.9)	(1,475.9)
Free cash flow	(1,572.9)	83.8	(5,457.9)	5,969.6
Issue of equity	-	2,623.8	-	-
Issue/repay debt	5,244.2	178.3	9,034.5	822.3
Dividends paid	(257.9)	(393.4)	(393.4)	(458.9)
Other financing cash flow	(807.7)	-	-	-
Cash flow from financing	4,178.7	2,408.8	8,641.1	363.4
Change in cash & cash eq	2,605.7	2,492.6	3,183.2	6,333.0
Opening cash & cash eq	1,182.0	3,787.8	6,280.3	9,463.6
Closing cash & cash eq	3,787.8	6,280.3	9,463.6	15,796.6

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	3,787.8	6,280.3	9,463.6	15,796.6
Accounts receivable	1,859.3	2,345.7	2,969.4	3,378.0
Inventories	250.0	286.5	344.4	370.3
Others current assets	2,087.9	2,192.3	2,301.9	2,417.0
Current assets	7,984.9	11,104.8	15,079.3	21,961.8
Long-term investments	870.7	957.7	1,053.5	1,158.9
Net fixed assets	16,889.9	19,725.8	28,879.1	27,994.6
CWIP	958.6	958.6	958.6	958.6
Intangible assets	0.0	0.0	0.0	0.0
Other assets	-	-	-	-
Total assets	26,704.1	32,746.9	45,970.4	52,073.8
Accounts payable	1,661.5	1,730.6	2,160.7	2,525.1
Others	411.6	1,099.5	1,414.0	1,661.4
Current liabilities	2,073.1	2,830.1	3,574.6	4,186.4
Debt funds	18,347.3	18,525.7	27,560.2	28,382.5
Other liabilities	48.8	552.1	1,144.1	1,853.5
Equity capital	189.2	233.1	233.1	233.1
Reserves	6,045.6	10,606.0	13,458.4	17,418.3
Shareholder's funds	6,234.9	10,839.1	13,691.5	17,651.4
Total liabilities	26,704.1	32,746.9	45,970.4	52,073.8
BVPS (Rs)	32.9	46.5	58.7	75.7

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	26.3	37.8	40.2	41.0
EBIT margin (%)	17.1	25.5	28.1	29.9
Net profit margin (%)	12.0	17.3	18.4	21.7
FDEPS growth (%)	(31.9)	42.9	36.7	36.1
Receivables (days)	60.4	62.4	61.4	60.4
Inventory (days)	8.1	7.6	7.1	6.6
Payables (days)	76.3	78.3	80.3	82.3
Current ratio (x)	3.9	3.9	4.2	5.2
Quick ratio (x)	3.7	3.8	4.1	5.2
Interest coverage ratio (x)	2.4	2.7	3.6	5.7
Debt / equity (x)	2.9	1.7	2.0	1.6
ROE (%)	23.3	27.8	26.5	28.2
ROA (%)	5.9	9.7	9.8	10.5
ROCE (%)	8.9	12.8	13.7	13.5
EV/Sales (x)	3.1	2.7	2.4	1.8
EV/EBITDA (x)	11.8	7.2	6.1	4.5
P/E (x)	15.0	10.5	7.7	5.6
P/BV (x)	3.2	2.2	1.7	1.3

Source: Company, Religare Research

Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
21-Jan-08	Nicholas Piramal India	Results Update	331	369	HOLD
21-Jan-08	KPIT Cummins Infosystems	Results Update	115	107	SELL
22-Jan-08	Hindustan Construction Company	Results Update	196	333	BUY
22-Jan-08	Sasken Communication Tech	Results Update	276	235	SELL
23-Jan-08	ICICI Bank	Results Update	1,125	1,478	BUY
23-Jan-08	HDFC Bank	Results Update	1,470	1,879	BUY
23-Jan-08	EMCO	Results Update	1,194	1,631	BUY
24-Jan-08	Bank of India	Results Update	390	457	BUY
24-Jan-08	Binani Cement	Results Update	91	148	BUY
24-Jan-08	Bharat Forge	Results Update	300	404	BUY
25-Jan-08	HT Media	Results Update	195	247	HOLD
25-Jan-08	Sterlite Technologies	Results Update	202	384	BUY
25-Jan-08	Cipla	Results Update	175	179	SELL
28-Jan-08	State Bank of India	Results Update	2,405	2,827	BUY
28-Jan-08	Tulip IT	Results Update	974	1,392	BUY
29-Jan-08	HDIL	Results Update	1,002	1,445	BUY
29-Jan-08	Allahabad Bank	Results Update	113	167	BUY
29-Jan-08	Ashok Leyland	Results Update	37	65	BUY
29-Jan-08	Divi's Laboratories	Results Update	1,543	1,825	BUY
29-Jan-08	Garware Offshore Services	Results Update	214	364	BUY
29-Jan-08	Venus Remedies	Results Update	424	708	BUY
29-Jan-08	Dena Bank	Results Update	74	109	BUY
30-Jan-08	Garware Wall Ropes	Results Update	152	301	BUY
31-Jan-08	TVS Motor	Results Update	42	41	SELL
31-Jan-08	Punjab National Bank	Results Update	667	795	BUY
31-Jan-08	Bharti Airtel	Results Update	852	1,150	BUY
31-Jan-08	PVR	Results Update	260	416	BUY
1-Feb-08	Jagran Prakashan	Results Update	124	158	BUY
1-Feb-08	C & C Constructions	Results Update	214	376	BUY
1-Feb-08	Federal Bank	Results Update	309	397	BUY
4-Feb-08	Cadila Healthcare	Results Update	257	381	BUY
4-Feb-08	Maruti Suzuki	Results Update	849	1,225	BUY
4-Feb-08	KPR Mill	Results Update	126	212	BUY
4-Feb-08	Hero Honda	Results Update	725	771	HOLD
5-Feb-08	Ganesh Housing Corp	Results Update	601	1,201	BUY
5-Feb-08	Dewan Housing Finance	Results Update	199	302	BUY
6-Feb-08	Elecon Engineering	Results Update	224	383	BUY
6-Feb-08	Bajaj Auto	Results Update	2,404	2,942	BUY
6-Feb-08	Jubilant Organosys	Results Update	351	405	BUY
6-Feb-08	Bihar Tubes	Results Update	154	242	BUY
7-Feb-08	Indian Overseas Bank	Results Update	178	204	HOLD
7-Feb-08	UTV Software	Results Update	857	892	BUY
8-Feb-08	Mercator Lines	Results Update	107	177	BUY
8-Feb-08	Parsvnath Developers	Results Update	274	512	BUY
11-Feb-08	Opto Circuits (India)	Results Update	400	568	BUY
11-Feb-08	Balaji Telefilms	Results Update	217	375	BUY

Market trends

BSE sectoral indices

	% Chg				Constituent performance
	8-Feb	1-day	1-mth	3-mth	
Automobiles	4,741	(0.9)	(12.4)	(8.9)	
Banks	10,159	(2.2)	(18.6)	(0.5)	
Capital Goods	15,859	(1.6)	(18.6)	(19.3)	
Comm. & Tech.	3,362	2.0	(11.6)	(7.5)	
Consumer Durables	4,737	(3.2)	(23.7)	(8.1)	
FMCG	2,175	2.3	(9.2)	8.4	
Healthcare	3,634	(0.2)	(13.1)	(5.8)	
IT	3,843	3.7	(6.3)	(9.6)	
Metal	15,115	(2.7)	(19.4)	(10.4)	
Oil & Gas	10,638	(0.3)	(23.1)	(8.6)	
Mid-caps	7,633	(1.9)	(19.1)	(4.7)	
Small-caps	9,920	(2.8)	(21.9)	1.7	

Number of companies: 

Emerging markets

Country	% Chg				
	8-Feb	1-day	1-mth	3-mth	6-mth
Brazil	59,076	0.2	(4.6)	(8.2)	12.2
Shanghai	4,600	(1.6)	(14.2)	(16.9)	(0.6)
Hong Kong	23,095	(1.6)	(15.0)	(22.3)	5.4
India	17,465	(0.4)	(16.1)	(7.6)	17.5
South Korea	1,644	(3.1)	(11.8)	(20.0)	(11.4)
Taiwan	7,674	2.0	(6.7)	(17.4)	(14.2)

FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	(41.8)	914.9	1,171.3	(3,099.3)
South Korea	(178.3)	157.3	220.0	(9,254.6)
Taiwan	151.9	433.0	151.9	(1,252.3)
Thailand	215.1	302.5	565.7	(605.6)

Events calendar

Board meetings

February 11	12	13
<p>Blue Dart Express – Quarterly results</p> <p>Parry Agro Industries – Delisting of equity shares</p> <p>Gulshan Chemfill - Allotment of convertible warrants</p>	<p>Mather & Platt Pumps - Audited results</p> <p>Mather & Platt Fire Systems</p> <p>JIK Industries</p>	<p>Hindustan Unilever – Dividend</p> <p>Rajesh Exports – Allotment of bonus shares</p>
14	15	16
<p>Seamec – Results</p> <p>Fag Bearings India - Results, Dividend</p> <p>Abbott India - Results & Dividend</p> <p>Ckoramaandel Cements - Bonus Shares</p>	<p>Disa India – Results</p>	<p>Micro Inks - Audited Results & Dividend</p>
17	18	19
<p>-</p>	<p>Crisil - Audited Results & Dividend</p> <p>BEML - Interim Dividend</p> <p>Castrol India - Results & Final Dividend</p>	<p>Castrol India - Results & Final Dividend</p> <p>Lanxess ABS - Audited Results</p>

Trade data

Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Country Club	Macquarie Bank	S	170,584	675.0
Emco	JM Mutual Fund A/C Jm Emerging Leadership Fund	B	64,587	1,238.9
Horizon Battery Tech	Kotak Mahindra (Uk) A/C Voyager Fund Mauritius	B	200,000	324.5
Horizon Battery Tech	Merrill Lynch Capital Markets Espana SA Svb	B	230,000	330.0
Network 18 Fincap	Acacia Institutional Partners	B	1,362,433	599.8
Network 18 Fincap	Quantum M	S	1,347,433	600.0
NIIT	FID FDS Mauritius	B	4,000,000	112.5
NIIT	CLSA Mauritius	S	4,754,344	112.7
Odyssey Corp	Vinay Sudershan Gupta	S	25,000	36.2
Sayaj Hotels	Ruane Cunniff Goldfarb Inc A/c Acacia	B	208,000	120.0
Sayaj Hotels	Clearwater Capital Partners Cyprus	S	248,000	120.0
Shrilakshmi	Asian Pacific Continental	B	83,000	150.6

Source: BSE

Disclosures under insider trading regulations

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Ashapura Minechem	Navnital R Shah	S	34,689	-	11,573,863	14.7
Baba Arts	Gordhan Tanwani	S	21,940	-	4,500,000	42.3
Birla Capital & Financial Services	Birla Bombay	S	150,000	-	6,040,000	15.5
Birla Capital & Financial Services	Nirved Traders P	S	450,000	-	5,495,000	14.1
Birla Power Solutions	BNP Paribus Arbitrage Snc	B	2,739,600	6.5	2,739,600	6.5
Elecon Engineering Co	K B Investments	B	5,000	-	5,503,265	5.9
Elecon Engineering Co	Bipra Investments & Trusts P	B	2,500	-	1,617,280	1.7
Facor Alloys	Rai Bahadur Shreeram & Co	S	650,000	0.3	24,530,958	12.5
Gujarat Lease Financing	Gujarat Industrial Invest Corpn	S	25,937	0.1	2,399,456	8.8
Gujarat Lease Financing	Gujarat Industrial Invest Corpn	S	67,428	0.2	2,332,028	8.6
Hitkari Fibres	Spice Energy	B	450,000	14.8	450,000	14.8
Hitkari Fibres	Dr (Mrs) Chandni Anil Hitkari	S	450,000	-	312,510	10.3
India Infoline	T Rowe Price Associates Inc & Pacs	B	270,000	0.5	2,688,878	5.0
Intense Technologies	Tangirala Srinivas	B	30,000	0.2	30,000	0.2
KS Oils	Ramesh Chand Garg	B	22,512	-	27,032,069	8.6
Motherson Sumi Systems	Samvardhana Motherson Finance	N	76,185,360	21.4	76,185,360	21.4
Nicco Corporation	Niraj Realters & Shares	S	5,941,805	6.6	7,435,220	8.2
Nicco Corporation	Rapid Estates	B	1,485,519	1.6	4,772,086	5.3
Piccadily Sugar & Allied	Piccadily Agro Industries	B	10,777	0.1	1,383,871	5.7
Piccadily Sugar & Allied	Piccadily Agro Industries	B	18,030	0.1	1,373,094	5.6
Sagar Cements	Twinvest Financial Services	B	100,000	0.8	741,575	5.6
Salora International	Tarun Jiwarajka	N	29,723	0.3	44,723	0.5
Salora International	Ayush Jiwarajka	N	29,722	0.3	44,722	0.5
Salora International	Sushil Kumar Jiwarajka	N	59,445	0.7	-	-
Sasken Communication	Merrill Lynch Cap Mark Espana SASV	S	70,000	0.3	821,858	2.9
Sasken Communication	Merrill Lynch Cap Mark Espana SASV	S	40,000	0.1	781,858	2.7
Satyam Computer Services	V Murali	S	2,000	-	-	-
Satyam Computer Services	Dr Keshab Panda	S	3,000	-	-	-
Satyam Computer Services	T Hari	S	600	-	-	-
Shree Bhawani Paper Mills	Sudhir Tandon	B	80,000	-	1,054,049	6.4

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Shree Bhawani Paper Mills	Sudhir Tandon	B	21,699	-	1,075,748	6.6
Sri Ramakrishna Mills	L Nagaswarana	B	668,400	9.4	727,556	-
Sri Ramakrishna Mills	L Suhasini	B	333,300	4.7	422,217	-
Sri Ramakrishna Mills	L Swathy	B	333,300	4.7	416,800	-
Sri Ramakrishna Mills	R Doraiswami	B	350,000	-	429,782	6.0
Sri Ramakrishna Mills	D Lakshminaryanswamy	B	250,000	-	398,171	5.6
Sri Ramakrishna Mills	Clearwater Capital Partners (Cyprus)	B	1,000,000	14.1	1,000,000	14.1

Source: BSE

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

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