BRICS PRIVILEGED CLIENT GROUP

Morning Call

31 October 2006

Equity

	30-Oct-06	% Change 1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13024.3	0.9	4.6	21.2
Nifty	3769.1	0.8	5.0	19.9
CNX Midcap	4846.3	0.1	3.3	25.0
World Indices				
Nasdaq	2363.8	0.6	4.7	13.0
Nikkei	16467.9	0.7	2.1	6.5
Hangseng	18242.9	(0.3)	4.0	7.6

Advances/Declines (BSE)

	A	B1	B2	Total	% Total (rounded)
Advances	101	242	386	729	43
Declines	105	398	446	949	55
Unchanged	2	9	24	35	2

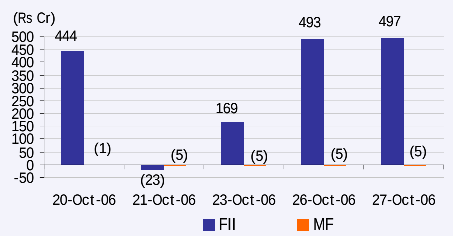
FII Open Interest (Rs cr)

	30-Oct-06	% Chg
Index Futures	6679.8	4.76
Index Options	2913.93	9.11
Stock Futures	12962.88	3.84
Stock Options	119.68	49.54

Commodity & Currency

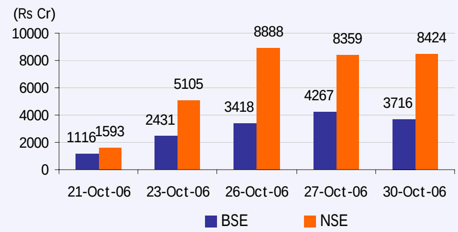
	30-Oct-06	% Change 1 Day	1 Mth	3 Mths
Crude (Future Nov'06)	58.4	(4.0)	(9.7)	(24.4)
Gold (US $/OZ)	602.0	(0.3)	0.6	(5.5)
Silver (US$/OZ)	12.1	(0.5)	5.3	5.4
Aluminium	2808.0	0.0	8.7	11.1
Copper	7370.0	(1.3)	(2.3)	(3.9)
Zinc	4170.0	0.1	25.2	26.4
U.S.Dollar	45.0	0.0	(1.0)	(1.6)
Euro	57.2	(0.0)	(0.0)	(0.0)

FII/MF — Net Equity Inflow



MF Data is upto 21 Oct

BSE/NSE Turnover



Economic & Political News

- Ahead of the credit policy tomorrow, the RBI has warned of inflationary pressures while demand for bank credit continued to hold strong in Q2FY07. As per a report released by the RBI, non-food credit has grown 30.5% as on October 13 against 31.8% last year. Food credit declined Rs 72.5bn reflecting "lower order or procurement of foodgrains." Funds to the industrial sector grew 27% while that to the agricultural sector went up by 37% as of end-June 2006. Retail lending rose by 47% with growth in housing loans placed at 54%. Loans to commercial real estate rose by 102%. (BL)
- India may make it mandatory for stock exchanges to delist the shares of a company that's unprofitable for three consecutive years and has a negative net worth. (Bloomberg)
- India's oilseed output may decline this year as hot, dry weather in the state of Rajasthan, the nation's biggest mustard-grower, curbs winter plantings, further boosting prices of alternatives such as palm oil. (Bloomberg)

Corporate News

- **Orchid Chemicals and Pharmaceuticals** has signed a contract with Swedish biopharma company Biovitrum to support its drug discovery activities. (BL)
- Four foreign dredging companies have been shortlisted by the **Jawaharlal Nehru port** to execute its Rs 8bn project for dredging off the harbour entrance channel, namely Boscalis and Van Oord BV of the Netherlands, Jan de nul of Belgium and Dredging International. This is seen as another indication that overseas companies are steadily gaining ground in the domestic dredging market, edging out state-owned Dredging Corporation of India, which till a few years ago virtually held a total monopoly. (BL)
- **Tata Motors** plans to raise US$300mn through external commercial borrowings by the end of March '07 to fund expansion plans. These include the much-awaited Rs 1-lakh car project that will have its plant situated in West Bengal. Of the required 970 acres, the government has acquired 800 acres for the project, to turn over to the Tata group. (BL)
- **HDFC** may exercise its exit clause in its joint venture agreement with Standard Life Insurance, if AXA goes through with its £7bn bid for Standard Life. (ET)
- **Hindustan Petroleum** is in talks with Total SA and Kuwait Petroleum to sell its 50% stake in a refinery project at Visakhapatnam in Andhra Pradesh. (Bloomberg)

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

Top Gainers and Losers (A Group)

(Rs)	Curr.Close	Prev.Close	%Chg
Gainers			
Jaiprak Associates	544.5	453.8	20.0
Alstom Projects	439.1	401.5	9.3
Infrastructure Development Finance	82.3	75.9	8.4
Losers			
Britania Industries	1,190.2	1,248.8	(4.7)
Geomet Sofsol	123.8	129.7	(4.6)
Chambal Fertilisers And Chemicals	36.5	38.1	(4.3)

Source: BSE

RESULT UPDATE

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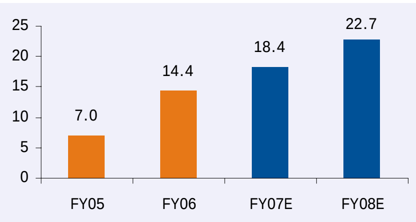
BSE Code	532149
NSE Code	BANKINDIA

Financial Summary

(Rs mn)	FY06	FY07E	FY08E
NII	26,320	33,870	41,050
PPP	17,012	20,884	23,964
PAT	7,014	8,964	11,092
EPS (Rs)	14.4	18.4	22.7
ABV (Rs)	79.0	105.8	123.6
P/E (x)	11.6	9.1	7.3
P/ABV (x)	2.1	1.6	1.3
ROE (%)	14.8	16.9	18.4

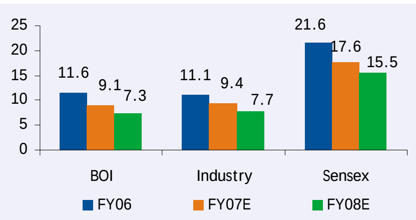
Source: Company; Brics PCG Research

Annual EPS Trend (Rs)



Source: Brics PCG Research

Current P/E Multiples (x)



Source: Brics PCG Research

Bank of India

CMP: Rs 167 Target: Rs 186 BUY

Hitting the high notes

Bank of India (BOI) has churned out an excellent Q2FY07 performance, posting the best results among PSU banks. As guided by the bank after the FY06 results, net interest income continues to grow at a very robust pace, well ahead of expectations. This together with the healthy growth in non-interest income (ex-treasury) led to a 61% spurt in net profit. We continue with our BUY recommendation on the stock with a target price of Rs 186, an upward revision from our earlier target price of Rs 170.

Q2FY07 Results

(Rs mn)	Q2FY07	Q2FY06	Var (%)	H1FY07	H1FY06	Var (%)
Interest on Advances	15,755.1	11,012.8	43.1	29,346.3	21,292.4	37.8
Income on Investments	5,990.2	5,257.2	13.9	11,915.3	10,230.2	16.5
Int on Bal with RBI etc.	836.4	343.9	143.2	1,530.6	736.7	107.8
Interest income	22,581.7	**16,613.9**	35.9	**42,792.2**	**32,259.3**	**32.7**
Interest expenses	(14,088.2)	(10,827.6)	30.1	(26,654.6)	(20,883.4)	27.6
Net interest income	**8,493.5**	**5,786.3**	**46.8**	**16,137.6**	**11,375.9**	**41.9**
Other income	3,532.5	3,031.2	16.5	6,639.0	5,974.8	11.1
Total Income	**12,026.0**	**8,817.5**	**36.4**	**22,776.6**	**17,350.7**	**31.3**
Operating expenses	(7,235.5)	(5,516.5)	31.2	(13,310.0)	(10,383.7)	28.2
PPP	4,790.5	3,301.0	45.1	9,466.6	6,967.0	35.9
Provisions and W/off	(1,586.5)	(1,520.6)	4.3	(3,271.4)	(2,912.1)	12.3
PBT	3,204.0	1,780.4	80.0	6,195.2	4,054.9	**52.8**
Taxes	(1,082.7)	(458.6)	136.1	(1,986.6)	(1,015.7)	95.6
PAT	**2,121.3**	**1,321.8**	**60.5**	**4,208.6**	**3,039.2**	**38.5**
Cost/ Income Ratio (%)	**60.2**	**62.6**	—	**58.4**	**59.8**	—

Source: Company; Brics PCG Research

Result highlights

- On the twin strengths of an improved yield on funds and a relatively lower increase in cost of funds, BOI reported 47% growth in net interest income (NII) for Q2FY07. However, adjusting for amortisation expenses, actual NII grew 40% YoY.
- During the quarter, BOI booked amortisation expenses of Rs 590mn as a part of interest expenses compared with Rs 720m booked in Q2FY06.

Global spreads rose to 3.1% versus 2.6% in Q2FY06

- Ex-amortisation expenses, the global spreads have increased to 3.1% compared with 2.6% in Q2FY06. This was underpinned by an 89-bp improvement in yield on funds to 7.6% and a mere 46-bp increase in cost of funds to 4.5%. Domestic spreads have improved to 3.4% in Q2FY07 from 3% in Q2FY06. A hike in the lending rate together with a greater proportion of loans to the high-yielding retail and SME segments contributed to the elevated yield, whereas the focus on raising CASA deposits curtailed the cost of funds.

Focus on high-yield retail & SME lending boosts yields

- Within loans, lending towards the retail, agriculture and SME segments recorded strong YoY growth of 56%, 22% and 27% respectively. BOI expects these segments to continue to drive asset growth and boost yields.
- The management is targeting a growth of 20% in deposits (25% in low-cost deposits) and 25% in loans in FY07.

Global business continues to grow at a healthy rate

- BOI's global business continued to grow at a healthy rate with deposits rising by 20% to Rs 1,033bn and loans increasing 24% to Rs 751bn. The share of low-cost deposits remained steady at 40%.

Non-interest income (ex-treasury) grew 18% to Rs 3bn

- Non-interest income (ex-treasury) grew 18% to Rs 3bn. Recovery from written-off accounts was Rs 342mn in Q2FY07 compared to Rs 310mn in Q2FY06. Treasury gains grew 6% YoY to Rs 502mn.

CBS costs hike operating expenses but will taper off

- Increased expenses on CBS implementation and other IT-related expenses led a 31% YoY increase in operating expenses. BOI chooses to expense all CBS-related costs, while most other banks capitalise them. For H1FY07 CBS costs totalled Rs 1.5bn compared to Rs 930mn a year ago. These are expected to taper off from H2FY07 onwards.

Aggressive provisioning & strong recoveries strengthen asset quality

- Asset quality continued to improve on the back of aggressive provisioning and strong recoveries. Net NPAs declined to 1.1% whereas gross NPAs dropped to 3% at the end of Q2FY06. The management intends to bring its provision cover up to 75% in the next couple of quarters.

CAR to be maintained at 11.5%

- BOI's CAR is currently at 11.9%, with Tier–I capital at 6.2%. The bank raised upper Tier-II capital of Rs 7.3bn in the domestic market and Rs 11.1bn in the foreign market during the quarter. The management intends to maintain CAR at around 11.5% at the end of FY07. BOI has sufficient headroom to raise almost Rs 8bn through upper Tier-I bonds. Further, the government holding of 69.5% provides a cushion to raise Tier-I capital through a fresh equity issue if other options fall through.

Valuation

Robust operating performance to continue

BOI's robust operating performance is expected to continue in the coming quarters. The improving yield on funds and relatively lower increase in cost of funds would ensure higher NII growth. Further, the de-risked investment portfolio augurs well for the bank in view of the rising interest rate scenario.

Based on our dividend discount model (DDM) we value the bank at Rs 186, an upward revision from Rs 170 earlier to incorporate the robust financial results. **BUY**.

Financials

Profit & Loss Statement

Year-end March (Rs mn)	FY05	FY06	FY07E	FY08E
Interest Earned	60,315	70,287	90,161	108,844
Interest Expended	37,946	43,967	56,291	67,794
Net Interest Income	22,369	26,320	33,870	41,050
% change YoY	1.6	17.7	28.7	21.2
Non Interest Income	11,558	11,844	13,379	14,256
Comm/Exch income	6,734	7,013	7,753	8,637
% change YoY	(35.5)	2.5	13.0	6.6
Operating expenses	19,323	21,151	26,365	31,341
Pre-prov profits	14,604	17,012	20,884	23,964
% change YoY	(34.9)	16.5	22.8	14.8
Provs & Contgcies	9,993	7,856	8,347	8,119
PBT	4,610	9,157	12,536	15,846
Income Tax, Int Tax	1,210	2,142	3,573	4,754
Net Profit	3,400	7,014	8,964	11,092
% change YoY	(66.3)	106.3	27.8	23.7

Source: Company; Brics PCG Research

Balance Sheet

Year-end March (Rs mn)	FY05	FY06	FY07E	FY08E
Cash in hd & bal with RBI	39,047	55,884	53,670	63,328
Bal with Bk, Money at call	36,215	58,576	46,961	46,177
Investments	282,026	317,818	388,598	451,624
Advances	560,126	651,737	798,378	950,070
Fixed Assets (net)	8,142	8,100	8,910	9,801
Other Assets	24,225	30,628	32,580	38,580
Total assets	949,782	1,122,743	1,329,097	1,559,580
Equity Capital	4,881	4,881	4,881	4,881
Reserves & surplus	39,767	44,957	51,437	59,218
Net Worth	44,649	49,839	56,319	64,099
Deposits	788,214	939,320	1,118,119	1,319,341
Current deposits (a)	60,983	74,066	86,657	101,822
Savings Bank Deposits (b)	211,318	254,862	317,303	385,523
Term Deposits (c)	515,914	610,393	714,160	831,996
Borrowings	83,087	91,906	112,995	118,526
Other Liab & Prov	33,832	41,677	41,664	57,614
Total liabilities	949,782	1,122,743	1,329,097	1,559,580

Source: Company; Brics PCG Research

Ratio Analysis

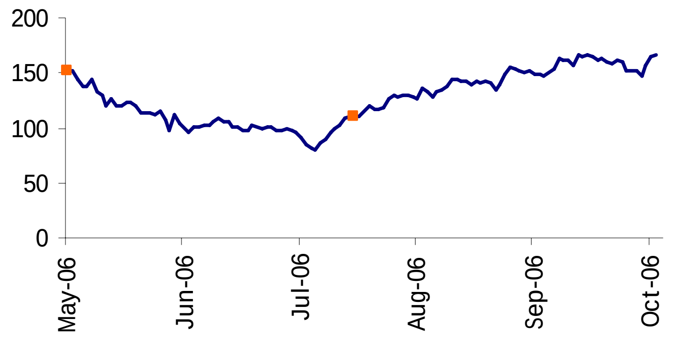
Year-end March (Rs mn)	FY05	FY06	FY07E	FY08E
Per share Data				
Shares outstanding(mn)	488.1	488.1	488.1	488.1
EPS(Rs)	7.0	14.4	18.4	22.7
DPS(Rs)	2.0	3.0	4.5	6.0
Book Value (Rs)	91.5	102.1	115.4	131.3
Adjusted Book value (Rs)	56.2	79.0	105.8	123.6
Valuation Ratios				
Market Price (Rs)	166.5	166.5	166.5	166.5
Price/Earnings (x)	23.9	11.6	9.1	7.3
Price/Book Value (x)	1.8	1.6	1.4	1.3
Price/Adjusted Book Value (x)	3.0	2.1	1.6	1.3
Earnings Quality (%)				
Net Interest Margin	2.6	2.6	2.9	2.9
Yield on advances	7.1	7.5	8.6	8.7
Yield on investments	7.7	7.2	7.2	7.3
Cost of deposits	4.6	4.6	5.0	5.1
Cost/Income	57.0	55.4	55.8	56.7
Return on Average Net Worth	8.0	14.8	16.9	18.4
Return on Average Assets	0.4	0.7	0.7	0.8
Growth Ratios (%)				
Net interest Income	1.6	17.7	28.7	21.2
Other Income	(35.5)	2.5	13.0	6.6
Total Income	(15.0)	12.5	23.8	17.1
Pre-provisioning Profit	(34.9)	16.5	22.8	14.8
Net Profit	(66.3)	106.3	27.8	23.7
Advances	22.1	16.4	22.5	19.0
Deposits	10.3	19.2	19.0	18.0
Asset Quality				
Proportion of CASA (%)	34.5	35.0	36.1	36.9
Credit-Deposit Ratio (x)	71.1	69.4	71.4	72.0
Investment/Deposit%	35.8	33.8	34.8	34.2
Net NPA ratio (%)	2.8	1.5	0.4	0.3
CAR (%)	11.5	10.8	11.4	10.9
Tier I ratio (%)	7.1	6.8	7.0	6.1

Source: Company; Brics PCG Research

Recommendation history

SN	Date	Event	Target	Reco
1	11/05/06	Initiating Coverage	187	BUY
2	01/08/06	Target revised	170	BUY

Source: Brics PCG Research



Source: Bloomberg

RESULT UPDATE

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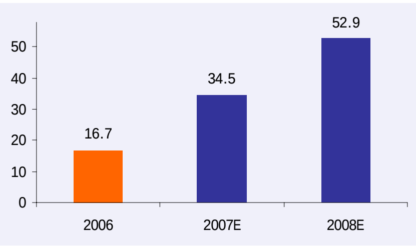
BSE Code	532691
NSE Code	TULIPIT

Financial Summary

(Rs mn)	FY06	FY07E	FY08E
Sales	5,084.4	7,512.1	9,236.8
Growth (%)	48.6	47.7	23.0
Net profit	484.6	999.6	1,535.2
Growth (%)	248.4	106.3	53.6
EPS (Rs)	16.7	34.5	52.9
Growth (%)	44.2	106.3	53.6
P/E (x)	21.7	10.5	6.8
ROE (x)	25.9	36.3	36.9
EV/EBITDA(x)	17.0	9.0	6.1

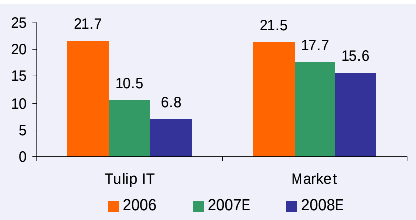
Source: Company; Brics PCG Research

Annual EPS Trend (Rs)



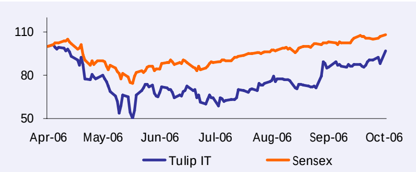
Source: Brics PCG Research

Current P/E Multiples (x)



Source: Brics PCG Research

Share price trend



Source: Capitaline

Tulip IT Services CMP: Rs 362 Target: Rs 457 BUY

Power packed performance

Much ahead of our expectations **Tulip IT Services** reported a very strong Q2FY07 financial performance. Revenues in the quarter grew sequentially by 29.7% on the back of 59.4% growth in the corporate data services (CDS) segment. Operating margins expanded by 280 bps as the share of CDS revenues increased to 34% of total revenues. Net profit grew by 46.5%, a slower pace than the 58.6% QoQ increase in operating profit due to higher depreciation and tax costs during the quarter. In view of the exceptional performance, we are raising our estimates for FY07 and FY08 and accordingly upgrading our target price to Rs 457 (from Rs 383).

Q2FY07 Financial performance

Rs mn	Q2FY07	Q1FY07	QoQ Change (%)
Net Sales	**1,851.6**	**1,427.6**	**29.7**
Increase/(Decrease) in Stock	(6.8)	124.3	
Consumption of Raw Materials	1,491.2	992.8	
Staff Cost	38.1	40.7	
Other Expenditure	41.3	88.4	
Operating Expenditure	1,563.7	1,246.2	25.5
EBITDA	**287.8**	**181.4**	**58.6**
EBITDA Margin (%)	**15.5**	**12.7**	
Other Income	0.6	0.9	
Interest	16.8	20.6	
Depreciation	45.7	14.4	
Prior Period Items	-	-	
Profit Before Tax	**226.0**	**147.4**	**53.3**
Current Tax	21.9	8.7	
Deferred Tax Charge	1.6	0.4	
Net Profit	**202.5**	**138.2**	**46.5**
EPS	**6.98**	**4.77**	**46.5**

Source: Company; Brics PCG Research

Revising our FY07 and FY08 estimates upwards

The number of connects added by Tulip during the quarter has been significantly higher than our expectations. Tulip added a total of 9,126 connects in Q2FY07 (as against our expectations of 5,500) taking the total number to 24,106. This not only boosted the one-time installation revenues in the quarter but will also have a positive impact on recurring revenue in coming quarters. The traction in the CDS segment has been very strong as both new customers as well as the number of connects from old customers are increasing. Considering these factors and the outstanding performance in Q2FY07 we are raising our FY07 and FY08 estimates.

Revenues for FY07 and FY08 are now expected to be at Rs 7.5bn and Rs 9.2bn, revised upwards by 12% and 14.5% respectively. We have increased our EPS estimates for these two years by 21.5% and 33.3% to Rs 34.5 and Rs 53.6 respectively.

Valuation

At the current price of Rs 362, Tulip is trading at 10.5x and 6.8x on FY07E and FY08E EPS respectively. The share of revenues from CDS has more than doubled from 16% in FY06 to 34% in Q2FY07. Due to higher profitability in the CDS business, we expect the valuations of the company to improve going forward as the share of this segment in overall revenues further steps up.

We have valued Tulip using a sum-of-parts model in which both network integration (NI) and CDS have been assessed independently using the discounted cash flow (DCF) approach. The cost of capital taken for Tulip is 16% (risk free rate of 8%, market risk premium of 7%, beta of 1.2 and cost of debt of 10%). The terminal growth rate of free cash flows for the NI and CDS segments is 2.5% and 3.5% respectively. We thus raise our March '07 target price to Rs 457 (from Rs 383), and reaffirm our **BUY** recommendation on the stock.

Q2FY07 - Actual vs estimated performance

Rs mn	Actual	Estimated	% variance
Revenues	1,851.6	1,544.2	19.9
EBITDa	287.8	231.4	24.4
Net profit	202.5	166.8	21.4
Net connect additions	9,126	5,500	65.9

Source: Company, Brics PCG Research

Q2FY07 Key highlights

NI revenues up 17% QoQ

- Revenues in the NI segment stood at Rs 1.2bn, up by 17.4% QoQ. Traditionally, the first half of the financial year is weaker as compared to the second half as much of the customer spending on network equipment is done in the later part of the financial year. The fourth quarter is expected to be the strongest for the NI segment.

Number of connects during the quarter up 67% QoQ

- Tulip added 9,126 connects during the quarter, which is 66.7% higher than the 5,476 connects added in Q1FY07. The number of connects supported by the company has multiplied by six times in one year, with a current total of 24,106 connects vis-à-vis 14,989 in Q1FY07 and 4,067 in Q2FY06.
- Average revenue per connect (ARPC) in the CDS segment remained almost flat in the quarter at Rs 34,194 (previous quarter Rs 34,226).

Big clients like Aditya Birla & Bajaj Allianz come on board

- During the quarter Tulip added prestigious customers like the Aditya Birla Group, Bajaj Allianz Group and SIDBI Bank. The customer count now stands at 339 with an average of 71 connects per customer. Tulip also signed an agreement with NTT DoCoMo under which its network would be used by NTT to provide connectivity to its customers in India.

Capex of Rs 1.6bn incurred to expand to 550 cities

- The company has incurred capital expenditure of Rs 1.6bn to expand its presence in 550 cities throughout India. The management intends to reach the 800-city milestone by the end of FY07.

CDS business proven to be less working capital intensive

- Outstanding receivables stood at Rs 900mn, down from Rs 1.5bn at the end of FY06. The current debtor days work out to 50 on annualised H1FY07 revenues. This vindicates our belief that the CDS business is less working capital intensive as compared to the NI segment.

Future outlook

ARPC expected to decline

In Q2FY07, the ARPC in Tulip's CDS segment remained almost flat. However, we expect the ARPC for this business to decline in the coming years on account of the following:

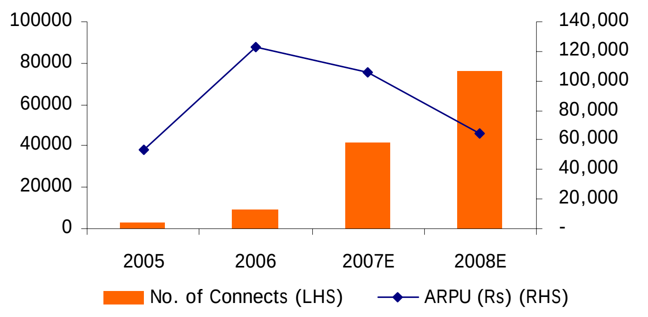
Company's pricing strategy could come under pressure

- **Entry of competitors:** The possibility of competitors entering into the business of providing connectivity through last mile wireless networks is high considering the large profit margins in the business. Though Tulip has the first mover's advantage in the market we believe that the presence of competition would certainly put pressure on the company's pricing strategy. **So far, no other player has announced any plans to set up a wireless IP/VPN network of the magnitude and size of Tulip's network.**

2 kbps-32 kbps bandwidth solutions are priced lower

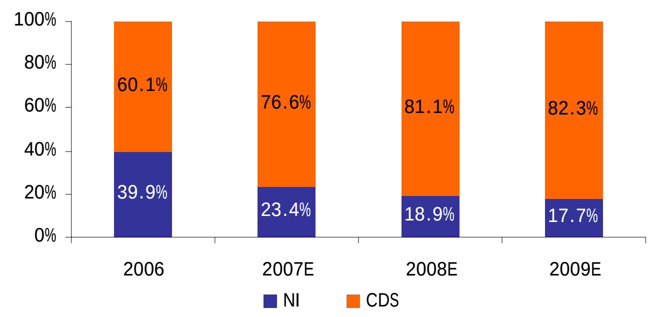
- **Low bandwidth solutions:** One of the USPs of Tulip's CDS business is its delivery of connectivity products with 2 kbps-32 kbps bandwidth, the pricing of which is lower than the company's current average pricing. We believe that in future a significant portion of the connect addition would take place for such products which ultimately would bring down the average pricing and thus ARPU of the business.
- **Need to build higher volumes:** Tulip currently charges rates which are at par with its competitors for bandwidth requirements of 64 kbps or higher. In our opinion, the company may decrease its prices to facilitate higher volume growth or offer higher discounts to get bulk connects from customers.

ARPC trend



Source: Company, Brics PCG Research

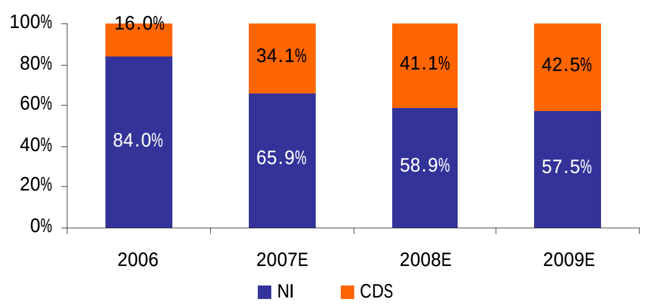
CDS contribution to total operating profit*



*Source: Brics PCG Research, *The break-up of operating profits is not reported by the company*

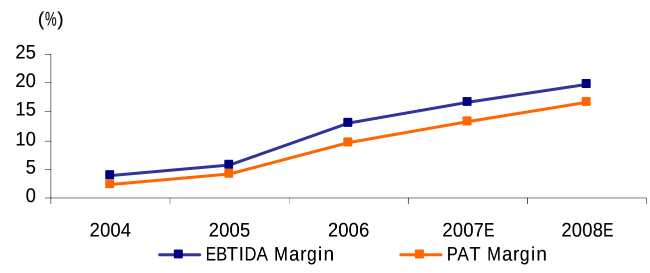
Contribution from CDS to increase further; profit margins to improve

CDS contribution to total revenues



Source: Company, Brics PCG Research

Profit margin trend



Source: Company, Brics PCG Research

Revenue and EPS estimates revised upwards

We are revising our FY07 and FY08 estimates for Tulip upwards. Revenues for FY07 and FY08 are now expected to be at Rs 7.5bn and Rs 9.2bn, revised upwards by 12% and 14.5% respectively. We have increased our EPS estimates for these two years by 21.5% and 33.3% to Rs 34.5 and Rs 53.6 respectively.

Revised esitmates

Rs mn	FY07			FY08		
	Revised	Earlier	Change (%)	Revised	Earlier	Change (%)
Revenues	7,512.1	6,695.0	12.2	9,236.8	8,065.6	14.5
EBITDa	1,256.8	1,021.1	23.1	1,832.7	1,370.0	33.8
Net profit	999.6	788.3	26.8	1,535.2	1,119.7	37.1
EPS	34.5	28.4	21.4	52.9	40.2	31.7

Source: Brics PCG Research

Valuation

Growing CDS segment to boost Tulip's valuations

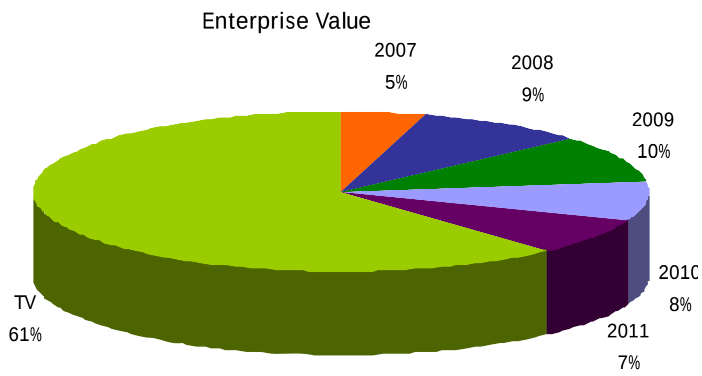
At the current price of Rs 362, Tulip is trading at 10.5x and 6.8x on FY07E and FY08E EPS respectively. In view of the growing contribution of the profitable CDS segment, we expect the valuations of the company to improve. We therefore raise our March '07 target price to Rs 457 (from Rs 383), and reiterate our **BUY** call on the scrip.

Key assumptions

Parameter	Value
Cost of debt	10.0%
Beta	1.2
Risk free rate	8.0%
Market risk premium	7.0%
Cost of equity	16.4%
Costs of Capital	15.8%
Terminal growth rate	
NI	2.5%
CDS	3.5%

Source: Brics PCG Research

Enterprise value breakup



Source: Company, Brics PCG Research

Financials

Profit & Loss Statement

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
Revenues	3,422.1	5,084.4	7,512.1	9,236.8
% change	24.6	48.6	47.7	23.0
EBITDA	199.5	662.7	1,256.8	1,832.7
% change	85.5	232.2	89.6	45.8
Depreciation	10.0	43.0	105.2	171.7
EBIT	189.5	619.7	1,151.7	1,661.0
% change	88.8	227.0	85.8	44.2
Interest	35.3	63.6	79.8	71.1
Other income	6.3	11.8	25.7	53.1
EBT	160.4	567.8	1,097.6	1,643.0
% change	98.9	254.0	93.3	49.7
Tax	26.5	78.0	98.0	107.8
As % of EBT	16.5	13.7	8.9	6.6
Net income (adjusted)	139.1	484.6	999.6	1,535.2
% change	110.4	248.4	106.3	53.6
Shares outstanding (m)	12.0	29.0	29.0	29.0
EPS (Rs)	11.6	16.7	34.5	52.9
Diluted EPS (Rs)	11.6	16.7	34.5	52.9
CEPS (Rs)	12.4	18.2	38.1	58.9

Source: Company; Brics PCG Research

Balance Sheet

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
Cash and cash equivalents	88.1	468.2	965.5	2,183.6
Accounts receivable	601.6	1,458.4	1,367.0	1,414.4
Inventories	205.6	262.5	359.9	420.5
Others	24.7	144.5	144.5	144.5
Current assets	920.1	2,333.6	2,836.9	4,163.0
LT investments	0.2	20.1	20.1	20.1
Net fixed assets	164.1	727.2	1,257.8	1,405.4
CWIP	32.1	-	-	-
Total assets	1,116.4	3,081.0	4,114.8	5,588.5
Payable	368.4	304.3	430.8	511.3
Others	34.3	150.8	162.8	172.6
Current Liabilities	402.7	455.1	593.6	683.9
LT debt	237.6	755.8	766.4	742.4
Other Liabilities	9.9	1.9	1.9	1.9
Equity capital	260.0	290.0	290.0	290.0
Reserves	206.1	1,578.1	2,462.8	3,870.2
Net worth	466.1	1,868.0	2,752.7	4,160.2
Total Liabilities	1,116.4	3,081.0	4,114.8	5,588.5
BVPS (Rs)	39.7	64.5	95.0	143.5

Source: Company; Brics PCG Research

Cash Flow

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
EBT	160.4	567.8	1,097.6	1,643.0
Depreciation	10.0	43.0	105.2	171.7
Change in working cap.	(205.4)	(979.1)	120.6	(27.5)
Operating cash flow	(35.1)	(368.3)	1,323.3	1,787.2
Interest	35.3	63.6	79.8	71.1
Other income	(2.3)	(11.4)	(25.4)	(52.7)
Tax	5.2	(91.2)	(98.0)	(107.8)
Cashflow from operatns	(19.3)	(407.4)	1,279.8	1,697.8
Capex	(145.0)	(574.3)	(664.3)	(319.3)
(Inc)/dec in investments	(56.0)	(381.7)	-	-
Cash flow from investing	(201.0)	(956.0)	(664.3)	(319.3)
Dividend paid	-	(33.1)	(48.9)	(65.2)
Proc. from equity issue	140.0	948.0	-	-
Inc/(dec) in debt	114.8	518.2	10.6	(24.1)
Interest paid	(35.3)	(63.6)	(79.8)	(71.1)
Cashflow from financing	219.5	1,369.7	(118.2)	(160.4)
Change in cash	(0.8)	6.2	497.3	1,218.2

Source: Company; Brics PCG Research

Ratios Analysis

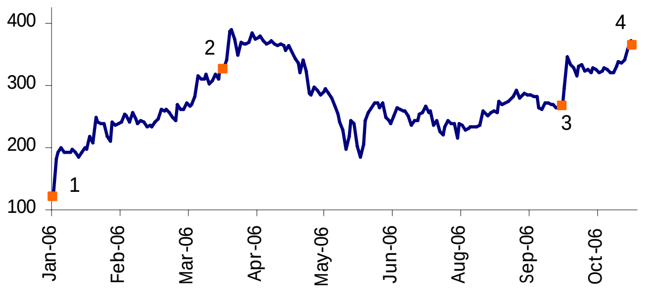
Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
EBITDA margin (%)	5.8	13.0	16.7	19.8
Net profit margin (%)	4.1	9.5	13.3	16.6
EPS growth (%)	110.4	44.2	106.3	53.6
Receivables (days)	66.7	104.7	66.4	55.9
Inventory (days)	23.3	21.7	21.0	20.7
Payables (days)	39.3	21.8	20.9	20.2
Current ratio (%)	2.3	5.1	4.8	6.1
Interest coverage (x)	4.9	8.6	13.5	22.6
Debt/equity ratio (x)	0.5	0.4	0.3	0.2
Sales/Gross fixed assets (x)	17.6	6.4	5.2	5.3
ROE (%)	29.2	25.9	36.3	36.9
ROCE (%)	27.4	24.0	33.4	35.0
EV/Sales (x)	3.3	2.2	1.5	1.2
EV/EBITDA (x)	56.5	17.0	9.0	6.1
Price to earnings (x)	31.3	21.7	10.5	6.8
Price to book value (x)	9.1	5.6	3.8	2.5
Price to cash earnings (x)	29.2	19.9	9.5	6.2

Source: Company; Brics PCG Research

Recommendation history

SN	Date	Event	Target	Reco
1	04/01/06	IPO Subscribe		BUY
2	05/04/06	Target initiated	437	BUY
3	22/09/06	Target revised	383	BUY
4	31/10/06	Target revised	457	BUY

Source: Brics PCG Research



Source: Bloomberg

RESULT UPDATE

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BSE Code	526209

K S Oils

CMP: Rs 176 **Target: Rs 218** **BUY**

Fuelled for success

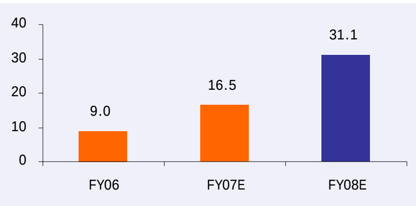
KS Oils (KSO) has clocked an outstanding performance during Q2FY07 with 79% YoY growth in revenues and a 213% spike in net profit. We retain our projections for FY07 and FY08, and thus recommend a BUY with our initial target price of Rs 218.

Financial Summary

(Rs mn)	FY06	FY07E	FY08E
Sales	6042.6	10567.1	16846.7
Growth (%)	33.5	74.9	59.4
Net profit	160.3	391.6	739.9
Growth (%)	377.1	144.3	88.9
EPS (Rs)	9.0	16.5	31.1
Growth (%)	164.5	83.3	88.9
P/E (x)	19.6	10.7	5.7
ROE (x)	32.4	33.7	28.2
EV/EBITDA(x)	12.5	7.6	4.0

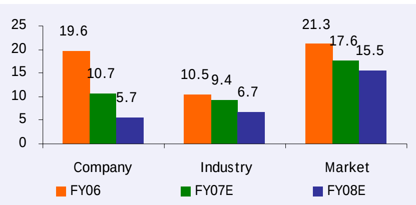
Source: Company; Brics PCG Research

Annual EPS Trend (Rs)



Source: Brics PCG Research

Current P/E Multiples (x)



Source: Brics PCG Research

Q2FY07 Results

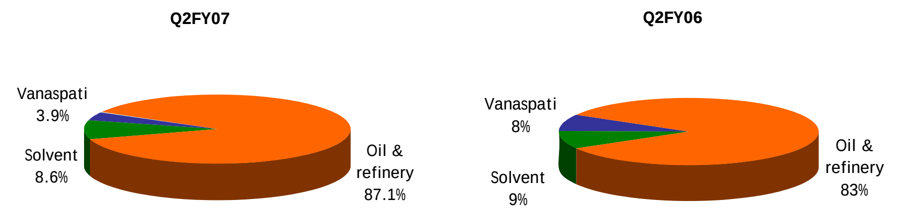
Rs.mn	Q2FY07	Q2FY06	% Chg	H1FY07	H1FY06	% Chg
Net Revenue	**2254.2**	**1262.1**	**78.6**	**4419.0**	**2674.2**	**65.2**
a) Raw mat costs	1938.9	1102.4	75.9	3823.6	2364.3	61.7
b) Staff cost	4.8	2.9	65.5	9.4	5.6	67.9
c) Other Expenses	149.5	89.7	66.7	298.2	172.9	72.5
Total Expenditure	2093.2	1195.0	75.2	4131.2	2542.8	62.5
EBDIT	*161.0*	*67.1*	139.9	*287.8*	*131.4*	119.0
Depreciation	9.0	6.2	45.2	17.3	11.5	50.4
EBIT	152.0	60.9	149.6	270.5	119.9	125.6
Financial Expenses	23.3	20.3	14.8	43.0	38.8	10.8
Other Income	1.8	0.9	-	2.0	1.5	-
PBT	**130.5**	**41.5**	**214.5**	**229.5**	**82.6**	**177.8**
Tax	19.5	6.0	225.0	33.5	12.0	179.2
PAT	**111.0**	**35.5**	**212.7**	**196.0**	**70.6**	**177.6**
OPM (%)	7.1	5.3		6.5	4.9	
Equity	94.0	48.9	-	94.0	48.9	-
EPS(Rs)	47.2	29.0	62.7	41.7	28.9	44.4

Source: Company; Brics PCG Research

Result highlights

- KSO has posted an impressive growth in sales for the second quarter as well as first half of FY07. Net sales increased by 78.6% YoY during Q2FY07 to Rs 2.3bn by virtue of better volumes and increased realisations. The company raised its capacity utilisation for different product segments thereby facilitating better volumes. Further, the rising proportion of retail sales led to better realisations for its products.

Division-wise revenue contribution



Source: Company; Brics PCG Research

Retail focus ups share of oil & refinery division

- KSO's heightened focus on retail sales has pushed up the share of the oil & refinery division, which has led to a declining contribution from vanaspati during the quarter.

- Raw material costs have gone up by 76% YoY, but were down at 86% of sales as compared to 87.3% last year. This is due to higher sales growth both in terms of volume and realisations.

EBITDA margin improves to 7.1% from 5.3% in Q2FY06

- Operating profit has grown 140% YoY to Rs 161mn, accompanied by an improved margin at 7.1% from 5.3% a year ago. The margin growth was fuelled by increased realisations, lowered operating costs (particularly power) and better working capital cycles.

PAT margin up 75% YoY

- The company posted a robust 213% YoY growth in net profit during Q2FY07 to Rs 111mn. Net profit margins also rose 75% from 2.8% to 4.9% this quarter.

Future outlook: Key growth drivers

Among the chief growth drivers for the company are its initiatives to acquire new plants and elevate capacity utilisation, as well as its thrust on retail products. Further, with savings on power costs and rationalising other costs, KSO's operating margins are expected to jump substantially.

Acquisitions to fuel growth

Rs 200mn Jodhpur plant is the first of many acquisitions

KSO is looking to grow both organically and inorganically. As a step towards this, the company acquired a plant in Jodhpur, Rajasthan for Rs 200mn in June '06. This plant has a 225-MTPD oil mill and a 50-MTPD refinery.

KSO is also acquiring two to three plants in Madhya Pradesh, Rajasthan and Jammu & Kashmir. The cost of acquisition and modernisation would be around Rs 750mn. Two of these deals are expected to be concluded in FY07.

Locational advantage in oilseed cultivating belts

We believe that by tapping other oilseed cultivating belts via the acquisition route, KSO would not only enhance its revenue base, but would also garner tremendous savings on raw material procurement, and logistical and carriage costs, which would improve its operating margins.

Robust expansion programme

33% superior extraction levels at Morena

During FY06, KSO invested in plant expansion and modernisation, raising its crushing capacity at Morena from 775 MTPD to 1,000 MTPD during the year. The modernisation also resulted in superior extraction levels—33% higher than normal crushing.

Refinery capacity doubled to 300 MTPD

In order to meet the increased demand for mustard oil and in view of the market potential, KSO doubled its refinery capacity to 300 MTPD. The new capacity was commissioned in June '06, and will help the company to almost double its sales from the refinery division in FY07.

By way of acquisitions, expansion and modernisation, KSO would add 500 MTPD of crushing, 400 MTPD of solvent extraction and 350 MTPD of refining capacity in FY07. Also in the pipeline are further additions of 200 MTPD of crushing and 400 MTPD of solvent extraction capacities in FY08.

Capacity augmentation drive

(MTPD)	Capacity		
	FY06	FY07E	FY08E
Oil Mill	550	1,425	1,625
Solvent Extractor	600	1,000	1,400
Refinery	150	700	700
Vanaspati	150	150	150

Source: Company; Brics PCG Research

Retail foray: Emphasis on high-margin segment

Launch of mustard oil sachets

Sachets to garner share in unorganised segment

KSO has been working on improving margins by focusing on the retail market. In order to garner market share from the unorganised segment, the company has launched 100ml, 200ml and 500ml mustard oil sachets and pouches. These will be sold in the local kirana stores, thus shoring up sales volumes.

KSO is further looking to counter unorganised players by creating newer brands. The company is also endeavouring to alter its product mix to emphasise retail packs with higher margins

Self-owned retail depots

17 depots of the 100 planned are already operational

Additionally, it is in the process of opening 100 self-owned retail depots (central distribution points) during FY07. Of these, 17 depots are already operational. These will allow KSO to tap markets in various states like Madhya Pradesh, Uttar Pradesh, Bihar, Rajasthan, West Bengal, Jammu & Kashmir, Orissa, Chhattisgarh and the northeast region.

Plans to double retail contribution

Retail sales contributed 20% of mustard oil sales in FY06

During FY06, retail sales contributed around 20% of the company's total mustard oil sales, earning 5% incremental margins (10% incremental realisations less 5% incremental costs) over wholesale sales. KSO now plans to more than double its contribution from retail sales in FY07 to 50%. We expect prices, which closely track international rates, to remain stable in the short term.

Enhancing operational efficiencies

2.5-MW captive wind power generation plant installed

KSO is making a concerted effort to reduce operating costs, and has already installed a 2.5-MW captive wind power generation plant in March '06 to ensure efficiency in power consumption.

2 more 2.5-MW power plant windmills underway

It is further setting up two 2.5-MW (2 x 1.25) power plant windmills. This will reduce the power cost and further enhance margins. The estimated cost of these plants, which are being supplied by Suzlon Energy, is approximately Rs 180mn. The wind farms will be capable of catering to one-third of the company's total power demand.

Power cost savings of Rs 16.2mn annually

The two new wind farms (1.25 MW each) will generate approximately 5.4 million units of power annually. The cost of production at the wind farms is expected to be close to Rs 2 per unit as compared to the current rate of Rs 5 per unit. This will lead to savings of approximately Rs 16.2mn annually.

Valuations

Focus on retailing & inorganic growth to spur growth

KSO is a major player in the edible oils sector with an established brand presence. It is expected to increase its base and widen its existing share in the domestic market via a greater focus on retailing and through inorganic growth initiatives. Further, considering that the industry is expected to receive a boost through enhanced government support, the company appears to be an attractive investment option.

At Rs 218 the stock would quote at 7x on FY08E

At the current price, KSO is quoting at 10.7x and 5.7x on FY07E and FY08E EPS of Rs 16.5 and Rs 31.1 respectively. We have a target price of Rs 218 at which the stock would quote at 7x on FY08E. **BUY**.

Financials

Profit & Loss Statement

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
Revenues	4,524.6	6,042.6	10,567.1	16,846.7
% change	(3.3)	33.5	74.9	59.4
EBITDA	138.1	287.1	635.9	1,122.9
% change	14.5	107.9	121.5	76.6
Depreciation	25.3	28.5	58.3	103.3
EBIT	112.8	258.6	577.6	1,019.6
% change	11.6	129.2	123.4	76.5
Interest	77.1	78.4	79.9	75.4
Other income	5.5	4.1	4.4	4.4
EBT	41.2	184.3	502.1	948.6
% change	64.1	347.3	172.5	88.9
Tax	7.5	24.0	110.5	208.7
As % of EBT	18.2	13.0	22.0	22.0
Net income (adjusted)	33.6	160.3	391.6	739.9
% change	48.7	377.1	144.3	88.9
Shares outstanding (m)	9.9	16.9	23.8	23.8
EPS (Rs)	3.4	9.0	16.5	31.1
DPS (Rs)	0.5	0.6	2.5	4.7
CEPS (Rs)	5.9	11.2	18.9	35.4

Source: Company; Brics PCG Research

Balance Sheet

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
Cash and cash equivalents	71.5	60.8	68.0	103.4
Accounts receivable	172.8	154.1	318.5	461.6
Inventories	1,144.4	1,552.2	2,316.1	3,692.4
Others	37.2	56.7	94.3	158.4
Current assets	1,425.9	1,823.8	2,796.9	4,415.7
LT investments	0.0	0.0	0.0	0.0
Net fixed assets	316.0	438.3	1,130.0	1,776.6
CWIP	0.0	0.0	0.0	0.0
Total assets	1,003.8	1,341.2	2,150.1	3,313.6
Payable	721.1	875.3	1,737.1	2,815.5
Others	17.0	45.6	39.7	63.3
Current Liabilities	738.1	920.9	1,776.8	2,878.8
LT debt	741.4	873.6	987.7	687.7
Other Liab (deferred tax)	0.0	0.0	0.0	0.0
Equity capital	49.5	84.5	238.0	238.0
Reserves	212.9	383.1	924.4	2,387.9
Net worth	262.4	467.6	1,162.4	2,625.9
Total Liabilities	1,003.8	1,341.2	2,150.1	3,313.6
BVPS (Rs)	53.0	55.3	48.8	110.3

Source: Company; Brics PCG Research

Cash Flow

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
EBIT	112.8	258.6	577.6	1,019.6
Depreciation	25.2	27.6	58.3	103.3
Change in wrkg capital	(21.7)	(234.4)	(110.0)	(481.5)
Operating cash flow	116.3	51.8	525.9	641.4
Interest	(77.1)	(78.4)	(79.9)	(75.4)
Tax	(7.5)	(24.0)	(110.5)	(208.7)
Cash flow frm ops	31.7	(50.6)	335.6	357.4
Capex	(41.2)	(149.9)	(750.0)	(750.0)
(Inc)/dec in investments	0.0	0.0	0.0	0.0
Cash flow frm investing	(41.2)	(149.9)	(750.0)	(750.0)
Dividend paid	(5.6)	(11.5)	(66.9)	(126.4)
Others	5.5	4.1	4.4	4.4
Proceeds frm equity	31.1	65.0	370.0	850.0
Inc/(dec) in debt	10.4	132.2	114.1	(300.0)
Def tax credit/others	0.0	0.0	0.0	0.0
Cash flow frm financing	41.4	189.8	421.6	428.0
Change in cash	31.9	(10.7)	7.2	35.4

Source: Company; Brics PCG Research

Ratios Analysis

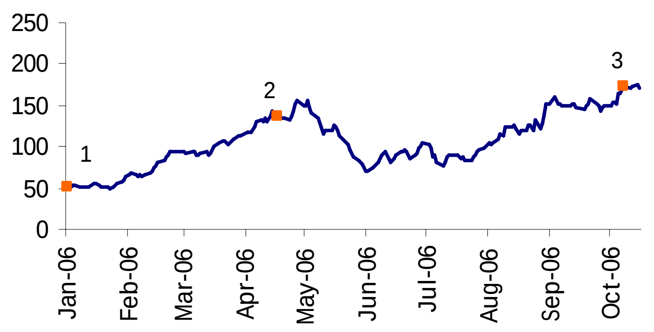
Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
EBITDA margin (%)	3.1	4.5	6.0	6.7
Net profit margin (%)	0.7	2.5	3.7	4.4
EPS growth (%)	48.7	164.5	83.3	88.9
Receivables (days)	13.9	12.0	11.0	10.0
Inventory (days)	92.3	82.0	80.0	80.0
Payables (days)	58.2	58.0	60.0	61.0
Current ratio (%)	1.9	2.0	1.6	1.5
Interest coverage (x)	1.5	3.3	7.2	13.5
Debt/equity ratio (x)	2.8	1.9	0.8	0.3
Sales/Gross fixed assets (x)	10.1	10.1	7.8	8.0
ROE (%)	12.8	32.4	33.7	28.2
ROCE (%)	11.0	16.6	21.9	24.6
EV/Sales (x)	0.5	0.6	0.5	0.3
EV/EBITDA (x)	17.5	13.2	8.0	4.3
Price to earnings (x)	51.9	19.6	10.7	5.7
Price to book value (x)	3.3	3.2	3.6	1.6
Price to cash earnings (x)	29.6	15.8	9.3	5.0

Source: Company; Brics PCG Research

Recommendation history

SN	Date	Event	Target	Reco
1	17/01/06	Initiating Coverage	140	BUY
2	03/05/06	Target revised	150	BUY
3	23/10/06	Target revised	218	BUY

Source: Brics PCG Research



Source: Bloomberg

From The Research Team

RESULT UPDATE

Indoco Remedies CMP: Rs 293 Target: Rs 410 BUY

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BSE Code	532612
NSE Code	INDOCO

Healthy growth, in line with estimates

Indoco Remedies' Q1FY07 results are largely in line with our estimates. Though the sales growth in the quarter exceeded our expectations, net profit was marginally below our estimates. This was primarily on account of an increase in finance charges as well as depreciation recorded by the company in this quarter.

Financial Summary

(Rs mn)	FY06	FY07E	FY08E
Sales	2,434.2	3,054.0	3,645.6
Growth (%)	24.9	23.0	19.0
Net profit	314.9	468.2	590.9
Growth (%)	25.8	48.7	26.2
EPS (Rs)	26.6	39.6	50.0
Growth (%)	25.8	48.7	26.2
P/E (x)	11.0	7.4	5.9
ROE (x)	16.8	21.5	22.6
EV/EBITDA(x)	7.8	6.0	4.8

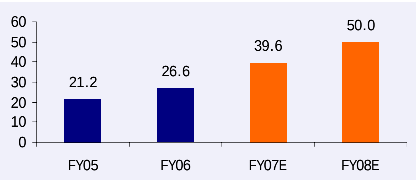
Source: Company; Brics PCG Research

Actual versus Estimates

(Rs mn)	Q1FY07E	Q1FY07A	Change (%)	Q4FY06	QoQ Growth (%)	Q1FY06	YoY Growth (%)
Sales	630.0	726.5	15.3	803.0	(9.5)	529.0	37.3
EBITDA	127.3	138.1	8.5	224.5	(38.5)	105.3	31.2
EBITDA (%)	20.2	19.0		28.0		19.9	
PAT	86.7	82.4	(5.0)	158.5	(48.0)	64.2	28.3
PAT (%)	13.8	11.3		19.7		12.1	
Diluted EPS	7.3	7.0	(5.0)	13.4	(48.0)	5.4	28.3

Source: Company; Brics PCG Research

Annual EPS Trend (Rs)



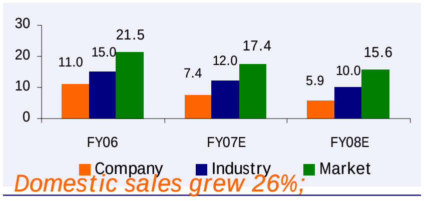
Source: Brics PCG Research

Q1FY07 Results

	Q1FY07	Q1FY06	% change
Gross Sales	796.4	593.0	34.3
Less : Excise Duty	69.9	63.9	
Net Sales	726.5	529.1	37.3
Total Expenditure			
(Inc)/Dec in Stock	(17.2)	(18.7)	
Raw material exp	325.8	216.2	
Staff cost	78.5	62.9	
Other Expense	201.3	163.3	
Total	588.4	423.7	38.9
EBITDA	138.1	105.4	31.1
Depreciation	22.4	13.6	65.0
EBIT	115.72	91.80	26.1
Interest	23.7	11.8	101.1
Other Income	9.1	11.5	
Profit before Tax	101.1	91.5	10.6
Provision for Tax	18.8	27.2	
PAT	82.4	64.2	28.2
Diluted EPS	7.0	5.4	28.2

Source: Company; Brics PCG Research

Current P/E Multiples (x)



Source: Brics PCG Research

Domestic sales grew 26%; 103% rise in exports to regulated markets

Sales growth at 37%

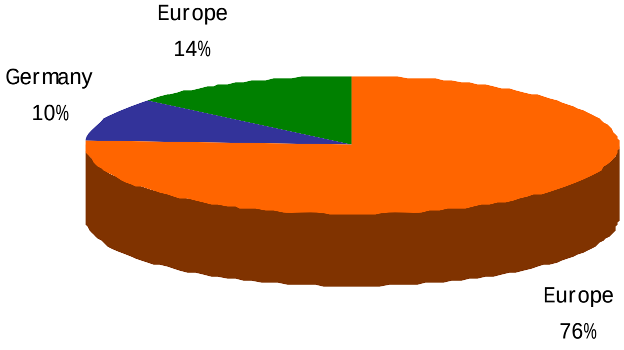
Net sales in Q1FY07 grew by 37% to Rs 726.5mn as against Rs 529mn in Q1FY06, driven by 26% growth in domestic sales and a 103% rise in exports to regulated markets. Domestic sales contributed about 81.3% to the topline whereas exports to regulated markets contributed about 12% in Q1FY07. Exports to the less regulated markets, though not a substantial contributor to the topline, fell about 18% due to the delay in receipt of some orders which came through only in the later half of September '06.

Higher client base & added product supply drive exports

Exports to regulated markets far surpass expectations

Exports to the regulated markets have grown more than anticipated (103% as against 60%) on account of a swelling customer base as well as an increase in the products supplied. The company currently exports to the UK, Germany and Eastern Europe and we expect sales to the US to commence from January '07. Most of the products being exported are currently site transfers and we expect Indoco to increase its own product registrations, going ahead.

Break-up of exports to regulated markets in Q1FY07



Source: Company, Brics PCG Research

EBITDA margins fall 90 bps

Higher raw material cost erodes margins...

Operating margins for the quarter have fallen by 90 bps due to an increase in raw material cost as a percentage of sales in Q1FY07 as against Q1FY06. This is magnified due to the lower base effect in Q1FY06 when raw material cost was offset by the exponential growth in sales of one of the company's products—Vepan. This apart, the gross margin that the company earns on exports is less than the domestic market. However, on the operating profit front, exports earn a higher return compared to the domestic market.

...Expected to stabilise at about 20%

The company's sales and marketing expenses have been on the rise due to the introduction of the newer division, Surge. We believe the margins in the coming quarters will stabilise at about 20% as the exports gain further momentum and the marketing spend rationalises.

PAT grows 28%

Net profit for the quarter has grown 28% despite a 34% growth in revenues on account of the higher interest and depreciation expense coupled with a fall in operating margins. EPS for the quarter was Rs 7.

Outlook

Focussed domestic growth strategy is paying off

Indoco has been performing well in the domestic market and we believe that this growth will be sustained given the management's focused approach. The company has a dedicated management team steering the domestic growth strategy and this coupled with 6-7 new product introductions planned per quarter will bolster growth.

New product introductions in Europe, CIS & entry into the US to bolster performance

On the exports front, the company has planned new product introductions in the European as well as CIS markets and sales from the US market are expected to commence from January '07. We believe the two ANDAs targeted by Indoco have a cumulative addressable size of about US$250mn. We expect the company's topline and bottomline growth to strengthen following the introduction of these products. The La Novachem acquisition too should start showing better results as the capacity utilisation improves from the current 45% to 75%.

Valuation

23% ROE & earnings growth of 30% expected in FY08

At the current market price of Rs 293, the stock is trading at P/E multiples of 7.4x on FY07E and 5.9x on FY08E which we believe is very attractive. With an expected ROE of 23% in FY08 and earnings growth of about 30% we believe the stock should trade at a higher multiple. We therefore recommend a **BUY** on the stock with a target of Rs 410.

Financials

Profit&LossStatement

Year-endMar(Rsmn)	FY05	FY06	FY07E	FY08E
Revenues	1,941.5	2,434.2	3,054.0	3,645.6
%change	21.5	24.9	23.0	19.0
EBITDA	399.3	478.2	617.1	772.1
%change	27.9	19.7	29.0	25.1
Depreciation	43.4	63.2	100.2	101.7
EBIT	355.9	415.0	516.9	670.4
%change	25.9	16.6	24.6	29.7
Interest	37.5	57.9	29.4	24.7
Other income	48.1	72.5	91.0	108.6
EBT	366.5	429.6	578.5	754.3
%change	26.0	17.2	34.7	30.4
Tax	116.1	114.7	110.3	163.3
As % of EBT	31.7	26.7	19.1	21.7
Net income(adjusted)	250.4	314.9	468.2	590.9
%change	18.3	25.8	48.7	26.2
Shares outstanding(m)	11.8	11.8	11.8	11.8
EPS(Rs)	21.2	26.6	39.6	50.0
DPS(Rs)	5.0	6.2	6.2	7.0
CEPS(Rs)	24.2	14.0	27.4	46.4

Source: Company; Brics PCG Research

BalanceSheet

Year-endMar(Rsmn)	FY05	FY06	FY07E	FY08E
Cash and cash equivalents	285.8	166.0	324.3	548.8
Accounts receivable	740.7	800.3	962.2	1,098.7
Inventories	301.1	396.6	480.7	566.8
Others	159.4	223.6	279.3	332.5
Current assets	1,487.0	1,586.5	2,046.5	2,546.8
LT investments	400.8	63.4	63.4	63.4
Net fixed assets	832.9	1,437.2	1,440.9	1,463.1
CWIP	128.6	6.2	19.3	130.6
Total assets	2,849.3	3,093.2	3,570.0	4,203.8
Payable	369.2	462.9	567.5	669.2
Others	85.9	107.7	119.9	124.8
Current Liabilities	455.1	570.6	687.4	794.0
LT debt	543.5	362.6	262.6	262.6
Other Liab (deferred tax)	97.6	175.3	250.4	280.7
Equity capital	118.2	118.2	118.2	118.2
Reserves	1,634.9	1,866.5	2,251.4	2,748.3
Networth	1,753.1	1,984.7	2,369.6	2,866.5
Total Liabilities	2,849.3	3,093.2	3,570.0	4,203.8
BVPS(Rs)	148.3	167.9	200.5	242.5

Source: Company; Brics PCG Research

CashFlow

Year-endMar(Rsmn)	FY05	FY06	FY07E	FY08E
EBIT	355.9	415.0	516.9	670.4
Depreciation	43.4	63.2	100.2	101.7
Change in wrkg capital	(313.7)	(86.2)	(120.4)	(82.2)
Operating cash flow	85.6	392.0	496.7	689.8
Interest	(37.5)	(57.9)	(29.4)	(24.7)
Tax	(46.6)	(86.3)	(37.0)	(35.2)
Cash flow frm ops	(0.7)	352.0	458.5	553.8
Capex	(416.4)	(545.1)	(116.9)	(235.3)
(Inc)/dec in investments	(444.7)	337.4	-	-
Int/Div received	20.6	-	-	-
Cash flow frm investing	(840.5)	(207.7)	(116.9)	(235.3)
Dividend paid	(31.3)	(83.3)	(83.3)	(94.0)
Others	111.7	-	-	-
Proceeds frm equity	735.4	-	-	-
Inc/(dec)indebt	129.3	(180.9)	(100.0)	-
Cash flow frm financing	945.1	(264.2)	(183.3)	(94.0)
Closing cash	285.8	166.0	324.3	548.8

Source: Company; Brics PCG Research

RatiosAnalysis

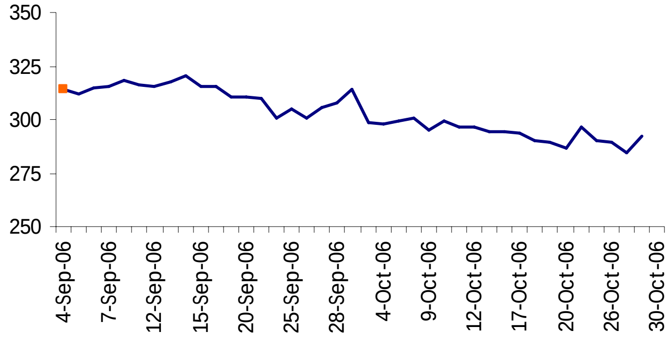
Year-endMar(Rsmn)	FY05	FY06	FY07E	FY08E
EBITDA margin(%)	20.6	19.6	20.2	21.2
Net profit margin(%)	12.9	12.9	15.3	16.2
EPS growth(%)	(11.7)	25.8	48.7	26.2
Receivables(days)	139.3	120.0	115.0	110.0
Inventory(days)	56.6	59.5	57.5	56.8
Payables(days)	87.4	86.4	85.0	85.0
Current ratio(%)	3.3	2.8	3.0	3.2
Interest coverage(x)	9.5	7.2	17.6	27.2
Debt/equity ratio(x)	0.3	0.2	0.1	0.1
Sales/Gross fixed assets(x)	2.3	1.7	2.1	2.5
ROE(%)	19.0	16.8	21.5	22.6
ROCE(%)	20.7	17.9	20.8	23.3
EV/Sales(x)	1.9	1.5	1.2	1.0
EV/EBITDA(x)	9.3	7.8	6.0	4.8
Price to earnings(x)	16.7	13.7	9.4	7.1
Price to book value(x)	2.0	1.7	1.5	1.2
Price to cash earnings(x)	12.1	20.8	10.7	6.3

Source: Company ;Brics PCG Research

Recommendation history

SN	Date	Event	Target	Reco
1	05/09/06	Initiating Coverage	410	BUY

Source: Brics PCG Research



Source: Bloomberg

RESULT UPDATE

Amit Agarwal
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amit.agarwal@bricssecurities.com

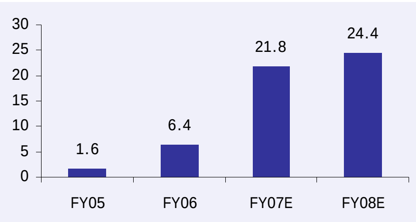
BSE Code	532644
NSE Code	JKCEMENT

Financial Summary

(Rs mn)	FY06	FY07E	FY08E
Sales	8737.0	12883.0	13554.1
Growth (%)	165.2	47.5	5.2
Net profit	325.7	1524.5	1709.2
Growth (%)	417.2	368.1	12.1
EPS (Rs)	6.4	21.8	24.4
Growth (%)	300.6	242.2	12.1
P/E (x)	29.9	8.7	7.8
ROE (x)	8.4	25.5	24.0
EV/EBITDA(x)	12.3	5.7	5.6

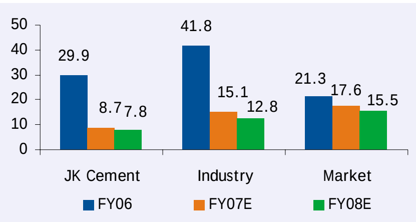
Source: Company; Brics PCG Research

Annual EPS Trend (Rs)



Source: Brics PCG Research

Current P/E Multiples (x)



Source: Brics PCG Research

JK Cements

CMP: Rs 191 Target: Rs 315 BUY

Pillar of strength

JK Cements' (JKCL) Q2FY07 results are in line with our expectations. Sales have grown by 30% YoY from Rs 2.1bn to Rs 2.7bn. The EPS for the current quarter is Rs 4.9 versus Rs 1 in Q2FY06. The company's expansion plans and power projects are on schedule and it has concluded the acquisition of JayKayCem, a wholly owned subsidiary. Further, the outlook on cement demand and prices remains upbeat, with a Rs 3-5 price hike per bag expected in the near term. We thus maintain a strong BUY on JKCL with our target of Rs 315.

Actual versus Expected

(Rs mn)	Actual	Expectation	Variance (%)
Sales	2682.0	2940.0	(9.6)
EBITDA	635.0	690.9	(8.8)
PAT	340.0	351.0	(3.1)
EPS (Rs)	4.9	5.0	(2.0)

Source: Company; Brics PCG Research

Q2FY07 Results

Rs Mn	Q2FY07	Q2FY06	YoY Growth(%)	Q1FY07	QoQ Growth (%)
Net Sales	2682.0	2058.0	30.3	2795.0	(4.0)
Total Expenditure	2047.0	1776.0	-	2138.0	-
EBITDA	635.0	282.0	125.2	657.0	(3.3)
Depreciation	81.0	78.0	-	82.0	-
Interest	92.0	154.0	-	82.0	-
Other Income	51.0	8.0	-	7.0	-
Taxes	173.0	28.0	-	170.0	-
PAT	340.0	49.0	593.9	330.0	3.0
EPS (Rs)	4.9	1.0	396.1	4.7	3.0
OPM (%)	23.7	13.7	-	23.5	-

Source: Company; Brics PCG Research

Result highlights

- The company sold 8.13 lakh tonnes of grey cement and 60,900 tonnes of white cement in Q2FY07. Grey cement sales were 6.5% lower than the previous quarter due to the heavy rains in the region.
- The net profit has risen substantially from Rs 49mn to Rs 340mn in Q2FY07 mainly due to better realisations as compared to the last year. The operating margins have also jumped from 13.7% in Q2FY06 to 23.7% in Q2FY07.

Outlook

JKCL's management projects a highly positive outlook, indicating that prices have already gone up after the monsoons and are expected to increase by Rs 3-5 per bag in the coming months. Also, the cement demand is expected to stay robust. The 0.5-mn-MTPA expansion undertaken by JKCL which was completed in the previous quarter is likely to show full results in Q3 and Q4 of the current fiscal, which further underpins our positive view on the stock.

Valuation

JKCL is currently trading at an EV/tonne of US$103. In view of the good financial performance and the rosy outlook on the cement sector, we maintain a strong **BUY** on the stock with a price target of Rs 315.

Financials

Profit & Loss Statement

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
Revenues	3,294.1	8,737.0	12,883.0	13,554.1
% change	-	165.2	47.5	5.2
EBITDA	382.2	1,320.2	3,300.5	3,718.7
% change	-	245.4	150.0	12.7
Depreciation	125.6	310.2	391.4	438.3
EBIT	256.6	1,010.0	2,909.1	3,280.4
% change	-	293.6	188.0	12.8
Interest	242.7	581.7	643.1	736.3
Other income	94.1	93.8	30.0	30.0
EBT	108.0	522.1	2,296.0	2,574.0
% change	-	383.5	339.8	12.1
Tax	45.0	196.4	771.4	864.9
As % of EBT	41.7	37.6	33.6	33.6
Net income (adjusted)	63.0	325.7	1524.5	1709.2
% change	-	417.2	368.1	12.1
Shares outstanding (m)	49.93	69.93	69.93	69.93
EPS (Rs)	1.6	6.4	21.8	24.4
DPS (Rs)	0.0	1.5	1.5	1.5
CEPS (Rs)	4.9	12.4	27.4	30.7

Source: Company; Brics PCG Research

Balance Sheet

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
Cash and cash equivalents	681.5	2854.2	825.8	697.1
Accounts receivable	422.7	461.3	670.6	668.4
Inventories	665.6	839.8	1058.9	1076.9
Others	919.0	957.7	1977.0	2078.7
Current assets	2,688.8	5,112.9	4,532.3	4,521.2
LT investments	-	-	-	-
Net fixed assets	9,032.5	8,979.9	8,973.9	10,495.6
CWIP	178.4	569.0	3,683.6	5,573.6
Total assets	11,899.7	14,661.8	17,189.8	20,590.4
Payable	1517.5	1797.0	2310.3	2371.3
Others	0.00	126.46	126.46	126.46
Current Liabilities	1,517.5	1,923.5	2,436.8	2,497.8
LT debt	6,412.8	5,821.6	6,431.4	8,181.4
Other Liab (deferred tax)	36.0	174.0	174.0	174.0
Equity capital	499.3	699.3	699.3	699.3
Reserves	3,434.1	6,043.5	7,448.4	9,038.0
Net worth	3,933.4	6,742.7	8,147.7	9,737.3
Total Liabilities	11,899.7	14,661.8	17,189.8	20,590.4
BVPS (Rs)	78.4	96.2	116.2	139.0

Source: Company; Brics PCG Research

Cash Flow

Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
EBIT	256.6	1010.0	2909.1	3280.4
Depreciation	125.6	310.2	391.4	438.3
Change in wrkg capital	(276.4)	154.6	(934.4)	(56.6)
Operating cash flow	105.8	1474.8	2366.1	3662.1
Interest	242.7	581.7	643.1	736.3
Tax	45.0	196.4	771.4	864.9
Cash flow frm ops	(181.8)	696.7	951.5	2060.9
Capex	9389.1	648.2	3500.0	3850.0
(Inc)/dec in investments	0.0	0.0	0.0	0.0
Cash flow frm investing	(9389.1)	(648.2)	(3500.0)	(3850.0)
Dividend paid	0.0	119.6	119.6	119.6
Other Income	94.1	93.8	30.0	30.0
Proceeds frm equity	133.9	2879.2	0.0	0.0
Inc/(dec) in debt	5940.8	(591.2)	609.8	1750.0
Deferred Tax Credit	36.0	138.0	0.0	0.0
Cash flow frm financing	6204.8	2124.2	520.2	1660.4
Change in Cash	(3366.2)	2172.7	(2028.3)	(128.7)

Source: Company; Brics PCG Research

Ratio Analysis

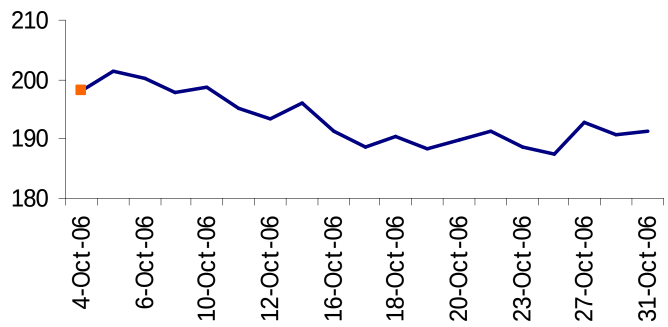
Year-end Mar (Rs mn)	FY05	FY06	FY07E	FY08E
EBITDA margin (%)	11.6	15.1	25.6	27.4
Net profit margin (%)	1.9	3.7	11.8	12.6
EPS growth (%)	-	3.0	2.4	0.1
Receivables (days)	46.8	19.3	19.0	18.0
Inventory (days)	73.8	35.1	30.0	29.0
Payables (days)	190.2	88.4	88.0	88.0
Current ratio (%)	1.8	2.6	1.9	1.8
Interest coverage (x)	1.1	1.7	4.5	4.5
Debt/equity ratio (x)	1.6	0.9	0.8	0.8
Sales/Gross fixed assets (x)	0.5	1.2	1.7	1.4
ROE (%)	2.1	8.4	25.5	24.0
ROCE (%)	1.6	6.1	20.5	19.2
EV/Sales (x)	4.6	1.9	1.5	1.5
EV/EBITDA (x)	39.9	12.3	5.7	5.6
Price to earnings (x)	119.8	29.9	8.7	7.8
Price to book value (x)	2.4	2.0	1.6	1.4
Price to cash earnings (x)	39.1	15.3	7.0	6.2

Source: Company; Brics PCG Research

Recommendation history

SN	Date	Event	Target	Reco
1	05/10/06	Initiating Coverage	315	BUY

Source: Brics PCG Research



Source: Bloomberg

Announcements on BSE and NSE Websites

GHCL has changed its financial year from December ending to March ending and hence annual accounts of the company for the current year will be closed on March 31, 2007 i.e. for 15 months.

IVRCL has announced that it has achieved the targeted turnover of Rs 8bn for the half year ending September 30, 2006, recording a growth rate of 48% YoY The EBIDTA margins have improved to Rs 726.3mn representing an increase of 59% compared to Rs 456.8mn for the first half of the previous year. The net profit increased from Rs 276.3mn to Rs 365.9mn, recording an improvement of 39%. For the quarter ended September 30, IVRCL posted a gross turnover of Rs 4bn as against Rs 2.5bn for the corresponding quarter of the previous year, a growth of 48%. The EBITDA margins have also increased to Rs 362.9mn from Rs 213.9mn, recording a growth rate of 70%. Net profit rose from Rs 3.9mn to Rs 39.3mn.

Sasken has posted Q2FY07 revenues of Rs 1.2bn, up 29% QoQ and 36% YoY, with net profit up by 37% QoQ and 2% YoY.

Asian Paints has approved the payment of interim dividend of Rs 5.50 per equity share of Rs 10 each (55%) for the financial year ending March 31, 2007. The company has announced its results for Q2FY07 wherein net profits for the group have increased by 39.8% to Rs 827mn from Rs 592mn in Q2FY06. Sales & operating income has risen by 26.2% to Rs 10bn from Rs 7.9bn. Net profit has increased by 28.7% to Rs 1.2bn from Rs 963mn.

The board of **Yes Bank** has approved the raising of funds through Perpetual Debt Instruments forming part of Tier-I capital upto Rs 850mn and by way of upper Tier-II/hybrid instruments upto Rs 2.8bn in one or more tranches. The amounts may be raised in Indian or foreign currency. The bank has further announced its Q2FY07 results which show that total income for Q2FY07 was up 182.2% to Rs 1.7bn as compared to Rs 588mn for Q2FY06. Operating profit was up 55.4% YoY to Rs 349mn while net profit rose 50.8% at Rs 215mn as compared to Rs 143mn in Q2FY06. Total advances grew by 177.1% to Rs 37.3bn. Total deposits grew by 293.1% to Rs 43.3bn.

MRF has declared 30% second interim dividend on the paid up capital of the company.

Suven Life Science's **Q2FY07 revenues** have increased by 47% to Rs 279.7mn compared to Rs 204mn for the corresponding quarter of the previous year. The company's net profit rose 53% from Rs 16.3mn to Rs 25.2mn. For the half-year ending September 2006 the revenues went up by 47% YoY to Rs 535.9mn from Rs 363.4mn. The net profit increased by 52% to Rs 45.7mn.

Varun Shipping's board has recommended a preferential issue of upto Rs 2.3bn at a price of Rs 75 per share and declared an interim dividend of 15%. The company's total income for the six months ended September 30 was Rs 3.5bn (Rs 2.6bn in H1FY06) and net profit before tax was Rs 733mn (Rs 711.8mn). The company's total income for the quarter ended September 30 was Rs 2bn (Rs 1.5bn) and profit before tax was Rs 492.6mn (Rs 438.1mn).

Madras Cements has declared an interim dividend of 75% (Rs 7.50 per share of Rs 10 each) for 2006-2007.

Orchid Chemicals & Pharmaceuticals has signed a contract with Biovitrum to undertake medicinal chemisty work to support certain drug discovery activities of Biovitrum AB. Biovitrum is an integrated biopharma company with a broad project portfolio and operations in drug discovery research, development, manufacturing and product sales, headquartered in Sweden, Europe.Orchid considers this tie-up as yet another validation of its ability to offer world-class drug discovery services to reputed clients around the globe.

Mercator Lines has through its fully owned subsidiary Mercator Lines (Singapore) signed a Memorandum of Agreement for acquiring two Dry Bulk geared Kansarmax Vessels of about 84,000 DWT each. The vessels are expected to join the fleet of the company in January and June 2007.

Forthcoming Events

31 Oct	**QUARTERLY RESULTS** Flex Industries Ltd., ITI Ltd., Timex Watches Ltd.,Unisys Software & Holding Industries Ltd., Sony Corp India Ltd., National Mineral Dev.corp.Ltd., Scindia Steam Navigation Company, KEC Infrastructures, Goodlass Nerolac Paints, Videocon Appliances, Ceat, EL Forge, Dabur India, Colgate-Palmolive, Gammon India, Raymond, Bharat Petroleum Corporation, EIH, Mangalam Cement, Amforge Industries, Mid-Day Multimedia, Procter & Gamble Hygiene & Healthcare, HMT, PVR Cinemas, Talbros Auto, Arvind Mills, ZF Steering Gear, Rico Auto, Lyka Labs, Hinduja TMT, Karur Vysya Bank, KSB Pumps, IndusInd Bank, VSNL, Crest Animation, Zenith Birla, Karur KCP Packkaging, Visualsoft Technologies, IFB Industries, Entertainment Network, MICO, Cadila Healthcare, Mafatlal Industries, Radico Khaitan, KEC Intl, Blow Plast, Garware Polyester, Bombay Rayon Fashions, Saregama India, HLL, Goodyear India, Hindustan Zinc, Glenmark Pharma, Tata Tea, Videocon Ind, Gateway Distriparks, CESC, Balrampur Chini, Thermax,

Date	Scrip Name	Client Name	Buy/Sell	Quantity	Avg Price (Rs)
30/10/2006	Accel Frontline Ltd	Indus Portfolio (P) Ltd.	B	121859	73.86
30/10/2006	Accel Frontline Ltd	Indus Portfolio (P) Ltd.	S	121859	73.94
30/10/2006	Atlanta	M N Consultancy	B	217611	386.97
30/10/2006	Atlanta	M N Consultancy	S	217611	386.07
30/10/2006	Atlanta Limited	M N Consultancy	B	127890	389.18
30/10/2006	Atlanta Limited	Rajshah Enterprises Private Lim	B	90875	389.35
30/10/2006	Atlanta Limited	M N Consultancy	S	127890	389.41
30/10/2006	Axon Infotec	Hitesh Suresh Bhagat	S	5000	147.95
30/10/2006	Cmm Broadcas	Richa Jain	S	100000	4.02
30/10/2006	Develop Credit Bank Ltd	Macquarie Bank Limited	B	1200000	44.94
30/10/2006	Garnet Const	Hitesh Jhaveri	B	28683	62.95
30/10/2006	Garnet Const	Mansukhlal A. Sanghrajka	S	45000	62.90
30/10/2006	Gei Hamo Ind	Silgo Finance Pvt Ltd	B	75000	55.92
30/10/2006	Gei Hamo Ind	Ajay Dilkhush Sarupria	S	75000	55.92
30/10/2006	Global Vec Helicorp Ltd	Smc Global Securities Ltd.	B	96882	206.17
30/10/2006	Global Vec Helicorp Ltd	Composite Securities Ltd.	B	106634	209.06
30/10/2006	Global Vec Helicorp Ltd	Smc Global Securities Ltd.	S	96882	204.94
30/10/2006	Global Vec Helicorp Ltd	Composite Securities Ltd.	S	106634	208.95
30/10/2006	Global Vect	Sam Global Securities Lim	B	126821	205.21
30/10/2006	Global Vect	H.J.Securities Pvt.Ltd.	B	193859	206.88
30/10/2006	Global Vect	Sam Global Securities Lim	S	126821	206.58
30/10/2006	Global Vect	H.J.Securities Pvt.Ltd.	S	193859	208.28
30/10/2006	Ifci Ltd	Jaypee Capital Services Ltd.	B	11684779	13.10
30/10/2006	Ifci Ltd	Jaypee Capital Services Ltd.	S	11409779	13.14
30/10/2006	Liquid Benchmark Ets	Benchmark Mutual Fund	B	7337	999.99
30/10/2006	Mohit Indust	Hemrajsinh S Veghela	B	40000	50.71
30/10/2006	Mohit Indust	Shah Manish Ratilal	S	25000	50.50
30/10/2006	Mohit Indust	Chandrakant Bhogilal Shah	S	55000	51.05
30/10/2006	Morepen Lab. Ltd	Bishwanath Prasad Agrawal	B	735008	11.44
30/10/2006	Nandan Exim	Shailesh Mulraj Ved	B	2452561	15.16
30/10/2006	Nandan Exim	Shailesh Mulraj Ved	S	2452561	15.20
30/10/2006	Sanguine Md	Chamatkar Netindia Ltd	S	27550	40.09
30/10/2006	Sika Interp	Djs Stock And Shares Ltd	B	59300	62.05
30/10/2006	Sika Interp	Ketan R Mehta	B	15000	62.81
30/10/2006	Sika Interp	Djs Stock And Shares Ltd	S	59300	62.10
30/10/2006	Silverline T	Spsps Capital And Money M	S	1535000	6.93
30/10/2006	Srf Ltd	Abn Amro Bank Nv London Branch	B	328500	260.10
30/10/2006	Suzlon Energy Limited	Capital Research And Management	B	5266600	1295.67
30/10/2006	Suzlon Energy Limited	Citicorp International Finance	S	6190000	1295.00
30/10/2006	Techtran Pol	Religare Securities Ltd P	S	68427	34.24
30/10/2006	Techtran Pol	Navmee Securities Pvt Ltd	S	60000	34.40
30/10/2006	Unisock Indi	Sangeetha Sethia	S	31400	7.03
30/10/2006	United Brewr	Clsa Mauritius Ltd	B	1008000	292.00
30/10/2006	United Brewr	Oppenheimer Funds	S	1000000	292.01
30/10/2006	Voltamp Transformers Ltd	Asit C Mehta Investment Interrm	B	80381	500.68
30/10/2006	Voltamp Transformers Ltd	Asit C Mehta Investment Interrm	S	75381	496.36
30/10/2006	Winsome Text	Himanshu Suresh Shah	B	33088	49.19
30/10/2006	Zenith Birla	Shailesh Mulraj Ved	B	137361	77.51
30/10/2006	Zenith Birla	Shailesh Mulraj Ved	S	137361	77.59

Source: BSE; NSE

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