

February 23, 2007

**FOR PRIVATE CIRCULATION**
**Equity**

	22 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	14,021	(1.2)	(0.1)	2.5
Nifty	4,040	(1.4)	(0.6)	2.4
Banking	6,999	(2.5)	(4.3)	(2.1)
IT	3,827	(0.6)	2.8	7.5
Healthcare	3,709	(2.1)	(3.3)	(0.3)
FMCG	1,848	(1.0)	(5.4)	(7.3)
PSU	5,999	(1.3)	(2.4)	(3.3)
CNX Midcap	5,099	(1.3)	(2.2)	1.2
<b>World indices</b>				
Nasdaq	2,524.9	0.3	3.8	2.4
Nikkei	18,109	1.1	4.1	13.9
Hangseng	20,809	0.8	(1.0)	6.8

**Value traded (Rs cr)**

	22 Feb 07	% Chg - 1 Day
Cash BSE	3,971	2.5
Cash NSE	11,717	38.8
Derivatives	55,346	14.9

**Net inflows (Rs cr)**

	21 Feb 07	% Chg	MTD	YTD
FII	(40)	(108)	4,175	4,336
Mutual Fund	18	504	(1,175)	(2,517)

**FII open interest (Rs cr)**

	21 Feb 07	% chg
FII Index Futures	10,919	(17.0)
FII Index Options	4,708	(41.5)
FII Stock Futures	15,426	(16.9)
FII Stock Options	10	(81.5)

**Advances/Declines (BSE)**

22 Feb 07	A	B1	B2	Total	% Total
Advances	53	167	253	473	30
Declines	159	463	436	1,058	68
Unchanged	1	9	22	32	2

**Commodity**

	22 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	60.9	(0.1)	10.6	2.8
Gold (US\$/OZ)	677.4	(0.2)	4.4	7.0
Silver (US\$/OZ)	14.2	(0.1)	7.4	8.3

**Debt/forex market**

	22 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.94	7.96	7.86	7.44
Re/US\$	44.19	44.19	44.17	44.80

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The Union Cabinet has given its approval for initiating the process of phasing out Central Sales Tax (CST) with an initial reduction of the rate from 4% to 3% WEF April 1, 2007. The Taxation Laws Amendment Bill, 2007, will be introduced in the coming session of the parliament to incorporate changes in the Central Sales Tax Act, 1956. (ET)
- The Finance Minister has rejected a request from civil aviation minister and airlines for tax exemption on interest payments made to service ECBs, The Finance Minister is also likely to withdraw the exemption on withholding tax for lease rentals of aircraft, according to ministry sources. (ET)
- The Government has announced the Semiconductor policy, which will help semiconductor giants establish chip manufacturing plants and get incentives of upto 25% of the capital expenditure incurred by them for the first 10 years. The incentives could be in the form of equity participation from the Government, tax breaks or interest-free loans. (BL)

**CORPORATE NEWS**

- Fujitsu Consulting is believed to have sold its 29% stake in **Zensar Technologies** to the RPG Group. The total consideration of the deal was not ascertained. Fujitsu holds 26% through Fujitsu Services and the balance 3% through Fujitsu Services Holdings. However, the deal has not been confirmed by any of the two companies. (ET)
- **Hutchison Telecommunications International (HTIL)** has formally refuted the Essar Group's claims of right of first refusal (RoFR) over the former's stake. It has stated that such a clause did not exist in the agreement signed between both the companies. It has also stated that, Essar's bid for the 67% stake in Hutch-Essar was not the highest bid and also Essar did not try to match Vodafone's bid. (BS)
- **Union Bank of India** has launched 'Union Health Care', a medical insurance cover for its customers, in a tie-up with the New India Assurance Co. Ltd. (BL)
- **JM Financials** to sell its 49% stake in Morgan Stanley for \$445 mn. Morgan Stanley will also sell its equity in investment banking joint venture JM Morgan Stanley Pvt Ltd to JM Financial for \$20 million. (BS)
- **Tesco**, Tatas on verge of tie-up for retail venture to tap the \$300 bn retail market. (BS)
- **Reliance** plans \$400 mn jetty in Kakinada. (BS)
- SEBI has barred the promoters of **Atlanta**, from selling or buying the company's shares, citing alleged price manipulation. (BS)
- Promoters of **RDB Ind** fined Rs 20 lakh by Sebi for not disclosing the change in the shareholding pattern of the company to the shareholders within the stipulated time. (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

### RESULT UPDATE

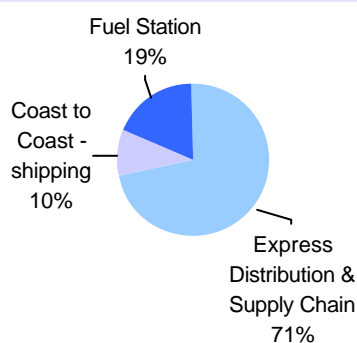
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#### Summary table - June end

(Rs mn)	FY06	FY07E	FY08E
Sales	4,599	6,215	7,791
Growth (%)	28.0	35.1	25.4
EBITDA	378	567	855
EBITDA margin (%)	8.2	9.1	11.0
Net profit	192	309	505
Net debt	586	126	421
EPS (Rs)	2.7	3.7	6.0
Growth (%)	84.5	61.1	63.6
DPS (Rs)	0.6	0.7	0.8
ROE (%)	12.1	10.8	15.3
ROCE (%)	13.4	10.5	19.1
EV/Sales (x)	1.9	1.3	1.1
EV/EBITDA (x)	23.0	14.5	10.0
P/E (x)	35.9	26.3	16.0
P/BV (x)	5.1	2.8	2.5

Source: Company & Kotak Securities - Private Client Research

#### Q2FY07 sales breakup



Source: Company

## GATI

(Rs.97, FY08 P/E: 16x, HOLD)

The results have been below our estimates due to one-time expenditure of Rs.26.5 mn towards repositioning its brand identity. Maintain a HOLD with target price of Rs.101 (4% upside potential)

#### Quarterly performance - June end

(Rs mn)	Q2FY07	Q2FY06	YoY (%)	Q1FY07	QoQ (%)	H1FY07
<b>Net Sales</b>	<b>1,389.6</b>	<b>1,150.8</b>	<b>20.8</b>	<b>1,331.6</b>	<b>4.4</b>	<b>2721.2</b>
Cost of goods sold	253.5	194.2	30.5	258.2	(1.8)	511.7
Staff cost	133.8	122.2	9.5	142.7	(6.2)	276.5
Other expenditure	876.4	730.7	19.9	818.7	7.0	1691.9
Total Expenditure	1,263.7	1,047.1	20.7	1,219.6	3.6	2,480.1
<b>EBIDTA</b>	<b>125.9</b>	<b>103.7</b>	<b>21.4</b>	<b>112.0</b>	<b>12.4</b>	<b>241.1</b>
Other income	5.1	0.4	1,175.0	3.7	37.8	8.8
Depreciation	27.4	19.1	43.5	25.3	8.3	52.7
<b>EBIT</b>	<b>103.6</b>	<b>85.0</b>	<b>21.9</b>	<b>90.4</b>	<b>14.6</b>	<b>197.2</b>
Interest	18.4	9.3	97.8	12.5	47.2	30.9
<b>PBT</b>	<b>85.2</b>	<b>75.7</b>	<b>12.5</b>	<b>77.9</b>	<b>9.4</b>	<b>166.3</b>
Extraordinary (loss) / gain	(26.5)	-	-	-	-	(29.7)
Tax & deferred tax	16.1	18.4	(12.5)	21.7	(25.8)	37.8
<b>PAT</b>	<b>42.6</b>	<b>57.3</b>	<b>(25.7)</b>	<b>56.2</b>	<b>(24.2)</b>	<b>98.8</b>
Equity share Capital	141.7	125.3		141.7		141.7
Equity shares o/s (mn)	70.9	62.7		70.9		70.9
Diluted shares mn	83.6	83.6		83.6		83.6
<b>Ratios</b>						
<b>Operating profit margin (%)</b>	<b>9.1</b>	<b>9.0</b>	<b>+10 bps</b>	<b>8.4</b>	<b>+70 bps</b>	<b>8.9</b>
Cost of goods / net sales (%)	18.2	16.9		19.4		18.8
Staff cost / net sales (%)	9.6	10.6		10.7		10.2
Other exp. / net sales (%)	63.1	63.5		61.5		62.2
Tax / PBT (%)	27.4	24.3		27.9		22.7
EPS Reported (Rs)	0.6	0.9		0.8		1.4
<b>Diluted EPS</b>	<b>0.5</b>	<b>0.7</b>		<b>0.7</b>		<b>1.2</b>
Diluted CEPS	0.8	0.9		1.0		1.8

Source: Company

- Net sales for Q2FY07 was at Rs.1.39 bn, up 20.8% YoY and up 4.4% on sequential basis due to higher contribution from the express distribution and supply chain division of the company. The shipping division also recorded 15.0% YoY growth in revenues.
- EBIDTA margin during Q2FY07 was up 10 bps YoY and up 70 bps on sequential basis due to higher sales and better capacity utilization of its express distribution and supply chain division where 19.3% YoY growth in revenues led to 24.4% YoY growth in profits.
- EBIDTA for the Q2FY07 was at Rs.125.9 mn, up 21.4% YoY and up 12.4% on sequential basis.
- PBT for the Q2FY07 was up by 12.5% YoY and 9.4% on sequential basis to Rs 85.2 mn
- PAT for Q2FY07 was at Rs.42.6 mn, down 25.7% YoY and down 24.2% on sequential basis. This is primarily due to one time expenditure of Rs.29.7 mn incurred towards changing the company's brand identity, which is both contemporary and strongly linked to its customers. For the quarter, the company reported fully diluted EPS of Rs.0.5 and CEPS of Rs.0.8.

<b>Segmental Revenue</b>					
<b>(Rs mn)</b>	<b>Q2FY07</b>	<b>Q2FY06</b>	<b>YoY (%)</b>	<b>Q1FY07</b>	<b>QoQ (%)</b>
Exp Distbn & Supply Chain	989.9	829.7	19.3	913.0	8.4
Coast to Coast - shipping	143.1	124.4	15.0	157.5	(9.1)
Fuel Station	257.3	197.4	30.3	261.9	(1.8)

Source: Company

<b>Segmental Results</b>					
<b>(Rs mn)</b>	<b>Q2FY07</b>	<b>Q2FY06</b>	<b>YoY (%)</b>	<b>Q1FY07</b>	<b>QoQ (%)</b>
Exp Distbn & Supply Chain	109.0	87.6	24.4	87.4	24.7
Coast to Coast - shipping	24.4	29.0	(15.9)	25.3	(3.6)
Fuel Station	3.0	2.0	50.0	2.7	11.1

Source: Company

<b>Segmental Margins</b>					
<b>(Rs mn)</b>	<b>Q2FY07</b>	<b>Q2FY06</b>	<b>YoY (%)</b>	<b>Q1FY07</b>	<b>QoQ (%)</b>
Exp Distbn & Supply Chain	11.0	10.6	4.3	9.6	15.0
Coast to Coast - shipping	17.1	23.3	(26.9)	16.1	6.1
Fuel Station	1.2	1.0	15.1	1.0	13.1

Source: Company

### Issue of \$20 mn FCCB

Gati has issued \$20-mn zero coupon FCCBs in December 2006. The FCCBs have conversion options before 2011. The company has raised Rs.893.4 mn out of the issue of FCCB and the conversion price is Rs.125 per share. On conversion, Gati is likely to issue 7.15 mn shares and hence increase the equity base of the company.

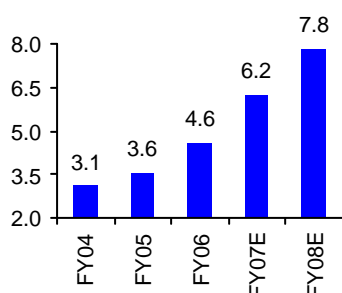
### Utilization of funds to be raised

The money raised from the issue of FCCBs are expected to be used in setting up more state-of-the-art intelligent warehouses and express distribution centers with web-based connectivity to its customers and also invest in technology to achieve better operational efficiency. Currently, Gati has 10 EDCs spread across the country. Three more EDCs are slated to go on stream in FY07E - at Nagpur, Pune and Ahmedabad.

Gati has offices in China, Hong Kong, Sri Lanka, Singapore, Mauritius and Bhutan. India-centric distribution is happening through these wholly-owned subsidiaries and business is gradually picking up in these offices. The international business is typically a high margin business for Gati and the company is looking to expand its presence in the Indian centric distribution business.

Thus, the company is raising the funds to expand its business of express distribution and supply chain management, which will lead to higher revenues and profitability for the company going forward.

### Net sales (Rs bn)

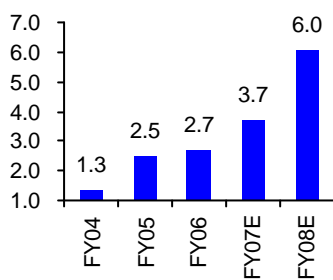


Source: Company, Kotak Securities - Private Client Research

### Change in estimates (Rs mn)

<b>June end</b>	<b>Old</b>		<b>Revised</b>	
	<b>FY07E</b>	<b>FY08E</b>	<b>FY07E</b>	<b>FY08E</b>
Revenues	6,215	7,791	6,215	7,791
EBIDTA	607	855	567	855
Profit	340	505	309	505
EPS (Rs)	4.1	6.0	3.7	6.0
CEPS (Rs)	5.4	7.9	5.1	7.8
Equity	167	167	167	167

Source: Kotak Securities - Private Client Research

**EPS (Rs)**

Source: Company, Kotak Securities - Private Client Research

**We maintain HOLD on GATI with a price target of Rs.101**

As the current price is below the conversion price of Rs.125, we feel the FCCBs would not get converted in the immediate short-term. Hence, we have not taken FCCB conversions into shares into our estimates.

Accommodating Q2FY07 results and considering one-time expenditures, we expect Gati to report lower net profit of Rs.309 mn in FY07E as against our earlier estimate of Rs.340 mn. Accordingly, we are also reducing our EPS estimates from Rs.4.1 to Rs.3.7 for FY07E.

However, we continue to maintain our earnings estimates for FY08E and expect the company to report EPS of Rs.6.0 for FY08E.

**Valuation & Recommendation**

- At the current market price of Rs.95, the stock trades at 2.8x FY07E and 2.5x FY08E book value.
- It discounts FY07E and FY08E earnings at 26.3x and 16.0x, respectively.
- It discounts FY07E and FY08E cash earnings at 19.1x and 12.4x, respectively.
- We remain positive on the growth prospects of Gati. This is because it has a strong reach of 594 out of 602 districts in India with strong infrastructure support. These include more than 1 mn sq ft of warehouse space, pan-India express distribution centers, web-based tracking, growing international business through wholly-owned subsidiaries and three ships. It is ideally placed to take advantage of the logistics boom that is going to unfold over the next few years.
- However, due to the limited upside potential of 4% from the current level we maintain **HOLD** on the stock.

**Key risks**

- Earlier than expected conversion of \$20 mn FCCB into equity shares would lead to equity dilution to the tune of 8.5%, thereby impact the earnings per share of the company.
- The company plans to issue another FCCB worth \$20 mn in FY08, which would lead to further equity dilution.
- The company faces competition from the organized as well as unorganized sector on the aspects of pricing and certain local advantages.
- Delay in commissioning of EDC at Nagpur, Pune and Ahmedabad could lead to revision in our earnings estimates.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
22-Feb	Den So India	Clsa Mrchnt Bnkers Ltd Ac	B	200,000	86.00
22-Feb	Den So India	Templetn Mutual Fnd Ac Fr	S	200,000	86.00
22-Feb	Jupiter Bios	Ubs Securities Asia Ltd.	S	200,000	178.01
22-Feb	Karut Net L	Morgan Stanley And Co Int	B	110,000	241.22
22-Feb	Mohit Indust	Hemrajsinh S. Veghela	S	24,225	58.34
22-Feb	Nikki Glob F	Alka Kantoor	S	30,000	8.99
22-Feb	Nikki Glob F	Ashok Kantoor Huf	S	20,000	8.99
22-Feb	Patel Airtm	Kantilal Ugardas Patel	S	100,000	41.26
22-Feb	Pioner Embro	Search Finvest Pvt Ltd	S	54,717	266.97
22-Feb	Pochiraju In	Hsbc Financial Services M	S	326,315	42.00
22-Feb	Pondy Oxides	Jmp Securities Pvt. Ltd.	S	190,116	29.55
22-Feb	Riga Sugar C	G.Saroja	S	35,000	36.95
22-Feb	Rishi Lase C	Rasumati Tansukh Dhanki	B	175,000	56.00
22-Feb	Rishi Lase C	Pivotal Securites Pvt Ltd	S	177,000	56.00
22-Feb	Ruchi Soya	Quantum M Limited	B	370,598	352.00
22-Feb	Ruchi Soya	Uti Mutual Fund Scheme Ma	S	370,598	352.00
22-Feb	Simplex Trad	Girish Metal Pvt Ltd	B	3,000	163.20
22-Feb	Simplex Trad	Surendrakumar Somany Huf	S	6,845	163.20
22-Feb	Simplex Trad	Prasann Somany	S	3,000	163.20
22-Feb	Sumeet Indus	Purshottam Khandelwal	B	142,481	30.72
22-Feb	Sumeet Indus	Master Finlease Ltd	B	100,000	31.78
22-Feb	Sumeet Indus	Purshottam Khandelwal	S	569,485	30.77

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
TCS	1,294	0.8	2.1	1.7
Reliance Ind	1,412	0.4	1.5	3.7
Reliance Com	450	0.7	1.3	7.9
<b>Losers</b>				
ONGC	855	(2.1)	(7.7)	1.7
Wipro	650	(2.8)	(5.4)	1.5
ICICI Bank	946	(2.4)	(4.1)	2.0

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
23-Feb	Power Finance Corporation hosts listing ceremony at NSE
23-27 Feb	Initial Public Offer of Page Industries opens
26-Feb	India to present Railway Budget for year 2007-08
27-Feb	India to announce economic survey for year ending March 2007
28-Feb	India to unveil Federal Budget for year 2007-08
	Alfa Laval to announce earnings and dividend.

Source: Bloomberg

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