May 11, 2007 **FOR PRIVATE CIRCULATION**

Equity

	10 May 07	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,771	(0.1)	4.5	(5.3)
Nifty	4,067	(0.3)	5.3	(2.9)
Banking	6,864	0.2	4.7	(9.2)
IT	3,636	(0.3)	3.8	(6.8)
Healthcare	3,697	(0.1)	0.5	(3.8)
FMCG	1,819	0.9	0.4	(4.3)
PSU	6,355	(1.0)	4.1	0.8
CNX Midcap	5,278	0.4	6.3	(0.3)
World indices				
Nasdaq	2,533.7	(1.7)	3.0	3.0
Nikkei	17,737	(0.1)	(1.0)	(0.1)
Hangseng	20,746	(0.5)	0.1	(1.0)

Value traded (Rs cr)

	10 May 07	% Chg - 1 Day
Cash BSE	3,960	(4.6)
Cash NSE	9,225	9.9
Derivatives	31,107.9	0.3

Net inflows (Rs cr)

	9 May 07	% Chg	MTD	YTD
FII	23	(110)	166	12,859
Mutual Fund	(115)	510	331	(1,948)

FII open interest (Rs cr)

	9 May 07	% chg
FII Index Futures	15,296	(0.2)
FII Index Options	5,719	0.6
FII Stock Futures	15,327	0.8
FII Stock Options	67	1.0

Advances/Declines (BSE)

10 May 07	A	B1	B2	Total	% Total
Advances	98	327	397	822	47
Declines	108	368	410	886	51
Unchanged	3	13	28	44	3

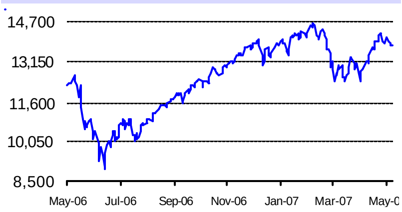
Commodity

	10 May 07	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	61.8	0.4	(0.1)	3.2
Gold (US$/OZ)	665.7	(2.2)	(1.4)	0.1
Silver (US$/OZ)	13.0	(2.5)	(6.1)	(6.1)

Debt/forex market

	10 May 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.1	8.1	8.1	7.8
Re/US$	41.2	40.9	42.8	44.2

Sensex



Source: Bloomberg

ECONOMY NEWS

- In a move that will boost the fortunes of new-generation private airlines the Government plans to lower the bar on launching international services by waiving off the mandatory five-year experience in domestic circuits. (ET)
- In a move that could lead to costlier internet services, telecom regulator Trai has recommended that all internet service providers pay 6% of revenues as license fee and have a uniform foreign holding of 74% like other telecom services. (ET)
- The Government will not intervene to curb rising steel prices that have risen again in May, as they are in line with global markets, a steel ministry official has said. Steel firms started hiking prices this month in line with global rates as profit margins came under pressure. (ET)
- The Government is working on a proposal under which people giving up their land in the SEZs could get up to 20% of the rehabilitation grant in the form of shares of companies for which land has been acquired. (BL)
- The rising rupee over the last three months has brought cheer to oil marketing companies, who have together added around Rs.2.5-3 bn to their operating profits. Also, the rise in the rupee against the dollar may discourage the Government from raising oil prices. (BS)

CORPORATE NEWS

- The Government has divested its entire holding in **Maruti Udyog** by selling the residual 10.27% stake for Rs.23.6 bn to a clutch of financial institutions led by Life Insurance Corp. (ET)
- **Bajaj Auto** said its board of directors will meet on May 17 to consider a proposal to split the company. This is the first formal reference to the demerger issue by the company. (BS)
- **Asian Paints** has reported a net profit of Rs.690.8 mn (Rs.200.8 mn) for the fourth quarter ended March 31, 2007, backed by higher sales. Sales for the quarter under review rose 29% to Rs.7.27 bn from Rs.5.64 bn. (BL)
- **Tata Steel,** Baosteel of China and Evraz of Russia are in the race to pick up a majority stake in an integrated steel plant in Vietnam. The project, which could attract a Rs.140 bn investment, will have local enterprises as minority partners. (BS)
- **Cairn India,** the Indian arm of the UK-based Cairn Energy, has made additional discoveries of oil and gas in its Rajasthan field, which is also its largest field. (BS)
- **ONGC** has brought down its offshore insurance spends by 38% for 2007-08, despite 23% rise in asset valuation. The company has also overachieved reserve accretion targets, according to the board of directors. (BL)
- Following its acquisition of Air Sahara, **Jet Airways** would require up to $200 mn to recapitalize its new subsidiary, JetLite, and turn it around over the next 18-24 months, said a report from Centre of Asia Pacific Aviation, an airline industry consultancy. (ET)
- **Jindal Stainless** plans to spend Rs.56 bn to set up a 0.8 MTPA stainless steel plant at the Kalinga Nagar Industrial Complex, Orissa. The company intends to reach a final capacity of 1.6 MT by 2012. (ET)

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

FROM OUR RESEARCH TEAM

SECTOR UPDATE

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Summary table - HPCL

(Rs bn)	FY06	FY07E	FY08E
Net sales	710.38	901.63	886.76
Growth (%)	18.81	26.92	-1.65
EBITDA	7.56	26.62	27.92
EBITDA margin (%)	1.06	2.95	3.15
Net profit	4.06	12.66	12.71
Net cash (debt)	-66.21	-81.41	-73.09
EPS (Rs)	11.97	37.36	37.50
Growth (%)	-68.24	212.17	0.37
DPS (Rs)	3.00	3.00	3.00
ROE (%)	4.72	13.60	12.15
RoIC (%)	-5.28	9.76	9.14
EV/Sales (x)	0.23	0.20	0.19
EV/EBITDA (x)	16.35	4.69	4.47
P/E (x)	24.06	7.71	7.68
P/BV (x)	1.12	0.99	0.88

Source: Company & Kotak Securities - Private Client Research

Summary table - BPCL

(Rs bn)	FY06	FY07E	FY08E
Net sales	871.16	1046.27	990.81
Growth (%)	35.22	20.10	-5.30
EBITDA	10.19	32.75	32.07
EBITDA margin (%)	1.17	3.13	3.24
Net profit	3.41	14.00	13.17
Net cash (debt)	-89.68	-101.58	-85.95
EPS (Rs)	9.42	38.71	36.42
Growth (%)	-77.91	310.93	-5.92
DPS (Rs)	4.00	4.00	4.00
ROE (%)	4.09	14.57	12.19
RoIC (%)	1.20	8.53	7.75
EV/Sales (x)	0.25	0.22	0.22
EV/EBITDA (x)	15.95	4.85	4.76
P/E (x)	37.68	9.17	9.75
P/BV (x)	1.43	1.26	1.13

Source: Company & Kotak Securities - Private Client Research

REVISED EARNINGS ESTIMATE FOR OIL COMPANIES

HPCL, BPCL FY07 earnings upgrade; ONGC FY07 earnings downgrade; Price targets maintained

In our quarterly preview we had expected a good set of number for OMCs (HPCL and BPCL) in Q4FY07. We further revise our estimates upward because of higher subsidy share by upstream companies (GAIL, ONGC and OIL). We revise our FY07 EPS estimate for HPCL and BPCL upward to Rs.37 and Rs.39, respectively, from our earlier estimates of Rs.32 and Rs.30. There is no change in our FY08 earning estimates and target price.

EPS changes (Rs./share)

	FY06	FY07-Old	FY07-New	FY08E
HPCL	12	30	37	37
BPCL	9	32	39	37
ONGC	72	88	83	95

Source: Kotak Securities — Private Client Research

The Government has increased its subsidy share of upstream companies to 40% of gross under recoveries from FY06 share of 34%. We had expected 85% and 90% of gross under recoveries to be financed by oil bonds and upstream companies in FY07 and FY08, respectively. Now, the rise of upstream share leaves net under recovery for OMCs to 10% in FY07 only.

We are not revising our target price for HPCL and BPCL upward, as in FY08 we had already taken 10% net under recovery. However, with the figures being achieved in FY07, it would help improve investment sentiments for OMCs.

The subsidy burden in FY07 on ONGC has now been increased to Rs.165 bn from the earlier estimate of Rs.145 bn. Hence, we lower our net profit and EPS estimate for ONGC and OVL to Rs.177 bn and Rs.83, respectively, from our earlier estimate of Rs.190 bn. There is no change in our FY08-09 EPS estimates of Rs.95 and Rs.102. Our target price on ONGC remains at Rs.999 with a **BUY** recommendation.

Industry subsidy sharing mechanism

(Rs bn)	FY06	FY07E-Old	FY07-New	FY08E
Crude (US$/bl)	57	62	62	58
Gross Under recoveries	**398**	**518**	**493**	**415**
Oil Bonds (Rs bn)	115	240	240	206
Upstream (ONGC, GAIL, OIL) cont.	154	178	205	147
ONGC Share	126	146	168	120
Net Under recovery	**129**	**100**	**48**	**63**

Source: Kotak Securities — Private Client Research

Oil marketing companies — Valuation

The valuations are attractive at CMP, with HPCL and BPCL trading at 0.9x and 1.0x FY08E P/BV, respectively. Crude prices are likely to remain high in the summer season. However, depreciation of the dollar vis-à-vis the rupee would help moderate the negative impact. The positive impact of the dollar depreciation for OMCs is the same as crude decline, with every 10% decline/rise leading to an average increase/ decrease in EPS by 3.7%.

We value OMCs based on theoretically estimated EV/EBITDA multiple of 5x for HPCL. Since oil industry is highly regulated industry we have assumed that returns at best would be equal cost of capital for OMCs. Hence growth rate is immaterial for our valuation multiple. We have given BPCL 10% premium valuation (5.5x) because of lower business risk due to better refinery-marketing integration.

We maintain our BUY recommendation on HPCL and BPCL with a target price of Rs.340 and Rs.400, respectively

HPCL and BPCL have gained 15% over the last month consistent with the undervaluation we cited based on FY07 earnings in our quarterly preview. Since, we have now upgraded our FY07 earnings, we believe the stocks are still undervalued based on FY07 earnings. Hence, we do expect stocks to get some momentum based on the expected good set of quarterly results and move towards the intrinsic valued based on FY07 earnings. We continue to maintain our **BUY** recommendation and target price of Rs.340 and Rs.400, respectively, based on FY08E operating EBITDA.

Theoretical EBITDA multiple

Depreciation/EBITDA (%)	25.0
Tax rate (%)	33.0
WACC (%)	10.0
RoIC (%)	10.0
Theoretical EV/EBITDA	5.0

Source: Kotak Securities — Private Client Research

Valuation

	BPCL		HPCL	
	FY07E	FY08E	FY07E	FY08E
EV/EBITDA	5.50	5.50	5.00	5.00
Operating EBITDA (Rs bn)	32.75	31.86	26.62	27.92
EV (Rs bn)	180.13	175.22	133.11	139.59
Debt net of cash and oil bonds (Rs bn)	52.86	48.24	27.15	30.21
Equity value of core business (Rs bn)	127.27	126.99	105.96	109.38
Number of shares (mn)	361.56	361.56	339.00	339.00
Value per share (core business)	352.00	351.22	312.56	322.66
Value of strategic Investments at CMP (IGL, PLNG, NRL)	50.43	50.43	26.39	26.39
Other financial investments value per share	11.73	11.73	0.00	0.00
Total Value per share	**414**	**413**	**339**	**349**

Source: Kotak Securities — Private Client Research

RESULT UPDATE

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LUPIN LTD

PRICE : RS.714 **RECOMMENDATION : HOLD**
TARGET PRICE : RS.730 **FY08E PE : 19.9X**

Key Result Highlights

- Lupin has announced its results for FY07. While net sales are in line with our expectations, the company has exceeded our estimates at net profits level owing to higher other income. Net sales have increased 18.8% to Rs.20.14 bn as compared to Rs.16.95 bn driven by a strong 35% growth in the formulations business (61% of sales vs. 52% in FY06). The formulations business has grown robustly in all markets, namely, domestic, regulated (branded and generics) and non-regulated.
- The year also witnessed sharp increase in Suprax (pediatric antibiotic) sales in the US market. The US subsidiary has recorded 73% growth in Suprax sales to US$24.6 mn. Formulation sales from the advanced markets grew by 48% at Rs.3.32bn, while from non-regulated markets growth was 84% at Rs.1.48 bn.
- Domestic formulation sales have grown by 24% (vs. 14% industry growth ORG-IMS MAT March 2007) at Rs.7.5 bn driven by addition of new therapies and aggressive new products launches.
- EBITDA margin (excluding other operating income) for the year is up 130 bps to 14.5% mainly due to drop in material cost by 240 bps to 46.3%. However, rise in staff and R&D cost has impacted margin expansion.
- Lupin has received Rs.1.14 bn (€20 mn) from Servier, being income on sale of certain intellectual properties for Perindropril (anti-hypertensive). This has led to a sharp jump in net profit at Rs.3.1bn, a growth of 78%.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Revenues	21,586	25,256	28,108
Growth (%)	18.8	23.9	11.4
EBITDA	4,371	4,168	4,749
EBITDA margin (%)	21.7	16.7	17.1
Net profit	3,086	3,272	3,770
Net Margin (%)	15.3	13.1	13.6
EPS diluted (Rs)	38.4	37.1	42.7
Growth (%)	77.9	(3.4)	15.2
DPS (Rs)	6.5	5.0	5.0
RoE (%)	41.2	26.4	21.3
RoCE (%)	25.4	20.5	20.1
EV/Sales (x)	2.1	2.4	2.1
EV/EBITDA (x)	10.3	14.5	12.2
P/E (x)	18.6	19.2	16.7
P/BV (x)	4.7	3.9	3.3

Source: Company & Kotak Securities - Private Client Research

Revenue growth driven by strong formulation sales across markets

Net sales have risen 18.8% to Rs.20.14 bn as compared to Rs.16.95 bn primarily driven by a strong performance in the formulations business (61% of sales vs. 52% in FY06), which grew by 35% at Rs.12.3 bn against Rs.9.1 bn in FY06. The formulation business has grown robustly in all markets, namely, domestic, regulated (branded and generics) and non-regulated. Lupin has launched six products in the US and has filed 15 ANDAs, 15 DMFs, 24 EDMFs and 11 dossiers during the year.

The year also witnessed a sharp rise in Suprax (pediatric antibiotic) sales in the US market. The US subsidiary has recorded 73% growth in Suprax sales to US$24.6 mn. Formulation sales from advanced markets, namely, North America and Europe grew 48% to Rs.3.32 bn, while from non-regulated markets growth was 84% at Rs1.48bn.

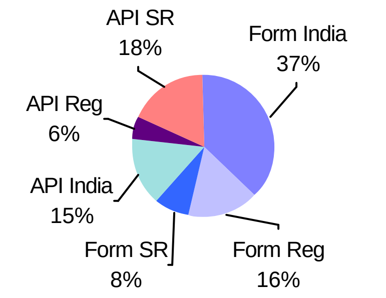
Domestic formulation sales have grown 24% (vs. 14% industry growth ORG-IMS MAT March 2007) to Rs.7.5 bn driven by addition of new therapies and aggressive new products launches. The company has consistently been growing at more than 25% in the domestic formulation market for the last few quarters, which we believe is very positive.

Total API sales were up 7% to Rs.7.8 bn, owing to a 17% jump from non-regulated markets and 11% jump in domestic market. However, a sharp dip in advanced markets has impacted the growth, because some customers of Lisinopril have switched from the API to the formulation. Lisinopril tablets have attained market leadership with a 33% market share.

Drop in material cost helps EBITDA margin expansion

EBITDA margin (excluding other operating income) for the year is up 130 bps to 14.5% mainly due to a drop in material cost by 240 bps to 46.3%. However, a rise in staff and R&D cost has impacted margin expansion. It seems the increasing contribution from the formulation business (particularly branded) led to the drop in material cost. For FY08, we expect 30% growth in EBITDA with 16.7% margin.

Revenue Break-up (FY07)



Source: Company

Sales Analysis - Geography wise

	Q4-07	Q4-06	FY07
A. Domestic	**2,061**	**2,124**	**10,537**
APIs	726	836	3,006
Formulations	1,335	1,288	7,531
% Growth Domestic	-3	76	20
B. Exports	**3,222**	**2,195**	**9,603**
I. Regulated Markets (US, Europe)	**1,587**	**1,120**	**4,521**
APIs	413	344	1,203
Formulations	1,174	776	3,318
II. Non-Regulated Markets	**1,635**	**1,075**	**5,082**
APIs	1,042	769	3,604
Formulations	593	306	1,478
% Growth Exports	47	33	26
Total Sales (A+B)	**5,283**	**4,319**	**20,140**

Source: Company

Sales Analysis - Business wise

	Q4-07	Q4-06	FY07
Total API Sales	**2,181**	**1,949**	**7,813**
% Total Sales	41	45	39
% Growth y-o-y	12	-2	7
Total Formulation Sales	**3102**	**2370**	**12327**
% Total Sales	59	55	61
% Growth y-o-y	31	172	35

Source: Company

Cefdinir (Omnicef) will be key growth driver for US sales in FY08

Lupin is focusing on the generics and branded pediatric segment in the US markets through its own sales and distribution channel (except for hospital products). In FY07, sales from US markets were US$75mn, of which about 50% came from two major products. Formulation sales from the US market are likely to rise to US$135 mn in FY08E and US$145 mn in FY09E (23% of net sales), driven by around nine products launches including line extensions of Suprax and generic Cefdinir.

The company recently has launched Omnicef (Cefdinir), a US$800mn brand, in the US market along with two other players (Sandoz and Authorized generic). We expect that company will be able to generate revenue of around US$45mn in FY08E (assuming 75% price erosion and 25% market share) and US$35mn in FY09E. The management has said that so far price erosion is only 50%.

Domestic formulation business registered strong growth led by new launches

Domestic formulation sales have grown 24% (vs. 14% industry growth ORG-IMS MAT March 2007) to Rs.7.5 bn driven by addition of new therapies, increase in number of combinations and delivery system based products and aggressive new products launches. In the short-term, this is resulting in higher marketing spend, but is expected to yield positive results over the medium-term. The company has already become the second largest player in the asthma segment after Cipla. The company is optimistic about growth in the domestic market for the next few years and expects around 20% revenue growth in FY08E and improvement in margins.

Leveraging field force through in-licensing alliance

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

Focusing on partnership model to enter into new markets

Lupin is on the lookout for partnerships (supply agreements) through joint ventures to enter into new markets, namely, Europe, Australia and Japan to expand its horizon and increase revenues from its existing product portfolio as competition and government price controls at home may impact earnings growth. We view this as a rational move because such type of arrangements not only save upfront capital cost in setting up infrastructure and distribution network but also help mitigate the operational risk.

For instance, it has entered into a joint venture agreement with one company in Australia (where it seeks to expand) and plans to invest around US$7.6 mn in a joint venture unit for an 87.5% stake. The company has also increased its focus on emerging markets where it expect to register a growth of more then 30% due to low base effect.

Plans to foray into CRAMS business

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

On the prowl for acquisition, raise US$100 mn through FCCB

Like other pharma companies, Lupin is also on the prowl for inorganic growth, which makes good sense for the company if it provides a synergistic advantage, or helps in growing its growth. The company had raised US$100 mn in December 2005 through convertible bonds, for the purpose of financing future acquisition and partly for capital expenditures. The FCCB is convertible at Rs.567 and after full conversion share capital will increase by Rs78.7 mn, thus diluting equity by 10%.

Valuation and recommendation

We recommend a HOLD on Lupin with a price target of Rs.730

We expect Lupin to clock revenue growth of 24% in FY08E and 11.4% in FY09E. Operating margin was 14.5% in FY07, which the company hopes to better, with improved product flow and capacity utilization. Our model assumes operating margin (including other operating income) of 16.7% in FY08E and 17.1% in FY09E. We expect net profit of Rs.3.27 bn in FY08E and Rs.3.77 bn in FY09E, which implies a fully diluted EPS of Rs.37.1 and Rs.42.7, respectively.

At the current market price of Rs.714, the stock is trading at 19.2x FY08E and 16.7x FY09E fully diluted earnings and 12.2x FY09E EV/EBITDA. We believe the stock is fairly valued at the current market price and offers limited potential upside. We maintain **HOLD** with a DCF-based price target of Rs.730.

Financial Performance

(Rs mn)	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)	FY07	FY06	YoY (%)
Sales & Operating Income	**6,324**	**4,220**	**49.9**	**4,967**	**27.3**	**21,018**	**16,625**	**26.4**
Expenditure	4,431	3,804		4,174		16,774	13,778	
EBIDTA	**1,893**	**416**	**354.6**	**793**	**138.7**	**4,244**	**2,847**	**49.1**
Depreciation	125	114		121		464	404	
EBIT	**1,768**	**302**	**484.5**	**672**	**162.9**	**3,780**	**2,444**	**54.7**
Interest	98	95		89		371	303	
Other Income	140	410		145		558	161	
PBT	**1,810**	**618**	**193.0**	**729**	**148.4**	**3,968**	**2,302**	**72.4**
Tax	439	116		168		947	475	
Reported PAT	**1,371**	**502**	**173.1**	**560**	**144.7**	**3,021**	**1,827**	**65.3**
Equity Shares (Mn)	80	80		80		80	80	
EPS (Rs)	**17.1**	**6.2**	**173.1**	**7.0**	**144.7**	**37.6**	**22.7**	**65.3**
EBIDTA Margin (%)	29.9	9.9		16.0		20.2	17.1	
PAT Margin (%)	21.7	11.9		11.3		14.4	11.0	

Source: Company

RESULT UPDATE

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R SYSTEMS INTERNATIONAL LTD (RS)

PRICE : RS.131
TARGET PRICE : RS.214

RECOMMENDATION : HOLD
CY08E PE : 7x

Highlights

- Results for Q1CY07 very much in line with our estimates. Expectedly, rupee appreciation and continuing project over-runs impacted the performance.
- Project-specific issues over in March 2007. Also, capacity utilization and continued cost control to help improve margins going forward, in our view.
- A set of large customers like GE, Motorola, Virgin, UK, Siemens, Open Solutions, InstallShield, TMA Resources, etc. expected to lend stability and sustainability to revenues.
- Revenues expected to grow at a CAGR of 27% during CY06-CY08, with PAT expected to rise at a CAGR of 35%.
- DCF-based price target of Rs.214 will discount our CY08E earnings by 11x. Maintain **BUY.**
- An accelerated slowdown/recession in major user economies and a sharper-than-expected appreciation in the rupee v/s major currencies are pronounced risks for a smaller player like RS.

We recommend a BUY on R Systems with a price target of Rs.214

Q1FY07 results

(Rs mn)	Q1CY07	Q4CY06	QoQ (%)	Q1CY06	YoY (%)
Income	**593.6**	**560.2**	**6.0**	**441.3**	**34.5**
Expenditure	555.7	521.0		395.7	
EBDITA	**38.0**	**39.2**	**-3.2**	**45.7**	**-16.8**
Depreciation	17.6	21.2		11.3	
EBIT	**20.3**	**18.0**		**34.4**	
Interest	0.4	0.5		1.8	
Other income	8.6	17.1		5.0	
EO items	0.0	-64.0		0.0	
PBT	**28.5**	**-29.5**		**37.6**	**-24.2**
Tax	7.5	36.1		4.7	
PAT	**21.0**	**-65.6**		**32.9**	**-36.1**
Shares (mn)	13.5	13.5		13.5	
EPS (Rs)	**1.6**	**-4.8**		**2.4**	
Margins (%)					
EBDITA	6.4	7.0		10.3	
EBIT	3.4	3.2		7.8	
PAT	3.5	-11.7		7.5	

Source : Company

The main takeaways are as under:

Revenues

- Revenues grew 6% QoQ on the back of an 8% rise in volumes. The revenue growth was impacted by the stronger rupee.
- The GMAC relationship continued to progress well with the company having executed projects in Switzerland and Germany. It is now looking at entering France with this relationship.
- The company added 11 new accounts and also saw most of the existing clients scale up. RS provided services to its clients on about 110 products during the quarter. The company has three Fortune 100 companies as its Top Three clients.

- During Q4CY06, RS 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 Q4CY06. This project, however, has re-started under the client's new ownership in Q1CY07.
- In the products business, two NBFCs selected the entire suite of Indus Loan Origination and Collections product to manage their newly launched consumer lending operations.
- The first client in telecom space, Airtel, has already opened up a new avenue for growth for the company's products. Two circles have already been covered for Airtel with all 25 circles expected to be covered during the fiscal. Both landline and wireless operations are being covered.
- The company has also entered into the BPO and retail industries with significant Indian companies as its clients.

Margins

- R System's EBIDTA margins came down during the quarter on the back of the appreciation in the rupee v/s the US dollar, salary hikes (covered about 70% of the employee base) as well as the continuing project cost over-runs.
- Losses continued in its subsidiary, EcNet, which also impacted profits to the extent of about Rs.11 mn.

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. It has now become the second largest customer for RS, after GE. RS has deployed about 120 employees with this customer and 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 from that company.

MoU with Aisel Corporation, Japan

- 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 of Japan.
- On the other hand, Aisel is looking at offshore capabilities in the embedded systems space in which it is operating. It has forecast demand for additional 100 such engineers in the next calendar.
- Two techno-commercial people from R Systems have already started contacting clients and have bid for three accounts. Benefits from this relationship are expected to start from Q3CY07 onwards.

Future prospects

(Rs mn)	CY06$	CY07E	YoY (%)	CY08E	YoY (%)
Income	**2039.5**	**2619.5**	**28.4**	**3271.6**	**24.9**
Expenditure	1815.5	2337.9		2862.6	
EBDITA	**224.1**	**281.6**	**25.7**	**408.9**	**45.2**
Depreciation	59.1	83.6		130.9	
EBIT	**165.0**	**198.0**		**278.1**	
Interest	3.9	1.9		0.0	
Other income	42.4	40.6		40.0	
E O items	-64.0	0.0		0.0	
PBT	**139.5**	**236.6**	**69.7**	**318.1**	**34.4**
Tax	61.1	37.9		57.3	
PAT	**78.4**	**198.7**	**153.6**	**260.8**	**31.3**
Shares (mn)	13.5	13.5		13.5	
EPS (Rs)	**5.8**	**14.7**		**19.3**	
Margins (%)					
EBDITA	11.0	10.8		12.5	
EBIT	8.1	7.6		8.5	
PAT	3.8	7.6		8.0	

Source : Company, Kotak Securities - Private Client Research; $ - includes WebConverse WEF 3QCY06

- We largely maintain our CY07 and CY08 estimates. We expect revenues and profits for CY07 to grow to Rs.2.62 bn and Rs.199 mn, respectively. For CY08E, we expect revenues to grow to Rs.3.27 bn with net profit expected to grow to Rs.261 mn.
- We expect EBIDTA margins to improve gradually from Q2FY07 as project over-runs have ended and as the impact of salary hikes recede.
- This leads us to an EPS of Rs.15 in CY07 and Rs.19 in CY08.
- We have arrived at a price target of Rs.214 based on DCF analysis, at which levels our CY08 earnings will be discounted by about 11x.

Concerns

- Rupee appreciation beyond our assumed levels of an average of Rs.43 per US dollar in FY08, could provide a downward bias to our earnings estimates.
- A steep deceleration in major global economies could impact revenue growth of Indian vendors, including RS.

RESULT UPDATE

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BHARAT BIJLEE LTD

PRICE : RS.1542 **RECOMMENDATION : BUY**
TARGET PRICE : RS.1850 **FY08E PE : 13x**

Bharat Bijlee (BBL) has reported an excellent set of numbers for the fourth quarter, which are way above our expectations. We are upgrading our earnings estimates for the next year. The company has been able to significantly scale up its operating margins. Valuations are attractive at 13x FY08 earnings. In view of this, we are upgrading the stock to a BUY from a HOLD with a target price of Rs.1850.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	4,699	5,873	6,930
Growth (%)	56.2	25	18
EBITDA	884	1,036	1,211
EBITDA margin (%)	18.8	17.6	17.5
Net profit	565	672	795
Net cash (debt)	(412)	(17)	47
EPS (Rs)	97.5	118.9	141.0
Growth (%)	78.0	18.8	18.3
CEPS	102.7	123.1	144.9
DPS (Rs)	9.0	9.0	9.0
ROE (%)	55.0	43.0	36.0
ROCE (%)	60.0	51.0	45.0
EV/Sales (x)	1.9	1.5	1.3
EV/EBITDA (x)	10.0	8.5	7.3
P/E (x)	15.8	13.0	11.0
P/Cash Earnings	15.0	12.5	10.6
P/BV (x)	7.3	4.8	3.4

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

	Q4FY07	Q4FY06	% change
Net Sales	**1,790**	**1,031**	**73.7**
Other Income	23	16	42.0
Total Income	**1,813**	**1,047**	**73.2**
Total Expenditure	1,345	815	65.1
RM costs	1,124	670	67.7
Employee costs	116	66	75.8
Other	105	78	34.4
PBIDT	**445**	**216**	**105.9**
Interest	14.0	10.0	40.0
PBDT	**454**	**222**	**104.2**
Depreciation	12.00	5.00	140.0
PBT	**442**	**217**	**103.4**
Amortisation of VRS exp	(4)		
Tax	149	76	97.4
Reported Profit After Tax	289.0	142	103.8
OPM (%)	24.9	21.0	
Raw material costs to sales (%)	62.8	65.0	
Employee costs to sales (%)	6.5	6.4	
Other expenditure to sales (%)	5.9	7.6	

Source: Company

- **Healthy revenue growth:** BBL reported a 74% YoY growth in Q4FY07 to Rs.1.79 bn driven primarily by the transformer segment. During the year, the company was able to capitalize on its expanded capacity and reported volumes of 6250 MVA as against 4019 MVA in FY06. Also, they have entered the 100 MVA transformer segment.
- The motors segment grew 30% during the quarter. BBL is expanding its capacity in the motors business.
- **Significant margin expansion:** During the quarter, the margins expanded 390 bps to 24.9% led by higher volumes and richer product mix.
- **Order book remains strong:** BBL has an order book of Rs.3.0 bn, which is equivalent to 1.0x FY07 estimates transformer revenues (the motors business is not order based)

Industry Update

Demand for power transformers has witnessed a strong upturn due to simultaneous investments in power generation capacity and the transmission and distribution sector. A further boost has been provided by the Government's thrust on rural electrification through Rajiv Gandhi Grameen Vidyutikaran Yojana, which aims to install one distribution transformer in every village.

The investment in transmission tower lines is derived from investment in transmission capacity. The need for transmission capacity is currently driven due to

- **Massive planned addition in generation capacity:** The Government of India has an ambitious mission of 'Power For All By 2012'. This mission would require that our installed generation capacity should be at least 200,000 MW by 2012 from the present level of 1,14,000 MW. To be able to reach this power to the entire country, an expansion of the regional transmission network and inter regional capacity to transmit power would be essential.
- **To facilitate trading in power:** While India is a power deficient market, there are pockets of supply and deficit within the country. However, inter-regional transfer of power to some extent has been constrained due to lack of adequate transmission capacity.
- Transmission planning has, therefore, moved away from the earlier generation evacuation system planning to move to integrated system planning.

The perspective plan for power transmission

- The existing inter-regional power transfer capacity is 9,000 MW, which is to be further enhanced to 30,000 MW by 2012 through the creation of 'Transmission Super Highways'. For creation of such a grid, an investment of Rs.710 bn is envisaged.
- In terms of circuit km, PGCIL is targeting to complete 13334 ckm of transmission lines by 2007 from 3229 ckm in 2004-05.

Transmission capacity

(MVA)	FY02	FY05	FY07	FY10	FY12
765 KV	0	0	1,100	2,200	9,200
400 KV	1,000	2,400	7,800	11,400	16,400
HVDC Bipole	0	2,000	2,500	2,500	6,500
HVDC BtB	2,000	3,000	3,000	3,000	3,000
HVDC Monopole	200	200	200	200	200
220 KV	1,850	1,850	1,850	1,850	1,850
Total	**5,050**	**9,450**	**16,450**	**21,150**	**37,150**

Source PGCIL

Valuation

We upgrade to BUY on BBL with a price target of Rs.1850

We have raised our earnings estimates for FY08 significantly by 27%. The company is cash rich and the value of its investments (it has investment in Siemens valued at Rs.1.7 bn) itself is Rs.330 per share. We are factoring a growth of 22% in earnings in FY08. Even without adjusting for value of investments, BBL is currently trading at 13.0x FY08E earnings. We are upgrading the stock to a **BUY** with a target price of Rs.1850.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
10-May	Advik Labort	Beta Stock Broker	B	90,000	8.68
10-May	Chan Guide I	Jaykaran Jain	S	42,000	9.48
10-May	Chandrik Tra	Bhagya Shree Leasing and Finance	S	21,050	4.09
10-May	Empower Inds	Dikul Mahendra Shah Huf	S	26,409	17.75
10-May	Flap Prod Eq	Own	B	25,000	314.25
10-May	G V Films Lt	Simran Sunil Raheja	S	952,222	7.03
10-May	G V Films Lt	Lotus Global Investmts Ltd Ac Gdr	S	1,100,000	7.00
10-May	Guj Min Devl	Ksk Energy Ventures Pvt Ltd	B	380,000	644.00
10-May	Guj Min Devl	Money Matters Advisory Services	S	380,000	644.00
10-May	Kosian Indus	Chetan Dogra	B	18,685	18.35
10-May	Mahin Ugin	State Bank	B	1,000,000	91.50
10-May	Mahin Ugin	Hsbc Financial Services Middleeast	S	1,064,799	91.69
10-May	Megasoft Ltd	Manulife Global Fund India Eqty Fund	S	200,000	124.01
10-May	Ok Play Indi	Abha Aggarwal	B	37,659	153.23
10-May	Pioner Embro	Lehman Brothers Asia Ltd	S	71,107	192.11
10-May	Rap Media	Mavi Investment Fund Ltd	B	50,000	231.60
10-May	Rap Media	Paragraph Securities Private Ltd	S	49,819	231.60
10-May	Sh Hari Ch E	Madhu Sudhirkumar Jhunjhunwala	S	25,000	49.90
10-May	Shree Pacetr	Emergent Medi Tech India Pvt. Ltd.	B	23,300	28.90
10-May	Yashraj Secr	Subhash Babulal Jain	S	9,000	355.46

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
HDFC	1,683	5.8	4.5	0.8
ITC	164	1.9	2.2	6.0
Tata Steel	576	2.5	1.6	6.5
Losers				
ONGC	889	(2.3)	(8.7)	1.1
Reliance Ind	1,581	(1.1)	(4.6)	1.8
Bharti Airtel	819	(0.8)	(2.5)	0.8

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
11-May	Hero Honda to announce earnings and dividend; Chennai Petroleum to announce earnings; Mangalore Refinery to announce earnings and dividend
12-May	Chambal Fertilizers, SBI to announce earnings and dividend
14-May	Voltas, LIC Housing Finance and Suzlon Energy to announce earnings and dividend
15-May	Sun Pharmaceutical Industries, Tata Teleservices (Maharashtra) to announce earnings
16-May	Balaji Telefilms; JB Chemicals, Indo Rama Synthetics to announce earnings and dividend
17-May	Bajaj Auto, Wyeth Ltd, Dabur Pharma, Tata Steel to announce earnings and dividend
18-May	Federal Bank, DRL, Tata Motors to announce earnings and dividend; Hindustan Lever holds Annual shareholder meeting
19-May	Karnataka Bank to announce earnings and dividend
21-May	SAIL to announce earnings and dividend
22-May	Alembic, Punjab Tractors to announce earnings and dividend
23-May	Punjab National Bank to announce earnings and dividend
24-May	Centurion Bank of Punjab to announce earnings and dividend
28-May	Mahindra & Mahindra to announce earnings and dividend
30-May	Madras Cements, Tata Power Company to announce earnings and dividend

Source: Bloomberg

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