

Busy hiring



Raising estimates & PO, Reiterate Buy

Post aggressive hiring in 4Q, bullish commentary on growth in the next couple of years and lower tax outlook post transfer pricing study, we raise FY08 and FY09 EPS estimates by 4% and 7% and up our PO by 11% to Rs105. Over FY07-09 we forecast strong 50% PAT & 38% EPS CAGR (post IPO dilution). Reiterate Buy; one of our top 2 mid-cap picks.

Strong growth in 4Q; Beats MLE on tax; Controlled attrition

In line strong 4Q revenues growth of 29% qoq, 67% yoy with organic growth of 16% qoq, 51% yoy. EBITDA up 30% qoq, 51% yoy with margin expansion of 33bps. Margins lower than MLE due to initial costs on Hutch ramp. FY07 attrition (post 3m) at 42%, lower than Wipro BPO at 60% and WNS at 43% (post 6m). PAT +16% qoq, 61% yoy beating MLE by 26% due to lower taxes & forex gains.

Record employee adds, 4Q hiring exceeds 9m hiring

Management guided for strong FY08 revenue growth of 50%, led by strength in telecom/media and collections. The Hutch account, which ramped in 4QFY07 and this quarter, is a 4,000+ person account, as per our estimate. 4Q hiring was a record 3,300 organic additions, higher than 2,367 employee adds in 9m.

Attractive valuation; Visible growth, expanding margins

Our PO is at 22x FY09E PE at a PEG of 0.9 and current FY08E PE of 25x. Firstsource, an ICICI group company, is a play on rapid growth in offshoring of Business Process Outsourcing. It is the third-largest standalone Indian BPO vendor, where we forecast 44% revenue growth over the next two years. We estimate 247bps EBIT margin expansion on improving mix and operating leverage. Q1 FY08 likely to be seasonally weak due to wage hike and client ramp costs.

Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010
Net Income (Adjusted - mn)	247	972	1,521	2,195	NA
EPS	0.796	2.50	3.30	4.76	NA
EPS Change (YoY)	15.9%	213.9%	32.0%	44.3%	NA
Dividend / Share	0	0	0.716	1.03	NA
Free Cash Flow / Share	(1.11)	(0.907)	1.90	5.57	NA

Valuation (Mar)

	2006A	2007A	2008E	2009E	2010
P/E	103.17x	32.87x	24.90x	17.25x	NA
Dividend Yield	0%	0%	0.872%	1.26%	NA
EV / EBITDA*	42.39x	20.60x	13.12x	9.52x	NA
Free Cash Flow Yield*	-0.639%	-0.689%	2.32%	6.79%	NA

* For full definitions of *iQmethod*SM measures, see page 8.

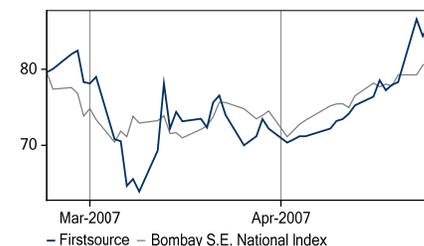
Mitali Ghosh >> +91 22 6632 8661
Research Analyst
DSP Merrill Lynch (India)
mitali_b_ghosh@ml.com

Pratish Krishnan >> +91 22 6632 8679
Research Analyst
DSP Merrill Lynch (India)
pratish_krishnan@ml.com

Prasad Deshmukh >> +91 22 6632 8678
Research Analyst
DSP Merrill Lynch (India)
prasad_deshmukh@ml.com

Stock Data

Price	Rs82.10
Price Objective	Rs95.00 to Rs105.00
Date Established	27-Apr-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs61.55-Rs91.20
Mrkt Val / Shares Out (mn)	US\$853 / 425.0
Average Daily Volume	1,210,575
ML Symbol / Exchange	FSSOF / BSE
Bloomberg / Reuters	FSOL IN / FISO.BO
ROE (2008E)	13.5%
Net Dbt to Eqty (Mar-2007A)	-9.7%
Est. 5-Yr EPS / DPS Growth	35.0% / 35.0%
Free Float	70.0%



>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 9 to 10. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

28 April 2007

iQprofileSM Firstsource Solutions Ltd.

Key Income Statement Data (Mar)	2006A	2007A	2008E	2009E	2010
(Rs Millions)					
Sales	5,487	8,298	12,820	17,240	NA
Gross Profit	799	1,644	2,581	3,556	NA
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	347	1,002	1,702	2,508	NA
Net Interest & Other Income	(78)	24	96	150	NA
Associates	NA	NA	NA	NA	NA
Pretax Income	270	1,026	1,799	2,657	NA
Tax (expense) / Benefit	(27)	(60)	(268)	(450)	NA
Net Income (Adjusted)	247	972	1,521	2,195	NA
Average Fully Diluted Shares Outstanding	310	389	461	461	NA

Key Cash Flow Statement Data

Net Income (Reported)	247	972	1,521	2,195	NA
Depreciation & Amortization	452	642	878	1,048	NA
Change in Working Capital	(329)	(693)	(591)	(176)	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	2	(7)	0	0	NA
Cash Flow from Operations	371	914	1,809	3,068	NA
Capital Expenditure	(594)	(1,154)	(1,000)	(700)	NA
(Acquisition) / Disposal of Investments	(73)	(1,837)	0	0	NA
Other Cash Inflow / (Outflow)	14	(1,055)	0	0	NA
Cash Flow from Investing	(653)	(4,046)	(1,000)	(700)	NA
Shares Issue / (Repurchase)	16	5,400	0	0	NA
Cost of Dividends Paid	0	0	0	(295)	NA
Cash Flow from Financing	183	5,049	(1,781)	(573)	NA
Free Cash Flow	(223)	(240)	809	2,368	NA
Net Debt	1,130	(1,034)	(1,381)	(3,155)	NA
Change in Net Debt	353	(2,147)	(642)	(1,905)	NA

Key Balance Sheet Data

Property, Plant & Equipment	1,154	1,802	1,924	1,576	NA
Other Non-Current Assets	4,076	6,578	6,578	6,578	NA
Trade Receivables	1,007	1,364	2,250	3,062	NA
Cash & Equivalents	170	3,010	1,742	3,406	NA
Other Current Assets	457	1,306	1,306	1,306	NA
Total Assets	6,865	14,060	13,799	15,928	NA
Long-Term Debt	1,300	1,976	361	251	NA
Other Non-Current Liabilities	0	7	7	7	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,191	1,369	1,497	1,967	NA
Total Liabilities	2,491	3,351	1,865	2,224	NA
Total Equity	4,373	10,708	11,935	13,703	NA
Total Equity & Liabilities	6,865	14,060	13,799	15,928	NA

iQmethodSM - Bus Performance*

Return On Capital Employed	5.9%	10.8%	12.7%	16.9%	NA
Return On Equity	5.9%	13.0%	13.5%	17.2%	NA
Operating Margin	6.3%	12.1%	13.3%	14.5%	NA
EBITDA Margin	14.6%	19.8%	20.1%	20.6%	NA

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.5x	0.9x	1.2x	1.4x	NA
Asset Replacement Ratio	1.3x	1.8x	1.1x	0.7x	NA
Tax Rate (Reported)	10.0%	5.9%	14.9%	16.9%	NA
Net Debt-to-Equity Ratio	25.8%	-9.7%	-11.6%	-23.0%	NA
Interest Cover	4.1x	12.9x	24.4x	NM	NA

Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

Company Description

Firstsource, an ICICI group company, is the 5th largest India-centric Business Process Outsourcing vendor (FY06). Set up in Dec-01, it has complemented organic growth with inorganic initiatives. It offers transaction processing, collections management & customer acquisition/customer care services in Banking & Financial Services (abt 50% rev), Media & Telecom (abt 30% rev) & Healthcare (abt 15% rev) verticals. US & UK form abt 50% of revenue each.

Stock Data

Price to Book Value 2.9x

Financial tables

Table 1: Firstsource Q4FY07 snapshot

Profit and Loss statement (Rs 'mn)	Q4FY07	Q3FY07	QoQ	Q4FY06	YoY	ML est	Variation
Revenue	2684	2082	28.9%	1611	66.6%	2603	3.1%
Other operating revenue (eg Grant)	63	66	-4.1%	0		82	
Operating Revenue	2747	2148	27.9%	1611	70.6%	2685	2.3%
Operating costs	697	691	0.8%	473	47.2%	847	-17.7%
Personnel	1498	1032	45.1%	772	94.1%	1264	18.5%
EBITDA- ex forex	552	425	30.0%	366	51.0%	574	-3.8%
Depreciation	200	156	27.8%	116	72.3%	200	0.0%
EBIT- ex forex	352	268	31.3%	250	41.1%	374	-5.9%
Other income	5	63	-92.7%	-21	-122.3%	-32	-114.4%
PBT - before minority	357	331	7.8%	229	55.8%	342	4.3%
Minority Interest- Pipal Research	-1	-3	-73.0%	-1	-35.8%	-5	-84.6%
PBT - after minority	358	334	7.2%	230	55.3%	347	3.0%
Prov for Tax	8	32	-73.6%	13	-35.9%	69	-87.9%
PAT	349	302	15.7%	217	60.8%	278	25.8%
Margins							
EBITDA	20.1%	19.8%	33bps	22.7%	-260bps	21.4%	-128bps
EBIT	12.8%	12.5%	33bps	15.5%	-268bps	13.9%	-111bps
PAT	12.7%	14.1%	-134bps	13.5%	-77bps	10.3%	237bps
Dep % to sales	7.3%	7.3%	bps	7.2%	7bps	7.4%	-17bps
Tax rate	2.3%	9.5%	-718bps	5.7%	-334bps	20.0%	-1766bps

Source: Company

Table 2: Estimates revision table

Earnings revision table	New		Old		Change	
	FY08	FY09	FY08	FY09	FY08	FY09
Revenue (Rs mn)	12,820	17,240	12,758	16,956	0.5%	1.7%
EBIT (Rs mn)	1,702	2,508	1,627	2,344	4.7%	7.0%
EBIT margin	13.3%	14.5%	12.7%	13.8%	53bps	73bps
PAT (Rs mn)	1,521	2,195	1,456	2,051	4.5%	7.0%
EPS diluted (Rs)	3.30	4.76	3.16	4.45	4.4%	6.9%

Source: Merrill Lynch Estimates

Table 3: Profit and loss statement

Rs million	2005	2006	2007	2008E	2009E
Revenue	3,219.0	5,487.5	8,297.6	12,819.7	17,240.0
EXPENDITURE					
Operating cost	1,101.6	1,856.3	2,518.2	3,663.7	4,653.0
Personnel cost	1,600.6	2,832.5	4,135.6	6,575.4	9,030.9
EBITDA	516.8	798.7	1,643.8	2,580.6	3,556.1
Depreciation / amortisation	329.9	451.5	641.5	878.3	1,048.3
EBIT	186.9	347.2	1,002.3	1,702.3	2,507.9
Other income	(13.5)	(77.5)	24.0	96.4	149.6
Profit/(loss) before tax	173.4	269.7	1,026.3	1,798.8	2,657.5
Provision for tax	(2.9)	27.0	60.1	268.5	449.6
Profit/ (loss) after tax before minority interest	176.3	242.7	966.1	1,530.3	2,207.9
Minority interest	(4.79)	(4.07)	(6.3)	9.0	12.9
Profit/(loss) after tax and minority interest	181.1	246.8	972.4	1,521.3	2,195.0

Source: Merrill Lynch Research, Company

Table 4: Balance sheet

31st Mar- Rs 'mn	FY05	FY06	FY07	FY08E	FY09E
SOURCES OF FUNDS					
Shareholders' funds					
Share capital (equity share cap+ preference share cap)	3,983.4	3,994.7	4,250.8	4,250.8	4,250.8
Share application	-	2.0	-	-	-
Reserve and surplus	77.7	327.5	6,414.7	7,631.8	9,387.8
Total Shareholders' funds	4,061	4,324	10,666	11,883	13,639
Minority interest	55.8	49.2	42.9	51.9	64.8
Loan funds					
Secured loans	647.9	731.1	712.0	159.4	49.4
Unsecured loans	394.7	569.1	1,263.9	201.4	201.4
Deferred tax liability, net	0	0	6.8	6.8	6.8
Total	5,160	5,674	12,691	12,302	13,961
APPLICATION OF FUNDS					
Goodwill on consolidation	3,611.9	4,072.6	5,419.2	5,419.2	5,419.2
Fixed assets					
Gross block	2,027.5	2,575.8	3,891.3	4,891.3	5,591.3
Less: Accumulated depreciation	1,077.5	1,486.5	2,171.1	3,049.4	4,097.7
Net block	950	1,089	1,720	1,842	1,494
Add: Capital work in progress	54.5	64.3	82.0	82.0	82.0
Total Fixed Assets	1,005	1,154	1,802	1,924	1,576
Deferred tax asset	4.3	3.9	5.8	5.8	5.8
Investments			1,152.5	1,152.5	1,152.5
Current assets, loans and advances					
Sundry debtors	618.9	1,006.9	1,364.0	2,249.7	3,062.2
Cash and bank balances	269.4	170.3	3,010.0	1,741.8	3,406.0
Loans and advances	318.1	457.3	1,306.2	1,306.2	1,306.2
Total Current Assets	1,206	1,635	5,680	5,298	7,774
Less: Current liabilities and provisions					
Current liabilities	637.0	1,149.8	1,255.6	1,405.6	1,843.1
Provisions	30.6	41.2	113.2	91.4	123.5
Total Current liabilities and provisions	668	1,191	1,369	1,497	1,967
Net current assets	539	444	4,311	3,801	5,808
Total	5,160	5,674	12,691	12,302	13,961

Source: Merrill Lynch Research, Company

28 April 2007

Table 5: Cash flow statement

Rs million	FY05	FY06	FY07	FY08E	FY09E
Cash Flow from Operating Activities					
Net Income	181	247	972	1,521	2,195
Depreciation and amortisation	330	451	642	878	1,048
Gain on sale of property and equipment	(12)	1			
Deferred Income Taxes	(3)	0	(7)		
Changes in Operating assets and liabilities, net of effect of acquisition					
Accounts Receivables	(141)	(388)	(953)	(886)	(813)
Other current assets	(53)	(135)	328	-	
Deposits					
Interest	25	80	64	166	167
Accounts Payable					
Deferred Revenues					
Other Current Liabilities	65	120	(49)	128	470
Others	16	(6)	(83)		
Total operating cash flow	408	371	914	1,809	3,068
Cash Flow from Investing Activities					
Acquisition, net of Cash acquired	(1,957)	(73)	(1,837)	-	-
Capex	(614)	(594)	(1,154)	(1,000)	(700)
Proceeds from sale of property and equipment	26	6			
Goodwill Impact					
Others	13	7	(1,055)	-	-
Net Cash from Investing Activities	(2,532)	(653)	(4,046)	(1,000)	(700)
Free Cash Flow	(206)	(223)	(240)	809	2,368
Cash Flow from Financing Activities					
Ordinary shares issued and subscribed	1,625	16	5,400	-	-
Minority	-	-	-	9	13
Principal payments under capital leases					
Proceeds from notes payable, net of financing costs			923		
Repayment of debt	716	254	(230)	(1,615)	(110)
Interest	(29)	(87)	(121)	(166)	(167)
Dividend Paid	-	-	-	(304)	(439)
Net Cash from Financing Activities	2,312	183	5,972	(2,077)	(703)
Net change in cash and cash equivalents	188	(99)	2,840	(1,268)	1,664
Cash and eq at the beginning of the year	81	269	170	3,010	1,742
Cash and eq at the end of the year	269	170	3,010	1,742	3,406

Source: Merrill Lynch Research, Company

Table 6: Key ratios

	FY05	FY06	FY07	FY08E	FY09E
Margins					
Gross Margin	34.6%	33.0%	37.8%	35.1%	34.6%
EBITDA	17.0%	14.6%	19.8%	20.1%	20.6%
EBIT	6.1%	6.3%	12.1%	13.3%	14.5%
PAT	5.6%	4.5%	11.7%	11.9%	12.7%
Tax rate	-1.6%	9.9%	5.8%	15.0%	17.0%
Per Share Data					
Basic EPS (INR)	1.0	1.2	3.7	3.6	5.2
Diluted EPS (INR)	0.7	0.8	2.5	3.3	4.8
CEPS (INR)	5.9	9.1	11.8	10.6	7.6
Dividend Payout %	0.0%	0.0%	0.0%	20.0%	20.0%
Dividend Per Share (INR)	-	-	-	0.7	1.0
Book-value (INR)	15.4	13.9	27.4	25.8	29.6
PE- basic	86.2	66.9	22.4	22.9	15.9
PE- diluted	119.5	103.2	32.9	24.9	17.3
Growth Ratios					
Revenue	79.6%	70.5%	51.2%	54.5%	34.5%
EBITDA	168.3%	45.6%	105.8%	57.0%	37.8%
EBIT	469.2%	77.1%	188.7%	69.9%	47.3%
PAT	2879.5%	36.2%	294.2%	56.4%	44.3%
Basic EPS (INR)	683.9%	28.8%	199.2%	-2.5%	44.3%
Diluted EPS (INR)	684.6%	15.8%	214.0%	32.0%	44.3%
Return Ratios					
RONW	5.6%	5.9%	13.0%	13.5%	17.2%
RONW ex cash	6.0%	6.1%	16.5%	15.5%	20.2%
ROCE	5.9%	7.1%	11.9%	14.4%	19.5%
ROCE ex cash	6.2%	7.3%	15.0%	16.7%	23.6%
Other Key Metrics					
Assets Turnover	0.6	1.0	0.6	1.0	1.2
Payables days	34	25	35	35	35
DSO	69	66	65	65	65
Current assets as a % of sales	37.5%	29.8%	68.5%	41.3%	45.1%
Cash and cash equivalents	269	170	3,010	1,742	3,406
Accounts receivable, net	619	1,007	1,364	2,250	3,062
Free cash flow	(206)	(223)	(240)	809	2,368
Cash realization ratio	2.3	1.5	0.9	1.2	1.4

Source: Merrill Lynch Research, Company

Price Objective Basis & Risk

Our PO is at 22x FY09E PE at a PEG of 0.9 and current FY08 PE of 25x. It takes into account strong 50% PAT CAGR and 38% EPS CAGR (post IPO dilution), and higher stickiness of BPO revenues. It implies FY08E EV/sales of 2.5x, at 20% discount to WNS, which we believe is fair given lower margins and returns.

Risks: Growing competition from integrated players like Accenture and Infosys, rising employee attrition and risk of Rupee appreciation.

Analyst Certification

I, Mitali Ghosh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

28 April 2007

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

iQprofileSM, *iQmethodSM* are service marks of Merrill Lynch & Co., Inc. *iQdatabase[®]* is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

FSSOF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of March 31, 2007 or such later date as indicated.

Investment Rating Distribution: Technology Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	114	41.76%	Buy	21	20.39%
Neutral	146	53.48%	Neutral	31	22.79%
Sell	13	4.76%	Sell	1	9.09%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. **INVESTMENT RATINGS**, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. **INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

MLPF&S or an affiliate was a manager of a public offering of securities of this company within the last 12 months: Firstsource.
 The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Firstsource.
 MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Firstsource.
 The company is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates: Firstsource.
 In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Firstsource.
 MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months: Firstsource.
 MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Firstsource.
 The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Firstsource.
 The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Firstsource.
 The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.