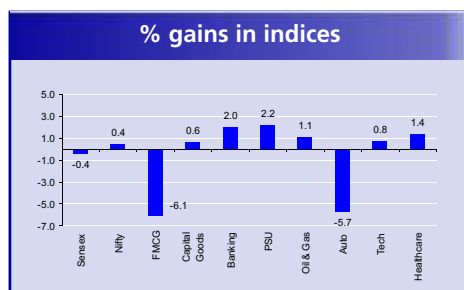


**MONTHLY EQUITY COMMENTARY - APRIL**

The markets had a roller coaster ride during March 2007 but ended almost flat (till March 28, 2007) amid several global and local factors. The Budget contained negative implications on sectors like IT, cement and construction. On the other hand, inflation persisted at higher levels during the month. The stronger rupee has had a dampening effect on export-oriented sectors, mainly IT. These, along with international factors like high crude prices, and potential softening of the US economy kept the markets under pressure. Technically, lower liquidity (attributed to reversal of yen carry trade) impacted the markets.

The markets have bounced back from their monthly lows. While we remain positive on the long-term prospects of the economy and the markets, we believe domestic factors like inflation and interest rates need to moderate before the markets sustain and rise from current levels. We maintain our recommendation of adopting a bottoms-up approach and of buying and owning select value plays, with good growth potential. We remain positive on power, power equipment, IT, capital goods, construction, food processing, media, pharmaceuticals and logistics. We have turned negative on the cement sector post the Budget.



Source: Bloomberg

**Volatile markets**

The markets turned choppy during the month on the back of several local and international factors. Post the Budget, the markets fell to 12400 before recouping most of the losses and touched 13300 levels. Post that, they have once again corrected by about 3%. However, on a month-on-month basis (till March 28, 2007), both the Sensex and the Nifty ended almost flat v/s February 2007.

The markets took negative cues from the Budget, which was largely perceived to be a non-event and devoid of any bold initiatives while having negative implications for the IT, cement and construction sectors. Inflation continued to remain high during the month with the rise in crude prices raising more concerns.

Among sectors, cement and construction stocks expectedly underperformed due to the implications of the Budget. The auto and FMCG indices also fell about 6% each on concerns related to interest rates and inflation. On the other hand, the Tech index marginally outperformed the benchmark.

While the benchmarks were almost flattish during the month, the mid-cap and small-cap indices were lower by 4% and 6%, respectively, indicating more nervousness among retail and institutional investors regarding smaller companies.

**Budget - "Pause inflation, play growth"**

We believe the Budget rightly focused on sustaining the economic growth. Increase in plan expenditure towards infrastructure, agriculture and social

initiatives should deliver long-term and equitable growth in the economy. While we believe the Government will have to largely bank on the previous year's high base and arrival of the new wheat crop to contain inflation in the short-term, focused investments in agriculture and irrigation will be needed to moderate inflation in the longer term.

On the other hand, the Budget had an unexpected negative impact on IT (MAT and FBT), cement (differential excise duty) and construction (withdrawal of section 80IA benefits with retrospective effect). Consequently, several stocks in these sectors underperformed the broader markets.

**FII/MF flows - diverse trends continue**

The FII investments during the month significantly slowed down partly because of valuation concerns in the backdrop of higher inflation and interest rates. The appreciation of the Japanese yen v/s the US dollar also sparked off fears of actual and potential yen carry trades unwinding and impacted liquidity. This led to net investments of Rs.3.2 bn for March, 2007 as against Rs.56 bn in the previous month.

On the other hand, mutual funds continued to be net sellers to the tune of Rs.13.8 bn during the month (Rs.12.6 bn net sales in February 2007) despite receiving large sums in new offerings during February 2007.

**Inflation remained high**

Inflation data during the month did not provide any respite as after falling to about 6.05% for the week ended February 17, 2007 it rose to about 6.45% for the week ended March 3, 2007. Primary as well as manufactured goods contributed to inflation sustaining at high levels.

While the Government has set its focus on resolving the supply side issues and thus containing inflation in the long-term, we believe that, in the short-term, inflation can come down only due to the higher base and arrival of the new crop in early April 2007.

**Crude prices - Rising once again**

Crude prices again started rising in March 2007 and have already touched about \$64 per barrel. This is on rising concerns about lower stocks in the US and also due to concerns on supplies from Iran after imposition of sanctions against that country.

Crude is important for India as we import about 70% of our requirement of crude. Any increase in international prices of crude would lead to a higher import bill. While the Government may try to restrict the impact on inflation by controlling retail prices, higher prices may strain the Government's finances in the future.

**CST reduced**

Carrying on the tax reforms process and in line with the Budget announcements, the Union Cabinet approved the reduction of central sales tax (CST) from 4% to 3% wef April 1, 2007. We believe this is a very significant tax reform measure, which is critical for the success of value-added tax and for the introduction of nationwide goods and services tax (GST) in future.

*"While we remain positive on the long term prospects of the economy and the markets, we believe that, domestic factors like inflation and interest rates need to moderate before the markets sustain and rise from the current levels. We maintain our recommendation of adopting a bottoms-up approach and of buying and owning select value plays, with good growth potential. We remain positive on Power, Power Equipment, IT, Capital Goods, Construction, Food Processing, Media, Pharmaceuticals and Logistics. We have turned negative on Cement sector post the budget."*

# MONTHLY EQUITY COMMENTARY - APRIL

The Government has also worked out a financial package to compensate states for the phase out of CST, which is levied by the federal government but the receipts of which are passed on to states.

For cigarettes, CST has been removed and all states will be imposing VAT on cigarettes, which is expected to be higher than the 4% CST. Several states have levied VAT at 12.5%. This is expected to be negative for companies like ITC. While the company has increased prices, these need to be enough to compensate for the expected volume declines.

## Exchangeable Bonds/short selling by institutions

During March, Sebi formally gave its assent to companies to issue exchangeable bonds and to institutions to short sell in equity markets through the mechanism of borrowing and lending of securities.

We believe, exchangeable bonds will allow companies to leverage on their significant group holdings without selling these holdings. On the other hand, delivery-based short selling by institutions is expected to allow better price discovery in equity markets and also reduce volatility.

## Cement - change in sector outlook

In March 2007, we downgraded the cement sector from BUY to SELL because of the negative pricing implications. While the Budget specified differential excise duty rates, subsequent Government-industry deliberations led to a freeze on upward price movements by cement companies for the next year.

We believe this freeze on pricing will take away the premium valuations being accorded to the sector. Hence, we downgraded the stocks under our coverage to SELL. The risk to our call may come from technical factors, which can lead to short-term upsides in cement stock prices.

The following are our preferred picks from among our universe of stocks.

Top picks	
Sector	Companies
Auto / Ancillaries	Maruti, M&M, Bajaj Auto, Amtek India, Subros, Tube Investments
Banking	ICICI Bank, UTI Bank, SBI, Bank of India
Construction	NCC, Patel Eng, Era Constructions
Engineering	L&T, Kirloskar Oil Engines, Crompton Greaves
Food Processing	Riddhi Siddhi Gluco Biols, Guj. Ambuja Exports
IT	Infosys, Satyam, HCL Tech, NIIT, Subex, Megasoftware
Logistics	CONCOR, Allcargo Global Logistics, Gateway Distriparks
Media	ENIL, UTV
Oil & Gas	ONGC, Great Offshore, GSPL
Pharmaceuticals	Alembic Ltd, Nicholas Piramal, Panacea Biotec, IPCA Labs
Textiles	JBF, GHCL
Other Midcaps	AIA Engineering, Indraprastha Gas

Source: Kotak Securities - Private Client Research

## Rupee - from strength to strength

During March 2007, the rupee appreciated by about 3% (till March 28, 2007) to 43.05 per US dollar from the Q3FY07-end levels of 44.25 per US dollar. While a part of this rise was due to the liquidity crunch faced by the banking system, there was probably some reluctance on the part of the Government to stop this upside due to its focus on controlling the money supply and hence, inflation.

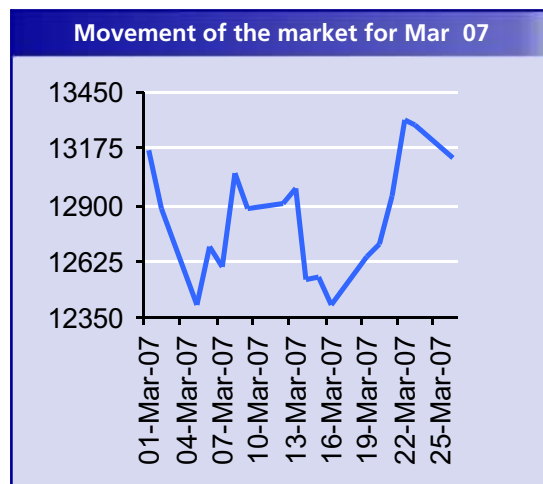
We believe a consistent strengthening in the rupee may hurt export-oriented companies, mainly those in the IT sector. An appreciating rupee may impact the results for Q4FY07 (translation losses) and the guidance of several companies for FY08. Also, if the rupee strengthens further, it may impact our earnings estimates for FY08 and beyond.

## Outlook

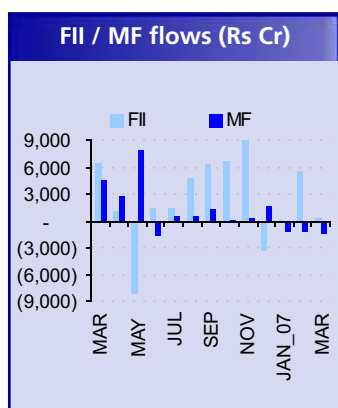
The markets have been flattish during the month, though they have moved up from their intra-month lows on global cues. While we remain positive on the long-term prospects of the economy and the markets, we believe domestic factors like inflation and interest rates need to moderate before the markets sustain and rise from current levels.

We maintain our recommendation of adopting a bottoms-up approach and of buying and owning select value plays, with good growth potential. We remain positive on power, power equipment, IT, capital goods, construction, food processing, media, pharmaceuticals and logistics. We recommend accumulating IT stocks in view of the recent upward trend in the rupee v/s the US dollar. We have turned negative on the cement sector post the Budget.

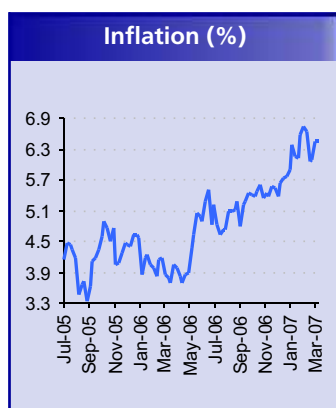
From within our universe of covered stocks, there are several stocks, which have the potential to offer significant returns from the current levels over a 12-month horizon.



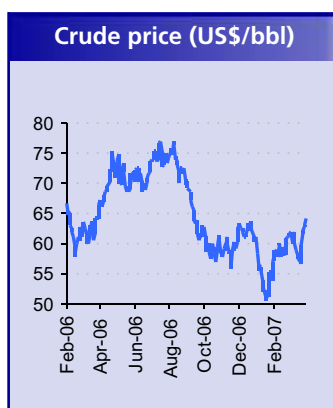
Source: Bloomberg



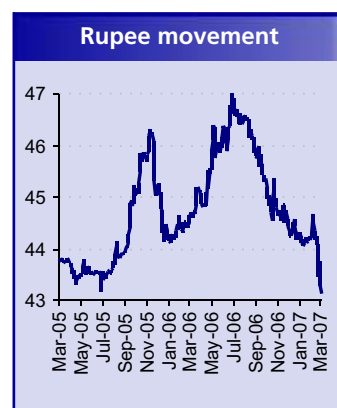
Source: Bloomberg



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 230**

**TARGET PRICE: Rs. 317**

26 February 2007

Dipen Shah



We attended the analyst meet of Zensar to get details of the acquisition of ThoughtDigital (TD) and the future growth plans of the company.

We believe the acquisition of TD will add strategic value to the company and also be earnings accretive for Zensar. In addition to becoming a Top 10 Oracle partner in the world, the acquisition is expected to help Zensar penetrate deeper into TD's large clients.

On an organic basis, Zensar has been able to build up a base of good enterprise clients over the past few quarters. It is also penetrating the accounts through ITS as well as new services like BI, BPO, etc. A

sustained focus on increasing offshore component in overall revenues and cost control has helped it in improving margins in the past four quarters. It is expected to restrict the impact of salary hikes on margins in the future.

We remain positive on Zensar, based on several parameters like deeper penetration into existing large clients, significant client additions, success in new business initiatives and potential for improved profitability in the BPO business.

At the current levels, the stock trades at 7.5x FY08E estimates. We arrive at a DCF-based price target of Rs.317 for the company. We continue to recommend a BUY.

## Acquisition of ThoughtDigital

Zensar has announced the completion of its 100% acquisition of ThoughtDigital, through its 100% subsidiary. The transaction is valued at about \$25 mn and is an all-cash deal. For the year ended December 2006, TD had revenues of \$27 mn with an EBITDA margin of 10% and a net profit margin of about 8.5%.

SOA Software owned TD and it is a leading systems integrator specializing in Oracle Apps. The company has about 120 Oracle consultants and a strong client base.

TD had been facing increasing demands from clients for an offshore delivery base and also other services, which Zensar will be able to provide. The strategic reasons for the acquisition of TD by Zensar are:

- Within the enterprise applications space, Zensar is focused largely on Oracle and the addition of TD's expertise and client base. Zensar will become a Top 10 global partner for Oracle. This is expected to bring in larger deals to Zensar in the Oracle space.
- While Zensar is present on the west coast of the US, TD is largely present in the east coast. The integration is expected to make Zensar a pan-American player.
- While Zensar has focused on the hi-tech, manufacturing, retail and transportation verticals, TD is strong in media/communications, financial services and consumer products and services verticals. Thus, the acquisition will add totally new verticals for Zensar.
- TD has reputed clients like Gartner, Cingular Wireless, York Water Company, Intelsat, Swiss Re, Anteon, etc. Zensar can potentially cross-sell its existing services to these large accounts.
- Zensar plans to increase the offshore content in TD's business with a view to increase margins in its operations. Also, potentially higher rates for providing Zensar's services to TD's clients can improve profitability for Zensar.

## SBP and Global Delivery Platform

In the non-EAS (enterprise application services) business, Zensar is finding increasing acceptance for its global delivery platform (GDP) model. Initially, in SBP, the designing work was done in Pune.

In GDP, the company does the project design work at any of the near-shore locations along with the client's staff. The development work is done at any of the remote locations with the help of SBP. SBP

reduces the requirements of engineers as most of the work is automated. Zensar is also able to utilize the services of functional experts spread across the world who are not necessarily its own employees. The project testing work is done on-site.

This allows the company to scale up its business without undue pressure of recruiting its own employees.

## Future prospects

- We have incorporated the financials of TD in our estimates. We expect the consolidated entity to achieve revenues of Rs.8.5 bn in FY08 of which, TD is expected to contribute about Rs.1.2 bn. The organic growth thus, is expected to be 23%.
- EBITDA margins are expected to be stable despite better profitability in the BPO and ITS businesses. Lower profitability in TD, rupee appreciation (43 per US dollar by FY08 end) and salary increases are expected to impact profitability.
- We expect interest expense to increase to Rs.47 mn in FY08 due to the \$15-mn debt Zensar proposes to raise to part-fund the TD acquisition. Thus, PAT is expected grow to Rs.739 mn in FY08, resulting into an EPS of Rs.31.

**Key financials**

(Rs mn)	FY06	FY07E	YoY (%)	FY08E*	YoY (%)
Income	4,288.5	5,917.3	38.0	8,496.3	43.6
Expenditure	3,746.8	5,139.0		7,382.6	
EBDITA	541.7	778.3	43.7	1,113.7	43.1
Depreciation	154.7	156.9		242.0	
EBIT	387.0	621.4	60.6	871.7	40.3
Interest	16.1	14.3		47.2	
Other inc	46.3	81.1		83.9	
PBT	417.2	688.2	65.0	908.4	32.0
Tax	54.6	141.0		165.2	
Minority Interest	-4.8	-2.3		4.0	
PAT	367.4	549.5	49.6	739.3	34.5
E.O items	-27.5	0.0		0.0	
EPS (Rs.)	15.7	23.2		31.3	
Margins (%)					
EBDITA	12.6	13.2		13.1	
EBIT	9.0	10.5		10.3	
Net Profit	8.6	9.3		8.7	

\* - Including Thought Digital's financials; Source: Company, Kotak Securities - Private Client Research



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 1070**

**TARGET PRICE: Rs. 1346**

27 February 2007

Apurva Doshi



AGL reported its Q3FY07 and nine-month period ended December 2006 results, which are above our estimates on the profitability side. We maintain our positive bias for AGL and reiterate our BUY with a price target of Rs.1346 (26% upside potential).

- Net sales for Q3FY07 were at Rs.851.5 mn, up 25.7% on a YoY basis. The growth in sales is primarily due to buoyant export import trade leading to 29.1% YoY growth in the MMTO business and 16.7% YoY growth in the CFS business of the company.
- For the nine-month period ended December 2006 the company reported net sales of Rs.2.4 bn, which is 21.6% YoY growth.

Going forward, we expect the sales to pick up as two CFS at Chennai and Mundra are expected to commence commercial operations in March 2007.

- EBIDTA margins during Q3FY07 were down 550 bps on a YoY basis to 19% due to a rise in operating expenditure as a percentage of sales. It went up from 66.27% in Q3FY06 to 74.18% in Q3FY07 primarily due to increase in the transportation costs of the company, which AGL could not immediately pass on to the customers. Also, the CFS business yielded lower margins due to increase in the transportation, labour and handling costs.
- EBIDTA for Q3FY07 was at Rs.161.9 mn down 2.3% on YoY basis and down 1.1% on sequential basis.

### ALLCARGO Q3FY07 Results - Standalone

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07	9MFY06	YoY (%)
Net Sales	851.5	677.4	25.7	882.7	(3.5)	2,435.6	2,002.5	21.6
Operating exp.	631.7	448.9	40.7	646.3	(2.3)	1,764.8	1,380.3	27.9
Staff cost	24.9	24.0	3.6	33.0	(24.6)	86.4	68.4	26.4
Other exp.	33.1	38.7	(14.6)	39.6	(16.5)	106.9	103.2	3.5
Total exp.	689.7	511.7	34.8	719.0	(4.1)	1,958.1	1,551.8	26.2
EBIDTA	161.9	165.7	(2.3)	163.7	(1.1)	477.4	450.6	5.9
Other income	21.2	11.0	93.2	6.5	227.1	39.1	19.4	101.3
Depreciation	(3.9)	13.9	(127.8)	17.3	(122.3)	28.0	48.7	(42.4)
EBIT	187.0	162.8	14.8	152.9	22.3	488.5	421.4	15.9
Interest	6.0	3.3	82.9	0.8	622.9	15.7	15.8	(0.1)
PBT	181.0	159.5	13.4	152.0	19.0	472.7	405.6	16.5
Extraordinary loss/ (gain)	-	-	-	-	-	(45.0)	-	-
Tax & deferred tax	43.9	15.5	183.5	16.2	170.9	76.8	35.7	115.0
PAT	137.0	144.0	(4.9)	135.8	0.9	441.0	369.9	19.2
Equity Rs. mn	202.6	131.6		202.6		202.6	131.56	
Ratios								
<b>Optg profit margin (%)</b>	<b>19.0</b>	<b>24.5</b>	<b>-550 bps</b>	<b>18.5</b>	<b>+50 bps</b>	<b>19.6</b>	<b>22.5</b>	<b>-290 bps</b>
Optg exp / Sales (%)	74.18	66.27		73.23		72.46	68.93	
Staff cost / Sales (%)	2.93	3.55		3.74		3.55	3.41	
Other Exp. / Sales (%)	3.88	5.72		4.49		4.39	5.15	
Tax / PBT (%)	24.3	9.7		10.7		16.2	8.8	
EPS (Rs)	6.8	10.9		6.7		21.8	28.1	
CEPS (Rs)	6.6	12.0		7.6		23.2	31.8	
TEU's handled	25832			25102		77035		
Avg. realisations Rs/TEU	8,453			8,391		8,019		
MTO handled	6482			7421		19971		
Avg. realisations Rs/MTO	97,678			90,555		91,021		

Source: Company



## Segmental Revenue

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07	9MFY06	YoY (%)
MMTO	633	490	29.1	672	(5.8)	1818	1504	20.9
CFS	218	187	16.7	211	3.7	618	499	23.9

Source: Company

## Segmental Results

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07	9MFY06	YoY (%)
MMTO	47	25	88.0	32	47.6	132	78	70.3
CFS	131	127	3.5	115	14.5	375	328	14.1

Source: Company

## Segmental Margins

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07	9MFY06	YoY (%)
MMTO	7.4	5.1	45.6	4.7	56.7	7.3	5.2	40.8
CFS	60.2	67.9	(11.4)	54.5	10.4	60.6	65.8	(7.9)

Source: Company

- During the year, the company has revised its accounting policy for providing depreciation from the written down value method to the straight-line method. The change in the accounting policy has resulted in a write back of accumulated depreciation of Rs.45.1 mn and a deferred tax liability of Rs.22.99 mn relating to previous years.
- PBT for Q3FY07 was up 13.4% YoY and up 19% on sequential basis to Rs.181 mn.
- PAT for Q3FY07 was at Rs.137 mn down 4.9% on YoY basis and up 0.9% on sequential basis, thereby translating into quarterly EPS of Rs.6.8 and CEPS of Rs.6.6.
- For the 9-month period ended December 2006, AGL reported net profits of Rs.441 mn as against Rs.369.93 mn in the corresponding period last year. Thus it registered YoY growth of 19.2% that translated into 9 month EPS of Rs.21.8 and CEPS of Rs.23.2.
- CFS volumes have grown from 62045 TEUs last year to 77035 TEUs this year for the nine-month period, thereby registering a YoY volume growth of 24%.
- The net operating revenue per TEU has gone up from Rs.4688 in quarter ended June 2006 to Rs.5720 per TEU in the quarter ended December 2006, thereby registering a sequential growth of 22%.

## Q3FY07 Results - Consolidated

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07
Net Sales	4,223.5	679.9	521.2	4,183.8	0.9	12,280.8
Operating exp.	2,935.6	451.7	549.9	2,891.2	1.5	8,553.6
Staff cost	607.9	24.1	2,422.3	607.4	0.1	1,748.3
Other exp.	355.4	38.7	817.9	338.2	5.1	1,012.2
Total exp.	3,898.8	514.5	657.8	3,836.9	1.6	11,314.1
EBIDTA	324.7	165.4	96.3	346.9	(6.4)	966.7
Other income	21.5	11.2	91.6	6.9	210.1	39.7
Depreciation	25.9	34.6	(25.3)	46.0	(43.7)	113.6
EBIT	320.3	142.0	125.6	307.9	4.0	892.9
Interest	19.2	3.3	485.1	14.6	31.3	54.9
PBT	301.1	138.7	117.1	293.3	2.7	838.0
Extraordinary loss/(gain)	-	-	-	-	-	(45.0)
Tax & deferred tax	62.1	15.2	309.0	52.8	17.6	145.8
PAT	239.0	123.5	93.5	240.4	(0.6)	737.3
Minority Interest	8.2	-	-	8.4	-	24.4
NPAT	230.8	123.5	86.9	232.1	(0.5)	712.8
Equity Rs. mn	202.6	131.6		202.6		202.6
Ratios						
Operating profit margin (%)	7.7	24.3		8.3	-60 bps	7.9
Operating exp / Sales (%)	69.51	66.43		69.10		69.65
Staff cost / Sales (%)	14.39	3.54		14.52		14.24
Other Exp. / Sales (%)	8.41	5.70		8.08		8.24
Tax / PBT (%)	20.62	10.95		18.01		17.40
EPS (Rs)	11.4	9.4		11.5		35.2
CEPS (Rs)	12.7	12.0		13.7		40.8

Source: Company





On a consolidated basis, the company reported net sales of Rs.4.2 bn, up 0.9% on a sequential basis. ECU line revenues have also grown sequentially which is a positive sign. EBIDTA was down 6.4% on a sequential basis to Rs.324.7 mn. PAT was down 0.5% on a sequential basis to Rs.230.8 mn. The company reported quarterly

EPS of Rs.11.4 and CEPS of Rs.12.7.

For the nine-month period ended December 2006 the company reported net sales of Rs.12.2 bn, EBIDTA margin of 7.9% and NPAT of Rs. 712.8 mn, thereby translating into an EPS of Rs.35.2 and CEPS of Rs.40.8.

## Expansions are on track

The company is developing two CFS one each at Chennai and Mundra with an initial capacity to handle 50000 TEUs each. The CFS' are expected to commence commercial operations by March 2007.

The company is also planning to set up a rail-linked ICD in the NCR

region. Allcargo is actively looking for land of 25 to 40 acres. After acquiring the land, the company would start the construction and it is expected to be operational by December 2007. The rail-linked ICD is expected to have annual handling capacity of 120,000 TEU.

## Couple of MOU's signed

The company has signed an MoU with the government of Madhya Pradesh to construct and operate two logistics hubs. AGL has already identified one location at Pithampur near Indore. The company has also signed an MoU with the Gujarat government to

set up CFS/ICD as well look at other avenues in the transportation and logistics sector. We expect the above initiatives to be value accretive for the company in the long-term.

## Recommendation and Valuation

- We are positive about the growth prospects of the company and maintain our earnings estimates for CY07E and CY08E. We expect the company to report an EPS of Rs.56.5 in CY07E and Rs.70.8 in CY08E.
- The current market price of Rs.1070 discounts CY07E and CY08E earnings at 18.9x and 15.1x, respectively.
- It discounts CY07E and CY08E cash earnings at 15.8x and 12.5x, respectively.
- We maintain our positive bias for the stock and continue to recommend a BUY with unchanged P/E based price target of Rs.1346, which provides 26% upside potential. We have derived our target price by according target P/E of 19x to CY08E EPS estimate of Rs.70.8. We maintain a BUY recommendation on the stock.

## Key risks

- Higher than expected rise in operating charges could impact the profitability of the company.
- Delay in expansion plans at Chennai and Mundra could lead to downward revision in our earnings estimates.
- The company is yet to acquire land for its proposed rail-linked ICD at Delhi. Any delay in land acquisition and subsequent delay in commencement of ICD operations could lead to downward revision in our earnings estimates.

## Summary table - consolidated

(Rs mn)	CY06 (9M)	CY07E	CY08E
Sales	12,281	19,752	22,468
Growth (%)	354.1	36.7	13.7
EBITDA	967	1,835	2,391
EBITDA margin (%)	7.9	9.3	10.6
Net profit	713	1,145	1,435
Net debt	624	296	(750)
EPS (Rs)	35.2	56.5	70.8
Growth (%)	44.2	36.4	25.3
DPS (Rs)	3.5	4.0	4.5
ROE (%)	31.7	41.3	36.2
ROCE (%)	29.0	45.0	46.8
EV/Sales (x)	1.8	1.1	0.9
EV/EBITDA (x)	23.1	12.0	8.8
P/E (x)	30.4	18.9	15.1
P/BV (x)	9.6	6.6	4.7

Source: Company & Kotak Securities - Private Client Research



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 313**

**TARGET PRICE: Rs. 500**

5 March 2007

Teena Virmani



In the Union Budget 2007-08, it has been clarified that tax benefits under Section 80IA will not be applicable for construction companies that are carrying out only civil construction projects. As a result of this, some civil construction companies will have to take a hit on their P&L account or

reserves for benefits availed in the past six years. Their effective tax rate would also go up in future estimates. However, the negative impact of Section 80IA will not be seen in case of Era Constructions since it had been paying full tax in past years. The full tax rate has also been considered in future estimates.

### Tax paid by the company in past years

	PBT	Tax@30%	Tax paid by company
FY01	26.5	8.0	4.8
FY02	31.73	9.5	14.3
FY03	33	9.9	9.5
FY04	42.45	12.7	13.6
FY05	74.3	22.3	20
FY06	374.3	112.3	110

Source: Company

The company has an order book of approximately Rs.18 bn to be executed over a period of two and a half years. Era is also the lowest bidder in another Rs.4.5 bn worth of orders. With a healthy order book of Rs.18 bn, we expect the company's revenues to grow at a

CAGR of 67% between FY06-FY09. We also expect Era to be a key beneficiary for railway related projects announced in the Railway Budget on account of its prior experience in executing railway projects.

### Impact of Budget on the company

#### Union Budget: Increase in provisions for Bharat Nirman and NHDP

For Bharat Nirman, provisions have been raised by 31% to almost Rs.2.4 trillion as compared to last year. Similarly, for NHDP, it has been raised to Rs.107 bn from Rs.99 bn last year. This would result in large number of order inflows especially in the road segment. The company is well equipped to bid for these projects after enhancing its net worth through an FCCB issue of US\$75 mn.

#### Railway Budget: Focus on enhancement of existing facilities

Outlay for track renewals and new facilities have been raised for the coming fiscal in the Railway budget. Budgeted outlay for setting up new lines is Rs.16 bn, for gauge conversion it is Rs.24 bn, for electrification it is Rs.3 bn and for metropolitan transport projects it is Rs.7.2 bn. A large number of projects are likely to be announced under track renewal. This would be extremely positive for players like Era Constructions, which have an expertise in carrying out railway related projects for quite a few of its clients.

#### Increase in cement prices

Cement companies have increased their retail prices by Rs.10-12/bag in order to pass on the hike in excise duty to end users. However, this would not impact Era Constructions in a major way since for a major proportion of its projects, the company is able to get raw materials like cement and steel from clients, which results in good operating margins. It also has variable pricing clauses in place, which should protect the margins of the company in the rising cement price scenario.

Thus, we believe the overall Budget was negative for construction companies on account of Section 80IA benefits availed by companies, being withdrawn. However, Era Constructions should be not be impacted in a negative way on account of this and there would not be any change in our estimates. Hence, we maintain our positive bias for the company and due to the steep correction, would upgrade the stock to BUY from HOLD, with a price target of Rs.500. At our target price, the stock would be trading at 10.8x on P/E multiples and 5x EV/EBITDA multiples on FY08 estimates.



**Profit and Loss Statement (Rs mn)**

(Year end Mar)	FY07E	FY08E	FY09E
Revenues	6,992	11,257	14,634
% Change YoY	125.0	61.0	30.0
EBITDA	1,189	1,914	2,488
% Change YoY	143.2	61.0	30.0
Other Income	110	40	40
Depreciation	75	113	149
EBIT	1,224	1,841	2,379
% Change YoY	157.2	50.4	29.3
Net interest	223	321	359
Profit before tax	1,001	1,519	2,020
% Change YoY	167.0	51.8	33.0
Tax	300	456	606
As % of PBT	30.0	30.0	30.0
Net income	701	1,064	1,414
% Change YoY	165.0	51.8	33.0
Shares outstanding (m)	18.6	23.1	23.1
EPS (reported) (Rs)	37.7	46.1	61.3
P/E	8.3	6.8	5.1
EV/EBITDA	5.0	3.1	2.4

Source: Company & Kotak Securities - Private Client Research



7 March 2007

Saday Sinha



**The fundamentals are intact and the change in holding structure in the subsidiary will enable value unlocking. The correction provides buying opportunities. We recommend BUY with a target price of Rs.1050.**

The board of directors of ICICI Bank approved the incorporation of a new wholly-owned subsidiary, ICICI Holdings and the transfer of its investments in ICICI Prudential Life Insurance, ICICI Lombard General Insurance, Prudential ICICI Asset Management and Prudential ICICI Trust, to this new company.

ICICI Bank currently holds approximately 74% of ICICI Prudential Life and ICICI General Insurance and 51% of ICICI AMC and ICICI Trust. The transfer is worth Rs.19.5 bn of its investment at its book value (9% of its capital).

It has also been proposed that with effect from June 1 2007, Kalpana Morparia, Joint Managing Director, slated to retire in mid-2007, would assume responsibility of ICICI Holdings as its MD and CEO.

The main rationale of this move is to enable the bank to unlock value in its subsidiaries through the listing of ICICI Holdings and fund the growth of its life insurance business by escaping regulatory roadblocks with the current holding structure. In the past, frequent access to the capital market has been a drag on its RoEs. Therefore, we believe this structuring and expected capital raising exercise, thereafter, would improve the valuation of the bank.

The insurance sector is growing rapidly on the back of positive

macroeconomic factors like rising household incomes and growing penetration of insurance products. ICICI Bank's insurance business requires funds to sustain its future growth. Its management has indicated that they are looking to raise capital through the IPO route in the current year. However, we believe ICICI Bank would maintain its majority ownership in ICICI Holdings.

ICICI Bank is India's largest private sector bank and is very well placed to dominate the Indian financial sector with its aggressive growth ventures. In the past, its management has demonstrated the ability to strategize and enter new business segments. Now, after its success in the retail business, the bank is looking at overseas expansion and rural banking to leverage the huge growth opportunities unfolding in these areas.

We believe international and rural banking would be the next growth engines for ICICI Bank. These new segments will not only generate stable deposits but also higher fee income for the banks. Its international strategy is driven by India linked retail opportunities, globalization of Indian corporates and capabilities of leveraging its low cost India technology platform.

It also has ambitious plans on the rural front, an under-banked segment of the Indian economy. It has developed a unique approach to tap rural markets in partnership with several companies and micro finance institutions and developed innovative products.

We like ICICI Bank for its presence across businesses - retail assets, corporate banking, SME, agriculture, international banking, life insurance. We believe the bank's low margins are more than offset by its high growth but its valuations do not reflect this.

### **Subsidiaries: Adding significant value...**

#### **ICICI Prudential Life**

ICICI Prudential Life Insurance Co is one of the dominant private sector players with 10% share of the overall market and 30% among private sector players. ICICI Bank has already invested more than Rs.9 bn in this venture till FY06, holding a 74% stake.

While the life insurance business has been making accounting losses (it reported a loss of Rs.1.87 bn in FY06 against Rs.2.1 bn in FY05), there has been a considerable value build up over the last five years. Its new business premiums (NBP) have grown at 93% CAGR over FY03-06 with average new business achieved profit (NBAP) margins

of 25%. During FY06, the company's NBAP increased by 69% to Rs.5.28 bn.

We expect robust growth in NBP at about 61% CAGR over FY06-08E, driven by rapid network expansion, new product launches and strong demand from under penetrated semi-urban markets. We expect NBAP to grow by 53% CAGR over FY06-08E, with margins declining to 20% by FY08E. We are assigning a lower NBAP multiple of 18x, despite strong volume and NBAP growth. We arrive at a value of Rs.222 bn for the company on FY08E estimates, thus resulting in a value of Rs.184 per ICICI bank share.



**Life Insurance Business**

(Rs mn)	FY04	FY05	FY06	FY07E	FY08E
Single Premium	1,217	1,300	3,090	5,100	6,800
Regular Premium	6,291	14,543	22,935	40,000	61,000
New Business Premium (NBP)	7,508	15,843	26,025	45,100	67,800
% Growth	-	111	64	73	50
Weighted NBP	6,413	14,673	23,244	40,518	61,738
NBAP Margin (on weighted NBP) %	32	21	23	20	20
NBAP (New Business Achieved Profit)	2,040	3,120	5,280	8,104	12,348
% Growth	-	53	69	53	52
At P/NBAP of 18	36,720	56,160	95,040	145,864	222,258
Value assigned to ICICI Bank	27,173	41,558	70,330	107,940	164,471
Value Per Share for Life Insurance Business	30	46	79	121	184

Source: Company, Kotak Securities - Private Client Research

**ICICI Lombard**

ICICI Lombard, with 31% market share is the largest private sector player in the non-life insurance business. It achieved a profit after tax of Rs.503 mn in FY06 compared to Rs.483 mn in FY05. About 58% of its gross written premiums comprised non-corporate business. In

our view, ICICI bank's general insurance venture is worth Rs.12.75 bn, which translates into Rs.11 per share of ICICI Bank, for its 74% stake.

**Prudential ICICI Asset Management Co**

Prudential ICICI Asset Management Co continues to be among the largest asset management companies in India as on December 31 2006, with assets under management of over Rs.333.5 bn (\$7.5 bn) and about 10% market share. M&A transactions in the industry, in

the past, have taken place at 4-6% of AUM. We also assume that by the end of FY08E, the AUM would increase to Rs.360 bn. We estimate its AMC business at Rs.18 bn, which translate into Rs.20 per share of ICICI bank.

**Valuation and recommendation**

We expect net profit for FY07E and FY08E to be Rs.32.49 bn and Rs.41.73 bn, respectively resulting into an EPS of Rs.36.51 and Rs.46.90, respectively. The adjusted book value for FY07E and FY08E is forecast at Rs.267.5 and Rs.296.1, respectively. The stock is now trading at 18.2x its FY08 earnings and 2.9x its FY08E adjusted book value.

arrived at a fair value of core banking business of Rs.751 per share based on a P/E ratio of 16x on FY08E earnings and Rs.299 for its subsidiaries.

We have valued ICICI Bank at Rs.1050 using sum-of-the-parts valuation to capture the value of its diverse business lines. We have

Its overseas banking subsidiary is valued at 2.5x FY06 BV. It is valued at a discount to its core operations due to its lower profitability. The overseas business is in an investment phase, hence it has lower margins as compared to its core operations in the domestic market.



**Businesses**

	Basis	Multiple	Year	Value per Share
Core Banking Business	PAT	16	FY08	751
Overseas Banking s	BV	2.5	FY06	33
Subsidiarie				
Life Insurance Business	NBAP	18	FY08	184
Investment Banking	PAT	12	FY08	34
Asset Management	AUM	5	FY08	20
Private Equity	AUM	10%	FY08	17
Non Life Insurance	PAT	15	FY0811	
Total				1,050

Source: Kotak Securities - Private Client Research

The three key subsidiaries, that is, life insurance, general insurance and AMC business currently add around Rs.215 per share to our SOTP value of Rs.1050 for ICICI Bank.

The management has also pointed out that they are looking at an IPO for ICICI Holdings within the current year. So, we recommend the investors use the recent correction in the stock price as a buying opportunity.

The stock at Rs.855 trades at 2.9x its FY08E book value and 18.2x its FY08E earnings. We recommend a BUY with a target price of Rs.1050 over a 12-month horizon based on FY08E estimates, with an upside of 23% from current levels.

**Key data (Rs bn)**

(Rs mn)	FY06	FY07E	FY08E
Interest income	137.85	221.61	286.42
Interest expense	95.97	159.94	208.49
Net interest income	41.87	61.66	77.94
Other income	49.83	66.09	84.28
Gross profit	46.91	68.45	86.23
Net profit	25.40	32.49	41.73
Gross NPA (%)	2.6	2.6	2.6
Net NPA (%)	0.9	0.7	0.6
Net interest margin (%)	2.61	2.71	2.82
RoE (%)	16.6	13.6	15.8
RoAA (%)	1.2	1.1	1.1
Dividend Yield (%)	0.9	0.9	0.9
EPS (Rs)	31.3	36.5	46.9
Adjusted BVPS (Rs)	264.9	267.5	296.1
P/E (x)	27.3	23.4	18.2
P/ABV (x)	3.2	3.2	2.9

Source: Company & Kotak Securities - Private Client Research



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 318**

**TARGET PRICE: Rs. 422**

8 March 2007

Teena Virmani



Union Budget 2007-08 had a negative impact on construction companies with section 80IA benefits being withdrawn and taxes imposed with retrospective effect from April 2000. We are revising our profit estimates downwards for Patel

Engineering to factor in the changes in the effective tax rate. But, we believe that the recent correction in the stock has been overdone and it provides a good opportunity to BUY with a one year price target of Rs.422.

**Impact of the Budget on the company**

**Withdrawal of section 80IA benefits**

This is expected to have a two way negative impact on the company. The company would have to provide for previous tax arrears in this financial year. It would also have to pay taxes at a higher rate going

forward. The impact of higher tax rate on past years would not be as significant as it would be for future years on account of a significant scale up in revenues and profitability of the company. We expect the company to adjust the tax arrears to the tune of Rs.384 mn for the past six years and pay taxes at a higher rate of 30%, going forward.

**Tax outgo calculation**

(Rs mn)	PBT	Tax@33%	Paid	Arrears
FY01	211	69.6	18.3	51.3
FY02	252	83.2	95	-11.8
FY03	233	77.0	20	56.9
FY04	337	111.2	78	33.2
FY05	411	135.6	55	80.6
FY06	787	259.7	85	174.7
Total				384.9

Source: Company, Kotak Securities - Private Client Research

**Thrust on Bharat Nirman, NHDP and irrigation related projects**

The Government has increased the budgeted outlay for Bharat Nirman, NHDP and irrigation related projects, which should result in larger number of order inflows over a period of time. This would be positive for the company in terms of higher order inflows and higher

revenue visibility, going forward. With the current order book of Rs.50bn, we expect revenues to grow at a CAGR of 30% between FY06-09.

**Margin scenario**

Rise in cement prices is not expected to put any pressure on company's margins on account of diversified portfolio and variable

pricing clauses being in place. So we maintain our estimates for the operating margins of the company.

**Revision in estimates**

We are revising our profit estimates downwards to factor one-time adjustment of past arrears in FY07 and higher tax rate from FY07

onwards. We are also revising our land development valuations to factor in higher interest rates scenario.

**Revision in estimates due to higher tax rate**

(Rs mn)	Earlier			Revised		
	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
PAT	1018	1394	1670	411	1097	1314
% Change				-60	-21	-21
EPS	17	23	28	7	18.4	22
% Change				-59	-20	-21

Source: Kotak Securities - Private Client Research



**Valuation and Recommendation**

At the current market price of Rs.318, the stock is trading at 17.3x and 14.4x on P/E multiples on FY08 and FY09 estimates. Adjusted with the subsidiary and land bank valuations, it is trading at 10.1x and 8.3x on P/E multiples on FY08 and FY09 estimates. Though the profit estimates have been revised downwards, it is already factored in

the recent correction in the stock. We recommend BUY with a revised price target of Rs.422 based on the sum of DCF value of the core business, subsidiary valuation and land development valuations arrived through NPV methodology.

**1 year forward price target**

	(Rs)	Methodology
Core business valuation	305	DCF
Subsidiary valuation	14	Relative value
Land valuation	105	NPV
<b>Total (Rs)</b>	<b>422</b>	

Source: Kotak Securities - Private Client Research

**Summary table**

(Rs mn)	FY07E	FY08E	FY09E
Revenues	11,374	14,951	17,921
% Change YoY	41.9	31.5	19.9
EBITDA	1,458	1,909	2,300
% Change YoY	37.7	30.9	20.5
Other Income	200	200	200
Depreciation	326	393	450
EBIT	1,332	1,716	2,051
% Change YoY	34.1	28.9	19.5
Interest	188	150	174
Profit before tax	1,144	1,566	1,877
% Change YoY	45.0	36.9	19.8
Tax	343	470	563
As % of PBT	30.0	30.0	30.0
Profit after tax	801	1,097	1,314
Extra-ordinary items	(390)		
Net income	411	1,096	1,314
Shares outstanding (m)	59.7	59.7	59.7
EPS (reported) (Rs)	7.0	18.4	22.0
DPS (Rs)	1.0	1.0	1.0
EV/EBITDA	11.5	9.1	7.7
P/E (x)	46.2	17.3	14.4

Source: Company & Kotak Securities - Private Client Research





**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 24**

**TARGET PRICE: Rs. 42**

8 March 2007

Apurva Doshi



**The Union Budget 2007 has an overall positive impact on GAEL. We continue to maintain BUY with an unchanged price target of Rs.42 (74% upside)**

**Countervailing duty (CVD) on raw edible oil reduced from 4% to 0%**

- Import of crude and refined edible oil would now become cheaper with the exemption from payment of CVD. This is positive for the solvent extraction and edible oil refining business of GAEL, as it can now import the raw edible oil without payment of CVD. Hence, the cost of its key raw material would come down.
- The edible oil industry is growing at 8% per annum and vanaspati ghee, which is made out of refined edible oil, is growing at 14% per annum. Thus, the steady growth in demand for refined edible oil would keep final product prices firm.
- Edible oil and refining business of the company contributes approximately 45% to total revenues of the company. The company imports crude palm oil during April to September.

From October to March, it crushes soyabean seeds and makes refined edible oil.

- GAEL has already purchased its edible oil requirements till March 2007. Hence, we feel the company will not import any crude palm oil in the current year but would look to import edible oil in FY08 at zero CVD. We expect GAEL to benefit from this from FY08E onwards, thereby achieving superior profitability.
- In FY07E the company imported 40,000 MT of crude palm oil. Now, due to exemption from CVD imports have become viable and GAEL is planning to import 100,000 MT of crude palm oil. The current landed cost of crude palm oil is approximately \$585 per MT. To this we have to add 60% import duty on fixed tariff value of \$447 per MT, which works out to \$268. Therefore, the total cost comes to \$853 per MT.
- Assuming that the company imports 100,000 tons of crude palm oil, GAEL could save anywhere between Rs.100 to Rs.130 mn (calculated at 4% on the 60% import duty on import tariff value of \$447 per MT). Assuming that almost 75% will be passed on to the customers, the company would raise its operating profitability by Rs.30 mn.

**Customs duty on dextrose monohydrate cut from 30% to 20%**

The Budget has reduced the customs duty on imports of DMH from 30% to 20%. This is marginally negative for the maize starch processing business of the company in a way that domestic prices cannot increase beyond import prices.

company as the current landed cost of DMH works out to anywhere between Rs.28 to Rs.29 per kg, whereas current domestic prices are approximately Rs.26 to Rs.26.5 per kg. There is still 6-8% upside potential for prices before imports can be viable. Hence, we do not see any negative impact on GAEL's current profitability.

However, we do not see any impact on the current profitability of the

**Allocation for technology upgradation fund (TUF) enhanced from Rs.5.3 bn to Rs.9.1 bn and the scheme eligibility extended upto FY 2012.**

The TUF scheme has interest subsidy of 5% on the machinery bought for upgrading the technology. There has been 72% higher allocation for the TUF scheme and the scheme eligibility period has been extended up to FY2012. This is positive for the cotton yarn

business of the company. This will enable the company's new projects of cotton yarn modernization and expansion to be eligible under the TUF scheme. Also, it opens up opportunities for further investments in the cotton yarn business of the company.

**Recommendation & Valuation Change in Estimates**

(Rs mn)	Old		Revised	
	FY07E	FY08E	FY07E	FY08E
Net sales	15,011	18,538	15,011	18,538
EBIDTA (%)	7.7	9.1	7.7	9.2
PAT	479	728	479	748
EPS (Rs)	3.4	5.2	3.4	5.4
CEPS (Rs)	5.6	8.1	5.6	8.2

Source: Kotak Securities - Private Client Research



- Due to the savings on the import of crude palm oil we expect GAEL to report higher net profits of Rs.748 mn in FY08E as against our earlier estimate of Rs.728 mn.
- We expect the company to report an EPS of Rs.3.4 in FY07E and Rs.5.4 in FY08E as against our earlier estimate of Rs.5.2 for FY08E.
- We expect GAEL to report CEPS of Rs.5.6 in FY07E and Rs.8.2 in FY08E as against our earlier estimate of Rs.8.1 for FY08E.
- At Rs.24, the stock trades at 1.1x for FY07E and 0.9x FY08E to book value.
- It discounts FY07E and FY08E earnings at 7.0x and 4.5x, respectively.
- The stock looks very attractive on a cash earnings basis. It discounts FY07E and FY08E cash earnings at 4.3x and 2.9x, respectively.

We remain positive and reiterate our BUY with an unchanged price target of Rs.42, which provides an upside potential of 74% from the current level. We recommend BUY.

## Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	12,932	15,011	18,538
Growth (%)	15.8	16.1	23.5
EBITDA	762	1,152	1,711
EBITDA margin (%)	5.9	7.7	9.2
Net profit	303	479	748
Net debt	2,074	3,249	4,706
EPS (Rs)	2.2	3.4	5.4
Growth (%)	12.6	58.0	56.3
DPS (Rs)	0.2	0.2	0.2
ROE (%)	12.2	16.8	21.9
ROCE (%)	12.8	15.1	17.5
EV/Sales (x)	0.4	0.4	0.4
EV/EBITDA (x)	7.1	5.7	4.7
P/E (x)	11.0	7.0	4.5
P/BV (x)	1.3	1.1	0.9

Source: Company & Kotak Securities - Private Client Research



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 318**

**TARGET PRICE: Rs. 378**

**9 March 2007**

**Saurabh Gurnurkar and Dipen Shah**



TIMPL bags another OoH contract... Mumbai International Airport, maintain BUY

TIMPL, the 100% owned subsidiary of ENIL has bagged advertisement rights for the international airport in Mumbai. Mumbai International Airport Pvt Ltd (MIAL) awarded these rights to TIMPL for a period of three years starting FY08. It would involve designing, setting up, development and maintenance of advertisement locations.

The terms of the arrangement are similar to the previous win in the Delhi International Airport, according to the management. The license has been awarded on the basis of a tender process with the licensee required to pay the higher of a revenue share/minimum guarantee to the awarding party on a yearly basis. ENIL has not disclosed further details on the revenue share and has stated that the licenses would be reviewed on the completion of the initial three-year period (FY08E-FY10E).

## **MIAL property...revenue opportunity may be close to Rs.3.1 bn over period starting FY08E**

Under the license, Times OoH Media would cover approximately 7000 display opportunities ranging from inside the terminal buildings, approach roads, hoardings around terminals and advertisement options inside the terminal buildings and aerobridges. Of these opportunities, display sites could be close to 350 hoardings with the rest being other properties around airport terminals. Our calculations suggest that @ 75% occupancy levels and with realizations in line with prime properties like airports, the revenue pie could be close to Rs.3.1 bn over the course of the initial three year license (FY08-10E).

We opine that TIMPL could make EBITDA margins of 18-20% and PAT margins of 9-10% on this revenue pie, with margins trending upwards as the contract matures. We opine that this contract would require minimal incremental capex (around Rs.50-60 mn) and would

primarily involve operating expenditure and migration costs that have been accounted for in our cost structure.

For FY08, we expect this contract to add close to Rs.825 mn of revenues, increasing the projected revenue for TIMPL to Rs.2.4 bn from the Rs.1.63 bn estimated earlier. We have incorporated these financials into our SoTP valuations and arrive at an NPV of Rs.22 for this particular order win.

In our consolidated DCF, we have assumed revenue growth in the OoH segment to taper off after the end of the contract period and assumed revenue growth only on revenues excluding this project. Respective valuation methodologies of DCF and SoTP lead to an increased weighted average price target of Rs.378 for the stock, from the Rs.360 earlier.

## **Recommendation**

We like ENIL due to its dominant position in the fast-growing radio markets, emerging presence in the out of home (OoH) space (through 100% owned-TIMPL) and its strong positioning as a cross-media entity. ENIL also intends to grow its radio footprint extensively with the proposed rollout of 22 new stations in addition to the existing 10 over the next fiscal.

We see significant revenue potential, going forward, in its subsidiary - TIMPL that has interests in the nascent OoH and live entertainment spaces on the back of growing infrastructure additions like airports,

malls, highways and complexes. The current market for OoH is 2x the radio market and nearly 5% of the overall advertising spends. We expect TIMPL with its strong positioning in OoH after this order win backed by the Times pedigree to participate actively in the growing revenue opportunity in OoH.

We note that post this order, which is one of the single largest orders awarded in the OoH industry, TIMPL has emerged as one of the strongest players in the segment backed by a healthy balance sheet and the Times group pedigree. We consequently expect TIMPL to participate actively in the growing revenue opportunity in OoH.

## **Financials**

We revisited our earnings estimated for FY08 post the recent OoH order win from MIAL. ENIL's consolidated revenues are expected to grow at a CAGR of 90% over FY06-08E to Rs.4.93 bn in FY08E driven by a robust 41% CAGR growth in radio revenues to Rs.2.4 bn and a healthy ramp up in TIMPL revenues to Rs.2.4 bn (Rs.1.6 bn earlier) by FY08E.

Healthy revenue growth, aided by economies of scale emerging across different businesses, is expected to impact operating margins positively. Consequently, we expect ENIL to report consolidated profits of Rs.344 mn and Rs.600 mn in FY07E and FY08E translating into an EPS of Rs.7.2 and Rs.12.6 over the fiscals.

While the stock looks costly at 14x FY08E EV/EBITDA and 25x FY08E P/E, we maintain a BUY on ENIL. We believe the revenue potential in the OoH space, expected strong growth in the radio industry, ENIL's leadership position therein and a strong management team will lead to high and sustainable growth in the years to come.

Our two-stage DCF valuation and SoTP methodology suggests a weighted price target of Rs.378, We maintain BUY.

ENIL reports TIMPL numbers only at the end of the fiscal. Contribution from this subsidiary above our estimates/incremental order wins could provide upsides to our earnings estimates for ENIL.



## Strong growth in consolidated financials: OoH to boost revenue, low operating costs and operating leverage in radio to drive margin expansion:

Given the healthy revenue growth expected, radio's low operating costs and past investments maturing in TIMPL we expect consolidated operating margins for ENIL to expand to 22.5% in FY07.

The growing contribution of OoH and initial investments will lead to consolidated margins muting to 21% in FY08E. These are expected to consequently improve to 23.7% in FY09E as the radio business starts to display operating leverage.

Standalone radio margins are expected to expand 29.2% in FY08 from the 26.7% expected in FY07.

For ENIL, we expect:

- a) TIMPL, 100% owned subsidiary to start contributing significantly: The recent order flows in this segment show the significant revenue potential in the OoH business and TIMPL's strong positioning in the organized segment. This business (TIMPL) is expected to grow significantly and contribute Rs.2.9

bn in revenues of the overall Rs.5.92 bn in FY09.

- b) Radio business to drive margin growth: We expect healthy growth in ENIL's radio business on the back of its network expansion, competitive positioning and expected robust demand from the user segments. We note that ENIL has hiked its ad rates on extant radio stations by an average of 10-25% depending on the station's maturity towards the end of Q2FY07.

We also expect the pan-India presence of ENIL post its roll out to improve its attractiveness to advertisers in the medium term.

On the back of a strong positioning in radio, emerging presence in OoH & event management and a strong urban strategy we expect ENIL to emerge as a formidable cross-media entity going forward. We believe ENIL, given its strong execution skills, management bandwidth and the Times pedigree, has an advantage over its peers and could consolidate its extant dominant position.

## Future Prospects

For ENIL, we expect the radio revenues to grow robustly from the current Rs.1.17 bn in FY06 to Rs.2.42 bn in FY08 and, further, to Rs.3 bn in FY09 on the back of growing traction from the target markets and network expansion.

For TIMPL, we expect revenues to grow at a CAGR of 61% over FY07-09E to Rs.2.4 bn in FY08E and Rs.2.9 bn in FY09E from the Rs.590 mn in FY07. Overall, we expect consolidated revenues for

ENIL to register a CAGR of 90% over FY06-08E. We expect consolidated revenues to grow to Rs.4.93 bn in FY08 and Rs.5.9 bn in FY09 from the Rs.1.37 bn reported in FY06.

We expect net profits to further grow to Rs.344 mn in FY07, Rs.600 mn in FY08 and Rs.698 mn in FY09. On an equity capital of Rs.467.5 mn, this would translate into an EPS of Rs.7.2 for FY07, Rs.12.6 in FY08 and Rs.14.8 in FY09.

## TIMPL has added other properties in Fy07...

In line with growing visibility for the OoH medium, TIMPL has also added significant contracts to its order book during FY07, in addition to the latest DIAL and MIAL wins. During FY07, TIMPL has won prestigious contracts on the Delhi Metro, Kolkata Metro, Delhi-NOIDA flyway, Patel Bridge in South Mumbai and LED walls in the NCR area. In the current quarter, TIMPL has won contracts for two

LED screens in the Mumbai airport.

Significant opportunity lies in OoH as a medium on account of infrastructure additions like airports, highways, malls, complexes etc that advertisers would be keen to tap on account of the medium's visibility.

## Competitive Landscape in OoH

Currently, OoH has a share of about 4.5% of the overall advertising market in India, totaling about Rs.7-8 bn, as illustrated in the graph. This segment is expected to grow strongly going forward.

The OoH industry in India is fragmented with many players, and is

operated by several local players that are small and unorganized. Some of the key organized players in the industry are Clear Channel, Times OoH, Selvel, Vantage, Pioneer, Portland, and Lakshya. In the organized segment, post the recent order flow TIMPL has emerged as the single largest player in the evolving OoH media space.



## Valuation and Recommendation

We have valued ENIL using the DCF methodology and by according comparable EV/EBITDA multiples to different business segments. This yields fair value of Rs.383. Consequently, we have arrived at a weighted average fair value of Rs.378 for the stock.

For our DCF analysis, we have assumed a terminal growth rate of 4% and WACC of 13.2% (higher due to increase in beta) that yields a fair

value of Rs.373 over one year based on a rolling 12-month basis. The increase in our DCF-based price target is due to the increase in our earnings estimates post the recent OoH order wins.

We continue to recommend a BUY on ENIL with a weighted average price target of Rs.378.

## Key Concerns

- Competition and possible irrational behavior of new entrants: It is expected that 43 new players in this space are expected to roll out close to 245 stations over the fiscals of FY07 and FY08. We note that in an attempt to gain market share, new entrants could look to indulge in irrational pricing in certain key pockets and/or exert pressure on employee payouts.
- Losses in new properties: Higher than estimated cost pressures on account of the new station rollout could impact our estimates negatively and lead to subdued stock performance.
- Lower than estimated revenues and profitability from the OoH segment could impact our earnings estimates negatively.

## Summary table

(Rs mn)	FY07E	FY08E	FY09E
Sales	2,291	4,937	5,924
Growth (%)	66.7	115.5	20
EBITDA	515	1,039	1,406
EBITDA margin (%)	22.5	21	23.7
Net profit	345	601	698
Net cash (debt)	200	(189)	(1,443)
EPS (Rs)	7.2	12.6	14.7
Growth (%)	11.1	74.3	16.2
CEPS	8.5	15.6	18.5
DPS (Rs)	0.5	0.5	1.0
ROE (%)	12.3	18.3	16.7
ROCE (%)	11.9	20.0	22.1
EV/Sales (x)	6.7	3.0	2.3
EV/EBITDA (x)	29.3	14.4	10.1
P/E (x)	43.5	24.9	21.5
P/Cash Earnings	37.1	20.2	17.0
P/BV (x)	5.1	4.2	3.1

Source: Company & Kotak Securities - Private Client Research



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 145**

**TARGET PRICE: Rs. 211**

15 March 2007

Apurva Doshi



**Reason for this report: Introduction of FY09 estimates and revision of price target to Rs.211. Maintain BUY with 46% upside potential.**

**Introduction of FY09E numbers**

We recently met the management of Gateway Distriparks (GDL) and are positive about the future growth prospects of

the company despite delays in procuring wagons for running its own container trains. We are introducing our FY09 estimates on increased earnings visibility due to specific plans of running container trains, expansion into cold storage and additional CFS facility at JNPT. In FY09E, we expect GDL to report net sales of Rs.3.3 bn, EBIDTA margin of 47.3% and PAT of Rs.1.2 bn, thereby translating into an EPS of Rs.13.4 and CEPS of Rs. 15.5.

**Slower than expected progress in operating container trains from Garhi ICD**

The company has one rail-linked inland container depot (ICD) at Garhi Hasaru, which is 40 km from Delhi. At the moment, GDL is operating approximately 20 trains per month jointly with Concor. The company was expected to start running its own container trains

in FY08E. However, due to the inability of GDL to procure the rolling stock, the company has not been able to operate its own container trains. Hence, we have revised our FY08E estimates downwards.

**Two new ICDs to be operational by April 2008**

- The company is setting up its second rail-linked ICD in Faridabad, which will be on the electric railway route connecting JNPT to North India. GDL has already acquired over 66 acres of land at Asaoti, Faridabad district in Haryana at a cost of approximately Rs.500 mn.
- The company is also building its third ICD in Ludhiana, which will also be connected to the Indian Railways network. The land acquisition is in progress and GDL has already acquired a majority of the proposed 50-acre facility. The total cost of land acquisition is estimated to be Rs.500 mn.
- Both ICDs are expected to commence commercial operations by April 2008. However, it will slowly garner business from nearby areas. Hence, we have assumed lower capacity utilisation in its

initial year of operation that is FY09E.

- Typically, an ICD of approximately 50 acres can handle 10 trains per month with each train doing 10 trips per months between Delhi and Mumbai. We have assumed an average of 80 TEUs per train. Thus, we arrive at an annual capacity of 96000 TEUs. In our estimates for FY09E we have assumed two trains from Garhi ICD for the whole year, two trains from the Faridabad ICD for nine months and two trains from the Ludhiana ICD for six months.
- For running six trains, GDL would need to buy 270 wagons at 45 wagons per train. Each wagon costs approximately Rs.2.5 mn. Thus, the company would need to invest Rs.675 mn to procure the rolling stock in order to run six trains.

**Punjab Conware CFS to lead to better pricing power at JNPT**

- GDL has won the contract to operate and maintain Punjab Conware, which is the Punjab government owned container freight station (CFS) at JNPT, Mumbai for a period of 15 years. The contract enables GDL to utilise the CFS facility for an upfront one-time cash fee of Rs.350 mn. GDL would also be required to pay annual fees of Rs.100 mn with upward revision of 5% in subsequent years.
- The company has already taken possession of the CFS facility and is now modernizing the facility. GDL is likely to spend approximately Rs.100 mn in FY08E to be able to give higher service standards and thereby achieve better average realizations per TEU. Currently, the CFS does more of export containers and warehousing and thereby earns lower ground rent. GDL will gradually change the mix in favour of import containers to be able to earn higher ground rent.

We expect the CFS to report revenues of Rs.267 mn and Rs.450 mn in FY08E and FY09E. We expect the CFS to earn EBIDTA of Rs.183 mn and Rs.293 mn in FY08E and FY09E. However, the company will write off Rs.128 mn and Rs.134 mn towards operating and maintenance charges according to the terms of the contract. Hence, GDL will actually report EBIDTA of Rs.54 mn in FY08E and Rs. 159 mn in FY08E.

We believe that now GDL with two CFS at JNPT is now in a position to attract better and bulk business as it now has some prime space in India's premier port, that is, JNPT. The company, which was cramped for space now has enough space at its disposal to achieve higher volume growth, thereby translating into higher revenues and profitability for the company.





## Cold chain business to be next growth driver for GDL

- The company has acquired 50.1% stake in Snowman Frozen Foods Ltd, which is India's largest cold chain logistics company. It is well known for transporting and stocking ice creams, fruits, vegetables and seafood with HLL and Amalgam group as its major customers.
- With the acquisition, GDL is planning to provide a pan-India cold chain logistics services. This will make it an integrated logistics player with the ability to provide full-fledged services to customers especially the retail industry for fresh fruits, vegetables and frozen foods. Organized retail is growing fast in India. Hence, we feel this would be the next major growth driver for the company.
- We expect Snowman to report revenues of Rs.300 mn and Rs.450 mn in FY08E and FY09E. We expect it to report EBIDTA of Rs.45 mn and Rs.72 mn in FY08E and FY09E.

## Operating margins

On the margin front, GDL has only partially been able to pass on hikes in transportation and labor cost at the CFS facility thereby adversely impacting its margins. However, going forward, the management is confident of passing on the entire hike. Also, going

forward, increasing capacity utilisation at its CFS and ICD would lead to greater operational efficiency thereby achieving lower cost per TEU and increasing profitability.

## Change in earnings estimates

(Rs mn)	Old		Revised		
	FY07E	FY08E	FY07E	FY08E	FY09E
Sales	1648	2,364	1,648	2,364	3,312
EBIDTA	819	1,208	819	1,140	1,566
EBIDTA (%)	49.7	51.1	49.7	48.2	47.3
Net Profits	804	1,021	793	948	1,236
EPS (Rs)	8.7	11.1	8.6	10.3	13.4
CEPS (Rs)	10.2	13.1	10.0	12.2	15.5

Source: Kotak Securities - Private Client Research

- We estimate GDL to report lower net profits of Rs.793 mn in FY07E as against our earlier estimate of Rs.804 mn on account of consolidation of the financials of the Snowman Frozen Foods and Punjab Conware CFS. Accordingly, we expect it to report consolidated EPS of Rs.8.6 for FY07E.
- We estimate the company to report lower net profits of Rs.948 mn in FY08E as against our earlier estimate of Rs.1021 mn on account of inability of GDL to obtain wagons. Hence, it could not operate its own container trains. Accordingly, we expect it to report EPS of Rs.10.3 for FY08E.
- For FY09E, we expect GDL to report net sales of Rs.3.3 bn, EBIDTA margin of 47.3% and PAT of Rs.1.2 bn, thereby translating into an EPS of Rs.13.4 and CEPS of Rs.15.5. The higher contribution is on account of operating its own trains from ICD and higher contribution from Punjab Conware CFS and cold chain business.

## Valuation & Recommendation

- At Rs.145, the stock trades at 2.1x for FY07E, 1.9x FY08E and 1.7x FY09E to book value.
- It discounts FY07E, FY08E and FY09E earnings at 16.9x, 14.1x and 10.8x, respectively.
- It discounts FY07E, FY08E and FY09E cash earnings at 14.5x, 11.9x and 9.3x, respectively.
- Based on the changes in earnings estimates and introduction of FY09E numbers, we are revising our DCF-based price target to Rs.211. We continue to recommend a BUY with 46% upside potential.



## Key Risks

Any delay in commencement of the expansion at Faridabad or Ludhiana ICD would lead to flat or marginal growth for the company.

to run its own container trains in FY09E. However, it has not yet placed the orders for the wagons. Any further delay in placing the order and any subsequent delay in obtaining the wagons could lead to revision in our earnings estimates.

GDL is expected to obtain wagons towards the end of FY08E in order

## Summary table - consolidated

Rs mn	FY06	FY07E	FY08E	FY09E
Sales	1,386	1,648	2,364	3,312
Growth (%)	45	19	44	40
EBITDA	837	819	1,140	1,566
EBITDA margin (%)	60.4	49.7	48.2	47.3
Net profit	722	793	948	1,236
Net debt	(3,207)	(1,200)	(433)	(341)
EPS (Rs)	7.8	8.6	10.3	13.4
Growth (%)	109.1	10.4	19.9	30.5
DPS (Rs)	3	3	3	3
ROE (%)	12.6	13.2	14.5	16.9
ROCE (%)	13.8	15.1	16.9	20.0
EV/Sales (x)	7.3	7.4	5.5	3.9
EV/EBITDA (x)	12.1	14.9	11.3	8.3
P/E (x)	18.5	16.9	14.1	10.8
P/BV (x)	2.3	2.1	1.9	1.7

Source: Company & Kotak Securities - Private Client Research

## Punjab Conware CFS - Financials

(Rs mn)	FY08E	FY09E
TEU - Nos	56250	90000
Avg. realisation (Rs)	4,750	5,000
Revenue	267	450
EBIDTA	183	293
write off	128	134
Net EBIDTA	54	159

Source: Kotak Securities - Private Client Research

## Snowman Frozen Foods - Financials

Rs. Mn	FY08E	FY09E
Revenue	300	450
EBIDTA (%)	15.0	16.0
EBIDTA	45	72

Source: Kotak Securities - Private Client Research



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 136**

**TARGET PRICE: Rs. 213**

16 March 2007

Dipen Shah



**R Systems' results for Q4FY06 were below our estimates. While rupee appreciation and the seasonal factor (lower number of working days in October-December quarter) impacted the performance, profits were impacted more due to several one-time items, change in ownership in one of the clients and scale up issues in another client.**

Apart from these, on the operational front, the company has continued to penetrate its top clients deeper and has also added new accounts. The integration with WebConverse has been smooth and according to schedule. We expect the benefits arising from cross selling of services to accrue over future quarters. The addition of a major client due to the acquisition is expected to lend further stability and sustainability to the revenue stream.

While RS has as its customers start ups and software tool development companies, it also serves a set of large customers like GE, Motorola, Virgin, UK, Siemens, Open Solutions, InstallShield,

TMA Resources, etc.

Penetration of the Indus suite of products into the telecom vertical is a positive and should open up avenues for revenue growth in non-BFSI, service related verticals.

Consistently high growth in outsourced and offshored product development services along with longstanding relationships with large corporations, make us optimistic on the future growth prospects of RS. Recent entry into the US for Indus suite of products and potential acquisitions may provide further upsides.

We have reduced our CY07 earnings estimates to take into account the continuing scale up issues in a Government client. We expect revenues and profits to grow about 30% in CY07. For CY08, we expect revenues and profits to grow 23% and 39%, respectively. At 7x CY08E earnings, we maintain our BUY with a DCF-based one-year price target of Rs.213. At our target price, our CY08E earnings will be discounted by 11x. In the short term, we expect the price to remain range bound due to the continuing impact in one of its accounts in Q1CY07.

### Q4FY06 revenues

Rs mn	Q3CY06	Q4FY06	QoQ (%)	Q4CY05	YoY (%)
Income	542.5	560.2	3.3	396.3	41.4
Expenditure	471.1	521.0		326.1	
EBDITA	71.4	39.2	-45.1	70.2	-44.2
Depreciation	14.2	21.2		12.4	
EBIT	57.2	18.0		57.8	
Interest	0.4	0.5		1.5	
Other income	14.3	17.1		0.6	
EO items	0.0	-64.0		0.0	
PBT	71.0	-29.5	-141.5	56.9	-151.8
Tax	13.0	36.1		9.2	
PAT	58.1	-65.6	-213.0	47.7	-237.6
EPS (Rs)	4.3	-4.8		3.5	
Margins (%)					
EBDITA	13.2	7.0		17.7	
EBIT	10.5	3.2		14.6	
PAT	10.7	-11.7		12.0	

Source: Company

### Revenues

- Revenues grew 3% QoQ, lower as compared to most peers. We believe that volumes grew 6% on a QoQ basis. However, the stronger rupee impacted the revenue growth. The volume growth would have been higher but for issues in two of its accounts.
- The company had to contend with changes in the scope of one

of the projects for the Department of Social Justice. On the other hand, change in ownership of one of its other clients, led to loss of billable man-days in Q4CY07. This project, however, has restarted under the client's new ownership.

- Due to scale issues, offshore revenues formed marginally lower proportion of revenues during the quarter at about 61.87% of revenues.



### Revenues

- The company has renewed its contract with GE. While volume growth is expected to happen, there have been no increases in realizations from GE.
- On the other hand, the company has been able to get rate increases of about five per man-hour from other clients.
- The company added seven new accounts during the quarter and now has three Fortune 100 companies as its Top 3 clients, providing adequate revenue growth visibility.
- License revenues grew from Rs.4 mn in the previous quarter to Rs.9 mn. In the products business, a leading telecom company selected the Indus Collections product to manage their collections process. This is expected to open up a new revenue line for R Systems.
- Also, a leading BPO company in the collections industry selected Indus Collections product to manage its collections process.
- These, we believe, will open up new avenues of growth for the company's products business.

### Margins

- R System's EBIDTA and net margins came down during the quarter. The company incurred several extraordinary expenses during the quarter, which impacted profitability.
- R Systems changed its assumptions for actuarial valuation of gratuity and leave encashment (impact of Rs.15.3 mn), changed the accounting policy for transaction expenses relating to WebConverse (Rs.3.8 mn), paid prior year professional fees, provided for doubtful debts (Rs.35mn) and provided for deferred tax asset in the US subsidiary (Rs.23 mn).
- Apart from these, the rupee appreciation, losses in ECnet and the seasonality factor impacted profits to the extent of about Rs.32 mn.
- Also, the revenue loss due to issues in two contracts impacted the profitability. The delays in the Department of Social Services contract are likely to be resolved by March 2007. Hence, these are expected to impact margins in Q1CY07. Moreover, salary increases (15% offshore and 5% on-site) are expected to impact margins.

### Integration of WebConverse

- The integration of WebConverse is along expected lines. WebConverse has brought with it several clients, one of which is Good Technologies, which has been acquired by Motorola. R Systems has employed about 110 employees (80 in the US and 30 in Noida) for this customer. It has now become the second largest customer for RS, after GE. This relationship is expected to scale up fast in the coming quarters.
- We believe R Systems will benefit from this acquisition by way of access to large clients and expansion of services range. Shifting of work offshore should allow improvement in margins of that company. Also, the earn outs will, most probably, be paid out of the earnings of that company.

### MoU with Aisel Corporation, Japan

- R Systems entered into an understanding with Aisel to form a strategic alliance and target customers in the Japanese market. This is just at an initial stages and formalization of this alliance is expected to take place some time.
- Under the terms of the understanding, R Systems will allot 5% of its equity to Aisel, which in turn will give a 15% stake in Aisel to R Systems. Aisel plans to go public in CY08.
- The strategic intent behind this is to create a beach head in Japan, which will allow R Systems to cross sell its iPLM and Indus offerings to several large multinational Japanese companies.
- R Systems is currently offering EcNet services to companies like Pioneer, Sharp and Panasonic but outside Japan.
- On the other hand, Aisel is looking at offshore capabilities in the embedded systems space in which it is operating. It has forecasted demand for additional 100 such engineers in the next calendar.
- Two techno-commercial people from R Systems have already started contacting clients and benefits are expected to start from Q3CY07 onwards.



## Future prospects

Rs mn	CY06\$	CY07E	YoY (%)	CY08E	YoY (%)
Income	2039.5	2648.1	29.8	3256.6	23.0
Expenditure	1815.5	2367.4		2849.5	
EBDITA	224.1	280.7	25.3	407.1	45.0
Depreciation	59.1	102.5		130.3	
EBIT	165.0	178.2		276.8	
Interest	3.9	2.0		0.0	
Other income	42.4	45.0		40.0	
E O items	-64.0	0.0		0.0	
PBT	139.5	221.2	58.6	316.8	43.2
Tax	61.1	34.8		57.0	
PAT	78.4	186.4	137.9	259.8	39.4
Shares (mn)	13.5	13.5		13.5	
EPS (Rs)	5.8	13.8		19.2	
Margins (%)					
EBDITA	11.0	10.6		12.5	
EBIT	8.1	6.7		8.5	
PAT	3.8	7.0		8.0	

\$ - Includes WebConverse WEF Q3CY06; Source: Company, Kotak PCG estimates

- We have made changes to our CY07 estimates to accommodate the impact of the delays in project completions in Q1CY07 and also the higher tax impact due to imposition of minimum alternate tax (MAT).
- We expect revenues and profits for CY07 to grow to Rs.2.65 bn and Rs.186 mn, respectively. For CY08E, we expect revenues to grow to Rs.3.26 bn with net profit expected to grow to Rs.260 mn.
- We expect EBIDTA margins to be low in Q1CY07 because of the impact of delayed projects. However, we expect the same to improve gradually through CY08.
- This leads us to an EPS of Rs. 14 in CY07 and Rs. 19 in CY08.
- We have arrived at a price target of Rs.213 based on the DCF analysis, at which levels our CY08 earnings will be discounted by about 11x.



RECOMMENDATION: BUY

REPORT DATE PRICE: Rs. 780

TARGET PRICE: Rs. 1083

19 March 2007

Vinay Goenka



We had given a BUY recommendation on Maruti Udyog post the company's excellent performance in the third quarter. However, since then the stock price has corrected by around 15% although the broader markets have fallen by 11% on concerns

of rising interest rates. According to us, such concerns have already been discounted in the current prices. Hence, we believe the correction offers a good opportunity for investors to enter the stock at present levels.

Strong demand growth

The company has reported a 21% rise in sales so far for FY07 backed by strong growth in the A2 segment. During the year the company replaced the Zen model with Estilo and also introduced the diesel model of Swift. Due to superior engine technology the share of diesel car sales in total car sales in India is gradually expected to increase and the success of the diesel Swift could plug an important gap in Maruti's product portfolio.

We continue to remain positive on the domestic car sector since we believe demand for cars would continue to grow at steady rates of 13-15% in the next three years largely on the back of key demand drivers such as rising disposable incomes, newer offerings and growth in demand for a second car. Our conviction is backed by the fact that the current car penetration levels in India remain at one of the lowest levels globally (8 per 1000 people) and is expected to rise along with rising per capita income.

Strong product pipeline

Maruti has announced the launch of five new models by 2010 as part of its expansion strategy to consolidate its market share. The company is also looking to increase its presence in the mid-sized market where it trails Honda in terms of market share. Maruti is

expected to launch one new sedan in 2007 (christened SX4) most possibly to replace the Baleno in the mid-sized market. Besides new models, Maruti is also expected to launch variants of existing models like Omni and Gypsy in the same period.

Industry Demand Growth

	2004-05	2009-10P	CAGR (5 yr)
A1	116,262	270,438	18.4
C, A2	496,219	985,937	14.7
A3 178,605	398,943	17.4	
A4-A6	28,602	81,605	23.3
Total Passenger cars	819,688	1,736,923	16.2
UV	243,875	399,956	10.4
Domestic	1,063,563	2,136,879	15

Source: Cris Infac

Exports to rise from Fy09

In the past couple of years, Maruti's exports had foundered as Suzuki phased out Alto from the European market and replaced it with Swift, produced at its Hungary plant. However, now the company is developing a new export specific model and intends to export around 1,50,000 units by 2010. This would include about 50,000

cars per year to be supplied to Nissan under a contractual agreement from FY09. Besides, another 50,000 would be sold under its own brand name to re-enter Europe. The car is also likely to be launched in the domestic market.

Rising interest rates scenario:

With interest rates rising in the last one year (300 bps in the last three months) there have been concerns that growth in auto sales may be impacted given that at least 75% of cars are financed through term loans. However, in our opinion, rising salaries, favorable demographic factors, innovative financing structures and marginal increase in EMIs should support demand growth.

A 100 bps interest rate hike results in an increase in EMI of 1.37% (assuming a three-year loan of Rs.275,000). The recommendations of the Sixth Pay Commission are expected towards the end of CY2007. A hike in salaries of the 3.3-mn central government employees could give a further fillip to auto loans in 2008.





## Valuation

We expect MUL sales volumes to grow at a CAGR of 14% over the next two years. We expect the company to record total revenues of Rs.149.1 bn in FY07 and Rs.170.7 bn in FY08 with net profits of Rs.15.4 bn and Rs.17.7 bn, respectively. This translates into an EPS of Rs.53 for FY07 and Rs.61 for FY08 with a price target of Rs.1083 based on the DCF analysis achievable over a 12-month period.

The MUL stock trades at Rs.780, discounting FY08E earnings by 12.7x times. We expect valuations for MUL to be sustained considering its market leadership position, healthy earnings growth visibility and the benefits of excise duty differential on small cars. We reiterate our BUY on MUL with a target price of Rs.1083 that is based on DCF valuations offering an upside of 39% from the current price.

## Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	120,035	143,507	164,404
Growth (%)	10.0	20.0	15.0
EBITDA	15,786	20,176	23,433
EBITDA margin (%)	13.2	14.1	14.3
Net profit	11,897	15,401	17,727
Net cash (debt)	17,213	14,969	19,688
EPS (Rs)	41.2	53.3	61.3
Growth (%)	39.0	29.0	15.0
ROE (%)	24.2	25.0	23.0
ROCE (%)	22.3	23.2	22.8
EV/Sales (x)	1.61	1.29	1.07
EV/EBITDA (x)	9.4	7.2	5.9
P/E (x)	18.9	14.6	12.7
P/BV (x)	4.1	3.3	2.6

Source: Company & Kotak Securities - Private Client Research

**RECOMMENDATION: BUY****REPORT DATE PRICE: Rs. 1165****TARGET PRICE: Rs. 1510****20 Mar 2007****Apurva Doshi**

**AIA Engineering to remain unaffected by price controls placed on the cement sector, as expansion plans of cement manufacturers stay on track.**

Recently, the cement sector has been in the news on account of high prices. The Government is now controlling cement prices to keep inflationary pressures in the economy in check. Cement manufacturers have also agreed not to raise cement prices for one year.

There are concerns that due to price control some of the cement manufacturers may not go ahead with their cement capacity expansion plans. However, as of now, no cement manufacturer has either cancelled or scaled down any of the cement expansion plans. We feel the strong growth in the economy coupled with the infrastructure boom would continue to keep cement demand robust in the visible future. Also, if the Government decides to give tax holidays to new cement plants we could see a few more cement

plants being built in the country. Thus, the demand for mill internals is expected to remain strong in the visible future.

On the pricing front, we do not expect any hit on the margins of AIA Engineering as the cost of consumables as a percentage of the total cost of production of cement is only 1% to 1.5%. It is very critical for the smooth and efficient operation of the cement plant. Hence, we do not expect any impact on the volumes or on the margins front for AIA Engineering.

AIA manufactures high chrome mill internals for the cement industry and it is used as both consumable and in new projects in the process of manufacturing of cement. The company's products are sold to major cement players in India including ACC, Gujarat Ambuja Cement, UltraTech, Grasim Industries, etc. The company enjoys a more than 90% market share in the domestic cement industry. Also, AIA has secured orders for most of the cement expansion plans in India. The company is now focusing on the mining segment, which has greater potential than the cement industry.

### Cement demand supply scenario

(mn tonnes)	2002	2003	2004	2005	2006	2007E	2008E	2009E
Total capacity	129.8	137.0	144.4	151.6	159.8	166.7	182.8	221.1
Non-operative capacity	6.0	6.8	6.8	6.8	6.8	7.0	7.0	7.0
Effective capacity	123.8	130.2	137.6	144.8	153.0	159.7	175.8	214.1
Total Despatches	102.0	111.4	117.4	128.6	141.8	155.0	169.4	185.0
% Growth (%)		9.2	5.4	9.5	10.3	9.3	9.3	9.2
Total Consumption	99.0	107.6	113.8	123.1	135.5	148.7	163.1	178.7
% Growth (%)		8.7	5.8	8.2	10.1	9.7	9.7	9.6
Total exports	3.4	3.5	3.4	4.1	6	6.4	6.4	6.3
Surplus/(deficit)	21.4	19.1	20.4	17.6	11.5	4.6	6.4	29.1
Capacity utilization (%)	82.4	85.6	85.3	88.8	92.7	97.1	96.4	86.4

Source: CMA, Kotak Securities - Private Client Research estimates

### No change in cement expansion plans

India's current operative cement capacity is approximately 160 MT. On an average, the wear rate of grinding media per ton of cement production is around 100 grams. Hence, we estimate 16000 MT as annual replacement demand. In India, approximately 54 MMT of cement capacities are getting built up over the next two years. Typically, 300 MT of grinding media is required per ton of fresh

cement capacity addition. Hence, we see an incremental demand of 16200 MT of mill internals in addition to annual replacement demand of 16000 MT. Also, once the cement capacity expansion takes place the annual replacement demand for the grinding media is likely to go up to 21400 MT by FY09E.

### Mill internals for mining to be major growth driver going forward

AIA is expanding its focus on the global mining and utility segments, which are much larger than the cement industry in terms of potential consumption of mill internals. The global size of mining is 2.5 mn TPA of annual replacement demand as against 270,000 TPA for the cement industry. Currently, only 10-15% of the mill internals in the mining industry are of hi-chrome. So, there is a huge potential to convert the balance into high chrome mill internals, which can lead

to substantial savings in terms of better efficiency, reduction in power consumption and consistent production.

The company has been very successful in the initial trial of mill internals for the mining segment and has got a positive response from the Brazil, North American and South African markets. We feel that mill internals for the mining segment are going to be the major growth driver for AIA going ahead.



## Expansion plans are on track

The company has already expanded its capacity from 65,000 TPA to 115,000 TPA in the second week of March 2007. Also, the capacity is going to rise by another 50,000 TPA to 165,000 TPA by October 2007. In order to cater to the significant demand of mill internals for the mining segment the company is setting up another 100,000 TPA plant for manufacturing high chrome mill internals. The first phase

of 50,000 TPA of the expansion is expected to commence commercial production by October 2008 and the second phase is expected to commence commercial production by March 2009. The expanded capacity would lead to significant growth in revenues and profitability of AIA, going forward.

## Valuation & Recommendation

- We maintain our earnings estimates and expect the company to report EPS of Rs.52.0 for FY07E, Rs.76.6 for FY08E and Rs.101.7 for FY09E.
- At Rs.1165, the stock trades at 4.4x for FY07E, 3.4x FY08E and 2.7x FY09E to book value.
- It discounts FY07E, FY08E and FY09E earnings at 22.4x, 15.2x and 11.5x, respectively.
- It discounts FY07E, FY08E and FY09E cash earnings at 20.6x, 13.9x and 10.5x, respectively.
- We continue to remain positive and maintain our BUY on AIA Engineering with an unchanged price target of Rs.1510, which provides 30% upside potential.

## Key Risks

- Any delay in the commencement of expansion of capacities would lead to flat or marginal growth for the company.
- Ferrochrome is the main raw material for making mill internals.

Thus, any increase in prices, which the company is not able to pass on to its customers, or disruption in its availability, could impact the profitability of the company.

## Summary table (consolidated)

Rs mn	FY06	FY07E	FY08E	FY09E
Sales	4,070	5,201	8,620	11,778
Growth (%)	38.6	27.8	65.7	36.6
EBITDA	815	1,315	2,086	2,753
EBITDA margin (%)	20.0	25.3	24.2	23.4
Net profit	543	978	1,441	1,911
Net debt	301	(1,123)	(821)	(1,318)
EPS (Rs)	29.5	52.0	76.6	101.7
Growth (%)	96.6	86.8	47.3	32.7
DPS (Rs)	2.5	2.5	2.5	2.5
ROE (%)	29.0	25.5	25.6	26.2
ROCE (%)	36.4	31.2	33.2	34.7
EV/Sales (x)	5.5	4.0	2.4	1.7
EV/EBITDA (x)	27.2	15.8	10.1	7.5
P/E (x)	39.6	22.4	15.2	11.5
P/BV (x)	8.0	4.4	3.4	2.7

Source: Company & Kotak Securities - Private Client Research



**RECOMMENDATION: BUY**

**REPORT DATE PRICE: Rs. 252**

**TARGET PRICE: Rs. 334**

22 March 2007

Awadhesh Garg



### CRAMS order book update

- Jubilant is an integrated player in the pharma & life sciences (CRAMS, APIs, finished dosage and drug discovery services), industrial and performance chemicals,
- Future growth would be driven by the high margin pharma & life sciences business (P&LS), backed by capex

of around Rs.5 bn during 2007-09 mainly into CRAMS and APIs,

- Sales and net earnings are likely to grow at a three-year CAGR of 19% and 34%, respectively. EBITDA margin is expected to increase from 14.4% in FY06 to 18.5% in FY08E.

### Jubilant has added CRAMS contract worth US\$33 mn to its 2007 order book

Jubilant Organosys has added custom research and manufacturing services (CRAMS) contract worth US\$33 mn to its 2007 order book, taking its total order book size to US\$60 mn. About 90% of the contracts are from drug firms based in the regulated US and Europe markets. With the growing confidence of global life science companies in Jubilant's capability to partner and service them, the company is expected to sign more such contracts over the next few months as talks are at an advanced stage with several other global life sciences companies for CRAMS.

The addition of these annual contracts re-affirm Jubilant's global position in CRAMS. The management has said that, going forward, it will continue to focus on the twin strategies of investments in

innovation and world-class manufacturing facilities as key competitive differentiators. The CRAMS business, which has been witnessing higher volumes and better price realizations for the products, continues to be strong. Further, drug discovery services continue to exhibit strong revenue potential and the medicinal chemistry services line is witnessing accelerated growth.

At present, Jubilant is catering to more than 130 global customers with more than 150 products used in 229 APIs and 17 agrochemicals. It has further strengthened the portfolio of intermediates used in NCEs undergoing phase I, II and III clinical trials. It has also added new products to existing portfolio.

### Pharma and life science to fuel growth

We expect pharmaceuticals and life science services comprising CRAMS, APIs, finished dosage and drug discovery services, to drive growth, going forward, through continuous high volume growth led by capacity hike, more remunerative price realization and softer raw material prices. The segment is expected to achieve a robust growth

of 30-35% to contribute around 55% of the overall sales in FY08E. Overall sales and net earnings are likely to grow at a CAGR of 19% and 34% over FY07-09E. EBITDA margins are expected to rise from 14.4% in FY06 to 18.5% in FY08E.

### Non-pharma business - margin growth with sustained cash flow

While the P&LS business should be the key growth driver, going forward, we expect the non-pharma business (industrial and performance chemicals) to provide sustained cash flow for future growth. Importantly, these divisions do not involve much additional investment. Further, the industrial chemicals are being used by API and CRAMS businesses and are thus a source of considerable cost advantage.

We expect margins to improve, going forward, in the industrial chemicals business due to downward trend in molasses prices (main raw material), high level of integration with APIs/CRAMS business and improved margins from increased exports to South East Asia, West Asia and Europe.

### Business and Financial Outlook

We expect 69% and 29% growth in net earnings and 21.4% and 19.1% growth in net sales in FY07E and FY08E, respectively. This will be driven by strong performance of the P&LS business, which will be enabled by increased business in CRAMS and API, success in drug discovery initiatives and the advantages of an integrated model. The company is likely to continue to benefit from the expected growth in business in the regulated markets of North America, Europe and Japan.

As part of its focus on regulated markets for international sales, it has entered the US by acquiring a majority stake in Trigen Laboratories in June 2005. Trigen is a generic pharmaceutical company having US FDA approved manufacturing facility for solid dosage forms in Salisbury, Maryland, US. Jubilant has, in its portfolio, seven approved ANDAs. Two ANDAs have been filed and are awaiting approval and 20 ANDAs are in the pipeline.



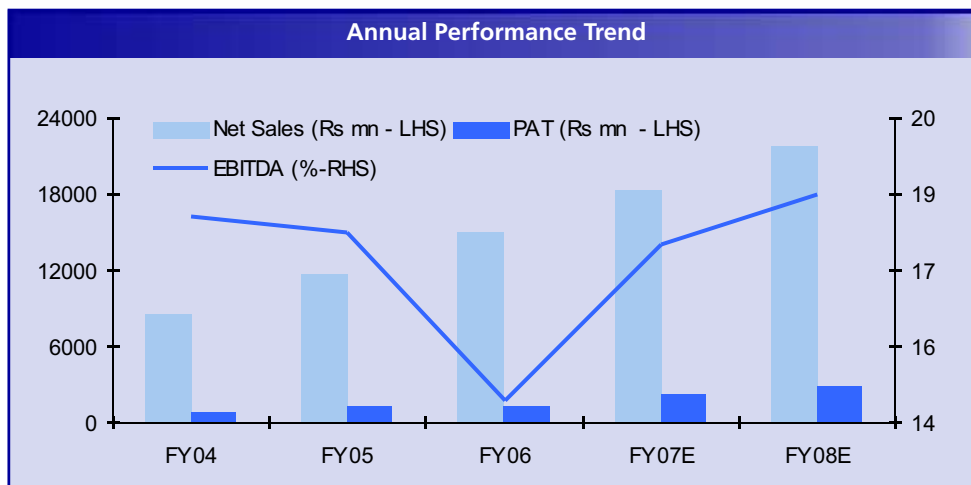
The industrial products and performance polymers business is likely to benefit from continued soft-to-stable input material prices. The performance polymer business will have the added benefit of a

restructured product portfolio, entry into new products and intense focus on gaining market share.

**Net Sales Break-up (Rs mn)**

	FY04	FY05	FY06	FY07E	FY08E
Pharma & Life Science	3,213	4,841	6,837	9,230	11,999
% of Sales	37.4	41.4	45.4	50.5	55.1
% Growth		50.7	41.2	35.0	30.0
Industrial Chemicals	3,795	5,194	6,267	6,894	7,445
% of Sales	44.2	44.4	41.6	37.7	34.2
% Growth		36.9	20.7	10.0	8.0
Performance Chemicals	1,584	1,668	1,950	2,145	2,317
% of Sales	18.4	14.3	13.0	11.7	10.6
% Growth		5.3	16.9	10.0	8.0
Net Sales	8,592	11,703	15,054	18,269	21,761
% Growth		36.2	28.6	21.4	19.1

Source: Company, Kotak Securities - Private Client Research



Source: Company, Kotak Securities - Private Client Research

**Venturing into healthcare business with Jubilant Healthcare**

Jubilant has decided to enter the healthcare business with an investment up to Rs.800 mn. The board has approved the investment in the equity of the company managed by a team of successful professional doctors in West Bengal to acquire up to 96% stake. This company also plans to set up tertiary care super specialty hospital near Kolkata and a secondary hospital in the state of West Bengal.

Jubilant is looking to provide quality healthcare services at a cost affordable to middle and lower income groups. The company believes that the healthcare business is nationally scalable and has the potential to provide sustainable returns.



## Valuations and Recommendation

For FY06, Jubilant has posted partly diluted EPS of Rs.9. Going ahead, we expect it to report an EPS of Rs.15.1 and Rs.18 in FY07E and FY08E, respectively. At the CMP of Rs.252, the stock is trading at 16.7x FY07E and 14.0x FY08E partly diluted earning (without

considering dilution impact of US\$200 mn FCCB, which has been mainly raised for acquisition purpose). We believe the interest income on unutilized FCCB proceeds will offset the full dilution impact. We maintain BUY with DCF-based target price of Rs.334.

## Key risks and concerns

- Greater than anticipated pricing pressure in the generics API business or lower market share could act as a cap for Jubilant's API business.
- Any delay in ANDA filings and/or approval and any delay in launch by its global or Indian partners would impact the growth and profitability of the company.
- Since molasses are one of the key input materials to manufacture acetaldehyde also carries a risk of margin erosion in the industrial chemicals business if the price goes up again.

## Summary table

(Rs mn)	FY06	FY07E	FY08E
Net Sales	15,054	18,269	21,761
Growth (%)	28.6	21.4	19.1
EBITDA	2,170	3,197	4,026
EBITDA margin (%)	14.4	17.5	18.5
Net profit	1,289	2,181	2,818
Net Margin (%)	8.6	11.9	12.9
EPS diluted (Rs)	9.0	15.1	18.0
Growth (%)	(3.1)	67.0	18.9
DPS (Rs)	1.3	1.3	1.3
RoE (%)	19.4	23.2	20.8
RoCE (%)	14.1	14.6	16.1
EV/Sales (x)	2.8	2.2	1.7
EV/EBITDA (x)	19.1	12.7	9.0
P/E (x)	27.6	16.7	14.0
P/BV (x)	4.3	3.4	2.4

Source: Company & Kotak Securities - Private Client Research



RECOMMENDATION: BUY

REPORT DATE PRICE: Rs. 725

TARGET PRICE: Rs. 965

23 Mar 2007

Awadhesh Garg



- Pfizer has announced its quarterly results for Q1CY07, which are slightly disappointing at the revenue level. Net sales rose 6.2% to Rs.1.55 bn. Net profit after tax grew by 14.1% to Rs.283 mn.
- The pharma and animal healthcare business grew 10% while consumer healthcare saw a decline of 7%. The trader's boycott in Maharashtra has resulted in a slowdown in December 2006 sales.
- The management will take a decision on option on sales of the OTC division in a couple of months.
- The company is likely to launch a couple of new products by Q3CY07 in the cardiovascular segment.
- Income from clinical development operations will be under pressure due to severe competition from Korea, Malaysia and Indonesia.

**Disappointing revenue performance, net sales grew 6.2%**

Pfizer has announced its results for Q1CY07 ending on February 28 2007, which are slightly disappointing at the revenue level. Net sales during the period have risen by a moderate 6.2% to Rs.1.55 bn from Rs.1.46 bn. The pharma and animal healthcare business grew 10% while the consumer healthcare business saw a decline of 7%. Pfizer has said that a trader's boycott in Maharashtra has resulted in a slowdown in December 2006 sales. Further, the company has maintained that it will grow at a higher than market growth rate of about 10% in CY07.

Net profit after tax grew 14.1% at Rs.283 mn, compared to Rs.248 mn in Q1CY06, leading to earning per share of Rs.9.5. The key attributes for higher growth in net profit were sustained higher operating margin, and lower VRS expenses amortization.

At operating levels, Pfizer has maintained margins at 24% due to operational efficiencies, better cost management, change in product mix and new product launches, which eventually led to good growth at the net profit level. Net profit margin has improved by 120 bps to 18.2%.

**Financial Performance (Year-end November)**

(Rs mn)	Q1CY07	Q1CY06	YoY (%)	Q4CY06	QoQ (%)	CY06
Net Sales	1,550	1,460	6.2	1,709	-9.3	6,624
Expenditure	1,176	1,104	6.5	1,447	-18.8	5,232
Raw Material Costs	394	333		291		1,296
Purchase of finished goods	130	145		233		940
Staff Costs	220	247		272		1,023
Manufacturing & Other Costs	432	380		651		1,973
EBIDTA	374	355	5.3	261	43.3	1,391
Depreciation	27	31		31		131
EBIT	347	324	7.0	230	50.7	1,261
Interest	-	0		1		1
Other Income	120	121		120		476
PBT	467	445	4.9	350	33.4	1,735
Tax	158	139		121		563
Reported PAT	309	306	0.9	228	35.2	1,173
Extra-ordinary Items	(26)	(58)		(58)		(115)
Adjusted PAT	283	248	14.1	170	66.3	1,057
Equity Shares (Mn)	29.8	29.8		29.8		29.8
EPS (Rs)	9.5	8.3	14.1	5.7	66.3	35.4
EBIDTA Margin (%)	24.1	24.3		15.3		21.0
PAT Margin (%)	18.2	17.0		10.0		16.0

Source: Company





### Animal healthcare business likely to witness stable growth while clinical research services will be under pressure

The animal healthcare business is growing stably where it has shown 10% growth to Rs.170 mn. The management expects the animal health business to grow at around 10% in CY07. The income from

clinical research and development service will be under pressure due to severe competition at the international level along with the entry of new players from countries like South Korea, Malaysia, Philippines and Indonesia.

### Company likely to decide option on sales of OTC division in a couple of months

The parent company had sold off its global consumer healthcare business to Johnson & Johnson for US\$16 bn in June 2006. Consequently, the global closure was fixed on December 20 2006. This is barring a few markets like India for the divestiture of the aforesaid business. The division had a range of products like Benadryl, Listerine and Gelusil that have got huge brand equity. The consumer healthcare business generates revenue of around US\$4 bn globally.

The consumer health product division of Pfizer India had generated revenues of Rs. 1.8 bn in 2005, which is around 30% of the net sales. The management has not commented on the issue and its impact on sales and likely compensation to Pfizer India. The board is evaluating the various options available for the smooth restructuring of the said business and is likely to decide option on sales of OTC division in couple of months. Though the outcome of the agreement and its implications on domestic business is not yet clear, we believe Pfizer India may get compensation around two to three times of division sales.

### Sale of Chandigarh property for Rs.2.78 bn to result in one-time gain in Q2CY07

The company has sold its Chandigarh property comprising land, buildings, movable plants and machineries and other assets on an 'as is where is' basis for a total consideration of Rs.2.78 bn. Earlier, the company had received an advance of Rs.278 mn and the sale was

awaiting Government clearances. The company has now received the balance consideration of Rs.2.5 bn. The profit on sale of these assets will be accounted in Q2CY07 and will result in a one-time gain.

### Valuation and recommendation

We expect the company to register a 10% and 21% consolidated revenues and earnings CAGR over CY07-08E, respectively. The company has posted an EPS of Rs.35.6 in CY06 and we expect the normalized EPS to grow by 21% each in CY07E and CY08E to Rs.43.2 and Rs.52.3, respectively. At the current market price of Rs.725, the stock is trading at 16.8x CY07E and 13.9x CY08E earnings. The stock has corrected significantly from our previous HOLD recommendation. We are upgrading the stock to a BUY with a one-year target price of Rs.965.

We have arrived at a target price of Rs.965, based on the average of DCF and earning multiple valuation method. DCF valuation with a WACC of 12.3% and terminal growth rate of 3% yields fair value of Rs.885. While, the two-year forward multiple works to 20x to CY08 EPS of Rs.52.3 yields Rs.1045. The average price works out to Rs.965, which provides a 33% upside over CMP.



Summary table

(Rs mn)	CY06	CY07E	CY08E
Sales	6,929	7,699	8,423
Growth (%)	10.0	11.1	9.4
EBITDA	1,658	1,926	2,171
EBITDA margin (%)	23.9	25.0	25.8
Net profit	1,063	1,289	1,559
Net Margin (%)	15.3	16.7	18.5
EPS (Rs)	35.6	43.2	52.3
Growth (%)	50.3	21.3	20.9
DPS (Rs)	12.5	12.5	12.5
RoE (%)	24.6	24.8	24.6
RoCE (%)	41.5	38.1	37.2
EV/Sales (x)	3.4	2.3	2.0
EV/EBITDA (x)	14.4	9.1	7.6
P/E (x)	25.3	16.8	13.9
P/BV (x)	6.2	4.2	3.4

Source: Company & Kotak Securities - Private Client Research

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