Daily Morning Brief

Kotak Private Client Research

July 17, 2007 **FOR PRIVATE CIRCULATION**

Equity

		% Chg		
	16 July 07	1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	15,311	0.3	8.1	12.5
Nifty	4,512	0.2	8.2	13.2
Banking	8,387	1.3	12.4	24.5
IT	3,813	(0.1)	2.4	4.6
Healthcare	3,815	(0.9)	0.5	3.0
FMCG	1,846	(1.0)	3.2	2.5
PSU	7,192	1.3	10.6	16.0
CNX Midcap	6,261	0.9	10.8	23.0
World indices				
Nasdaq	2,697	(0.4)	2.7	7.2
Nikkei	18,239	1.4	1.2	3.2
Hangseng	22,954	(0.6)	9.7	10.9

Value traded (Rs cr)

	16 July 07	% Chg - 1 Day
Cash BSE	5,045.8	(21.4)
Cash NSE	11,518.6	(22.6)
Derivatives	38,884	(20.4)

Net inflows (Rs cr)

	13 July 07	% Chg	MTD	YTD
FII	2,346	235	10,891	35,328
Mutual Fund	291	134	(650)	(673)

FII open interest (Rs cr)

	13 July 07	% chg
FII Index Futures	16,823.0	(0.8)
FII Index Options	11,225.0	3.9
FII Stock Futures	27,002.8	3.2
FII Stock Options	155.3	3.4

Advances/Declines (BSE)

16 July 07	A	B1	B2	Total	% Total
Advances	121	398	508	1,027	54
Declines	91	312	421	824	44
Unchanged	1	16	24	41	2

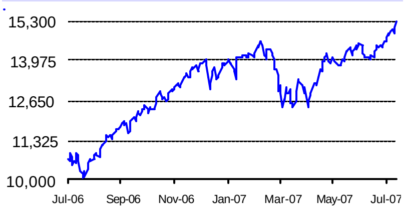
Commodity

		% Chg		
	16 July 07	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	74.1	(0.0)	9.0	17.5
Gold (US$/OZ)	664.9	(0.3)	1.5	(3.1)
Silver (US$/OZ)	12.9	(0.8)	(2.2)	(6.9)

Debt/forex market

	16 July 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.90	7.92	8.23	8.16
Re/US$	40.4	40.4	40.7	41.9

Sensex



Source: Bloomberg

ECONOMY NEWS

- The Prime Minister's Economic Advisory Council has said it expects economic growth to moderate to 9% in the current financial year from 9.4% in the last fiscal. The panel in its economic outlook for 2007-08 also projected inflation to remain within 4%. (BL)
- The controversial plan to restrict FDI in courier services has been quietly put on the backburner. Following change of guard at the Telecom Ministry, the draft Indian Post Office (Amendment) Bill of 2006 has gone into cold storage, senior government officials said. (ET)
- India would take some more time before it registers current account surplus on an annual basis, though the country showed current account surplus in the last quarter of the previous fiscal, says a PHDCCI study. (ET)
- The Government's plan to fix retail margins of pharmaceuticals on a product-to-product basis has been dashed. The Law Ministry has blocked Chemicals & Fertilizers Minister Ram Vilas Paswan's plan to give sweeping powers to his ministry to fix trade margins on all products not under price control. (ET)

CORPORATE NEWS

- **Reliance Petroleum** has said it has completed 65% of the Jamnagar SEZ project in just 19 months of its commencement. The company said the work on the RPL refinery will be completed by 2008 and will be the sixth-largest in the world. (ET)
- **Idea Cellular** has held its erstwhile joint venture partner the Tatas responsible for the delay in its expansion plans. (ET)
- Net profit for **Zensar Technologies** for the quarter ended June 30, fell to Rs.74.8 mn (Rs.89.1 mn) despite a rise in income from operations at Rs.750.6 mn (Rs.668 mn). (ET)
- **Geometric Software's** consolidated net profit for the quarter ended June 30, 2007, soared 83.7% to Rs.116.5 mn as against Rs.63.4 mn in the corresponding quarter a year ago. The company's total income was up 82.8% at Rs.1.26 bn in Q1FY08. (BS)
- The board of **BSNL** is learnt to have halved its 45.5 mn line GSM order and decided to renegotiate the price with Ericsson and Nokia, the two equipment manufacturers who had earlier qualified for the order based on their price bids. (BS)
- **Reliance Communications** has bought out US-based data communications company Yipes Holdings for $300 mn (Rs.12 bn) in an all-cash deal. (BS)
- **Satyam Computer Services** is expected to announce three multi-million dollar acquisitions in Singapore, Australia and the Middle East region on Tuesday. (BS)
- **Ashok Leyland** has said that it has signed a joint venture agreement with automotive supplier Siemens VDO Automotive AG, Germany, to design, develop and adapt infotronics products and services for the transportation sector. (BL)
- A consortium led by **L&T** has bagged orders worth Rs.10.7 bn from **Tata Steel** for the supply and installation of sinter plant and other packages. The orders are for the first phase of the greenfield 6 MTPA plant being set up by Tata Steel in Kalinganagar, Orissa. (BS)
- **Jaiprakash Associates,** the flagship company of the Jaypee Group, has posted a 52.17% rise in net profit after tax at Rs.1.4 bn for the quarter ended June 30 and said it would raise up to $1 bn from the international markets. (BL)

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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TATA CONSULTANCY SERVICES LTD

PRICE : RS.1125 **RECOMMENDATION : BUY**
TARGET PRICE : RS.1350 **FY08E PE : 22X**

Highlights

- Q1FY08 results were a mixed bag for TCS as revenues were lower-than-expected but EBIDTA margins were higher than our assumptions
- A 7.5% growth in volumes in a seasonally weaker quarter is encouraging
- The management re-iterates its positive outlook on volume growth and billing rates
- Several margin levers are already available to restrict the margin impact due to the rupee appreciation and salaries
- Global network delivery model (GNDM) and full-services provisioning are key differentiators
- We expect an EPS growth of 20% YoY for FY08 at Rs.51. The rupee is assumed at 41.50 against the US dollar by FY08 end.
- We maintain a BUY call on TCS with a price target of Rs.1350, implying a P/E of 26.6x on our FY08E earnings estimates.
- A sharp appreciation in the rupee and a sustained slowdown/recession in major user economies are key risks to our call

Q1FY08 results

(Rs mn)	Q1FY08	Q4FY07	QoQ %	Q1FY07	YoY %
Turnover	**52028**	**51464**	**1.1**	**41443**	**25.5**
Expenditure	38764	36896		31428	
EBIDTA	**13264**	**14568**	**-8.9**	**10016**	**32.4**
Depreciation	1265	1395		751	
EBIT	**11999**	**13173**		**9265**	
Other Income	1516	898		668	
PBT	**13516**	**14070**	**-3.9**	**9932**	**36.1**
Tax	1523	2188		1238	
PAT	**11993**	**11882**	**0.9**	**8695**	**37.9**
Minority interest	140	158		85	
Share of profit	2	4		16	
Adjusted PAT	11855	11728	1.1	8626	37.4
Shares (mn)	979	979		979	
EPS (Rs)	**12.1**	**12.0**		**8.8**	
EBIDTA (%)	25.5	28.3		24.2	
Net Profit (%)	23.1	23.1		21.0	

Source: Company

Volume growth of 7.5% - driven by BFSI...

- Volumes grew 7.5% QoQ during this seasonally weaker quarter.
- The BFSI segment, which had shown a marginal growth in Q4FY07, grew about 13% sequentially in US dollar terms, allaying concerns over growth in a few clients in this vertical.

... and newer service lines

- The company's new services like consulting, infrastructure management services, BPO and assurance services continued to grow at a good pace during the quarter and contributed about 18% to the total revenues.
- The consulting business added 203 new engagements and 45 new customers during the quarter and now has 753 dedicated consultants, one of the highest among Indian IT services companies.
- In the BPO space, the company consolidated its position in the pharma KPO space and the company's platform-based-services found increasing acceptance within diverse industries like the chemical and insurance industries.
- While the assurance services vertical added six clients, IMS added five new accounts. Assurance services revenues grew 28% QoQ.

GNDM & full service model at play

- The company grew its top clients by getting a higher wallet share. The revenues from Top 10 clients grew 4% in rupee terms and about 11% in US dollar terms.
- The GNDM and full service provisioning ability of TCS allowed it to penetrate deeper into clients. About 35 of the top 50 clients and 64 of the Top 100 clients are now utilizing two or more services from TCS.
- During the quarter, two of the clients opted for service provisioning from TCS China.

Billing rates hiked

- Average realizations continued to improve and grew about 0.6% over the previous quarter. While new clients for the company are coming in at 5% higher than the average rate, new contracts are being signed at about 3-5% higher than average.
- We believe this is an important lever for TCS as it allows the company to restrict the impact of salary hikes and rupee appreciation.

TCS launches financial solutions business unit

- TCS has consolidated its banking and related financial products under a separate SBU - TCS Financial Solutions Business Unit.
- The separate SBU has been created with a view to provide more focus to the products business and will include bancs suite as well as products acquired through acquisitions of companies including FNS.

EBIDTA margins better than expected

- TCS' margins, though down QoQ, were better than our estimates.
- TCS' EBIDTA margins fell 280 bps QoQ on the back of the rupee appreciation (about 6% QoQ), salary hikes and higher visa costs.
- The rupee appreciation impacted margins by about 258 bps.
- TCS raised offshore salaries by 12-15% and on-site salaries about 3%. This impacted margins by about 208 bps. However, an increase of only 4% in the absolute amount of direct salary costs was lower than our expectations and helped the company in restricting the fall in margins.
- On the other hand, TCS put at play, several levers for margin improvements like improved productivity in fixed price contracts, leverage on SG&A costs and pricing increases, which allowed it to set off a part of the impact on margins.
- The offshore contribution for the company was steady at about 41% of revenues. TCS expects to increase the offshore proportion in order to protect margins in succeeding quarters.

Other income & lower taxation

- TCS earned other income of Rs.1.52 bn, which comprised Rs.1.07 bn of exchange gains.
- The company increased its forex hedges to $2.5 bn during the quarter and the covers now extend to the next fiscal.
- On the other hand, the company had a tax write back of Rs.252 mn, which reduced the effective tax burden during the quarter.
- Consequently, TCS was able to maintain net margins at previous quarter levels.

Levers for margin protection

- In view of the steep rupee appreciation and consistent salary hikes, protecting margins is of prime importance. We see a few levers available to TCS.
- The company sees more headroom in increasing offshore revenue contribution, which is currently at about 41%. We opine this could be vital for margin protection in FY08. New services like assurance, testing, infrastructure management and BPO, which have grown well over FY07, are also amenable for higher offshoring.
- TCS has outlined a favorable outlook towards pricing. According to the company, new clients continue to come in at 5-7% higher rates and existing clients are also giving 3-5% hikes on renewals.
- TCS also hopes to build in efficiencies of scale in its model that is expected to bring about cost optimization, going forward.
- Large contracts won by the company, which are currently at lower margin levels, are expected to improve in profitability, as and when they become more mature. Higher utilization in GDCs is expected to sustain margins in the future
- We believe each of these levers are vital for TCS' margin sustenance in FY08 and need to be watched closely.

Macro trends intact, for TCS too...

- The management indicated that it has not witnessed any slowdown in demand from its clients due to the macro economic changes in user economies. However, we believe a sharp deceleration or a recession in major economies can impact revenue growth for Indian vendors.
- TCS is pursuing about 20 large contracts, each in the range of $50 mn plus that translates into a healthy pipeline, going forward. The company has seen success with its full service offering and expects the new deals to involve work across its newer offerings like consulting, assurance services etc. This is expected to lead to continued growth, going forward, for the company.

Future prospects

(Rs mn)	FY06	FY07	YoY %	FY08E	YoY %
Turnover	**132550**	**186333**	**40.6**	**231477**	**24.2**
Expenditure	95543	135703		170940	
EBIDTA	**37008**	**50630**	**36.8**	**60537**	**19.6**
Depreciation	2806	4184		5465	
EBIT	**34202**	**46446**		**55073**	
Other Income	257	1943		4017	
PBT	**34459**	**48389**	**40.4**	**59090**	**22.1**
Tax	4984	6700		8815	
PAT	**29475**	**41688**	**41.4**	**50275**	**20.6**
Minority interest	280	417		620	
Share of profit	16	44		14	
Adjusted PAT	29211	41315	41.4	49670	20.2
EO items	243	0		0	
Shares (mn)	979	979		979	
EPS (Rs)	**29.8**	**42.2**		**50.8**	
EBIDTA (%)	27.9	27.2		26.2	
Net Profit (%)	22.2	22.4		21.7	

Source: Company, Kotak Securities - Private Client Research

- We have made changes to our FY08E estimates in view of the Q1FY08 numbers and our changed assumption of the exchange rate.
- As compared to our earlier assumption of an average rate of Rs.43 per US dollar for FY08, we have assumed the rupee will depreciate to 41.5 per US dollar by the fiscal end.
- We have assumed the impact on margins to be muted because of several levers available to the company for protecting its margins.
- Based on the existing share capital, we arrive at an EPS of Rs.50.8 for FY08.

Valuations

We maintain BUY on TCS with a price target of Rs.1350

- We have valued TCS based on the P/E method and its relative valuation to Infosys. We have accorded a valuation of about 27x FY08E earnings, based on the company's ability to drive revenue growth in excess of 30% in US dollar terms on a large base and protect net margins in the backdrop of sharp rupee appreciation and salary hikes.
- At about 27x FY08E earnings, the price target works out to Rs.1350, implying an upside of 20% from current levels. We maintain BUY on TCS.

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to Rs.40.35 v/s the USD. This is higher than our assumed levels of about Rs.41.50 per USD by FY08 end. While we expect the rupee to depreciate by the fiscal end, an acceleration from the current levels may impact our earnings estimates for the company.

RESULT PREVIEW

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OIL & GAS SECTOR Q1FY08 PREVIEW

Oil & Gas sector Q1FY08 Preview

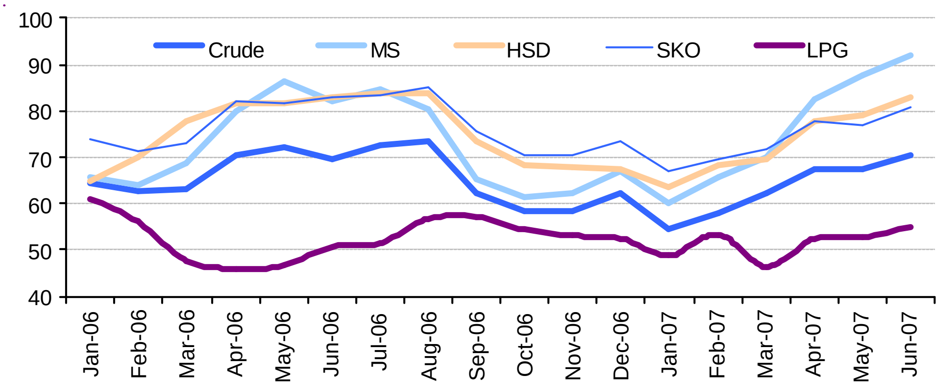
During the quarter, dated Brent crude rose to $68.5/bl representing a 17.9% sequential rise. However, on a YoY basis, it experienced a decline of 3.4%. Q1FY08, like last year, belonged to standalone refiners. Refining margins rebounded to $7.0/bl from an average of $2.8/bl during the third quarter. The high refining margins were a result of a disproportionately high increase in gasoline prices because of lower refinery utilization in the US due to maintenance shutdown.

For oil marketing companies, the refinery gains would get diluted to a large extent by increased losses on the marketing front during the quarter. The OMCs lost Rs.3/liter and Rs.1/liter on petrol and diesel marketing, respectively, during the quarter. Hence, blended marketing margins on auto fuels declined sequentially to – Rs.1.2/liter from Re.0.2 /liter. However, the margins are still much better compared to the first quarter figure of – Rs.4.1/liter last year.

Better industry performance expected due to strong refining margins, marginally lower crude and rupee appreciation

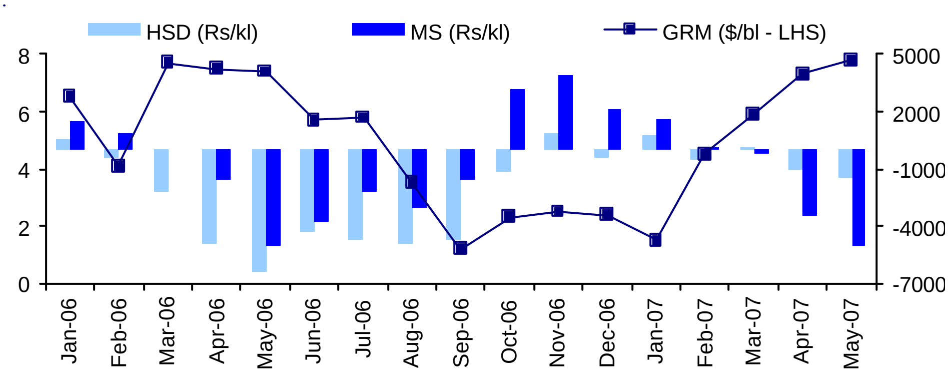
Overall, the situation for the oil industry has certainly been better compared to last year primarily on account of lower crude (3.4%) and dollar depreciation (9.3%).

Petroleum Product Prices



Source: Bloomberg and Kotak Securities — Private Client Research

Marketing and Refining Margins



Source: Crisil and Kotak Securities — Private Client Research

Oil & Gas — Expected quarterly performance

At the industry level, we estimate gross under recoveries will rise to Rs.130 bn from Rs.90 bn in the fourth quarter. We expect the upstream companies and the government to share 90% of the gross under recoveries. Hence, we expect total oil bonds worth Rs.64 bn and upstream contribution of Rs.54 bn for the quarter. For the overall industry, we expect the quarter to be better compared to last year primarily due to 3.4% lower crude and 9.3% rupee appreciation.

Key Oil industry statistics

Rs bn	Q1FY08E
Gross under recoveries	131.2
Upstream share	54.2
ONGC contribution	46.1
Oil bonds	63.8
Net under-recovery	13.2

Source: Kotak Securities — Private Client Research

- **HPCL and BPCL:** We expect the quarter to be neutral for OMCs (HPCL and BPCL) with a strong refinery performance let down by higher marketing losses. At the marketing front, losses would still be lower YoY due to lower crude and rupee appreciation. The comparison with Q1FY07 is not meaningful as no oil bonds were issued during the quarter.
- **ONGC:** We expect the quarter to be slightly negative for ONGC due to higher subsidy proportion, lower crude and rupee appreciation. We estimate ONGC's net earnings to decline by 5% YoY.
- **GSPL:** As gas volumes have risen to 18 mmscmd, we expect revenue and operating profit growth of more than 40% for GSPL. However, the performance at the net performance level is estimated to decline by 7% due to higher capital cost (depreciation and interest).
- **Great Offshore:** We expect subdued numbers due to the rig and MSV dry docking and a slight negative impact due to rupee appreciation. We expect revenue and net earnings to decline 12% and 31%, respectively.
- **PSL:** Robust numbers are expected for PSL with revenue and net profit growth of 40% and 50%, respectively. The expected good numbers are a result of higher orders executed and some unrealized revenue of the past quarter.

Q1FY08 earnings preview

	Net sales	YoY (%)	EBITDA (x)	YoY (%)	Net Profit	YoY (%)	EPS (Rs)	Reco.	Price target
HPCL (Rs bn)	218.50	5.17	8.26	-	3.48	-	10.26	BUY	340
BPCL (Rs bn)	240.91	10.93	10.07	-	3.96	-	10.96	BUY	440
ONGC (Rs bn)	141.58	-5.75	81.79	-4.11	39.11	-5.06	18.22	HOLD	999
GSPL (Rs mn)	1017.03	42.22	874.16	45.86	178.71	-7.50	0.33	BUY	75
Great Off* (Rs mn)	1306.79	-12.23	519.96	-26.49	205.97	-31.18	5.42	BUY	878
PSL (Rs mn)	5345.49	41.93	582.92	50.74	225.05	51.35	6.05	BUY	343

*Source: Kotak Securities — Private Client Research; * Sequential comparison*

MANAGEMENT MEET UPDATE

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GATI LTD

PRICE : RS.105
TARGET PRICE : RS.135

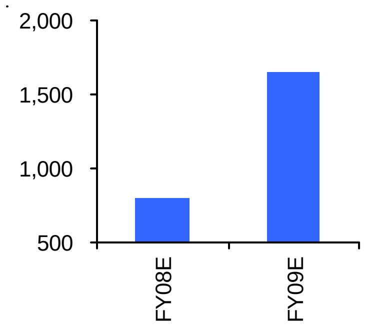
RECOMMENDATION : BUY
FY09E PE : 15.7x

Cons. summary table - Year end June

(Rs mn)	FY07E	FY08E	FY09E
Sales	5,629	7,420	9,501
Growth (%)	22.4	31.8	28.0
EBITDA	510	773	1,103
EBITDA margin (%)	9.1	10.4	11.6
Net profit	255	428	622
Net debt	418	974	1,291
EPS (Rs)	3.0	4.6	6.7
Growth (%)	32.9	68.1	45.4
DPS (Rs)	0.7	0.8	1.8
ROE (%)	8.4	10.1	13.3
ROCE (%)	8.4	12.3	15.2
EV/Sales (x)	1.8	1.5	1.2
EV/EBITDA (x)	20.0	13.9	10.1
P/E (x)	35.5	22.9	15.7
P/BV (x)	3.2	2.3	2.1

Source: Kotak Securities - Private Client Research

Airfreight revenue growth (Rs mn)



Source: Kotak Securities - Private Client Research

Reason for this report: Introduction of FY09 estimates and upward revision of price target to Rs.135. Upgrade from HOLD to BUY with a 29% upside potential.

Introduction of FY09E numbers

We recently met the management of Gati and are positive about the growth prospects of the company. We are introducing our FY09 estimates on higher earnings visibility due to strong growth in the express distribution business of the company and also its foray into the air cargo segment with five freighters. Also, Gati is going to spend Rs.2.5 bn in the next two years to increase the warehouse space to 2 mn sq ft and acquire a ship. This would help to maintain its robust growth in revenues and profitability, going forward.

In FY09E, we expect Gati to report net sales of Rs.9.5 bn, EBIDTA margins of 11.6% and PAT of Rs.622 mn, thereby translating into an EPS of Rs.6.7 and CEPS of Rs.8.7 on a diluted basis.

Following are the key takeaways from the management meeting

Agreement with state-owned Indian to wet lease five freighter aircrafts

In May 2007, Gati entered into an agreement with the state-owned airline Indian to operate freighter aircrafts, which would carry parcels, documents and cargo. The agreement is for the wet lease of five B737-200 freighter aircrafts for five years to run these cargo freighters on various routes covering all metros and other parts of the country.

The agreement is primarily aimed at expanding its business across the country and creating a dominant position in the express cargo segment. The agreement also has the provision of extension after five years for further periods by mutual consent.

Both, Gati and Indian would jointly do branding, advertisement and launch related activities. The freighters aircraft would be painted with logos of both Indian and Gati.

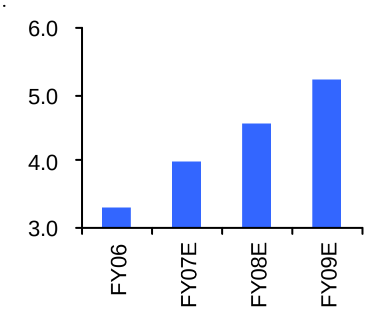
The first freighter aircraft is expected to be inducted by the end of August 2007 or early September 2007. The tentative schedule for the remaining aircraft induction for operation is November, December 2007, January 2008 with the last one being in February 2008. Thus, the company is scheduled to have the entire fleet of five aircraft operational by March 2008.

The above leased aircraft shall have a valid certificate of airworthiness to be issued by the department of civil aviation of India for carrying out transportation with cargo freighters.

Gati is likely to pay Rs.275,000 to Rs.300,000 per hour per aircraft as lease rentals, which include all aircraft related charges. The company has given a minimum commitment of a total of 17 hours of flying per day for all five-cargo freighters. Each aircraft is likely to operate for three to four hours of flying per day.

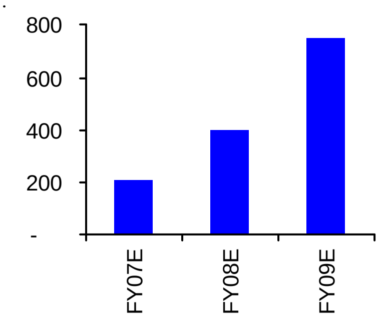
We feel the above step is very positive for the overall growth prospect of the company as it can now offer complete end to end logistics services with quick and efficient deliveries. Currently, Gati conducts business of about Rs.400 to Rs.500 mn out of air cargo. With the induction of five cargo aircraft it is likely to touch Rs.2 bn in a full year of operation.

EDC revenue growth (Rs bn)



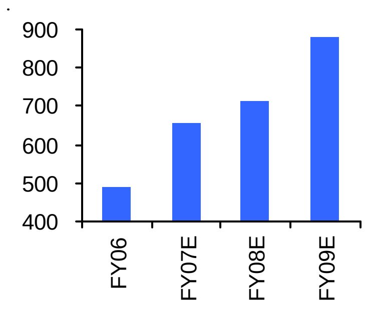
Source: Company, Kotak Securities - Private Client Research

International business revenue (Rs mn)



Source: Kotak Securities - Private Client Research

Shipping revenue growth (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Tie-up with Chinese logistics company

Gati has signed a comprehensive memorandum of understanding (MoU) with China Railway Express International Logistics Company Ltd (CREIL), which is a market leader in China for rail and road cargo and package delivery. CREIL has a presence in 500 cities in all 31 provinces of China. The two companies have agreed to cooperate in the development of freight forwarding, express courier and logistics services in the booming India-China trade.

CREIL has large fleet of more then 3500 vehicles with 2 mn sq ft warehousing space in China. With this tie-up, the company would provide exporters and importers end-to-end distribution solutions in the Indian and Chinese markets. We feel this is a step in the right direction and would lead to higher revenues and profitability for the company, going forward.

Robust growth in express distribution and supply chain management

In FY07, Gati added eight express distribution centers (EDC) and Gati Distribution warehouse (GDW), thereby taking the total to 23. The company is likely to add 12 to 15 EDC and GDW in the next two years, thereby taking the total number to about 35 to 38 by June 2009. Currently, Gati has 1.2 mn sq ft of ware house space, which is expected to be expanded to 2 mn sq ft by June 2009.

Currently, Gati has 23 EDCs and GDWs spread across the country - at Mumbai, Pune, Ludhiana, Gurgaon, Jaipur, Indore, Bhopal, Kolkata, Guwahati, Coimbatore and Bangalore among others. These are doing good business and are expected to further contribute significantly to the revenues of the company, going forward. Three more EDCs are slated to go on stream in FY08E at Hyderabad, Panvel and Ahmedabad. All of these are at advanced stages of completion. We believe the full potential of the new EDCs will be realized from the second half of FY08E onwards.

We feel the express distribution and supply chain business of Gati is set to grow aggressively in the years to come, which will lead to higher revenues and profitability for the company, going forward.

International businesses to grow substantially

Gati has offices in China, Hong Kong, Sri Lanka, Singapore, Mauritius, Dubai and Thailand. India-centric distribution is happening through these wholly-owned subsidiaries and business is gradually picking up in these offices. The international business is typically high margin business for Gati and the company is looking to expand its presence in the Indian centric distribution business. It is likely to generate business of approximately Rs.200 mn in FY07E. We expect this to go up to Rs.400 mn in FY08E and further to Rs.750 mn in FY09E.

Strong growth in coast-to-coast i.e. shipping business

Gati currently has three ships: Gati 1 with 105 TEUs capacity, Gati Suvidha with 210 TEUs capacity and Gati Zipp with 212 TEUs capacity. All of them are deployed on the Chennai-Port-Blair-Yangon-Chennai route, which is operating at optimum capacity since the addition of Yangon to its route. The company enjoys pricing power, as it is the only company providing shipping services on the Yangon route.

Gati has also placed an order for a ship from the Bangkok shipyard with a capacity of up to 442 TEUs, which is scheduled for delivery in April 2008. Thus, we expect the shipping revenues to go up from Rs.491 mn in FY06 to Rs.710 mn in FY08E and further rise to Rs.880 mn in FY09E.

Capex plans & its funding

In order to stay ahead of the competition, Gati is laying a strong focus on further strengthening an extensive network of express distribution centers by expanding the warehousing space from 1.2 mn sq ft currently to 2 mn sq ft by June 2009.

Gati has also placed an order for ships from the Bangkok shipyard with a capacity of up to 400 TEUs. The total acquisition cost is Rs.550 mn out and the company has already made the down payment for the acquisition of the ship. The ship is scheduled for delivery in April 2008.

FCCB - December 06

FCCB	$20 mn
Exchange Rate	44.67
Rs. mn	893.4
Shares mn	7.15
FV	2
Premium	123
Total per share	125

Source: Company

The management indicated that they have plans to spend about Rs.2.5 bn in the next two years for the purposes. Gati has already raised Rs.893.4 mn out of FCCBs in December 2006 and earlier warrants were issued to promoter and the Infrastructure Fund of India. We felt that this, together with internal accruals would be sufficient to meet the capex plans for the company. Hence, we do not expect any further equity dilution to fund the capex.

Equity Dilution

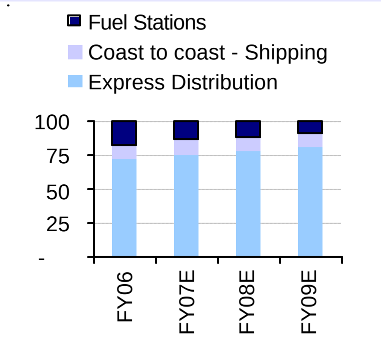
	(Rs mn)
Equity after rights issue	125.4
1.57 mn sh. Issued to IFOI @ 423 FV 10	15.7
0.310 mn warrant. Issued to IFOI @ 423 FV 10	3.1
0.5 mn warrant issued to promoters @ 423 FV 10	5.0
10.5 mn warrant issued to promoters @ 90 FV 2	21.0
1.05 mn warrant to IFOI @ 90 FV 2	2.1
FCCB 7.15 mn share @125 FV 2	14.3
Total Equity	186.6
Mn sh. Fv 2	93.3

Source: Company

Earnings estimates

We maintain our earnings estimates for FY07E and expect Gati to report net sales of Rs.5.6 bn, EBIDTA margin of 9.1% and PAT of Rs.255 mn, thereby translating into an EPS of Rs.3.0and CEPS of Rs.4.3.

Revenue breakup (%)



Source: Company, Kotak Securities - Private Client Research

Change in estimates (Rs mn)

	Old		Revised		
	FY07E	FY08E	FY07E	FY08E	FY09E
Revenues	5,629	7252	5,629	7,420	9,501
EBIDTA	510	767	510	773	1,103
Profit	255	447	255	428	622
Equity	167	167	172	187	187
EPS (Rs)	3.1	5.3	3.0	4.6	6.7
CEPS (Rs)	4.4	7.1	4.3	6.2	8.7

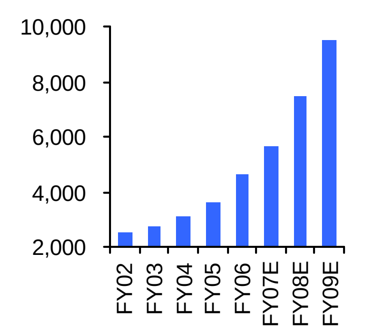
Source: Company, Kotak Securities - Private Client Research

In FY08E, we expect Gati to report net sales of Rs.7.4 bn, that is, sales growth of 31.8%, EBIDTA margins of 10.4% and PAT of Rs.428 mn, that is, YoY growth of 68%, thereby translating into an EPS of Rs.4.6 and CEPS of Rs.6.2 on diluted basis.

With the acquisition five freighters we expect express distribution to contribute to 80% of the total revenues by 2009E that was 72% in FY06.

In FY09E, we expect Gati to report net sales of Rs.9.5 bn, that is, sales growth of 28%, EBIDTA margins of 11.6% and PAT of Rs.622 mn, that is, YoY growth of 45%, thereby translating into an EPS of Rs.6.7 and CEPS of Rs.8.7 on diluted basis.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Valuation & recommendation

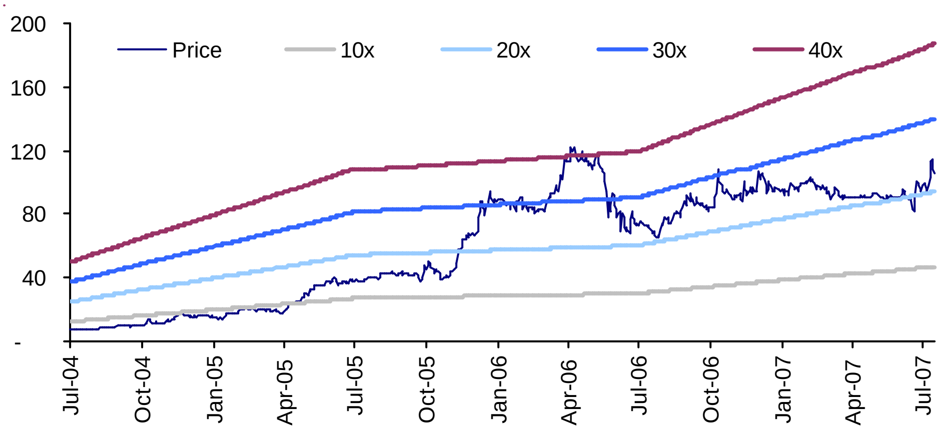
At Rs.105, the stock trades at 2.3x FY08E and 2.1x FY09E to book value.

It discounts FY08E and FY09E earnings at 22.9x and 15.7x, respectively.

It discounts FY08E and FY09E cash earnings at 17.0x and 12.1x, respectively.

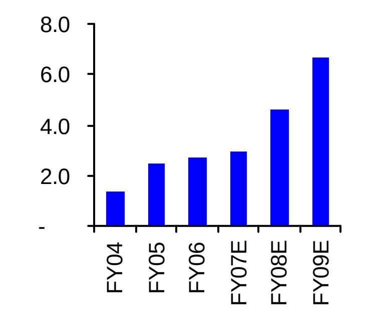
We have also done our one-year forward rolling band analysis for Gati, which revealed that over the last one year the stock has traded within 20 to 30x one-year forward estimates. Based on our FY09E EPS of Rs.6.7 and target price of Rs.135 the stock would trade at 20.1x.

One year forward PE rolling band



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Based on the introduction of FY09 numbers and using DCF method of valuation we get a target price of Rs.135 with 12.2% WACC and 4% terminal growth rate.

We continue to remain positive on the growth prospects of the company as it has a strong reach of 594 out of 602 districts in India with strong infrastructure support like more then 1 mn sq ft of warehouse space, pan-India express distribution centers, web-based tracking, growing international business through wholly-owned subsidiaries, three ships and now five leased freighter aircrafts. We believe Gati is ideally placed to take advantage of the logistics boom that is going to unfold over the next few years in the country.

We are upgrading the stock from **HOLD** to **BUY** with a target price of Rs.135 with 29% upside potential.

Key risks

- Any delay in expanding the warehouse space or acquiring ships would lead to revision in earnings estimates.
- The company faces competition from the organized as well as unorganized sector on the aspects of pricing and certain local advantages.
- The movement of materials by air, surface and ships could be affected by weather conditions or natural calamities. This can harm the business operations of the company.

Peer Valuation

	Revenues (Rs mn)				Net Profits (Rs mn)				EPS (Rs)				P/E (x)			
	FY06	FY07	FY08E	FY09E	FY06	FY07	FY08E	FY09E	FY06	FY07	FY08E	FY09E	FY06	FY07	FY08E	FY09E
GDL	1,386	1,610	2,364	3,312	722	774	948	1,236	7.8	8.4	10.3	13.4	23.8	22.1	18.1	13.9
CONCOR	24,332	30,460	38,349	45,348	5,258	6,906	8,233	9,705	80.9	106.3	126.7	149.3	27.5	20.9	17.6	14.9
GATI *	4,599	5,629	7,420	9,501	192	255	428	622	2.7	3.0	4.6	6.7	38.9	35.0	22.8	15.7
Allcargo**	12,281	19,752	22,468	-	713	1,145	1,435	-	35.2	56.5	70.8	-	29.3	18.2	14.5	-

	Current price (Rs)	Target price (Rs)	Upside potential (%)	Market cap (Rs bn)	Diluted no of shares (mn)	Target P/E (x)
GDL	186	211	13.4	17.1	92.2	15.7
CONCOR	2,226	3,000	34.8	144.7	65.0	20.1
GATI *	105	135	28.6	9.8	93.3	20.1
Allcargo**	1,030	1,346	30.7	20.9	20.3	19.0

** June end; ** December end; Source: Companies, Kotak Securities - Private Client Research*

NOTE: Analyst holding: Concor - 50 Shares

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
16-Jul	Amtek Auto	Capital Research and Mgmt Comp.	B	2,293,152	406.10
16-Jul	Amtek Auto	Oppenheimer Fund Inc	S	2,293,000	406.10
16-Jul	Ankit Metal	KMUK Ac Premier Investmt Fund	S	232,025	45.16
16-Jul	Bihar Tubes	Securocrop Securities India Pvt Ltd	B	42,765	158.01
16-Jul	Bihar Tubes	Balbir Singh Uppal	S	20,000	157.09
16-Jul	Cerebra Int	M.Venkatesan	S	62,005	15.23
16-Jul	Comp Disc In	Astute Commodities and Derivat	S	72,469	41.45
16-Jul	Compuage Inf	Bhavesh H Mehta	B	996,667	26.00
16-Jul	Compuage Inf	Ajay H Mehta	S	496,667	26.00
16-Jul	Compuage Inf	Vanita H Mehta	S	500,000	26.00
16-Jul	Empower Inds	Zielle Ventures	B	25,000	22.25
16-Jul	Empower Inds	Astute Commodities and Derivat	B	25,000	22.25
16-Jul	Empower Inds	Suresh Mishra	S	63,042	22.25
16-Jul	Empower Inds	Abhishek Kumar Agarwal	S	52,679	22.24
16-Jul	Expo Ga Cont	Pooja Pathak	B	30,000	27.45
16-Jul	Freshtrop Fr	UBS Securities Asia	S	56,007	120.45
16-Jul	Gemstone Inv	Kishorbhai Balubhai Chauhan	B	25,415	29.09
16-Jul	Gemstone Inv	Bhavesh Prakash Pabari	S	16,000	29.09
16-Jul	Indo Green P	Seetaram Kajla	B	30,000	32.50
16-Jul	Indo Green P	Avtar Singh Samadhbhai	B	30,000	32.51
16-Jul	Indo Green P	Shivkumar Daga	S	39,815	32.05
16-Jul	Madhav Mar G	Ashwin Kumar G	B	55,000	107.73
16-Jul	Mah Ind Leas	Pragnesh Harshadbhai Patel	B	39,000	48.31
16-Jul	Mah Ind Leas	Khanik R Shah HUF	B	25,000	48.65
16-Jul	Mastek	Morgan Stanley And Co Intl Ac			
		Morgan Stanley DW Mau Ltd	B	355,000	329.26
16-Jul	Neo Sack Ltd	Kapil Gupta	B	60,000	51.80
16-Jul	Polyplex Cor	Dalmia Cement Bharat Ltd	B	118,702	146.80
16-Jul	Pruden Pharm	Mercury Fund Management Co	S	55,000	28.38
16-Jul	Ram Informai	Ramesh Kumar R Gupta	B	200,000	28.98
16-Jul	Ram Informai	United Credit Securities	S	200,000	28.16
16-Jul	Ram Informai	Bulls And Bears Portfolios	S	175,000	28.47
16-Jul	Rama Paper	Rajesh Agarwal	B	46,486	34.00
16-Jul	Rama Paper	Nvs Electricals Pvt. Ltd	S	100,000	34.95
16-Jul	Rama Paper	Rajesh Agarwal	S	50,000	35.45
16-Jul	Saboo Sod Ch	Deepinder Singh Poonian	S	78,221	18.18
16-Jul	Saboo Sod Ch	Nidhi Securities	S	61,012	18.19
16-Jul	Sky Industri	Vijay Jamnadas Vora	S	23,445	96.71
16-Jul	Srini Sh Pro	UBS Securities Asia	B	26,199	157.00
16-Jul	Srini Sh Pro	Pruthvi Brokers and Shareholdings	B	22,000	157.00
16-Jul	Steel Exch	Diamant Investment and Finance	B	42,340	27.21
16-Jul	Stel.Str.&Tu	Usha P. Bothra	B	50,000	47.85
16-Jul	Sujana Metal	Goldman Sachs Mauritius 1	S	1,900,000	28.66
16-Jul	Western Indi	Rashmi Arora	B	540,419	14.88
16-Jul	Woolite Merc	Viral Praful Jhaveri	B	15,005	14.50
16-Jul	Woolite Merc	Prakashkumar Sevantilal Doshi	S	62,820	14.48

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Com	574	3.3	7.2	6.5
ONGC	915	1.5	5.7	1.1
SBI	1,612	3.3	5.3	1.7
Losers				
Wipro	502	(2.0)	(2.8)	0.9
Reliance Pet	115	(2.4)	(2.4)	10.7
BHEL	1,661	(1.5)	(2.3)	0.5

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
17-Jul	LIC Housing Finance, Tata Tea, Jubilant Organosys, CESC, NDTV, Aventis Pharma, Aztecsoft, Gateway Distriparks, KPIT Cummins, earnings expected
18-Jul	Polaris, Hexaware, IDBI, Alembic, Infotech Enterprises, Reliance Energy, Tamil Nadu News Print & Papers earnings expected
19-Jul	Wipro, ACC, Tech Mahindra, SKF India, Ranbaxy, Micro Inks, Larsen & Toubro, Essel Propack, Lupin, Novartis, Welspun Gujarat Stahl Rohren, Ashok Leyland, DLF, Orchid Chemicals, Mastek, Trent, ICI India earnings expected
20-Jul	Satyam, Exide Industries, Neyveli Lignite Corp, BASF India, Finolex Cables, Raymond, Hindustan Oil Exploration Co, Ambuja Cements, Ipca Laboratories, Cipla earnings expected
21-Jul	ICICI Bank, Sesa Goa, Gujarat Industries Power, Indian Bank, Fertilizers and Chemicals Travancore Ltd earnings expected
23-Jul	Century Textiles, DRL, Dabur India, Century Enka, MRPL, Apollo Hospitals, Sun Pharmaceuticals, Jindal Stainless Union Bank of India, Siemens earnings expected
24-Jul	JSW Steel, Pidilite Industries, Kotak Mahindra Bank, GTL earnings expected

Source: Bloomberg

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