

Equity	% Chg			
	17-Jan	1-day	1-mth	3-mth
<b>India</b>				
Sensex	19,701	(0.8)	3.3	9.5
Nifty	5,913	(0.4)	3.0	10.5
<b>Global/Regional markets</b>				
Dow Jones	12,159	(2.5)	(8.1)	(12.5)
Nasdaq	2,347	(2.0)	(9.6)	(16.2)
FTSE	5,902	(0.7)	(6.0)	(10.7)
Nikkei	13,396	(2.8)	(11.9)	(21.7)
Hang Seng	24,384	(2.9)	(8.8)	(17.2)

Value traded (Rs bn)	BSE	NSE
Cash	84.7	204.1
Derivatives	11.2	678.7
Total	95.9	882.8

Net inflows (Rs bn)	Recent trends (days)			
	16-Jan	-7d	-15d	-30d
FII	(22.8)	(10.7)	28.7	47.6
MF	(5.2)	(14.6)	14.4	33.0

Forex / Crude	% Chg			
	17-Jan	1-day	1-mth	3-mth
Rs/US\$	39.3	0.0	0.6	1.1
Euro/US\$	1.5	(0.0)	1.6	2.4
Crude(\$/bbl)	89.7	(0.5)	(0.9)	0.3

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
<b>Top gainers</b>			
Binani Industries	251.9	225.7	11.6
Balrampur Chini	114.8	103.2	11.2
Bajaj Hindusthan	345.9	314.7	9.9
<b>Top losers</b>			
TV 18 India	451.1	493.9	(8.7)
Patni Computer	274.6	289.4	(5.1)
United Spirits	1,877.2	1,968.3	(4.6)

## In focus

### Shri Lakshmi Cotsyn – Results Update

**New products propel margins** CMP: Rs 151 Target: Rs 300 BUY

### Tata Consultancy Services – Results Update

**Results in line, but maintain cautious outlook** CMP: Rs 945 Target: Rs 1,095 HOLD

### J K Lakshmi Cement – Results Update

**Sales in line but margins sag on one-time expenses** CMP: Rs 171 Target: Rs 324 BUY

### Today's top buys

HDIL, KTK Bank, Bank of India, ONGC

### Today's top sells

Lanco Infra, DLF, Satyam

## News track

- ❖ Alok Industries has hiked its holding in Mileta International by acquiring an additional 19.8% stake for €1.75mn. (BL)
- ❖ Essar Shipping may merge a group company specialising in oilfield services with itself. Essar Oilfield Services focuses on offshore and onshore drilling activities and is considered it be worth US\$ 1bn. (ET)
- ❖ M&M, Bharat Forge and Sona are eying the precision forging business of German component company ThyssenKrupp. The deal is estimated to be around Rs 6bn–7bn. (ET)
- ❖ Kavveri Telecom Products has acquired Spotwave Wireless Inc, US and Spotwave Wireless Inc, Canada for US\$ 7mn. (BL)
- ❖ Amtek Auto will supply engine parts for the Tata Nano. (ET)
- ❖ ONGC Videsh is set to sign a deal with Iranian oil major Petropars for a stake in the US\$ 30bn discovered Kish gas block in Iran even as it filed its first ever commerciality report on the Farsi block. (ET)
- ❖ The Uttar Pradesh government has awarded the controversial Rs 300bn Ganga Expressway contract to Jaypee Infratech. (Mint)

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

### Volume shockers

### Delivery toppers

(No of shares)	17-Jan	2-mth avg	Chg (x)	Company	Del (%)	Tot. vol	Cons days
Tele Data Info	125,746	3,143	40.0	Aban Offshore	63.7	107,598	(4)
United Breweries	496,428	41,823	11.9	ABB India	63.2	354,108	(5)
Simplex Infra	368,510	40,534	9.1	Alstom Projects India	53.8	126,524	(3)

## Shri Lakshmi Cotsyn

## Results Update

CMP: Rs 151

Target: Rs 300

BUY

**Dalpat Mehta**

(91-22) 6612 4696

dalpat.mehta@religare.in

BSE code: 526049

## Company data

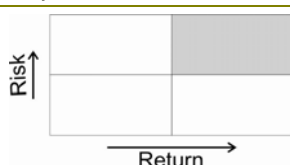
## Particulars

Market cap (Rs bn / US\$ mn)	2.2/56.7
Outstanding equity shares (mn)	14.8
52-week high/low (Rs)	204/83
2-month average daily volume	214,265

## Financial snapshot

Y/E June	FY07	FY08E	FY09E
Sales (Rs mn)	6,443.8	8,650.0	10,700.0
Growth (%)	79.0	34.2	23.7
Adj PAT (Rs mn)	408.4	600.0	840.0
Growth (%)	157.8	46.9	40.0
FDEPS (Rs)	27.6	30.0	42.0
Growth (%)	138.6	8.7	40.0
P/E (x)	5.4	5.0	3.6
ROE (%)	26.4	24.9	24.4

## Risk-return profile



## Shareholding pattern

(%)	Sep-07	Dec-07
Promoters	34.6	34.6
FII's	5.1	0.0
Banks & FI's	2.9	3.3
Public	57.5	62.1

## Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Shri Lakshmi	151	(15.1)	21.3	40.1
Sensex	19,868	(0.8)	4.3	29.8

Company website: www.shrilakshmi.in

## New products propel margins

Shri Lakshmi Cotsyn (SLC) has surpassed our expectations for the December-ending quarter to post an 85% YoY growth in net sales to Rs 2.3bn, 16% ahead of our estimates. The growth was led by a healthy revenue contribution of 51% from new products (home furnishing, denim, bottom weight fabric and terry towels) that commenced production in Q4FY07. Sales of these higher-margin products expanded the EBITDA margin by a substantial 330bps YoY to 15.2% and supported a large 135% increase in operating profit. Consequently, PAT growth came in much ahead of our estimates at 73% YoY to Rs 163mn.

The company is on track to commission a new garment facility at Roorkee in March 2008 and is looking to further expand its terry towel capacity from 3,000mtpa to 15,000mtpa in 2009. These initiatives together with the planned foray into retail would strengthen SLC's growth momentum. We maintain our Buy recommendation on the scrip with a target price of Rs 300, based on a P/E multiple of 10x on FY08E.

## Actual vs estimated performance:

(Rs mn)	Actual	Estimated	% Variance
Net sales	2,324.7	2,000.0	16.2
EBITDA	352.7	320.0	10.2
PAT	163.2	132.0	23.6
EPS (Rs)	11.0	8.9	23.6

Source: Company, Religare Research

## Quarterly results

Y/E June (Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Net sales	2,324.7	1,259.9	84.5	2,306.1	0.8
EBITDA	352.7	150.0	135.1	336.3	4.9
Depreciation	64.6	16.3	296.3	51.0	26.7
EBIT	288.1	133.7	115.5	285.3	1.0
Interest	122.2	41.8	192.3	122.5	(0.2)
Other income	22.9	9.1	151.6	8.9	157.3
PBT	188.8	101.0	86.9	171.7	10.0
Tax	25.6	6.5	293.8	21.4	19.6
PAT	163.2	94.5	72.7	150.3	8.6
EPS (Rs)	11.0	6.9	59.9	10.4	5.6

## Margins (%)

EBITDA	15.2	11.9	-	14.6	-
EBIT	12.4	10.6	-	12.4	-
PBT	8.1	8.0	-	7.4	-
PAT	7.0	7.5	-	6.5	-

Source: Company, Religare Research

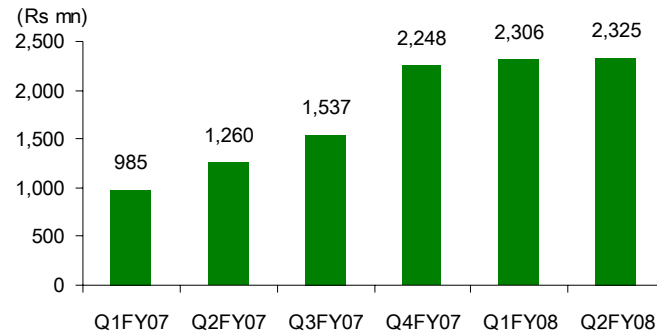
## Result highlights

**Home furnishing, terry towels, bottom weight fabric and denim contributed 51% of sales**

### Net sales up 85% led by new products

Net sales increased 85% YoY to Rs 2.3bn as against Rs 1.3bn for the corresponding year-ago quarter. The strong growth was led by augmented capacities for home furnishing, terry towels, bottom weight fabric and denim, which contributed 51% of revenues at Rs 1.2bn. Going forward, we expect the company to derive greater revenues from new products, with a further fillip to growth from commissioning of the Roorkee garment facility in March 2008.

### Net sales trend

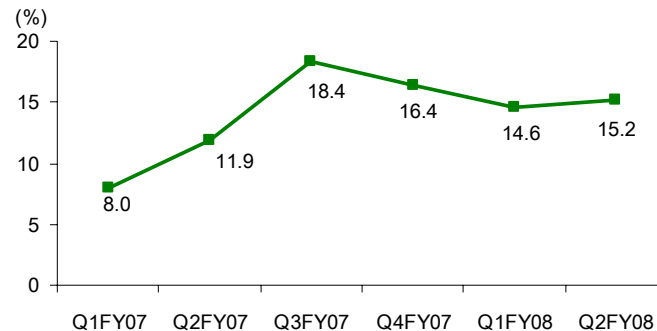


Source: Company, Religare Research

### Terry towel and denim sales support margin growth

SLC's operating profit rose 135% YoY to Rs 353mn accompanied by a 330bps improvement in EBITDA margin to 15.2% from 11.9% in Q2FY07. The strong margin expansion was led by the increased scale of operations and sales of new higher-margin products like terry towels and denim.

### EBITDA margin trend



Source: Company, Religare Research

**EBIDTA margin up 330bps led by economies of scale and new higher-margin products**

### PAT rises 73% to Rs 163mn

Depreciation and interest costs have risen substantially due to the commissioning of fresh capacities. Depreciation at Rs 65mn and interest cost at Rs 122mn are up four times and three times respectively. This has contained PAT growth to 73% YoY at Rs 163mn, translating to an EPS of Rs 11 for the quarter.

## Other highlights

### Expansion progressing smoothly

**Phase-I:** SLC completed the first phase of capacity expansion in Q2FY07 at a cost of Rs 2.7bn. This entailed the set up of capacities for four new products, namely, wider width processing fabrics (12mn mtrs), denim fabric (20mn mtrs), bottom weight fabric (6mn mtrs) and terry towels (3,000mtpa), as well as a yarn dyeing facility (1,500mtpa).

**Phase-II:** The second phase of expansion will be completed by March 2008 at a capex of Rs 2.3bn. This entails the set up of a garment factory at Roorkee to manufacture 6.6mn garment pieces. The facility will have fully automatic integrated stitching lines for wider width sheets, pillow covers and the existing terry towel project. The company has already put up a nylon coated fabric line (1.25mn mtrs) and a furnishing fabric unit (knitted and woven – 7.2mn mtrs) under this phase.

**Phase-III:** Apart from the above, SLC is in the process of further expanding its terry towel capacity from 3,000mtpa to 15,000mtpa with captive power projects of 12MW. Work towards this has commenced and is likely to be completed by March 2009 at an estimated cost of Rs 3.1bn. SLC intends to fund this project through equity of Rs 1.6bn, a term loan of Rs 1bn and the balance from monies already raised through share warrants (Rs 375mn) and its FCCB issue (Rs 125mn).

### Vast potential for technical textiles

SLC is a major player in technical and safety textiles with specialised products like fusible interlining, PU coated nylon, fire retardant fabric, bullet proof jackets, anti-infrared and high altitude clothing. It has established itself as a major supplier to the defence sector. Technical textiles are likely to grow at 14% and have vast potential.

The textile ministry recently recommended that fire retardant textiles be made mandatory in all public places. If this happens, all trains, hotels, theatres and public auditoriums in the country may have to replace their seats and other coatings with fire retardant material. The ministry has also proposed that flame-and-heat-resistant uniforms be made compulsory for fire fighters and employees working near furnaces or other similar places.

### Joint venture with Armet Armored Vehicles

The company has entered into a joint venture with the UK-based Armet Armored Vehicles (AAVL) for the assembly of armoured vehicles. SLC will hold a 49% equity stake in the JV company 'Armet Armored Vehicles India, while AAVL will hold the balance 51%. This venture will require an investment of Rs 500mn to produce 300 vehicles a year. These will be level 3 to level 7 bullet proof, explosion proof and mine blast proof vehicles.

The company has already received an order for armouring two vehicles from Afghanistan. It expects orders from the Middle East and Asian countries for the supply of more than 100 vehicles in the next year as there is huge demand for such vehicles in these regions. The JV will also manufacture armour plates, panels, helmets, ballistic body armour and similar safety and security-related equipment for domestic and foreign markets.

### Foraying into retail in a big way

SLC plans to enter into the retail segment by opening 500 exclusive brand outlets (EBO) under the brand name 'Shri Lakshmi' within the next three years. These outlets will market the company's own products such as garments, home furnishing and terry towels. Plans have been finalised for rolling out ~50 EBOs by June 2008.

**New garment factory being set up by March 2008**

**JV for armoured vehicles expected to ramp up significantly**

**Plans to open 500 branded retail outlets over next 3 years**

## Outlook

### From textiles to garmenting and home furnishing

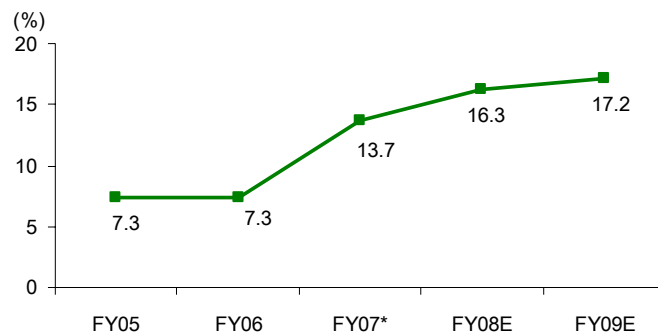
SLC has shifted its focus from pure fabric processing to the more lucrative and fast expanding business segments of home furnishing, denim fabric, terry towels and garments. And with plans to foray into the retail sector, the company will be on a better footing vis-à-vis peers and attract better valuations.

### EBIDTA margin set to improve steadily

We expect the company to report EBIDTA margins of 16.3% in FY08 and 17.2% in FY09. This is a dramatic improvement from the 7% margins recorded over FY05-FY06, and has been brought about by judicious product expansion. Margins are likely to improve further when the garment division at Roorkee comes into full operation from April 2008.

**Judicious product expansion to improve EBIDTA margins to 17.2% in FY09**

### EBIDTA margin forecast



Source: Company, Religare Research

## Valuation

### Maintain Buy with price target of Rs 300

SLC has consistently out-performed our revenue and PAT expectations, while reporting strong margin expansion over the past four quarters. Its expansion plans are proceeding as per schedule and the forays into garmenting and retailing would lend a further impetus to growth.

We expect SLC to deliver a topline CAGR of 43.8% to Rs 10.7bn over FY06-FY09 with an earnings CAGR of 74.5% to Rs 840mn. This will translate into an FDEPS of Rs 30 for FY08E and Rs 42 for FY09E, assuming full conversion of the FCCBs of US\$ 10mn issued in September and also conversion of the 2.5mn warrants issued to promoters in November 2007.

The stock is currently trading at 5x and 3.6x on FY08E and FY09E earnings, with an EV/EBIDTA of 4.8x and 3.7x respectively. Current market capitalisation of the stock is just 0.3x of its net sales for FY09E with an EV/Sales of 0.8x, which leaves a significant upside potential. We maintain our Buy recommendation on the scrip with a target of Rs 300, based on a P/E multiple of 10x on FY08E.

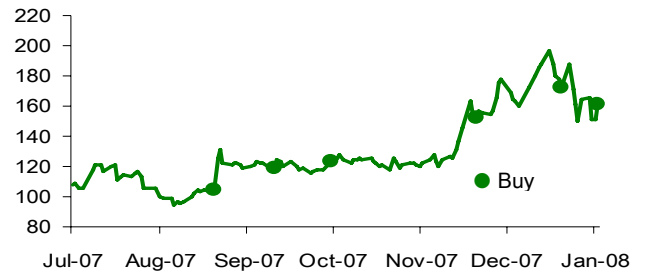
**Aggressive expansion plans and new product forays to drive growth; Buy**

Recommendation history

Date	Event	Reco price	Tgt price	Reco
5-Sep-07	Initiating Coverage	104	210	Buy
25-Sep-07	Company Update	122	210	Buy
17-Oct-07	Results Update	123	210	Buy
6-Dec-07	Company Update	152	210	Buy
7-Jan-08	Quarterly Preview	173	300	Buy
17-Jan-08	Results Update	151	300	Buy

Source: Religare Research

Stock performance



Source: Religare Research

## Financials

### Profit and Loss statement

Y/E June (Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	3,600.3	6,443.8	8,650.0	10,700.0
Growth (%)	27.5	79.0	34.2	23.7
EBITDA	264.0	879.8	1,410.0	1,840.0
Growth (%)	27.5	233.3	60.3	30.5
Depreciation	27.3	127.3	250.0	280.0
EBIT	236.6	752.5	1,160.0	1,560.0
Growth (%)	28.9	218.0	54.2	34.5
Interest	98.5	295.9	300.0	330.0
Other income	39.1	41.1	50.0	50.0
EBT	177.2	497.7	910.0	1,280.0
Growth (%)	56.8	180.9	82.8	40.7
Tax	18.8	89.3	310.0	440.0
Effective tax rate	10.6	17.9	34.1	34.4
Adj net income	158.4	408.4	600.0	840.0
Growth (%)	54.1	157.8	46.9	40.0
Shares outstanding (mn)	13.7	14.8	20.0	20.0
FDEPS (Rs)	11.6	27.6	30.0	42.0
DPS (Rs)	0.0	3.0	4.0	5.0
CEPS (Rs)	14.5	40.1	48.3	60.3

Source: Company, Religare Research

### Cash flow statement

Y/E June (Rs mn)	FY06	FY07	FY08E	FY09E
Net income	158.4	408.4	600.0	840.0
Depreciation	27.3	127.3	250.0	280.0
Other adjustments	13.0	57.5	115.0	85.0
Changes in WC	(251.9)	(1,164.1)	(780.0)	(800.0)
Operating cash flow	(53.2)	(570.9)	185.0	405.0
Capital expenditure	(1,850.2)	(1,909.9)	(1,000.0)	(300.0)
Investments	(4.4)	0.0	(150.0)	0.0
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(1,854.6)	(1,909.8)	(1,150.0)	(300.0)
Free cash flow	(1,907.9)	(2,480.7)	(965.0)	(105.0)
Issue of equity	548.9	70.3	800.0	0.0
Issue/repay debt	1,372.6	2,409.4	224.0	0.0
Dividends paid	0.0	(50.0)	(94.0)	(117.0)
Others	0.6	44.4	44.0	23.0
Financing cash flow	1,922.1	2,474.1	974.0	(94.0)
Beg. cash & cash eq	2.4	16.7	10.0	19.0
Chg in cash & cash eq	14.3	(6.6)	9.0	11.0
Closing cash & cash eq	16.7	10.0	19.0	30.0

Source: Company, Religare Research

### Balance sheet

Y/E June (Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	16.7	10.0	19.0	30.0
Accounts receivable	686.1	1,400.0	1,850.0	2,300.0
Inventories	636.7	1,100.0	1,730.0	2,230.0
Others current assets	98.8	239.5	139.5	139.5
Current assets	1,438.3	2,749.5	3,738.5	4,699.5
LT investments	4.6	4.6	154.6	154.6
Net fixed assets	347.4	3,689.6	4,639.6	4,659.6
CWIP	1,959.7	400.0	200.0	200.0
Total assets	3,750.0	6,843.7	8,732.7	9,713.7
Payables	146.2	300.0	500.0	650.0
Others	5.8	50.1	94.1	117.1
Current liabilities	152.0	350.1	594.1	767.1
LT debt	2,266.6	4,676.0	4,900.0	4,900.0
Other liabilities	18.2	75.7	190.7	275.7
Equity capital	208.6	148.0	200.0	200.0
Reserves	1,104.6	1,593.9	2,847.9	3,570.9
Net worth	1,313.2	1,741.9	3,047.9	3,770.9
Total liabilities	3,750.0	6,843.7	8,732.7	9,713.7
BVPS (Rs)	95.9	117.7	152.4	188.5

Source: Company, Religare Research

### Financial ratios

Y/E June	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	7.3	13.7	16.3	17.2
EBIT margin (%)	6.6	11.7	13.4	14.6
Net profit margin (%)	4.4	6.3	6.9	7.9
FDEPS growth (%)	12.6	138.6	8.7	40.0
Receivables (days)	70.0	79.0	78.0	78.0
Inventory (days)	65	62	73	76
Payables (days)	15	17	21	22
Current ratio (x)	9.5	7.9	6.3	6.1
Interest coverage (x)	2.4	2.5	3.9	4.7
Debt/equity ratio (x)	1.7	2.7	1.6	1.3
ROE (%)	16.5	26.4	24.9	24.4
ROCE (%)	9.3	14.6	15.8	18.2
ROAE (%)	6.6	11.4	14.5	17.6
EV/Sales (x)	1.9	1.1	0.8	0.6
EV/EBITDA (x)	25.9	7.7	4.8	3.7
P/E (x)	13.1	5.4	5.0	3.6
P/BV (x)	1.6	1.2	1.0	0.8
P/CEPS (x)	10.4	3.5	3.1	2.5

Source: Company, Religare Research

## Tata Consultancy Services



## Results Update

CMP: Rs 945

Target: Rs 1,095 ↓

HOLD

<b>Anurag Purohit</b>	<b>Hitesh Punjabi</b>
(91-22) 6612 4795	(91-22) 6612 4769
anurag.purohit@religare.in	hitesh.punjabi@religare.in

BSE code:	532540
NSE code:	TCS

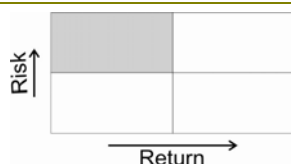
## Company data

Particulars	
Market cap (Rs bn / US\$ bn)	924.3/23.5
Outstanding equity shares (mn)	978.6
52-week high/low (Rs)	1,350/867
2-month average daily volume	258,761

## Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs bn)	186.3	229.0	275.8
Growth (%)	40.6	22.9	20.4
Adj net inc (Rs bn)	41.7	51.8	59.7
Growth (%)	41.4	24.2	15.2
FDEPS (Rs)	42.6	52.9	61.0
Growth (%)	41.4	24.2	15.2
P/E (x)	22.2	17.9	15.5
ROE (%)	56.3	46.3	36.9

## Risk-return profile



## Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	77.8	79.8
FIs	10.6	8.1
Banks & FIs	1.5	1.8
Public	10.1	10.3

## Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
TCS	945	(7.3)	(14.5)	(18.9)
Sensex	19,868	3.2	6.2	29.9
BSE IT	3,912	(6.1)	(16.3)	(19.8)

Company website	www.tcs.com
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## Results in line, but maintain cautious outlook

Tata Consultancy Services (TCS) has reported marginally better-than-expected revenue and net profit growth for Q3FY08, driven by higher revenues from Indian IT services. This offset the lower volume growth of 4% QoQ in the international IT division as against 6% expected. The margin expansion, at 37bps, was also 28bps lower than our expectations.

While uncertainty over the IT budgets of US-based clients continues, the management is confident that the allocation towards offshoring would increase in a challenging business environment. We believe that clarity in this regard will emerge only in February. We are revising our revenue and earnings estimates for FY08 and FY09 marginally due to the better-than-expected results in Q3FY08 and expectations of higher volumes in FY09. However, we have revised our target price downwards to Rs 1,095 as we have downgraded our P/E valuation multiple for TCS to 18x from 19.5x earlier, in line with our cautious view on the sector. We continue with our Hold recommendation on the stock.

## Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	59,240.5	57,671.5	2.7
EBITDA	15,788.4	15,528.9	1.6
EBTIDA margin (%)	26.7	26.9	(28) bps
Adj net income	13,307.7	12,676.8	5.0
FDEPS (Rs)	13.6	13.0	5.0

Source: Company, Religare Research

## Quarterly results

(Rs mn)	Q3FY08	Q2FY08	% Chg QoQ	Q3FY07	% Chg YoY
Revenue	59,240.5	56,398.4	5.0	48,604.8	21.9
Cost of revenue	31,383.8	30,152.3	4.1	25,758.2	21.8
Gross profit	27,856.7	26,246.1	6.1	22,846.6	21.9
S&M Expenses	12,068.3	11,425.5	-	9,094.0	-
<b>EBITDA</b>	<b>15,788.4</b>	<b>14,820.6</b>	<b>6.5</b>	<b>13,752.6</b>	<b>14.8</b>
Depreciation	1,475.3	1,381.3	-	1,079.9	-
<b>EBIT</b>	<b>14,313.1</b>	<b>13,439.3</b>	<b>6.5</b>	<b>12,672.7</b>	<b>12.9</b>
Other income	1,048.1	1,104.7	-	299.8	-
Profit before taxes	15,361.2	14,544.0	5.6	12,972.4	18.4
Income taxes	1,946.8	2,036.6	-	1,828.0	-
Earnings from affiliates	2.8	4.1	-	17.1	-
<b>Reported net profit</b>	<b>13,308</b>	<b>12,469.5</b>	<b>6.7</b>	<b>11,046.5</b>	<b>20.5</b>
Basic EPS	13.6	12.7	6.8	11.3	20.5

Source: Company, Religare Research



## Result highlights

### Key performance parameters

Parameters	Comments
<b>Volume growth</b>	International IT services recorded a volume growth of 4% QoQ which is lower than our expectations of 6% growth. Revenues from the Indian IT business witnessed 20.1% growth QoQ due to higher product revenues during the quarter.
<b>Pricing</b>	Blended pricing improved by 53bps, though this is lower than the 85bps expansion witnessed in Q2FY08. The management has reiterated its positive outlook on pricing. However, we believe that in a challenging macro environment, pricing could come under pressure and that the quantum and frequency of price hikes in new and renewed contracts may diminish.
<b>Onsite-Offshore-GDC mix</b>	The quarter witnessed a larger contribution from onsite revenues, which increased from 53.3% in Q2FY08 to 54.3%. The revenue share of global delivery centres (GDC) also increased by 60bps during the quarter. Conversely, offshore revenues decreased by 160bps to 41.4% of revenues.
<b>Employee addition</b>	The company made gross additions of 7,522 employees, of which 3,378 were trainees and 3,661 were lateral recruits. The management has maintained its FY08 guidance of adding 32,500 employees at the gross level. The company has made 22,295 campus offers so far for FY09.
<b>Attrition rate</b>	After the flattish trend in Q2FY08, the attrition rate has increased 70bps QoQ to 12.2% as against 11.5% in Q2FY08. The increase is primarily due to a 210bps rise in BPO employee attrition.
<b>Clients &amp; deals</b>	Momentum in client addition and deal acquisition continued during the quarter. TCS has added 54 new clients, taking its total tally of active clients to 857. During the quarter, the company won deals totalling in excess of US\$ 1.8bn from clients across geographies. The company is witnessing a shift in its deal pipeline with more deals coming from the European and emerging markets.
<b>Geographical mix</b>	Exposure to the US market decreased further during the quarter. The US contributed 49.5% of Q3FY08 revenues as compared to 52.2% in Q2FY08. Revenues from India witnessed good growth on the back of strong product revenues. Emerging geographies like Latin America, Continental Europe and Aisa Pacific are gradually increasing their share in overall revenues.
<b>Utilisation levels</b>	Due to the lower number of working days in the quarter, the utilisation rate including trainees was at 72.6%, a 110bps drop from Q2FY08. The net utilisation rate (excluding trainees) was also down by 120bps QoQ to 77.7%.
<b>Client growth</b>	The company recorded growth across all clients in rupee terms. However, the top 10 clients grew faster than the company at 1.6% sequentially in rupee terms. Clients other than the top-10 grew at 2% QoQ and contributed 70.3% of the total revenues.
<b>Services metrics</b>	The contribution of ADM in overall revenues fell to 47.7% during the quarter as against 48.6% in Q2FY08 as other services like enterprise solutions, business process outsourcing and assurance ramped up.
<b>Vertical metrics</b>	The Energy and Utilities vertical witnessed the strongest growth during the quarter, rising 30.2% QoQ. Despite concerns over a slowdown in the US economy, the BFSI vertical has expanded 6.7% QoQ. However, we believe that it would be premature to consider this as a sign of future growth.

Source: Company, Religare Research

### Flattish growth in the US subdued volumes from international IT services

#### Muted volume growth restricts revenues

TCS witnessed a muted growth in volumes from international IT services during Q3FY08. Volumes in this segment grew 4% QoQ as against 9.3% in Q2FY08, and below our estimate of 6% for the quarter. This is attributed to the flattish growth witnessed in the US geography. However, the under-performance in international IT services was offset by growth in the domestic business. Revenues from Indian IT services grew 20% QoQ boosted by product revenues from contracts executed during the quarter.

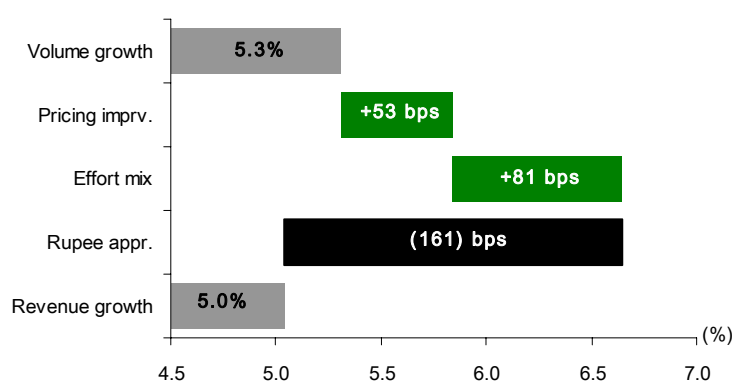
On the whole, the company's dollar and rupee revenues grew by 6.2% and 5% QoQ respectively. The revenue growth in dollar terms was supported by higher onsite effort and a marginal improvement in pricing. The rupee appreciated by 2.6% on an average during the quarter, which had a negative impact of 1.6% on revenue growth.

#### QoQ revenue growth trend

(%)	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
International IT services	9.0	4.1	1.6	9.3	3.7
Indian IT services	1.9	26.2	(3.5)	(0.7)	20.2

Source: Company, Religare Research

#### Q3FY08 revenue growth profile



Source: Company, Religare Research

### Margins expand on better pricing and productivity along with lower SG&A costs

#### Margins inch up

The EBITDA margin for the quarter stood at 26.7% as against 26.3% in Q2FY08, an expansion of 37bps. This is ~30bps lower than our estimate. The margin expansion occurred despite a negative impact of 92bps arising from rupee appreciation, which was more than compensated for by better pricing and productivity along with lower SG&A expenses.

#### QoQ margin movement

(%)	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Gross profit margin	47.0	47.2	45.8	46.5	47.0
EBITDA margin	28.3	28.3	25.5	26.3	26.7
EBIT margin	22.4	25.6	23.1	23.8	24.2
Net profit margin	22.7	22.8	22.8	22.1	22.5

Source: Company, Religare Research

### Management confident of rising share of offshoring in client IT budgets

#### Management cautiously confident about future

The management has indicated that it is cautiously confident about future growth prospects. The cautious outlook stems from negative announcements being issued by BFSI clients in the US, which are fuelling uncertainty over the status of transformational IT budgets and hence future growth. Transformational or discretionary IT spending has been a major growth contributor for Indian IT services players. At the same time, the management is confident that in a challenging scenario, the share of offshoring in client IT budgets would increase in order to generate better returns on investments.

#### We revise our FY08 and FY09 estimates and introduce FY10 numbers

We are revising our FY08 estimates to factor in the marginally better-than-expected performance in Q3FY08. We are increasing our revenue and earnings estimate by 1.5% and 1.8% respectively. We are also raising our FY09 revenue and earnings estimates by 1.5% due to higher volume growth expected. We now estimate that revenues in FY09 would grow 23.9% in dollar terms as against 20.8% previously projected. Our revised estimates build in a strong rupee scenario at an average assumed exchange rate of Rs 38.5/US\$ as against Rs 39/US\$ earlier.

#### Revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Net sales	225,662	229,048	1.5	271,767	275,849	1.5
EBITDA	60,654	60,090	(0.9)	71,625	73,773	3.0
EBITDA margin (%)	26.9	26.2	(64)	26.4	26.7	39
Net profit	50,499	51,425	1.8	58,391	59,277	1.5
FDEPS (Rs)	52.0	52.9	1.8	60.1	61.0	1.5

Source: Religare Research

We are also introducing our FY10 estimates for the company. We expect revenues to grow by 16.4% and 14.6% in dollar and rupee terms respectively. The earnings growth is expected to be slower in FY10 due to an increase in tax rates as STPI benefits would no longer be available. Over FY07-FY10E, expect earnings to log a CAGR of 14.2%.

#### Target price downgraded to Rs 1,095; Maintain Hold

We are decreasing our one-year target price for the stock by 9.7% from Rs 1,177 to Rs 1,095. The reduction in target price is due to the lowering of our target P/E multiple from 19.5x to 18x, in line with our view on the sector.

At the current price of Rs 945, the stock is trading at 17.9x and 15.5x its expected FY08 and FY09 earnings of Rs 52.9 and Rs 61 respectively. We maintain a cautious outlook on the sector and believe that threats to growth still persist. In our opinion, macro-economic announcements in the US would continue to have a significant sentimental impact on stock prices in the short term. Clarity on IT budgets and hence growth prospects is expected to emerge only in February.

In view of the sector-wide growth concerns, we maintain our Hold recommendation on the stock. We recommend fresh exposure to the sector only based on the cues received in February. Negative developments could put further pressure on stock prices as well as earnings and growth expectations.

### Avoid fresh exposure until clarity arises on IT budgets in February

Recommendation history

Date	Event	Reco price	Tgt price	Reco
17-Apr-07	Results Update	1,280	1,530	Buy
9-Jul-07	Sector Update	1,159	1,448	Buy
17-Jul-07	Results Update	1,128	1,415	Buy
5-Oct-07	Quarterly Preview	1,078	1,354	Buy
16-Oct-07	Results Update	1,074	1,193	Buy
7-Jan-08	Quarterly Preview	1,005	1,177	Hold
18-Jan-08	Results Update	945	1,095	Hold

Source: Religare Research

Stock performance



Source: Religare Research

## Consolidated financials

### Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	186,334	229,048	275,849	316,050
Growth (%)	40.6	22.9	20.4	14.6
EBITDA	50,630	60,090	73,773	82,435
Growth (%)	36.8	18.7	22.8	11.7
Depreciation	4,184	5,676	7,304	10,109
EBIT	46,446	54,414	66,470	72,326
Growth (%)	35.8	17.2	22.2	8.8
Interest	237	461	464	464
Other income	2,181	5,402	3,045	4,077
EBT	48,390	59,355	69,051	75,940
Income taxes	6,700	7,578	9,391	13,821
Effective tax rate (%)	13.8	12.8	13.6	18.2
Adjusted net income	41,690	51,777	59,660	62,119
Growth (%)	41.4	24.2	15.2	4.1
Extra-ordinary items	-	-	-	-
Min. int / inc. from associates	373	352	383	419
Reported net income	41,317	51,425	59,277	61,700
Growth (%)	42.6	24.5	15.3	4.1
Shares outstanding (mn)	978.6	978.6	978.6	978.6
Basic EPS (Rs) (adj)	42.6	52.9	61.0	63.5
FDEPS (Rs) (adj)	42.6	52.9	61.0	63.5
DPS (Rs)	11.5	12.0	13.0	14.0

Source: Company, Religare Research

### Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	41,317	51,425	59,277	61,700
Depreciation	4,184	5,676	7,304	10,109
Other adjustments, net	158	713	796	817
Changes in working capital	(11,603)	(8,340)	(5,911)	(5,994)
Cash flow from operations	34,056	49,474	61,465	66,632
Capital expenditure	(12,251)	(17,904)	(18,278)	(17,195)
Change in investments	(5,296)	(11,440)	(16,905)	(22,581)
Other investing inc/(exp)	(1,034)	-	-	-
Cash flow from investing	(18,581)	(29,344)	(35,184)	(39,776)
Free cash flow	15,475	20,130	26,281	26,856
Issue of equity	211	-	-	-
Issue/repay debt	3,949	-	-	-
Dividends paid	(10,880)	(13,211)	(14,312)	(15,413)
Other financing cash flow	(429)	(1,630)	-	-
Cash flow from financing	(7,148)	(14,841)	(14,312)	(15,413)
Change in cash & cash eq	8,326	5,288	11,969	11,443
Opening cash & cash eq	3,965	12,291	17,580	29,549
Closing cash & cash eq	12,291	17,580	29,549	40,992

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	12,291	17,580	29,549	40,992
Accounts receivable	50,925	62,753	74,063	80,528
Inventories	416	463	554	640
Others current assets	10,665	17,064	24,743	34,640
Current assets	74,297	97,860	128,908	156,800
Long-term investments	12,711	24,151	41,056	63,637
Net fixed assets	15,774	29,316	49,095	66,290
CWIP	7,139	11,500	10,000	10,000
Intangible assets	13,978	13,978	13,978	13,978
Deferred tax assets, net	555	916	1,329	1,727
Other assets	6,194	7,433	8,920	10,704
Total assets	130,648	185,154	253,286	323,135
Accounts payable	6,944	8,332	9,965	11,521
Others	24,414	32,959	44,494	53,393
Current liabilities	31,357	41,291	54,460	64,914
Debt funds	6,626	6,626	6,626	6,626
Other liabilities	3,004	3,155	3,312	3,478
Equity capital	979	979	979	979
Reserves	88,682	133,104	187,910	247,140
Shareholder's funds	89,661	134,083	188,888	248,118
Total liabilities	130,648	185,154	253,286	323,135
BVPS (Rs)	91.6	137.0	193.0	253.5

Source: Company, Religare Research

### Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	27.2	26.2	26.7	26.1
EBIT margin (%)	24.9	23.8	24.1	22.9
Net profit margin (%)	22.4	22.6	21.6	19.7
FDEPS growth (%)	41.4	24.2	15.2	4.1
Receivables (days)	86.6	90.6	90.5	89.3
Inventory (days)	1.6	0.9	0.9	0.9
Payables (days)	16.5	16.5	16.5	16.8
Current ratio (x)	2.4	2.4	2.4	2.4
Quick ratio (x)	2.4	2.4	2.4	2.4
Interest coverage ratio (x)	177.1	113.4	129.6	134.9
Debt / equity (x)	0.1	0.0	0.0	0.0
ROE (%)	56.3	46.3	36.9	28.4
ROA (%)	38.6	32.8	27.2	21.6
ROCE (%)	57.3	44.8	38.8	31.6
EV/Sales (x)	4.9	4.0	3.3	2.9
EV/EBITDA (x)	18.0	15.2	12.4	11.1
P/E (x)	22.2	17.9	15.5	14.9
P/BV (x)	10.3	6.9	4.9	3.7

Source: Company, Religare Research

# J K Lakshmi Cement

## Results Update

**CMP: Rs 171**
**Target: Rs 324**
**BUY**
**Dalpat Mehta**

(91-22) 6612 4696

dalpat.mehta@religare.in

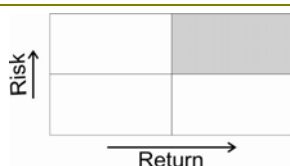
 BSE code: 500380  
 NSE code: JKLAKSHMI

**Company data**

Particulars	
Market cap (Rs bn / US\$ mn)	9.8/247.0
Outstanding equity shares (mn)	57.1
52-week high/low (Rs)	221/97
2-month average daily volume	124,378

**Financial snapshot**

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	8,438.3	11,300.0	12,150.0
Growth (%)	44.9	33.9	7.5
Adj net profit (Rs mn)	1,781.1	2,500.0	2,805.0
Growth (%)	221.2	40.4	12.2
FDEPS (Rs)	31.2	40.9	45.8
Growth (%)	180.0	30.9	12.2
P/E (x)	5.5	4.2	3.7
ROE (%)	62.2	47.3	35.3

**Risk-return profile**

**Shareholding pattern**

(%)	Dec-07	Sep-07
Promoters	41.7	41.7
FII's	7.4	6.6
Banks & FI's	19.7	18.9
Public	31.2	32.8

**Stock performance**

Returns (%)	CMP	1-mth	3-mth	6-mth
J K Lakshmi	171	(21.4)	(13.5)	24.0
Sensex	19,868	8.8	17.6	34.2

**Company website** [www.jklakshmicement.com](http://www.jklakshmicement.com)
**Sales in line but margins sag on one-time expenses**

J K Lakshmi Cement (JKLC) has reported a 24% YoY growth in net sales for Q3FY08, in line with our expectations, as volumes increased by 7.7% and average realisations rose 15%. The EBITDA margin, however, declined by 100bps YoY to 30.6% as non-recurring expenses towards the company's Silver Jubilee celebrations were recorded during the quarter. Consequently, EBITDA growth lagged sales at 20% YoY. Higher depreciation along with a sharp jump in interest cost due to loan restructuring constrained PAT growth at 11% YoY to Rs 611mn.

Going ahead, we expect the ongoing capacity expansion programme coupled with the strong thrust on the RMC business to fuel growth. JKLC is raising its capacity to 5MnT by December 2008 from 3.4MnT at the existing site in Rajasthan. Further, the company is aggressively pursuing the RMC business and will invest Rs 560mn to set up seven plants by the end of FY08. We believe JKLC has solid growth prospects and maintain our positive view on the stock, which appears grossly undervalued at present. In our view, the stock holds an upside potential of close to 90% base on 8x FY08E; we reiterate our Buy rating with a target price of Rs 324.

**Actual v/s estimated performance**

(Rs mn)	Actual	Estimated	% Variance
Net sales	2,823.5	2,790	1.2
EBITDA	865.2	950.0	(8.9)
PAT	611.0	675.0	(9.5)
EPS (Rs)	10.7	11.8	(9.5)

*Source: Company, Religare Research*
**Quarterly results**

(Rs mn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Net sales	2,823.5	2,286.4	23.5	2,675.4	5.5
EBITDA	865.2	721.4	19.9	916.9	(5.6)
Depreciation	145.3	109.2	33.1	145.2	0.1
EBIT	719.9	612.2	17.6	771.7	(6.7)
Interest	113.8	69.6	63.5	57.1	99.3
Other income	7.7	10.0	(23.0)	22.6	(65.9)
PBT	613.8	552.6	11.1	737.2	(16.7)
Tax	2.8	2.0	40.0	2.2	27.3
PAT	611.0	550.6	11.0	735.0	(16.9)
EPS (Rs)	10.7	9.64	11.0	12.87	(16.9)

**Margins (%)**

EBITDA	30.6	31.6	-	34.3	-
EBIT	25.5	26.8	-	28.8	-
PBT	21.7	24.2	-	27.6	-
PAT	21.6	24.1	-	27.5	-

*Source: Company, Religare Research*

## Result highlights

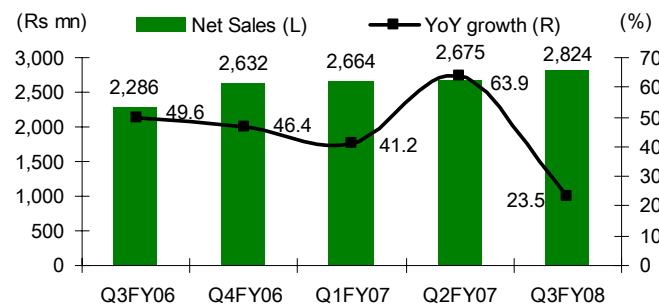
**Cement sale volumes up 8% YoY to 0.9 MnT with 15% rise in realisations**

### Net sales up 24% YoY supported by volume growth

Net sales for Q3FY08 stood at Rs 2.8bn as against Rs 2.3bn for the corresponding year-ago quarter, a growth of 23.5%. The growth was supported by marginally higher volume sales of cement and clinker at 0.909mn MT (MnT) as against 0.844MnT in the same year-ago quarter, reflecting a growth of 7.7%. JKLC raised its production capacity from 2.4MnT to 3.4MnT in March 2007, aiding volume growth thereafter. The company also witnessed higher average realisations of Rs 3,106/MT during the quarter, an increase of 14.7% YoY.

On a QoQ basis, volume sales have increased by 11.1%, but net sales expanded by just 5.5% due to a higher percentage of clinker and OPC volumes, which earn lower realisations. The company markets its products mainly in the northern and western regions with ~30% sold to Rajasthan, 30% to Gujarat, 10% to Maharashtra and the remaining 30% sold in Haryana, Punjab and the NCR.

### Sales growth trend



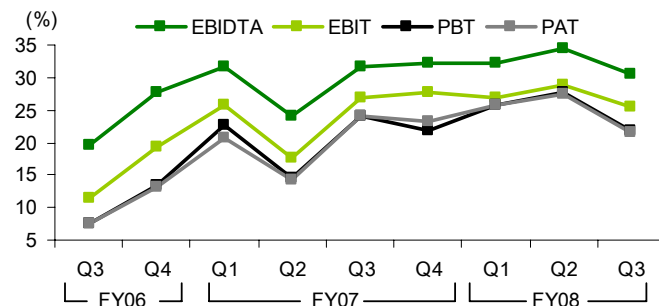
Source: Company, Religare Research

**Margins slide due to non-recurring expenses**

### EBIDTA margin slides 100bps

The company reported an EBIDTA margin of 30.6% for the quarter as against 31.6% in the corresponding year-ago period. The margin decline is on account of the following: a) One-time expenses of Rs 50mn towards the company's Silver Jubilee celebrations, which includes Rs 30mn towards ex-gratia payment of a month's salary to all employees to commemorate the occasion; b) Financial and technical consultancy fees of ~Rs 50mn for a corporate debt restructuring (CDR) package and expansion project; c) higher freight charges incurred to increase market reach and penetration in regions beyond the company's normal coverage. JKLC's operating profit thus increased at a slower pace than sales (20% YoY) to Rs 865.2mn as against Rs 721.4mn in Q3FY07.

### Margin movement



Source: Company, Religare Research

**Volume sales up 19% with net realisations up 18% during 9mFY08**

**Higher interest cost and depreciation constrain PAT growth**

Depreciation has increased by 33% during the quarter to Rs 145.3mn on account of the impact of capacity additions made in March. Interest cost also increased substantially by 63.5% to Rs 113.8mn due to the restructuring of loans, wherein some non-interest bearing loans were repaid by the company to avail of better one-time settlement benefits. This constrained PAT growth at 11% YoY to Rs 611mn, translating to an EPS of Rs 10.7 for the quarter and Rs 35.6 for the first nine months of FY08 on an equity base of Rs 571mn. With carry-forward tax-losses, the company did not incur any tax burden, except for FBT.

**9mFY08 performance indicates strong annualised performance**

During 9mFY08, the company has achieved net sales of Rs 8.2bn as against Rs 5.8bn, a growth of 40.6%. This was led by a 19% increase in volume sales to 2.6MnT and an 18% rise in net realisation. The company's EBITDA margin improved by 360bps, resulting in a 57.8% rise in operating profit to Rs 2.6bn.

Depreciation for the same period has gone up by 33% to Rs 435.7mn and interest cost has risen by 15.9% to Rs 220mn. The strong operating performance coupled with a rise in other income boosted PAT by 73%, resulting in an EPS of Rs 35.6.

**9mFY08 results**

(Rs mn)	9mFY08	9mFY07	% Chg	FY07
Net Sales	8,163.1	5,805.9	40.6	8,438.3
EBITDA	2,641.5	1,673.6	57.8	2,560.1
Depreciation	435.7	327.8	32.9	443.3
EBIT	2,205.8	1,345.8	63.9	2,116.8
Interest	219.9	189.7	15.9	361.4
Other income	50.9	21.7	134.6	32.8
PBT	2,036.8	1,177.8	72.9	1,788.2
Tax	6.2	5.0	24.0	7.1
PAT	2,030.6	1,172.8	73.1	1,781.1
EPS (Rs)	35.6	20.5	73.1	31.2

**Margins (%)**

EBIDTA	32.4	28.8	30.3
EBIT	27.0	23.2	25.1
PBT	25.0	20.3	21.2
PAT	24.9	20.2	21.1

Source: Religare Research

**Other highlights**

**Investing Rs 3bn towards capacity expansion to 5MnT**

**Expanding capacity to 5MnT by Dec,2008**

The company's cement production capacity currently stands at 3.4MnT following commissioning of the 1MnT plant at Rajasthan in March 2007. The company is further increasing its capacity to 5MnT by December 2008 at an investment of Rs 3.2bn at its existing site in Rajasthan. This will give it the second largest cement production capacity at a single location after Ultratech.

The management has stated that it will be putting up the expanded capacity at half the capital cost of greenfield projects being undertaken by other cement companies. This expansion will cover two split grinding units, one at Sirohi in Rajasthan and the other at Ahmedabad in Gujarat. It has been fully funded through internal accruals.



### Two more greenfield projects in final stages

We understand that JKLC is in the advanced stage of finalising two new greenfield projects with an estimated capacity of 2.5MnT per plant. These projects, which are to be announced shortly, would raise the total capacity to 10MnT in the next three years.

### Strategic tie-up for power supply

With the completion of two captive power plants of 18MW each, the company is now able to meet almost 100% of its power requirements. With fresh cement production capacity of 1.6MnT set to be commissioned in December 2008, JKLC has tied up with a power generating company for the supply of additional power at Rs 3.2/unit for the next 20 years. This compares favourably with the cost from its captive power plants, which comes to Rs 3.4/unit.

### Aggressively pursuing the RMC business

JKLC plans to set up 15–20 ready-mix concrete (RMC) plants at an investment of Rs 80mn–100mn per unit in the coming years. Of this, the company is investing Rs 560mn to set up seven plants in Rajasthan, Gujarat and Punjab by the end of the current fiscal, taking its total tally of RMC units to twelve. It has already launched Punjab's first RMC plant in Mohali.

JKLC has been aggressively pursuing this business in the belief that the new trend of using ready-mix concrete would replace the conventional site-mix concrete at a much faster pace than envisaged earlier. Already, RMC has replaced 10% of cement demand. Bulk users in the real estate business are increasingly using RMC to save on time and cost overruns in projects. In cities like Gurgaon which are in the midst of a construction boom, almost 70% of cement consumption is in the form of RMC. The company is also exploring other value-added products which will advance its efforts to expand into newer markets

**Investing Rs 560mn to set up 7 RMC plants by the end of FY08**

## Valuation

### Maintain Buy with a target of Rs 324

We expect JKLC to deliver a topline CAGR of 20% to Rs 12.1bn over FY07-FY09 with an earnings CAGR of 25% to Rs 2.8bn. This will translate into an EPS of Rs 40.9 for FY08 and Rs 45.8 for FY09.

At the current price of Rs 171, the stock trades at a P/E of 4.2x and 3.7x on FY08E and FY09E respectively and an EV/EBIDTA of 3.9x and 3.5x respectively. The EV/Tonne for FY08 stands at US\$112 and for FY09 at only US\$ 76 when capacity will increase to 5MnT. Considering the company's results, planned capacity expansion to 5MnT and aggressive pursuit of the RMC business, we recommend a Buy on the scrip with a price target of Rs 324, based on a P/E of 8x on FY08E.

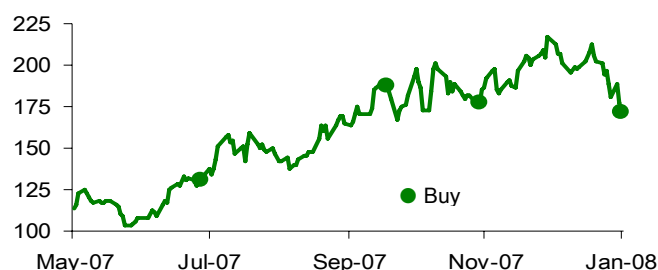
**Target of Rs 324 based on a P/E of 8x on FY08E; Buy**

### Recommendation history

Date	Event	Reco price	Tgt price	Reco
10-Jul-07	Quarterly Preview	131	243	Buy
5-Oct-07	Quarterly Preview	188	324	Buy
14-Nov-07	Results Update	177	324	Buy
17-Jan-08	Result Update	171	324	Buy

Source: Religare Research

### Stock performance



Source: Religare Research

## Financials

### Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	5,824.8	8,438.3	11,300.0	12,150.0
Growth (%)	19.7	44.9	33.9	7.5
EBITDA	1209.1	2,560.1	3,800.0	4,300.0
Growth (%)	78.8	111.7	48.4	13.2
Depreciation	530.7	443.3	600.0	700.0
EBIT	678.4	2,116.8	3,200.0	3,600.0
Growth (%)	263.1	212.0	51.2	12.5
Interest	194.9	361.4	300.0	350.0
Other income	79.0	32.8	40.0	50.0
EBT	562.5	1,788.2	2,940.0	3,300.0
Growth (%)	133.9	217.9	64.4	12.2
Tax	8.0	7.1	440.0	495.0
Effective tax rate	1.4	0.4	15.0	15.0
Adj net income	554.5	1,781.1	2,500.0	2,805.0
Growth (%)	126.5	221.2	40.4	12.2
Shares outstanding (mn)	49.8	57.1	61.2	61.2
FDEPS (Rs)	11.1	31.2	40.9	45.8
DPS (Rs)	-	1.0	2.0	3.0
CEPS (Rs)	21.8	39.0	50.7	57.3

Source: Company, Religare Research

### Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	554.5	1,781.1	2,500.0	2,805.0
Depreciation	530.7	443.3	600.0	700.0
Other adjustments	321.7	(4.0)	(0.2)	0.6
Changes in WC	(1,016.2)	548.9	(325.1)	1,230.0
Operating cash flow	390.6	2,769.3	2,774.7	4,735.6
Capital expenditure	(1,788.7)	(1,537.7)	(3,533.8)	(2,500.0)
Investments	1,715.0	(580.0)	0.0	(500.0)
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(73.7)	(2,117.7)	(3,533.8)	(3,000.0)
Free cash flow	316.9	651.6	(759.1)	1,735.6
Issue of equity	(363.1)	421.5	359.9	0.0
Issue/repay debt	(58.5)	379.5	(636.5)	(510.0)
Dividends paid	-	(66.8)	(143.2)	(214.7)
Others	-	-	-	-
Financing cash flow	(421.6)	734.3	(419.7)	(724.7)
Beg. cash & cash eq	225.6	120.9	1,506.8	328.0
Chg in cash & cash eq	(104.7)	1,385.9	(1,178.8)	1,010.9
Closing cash & cash eq	120.9	1,506.8	328.0	1,338.8

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	120.9	1,506.8	328.0	1,338.8
Accounts receivable	209.9	177.6	215.0	330.0
Inventories	366.4	558.2	775.0	900.0
Others current assets	1,242.9	1,161.7	1,500.0	300.0
Current assets	1,940.1	3,404.3	2,818.0	2,868.8
LT investments	1.1	581.1	581.1	1,081.1
Net fixed assets	6,373.9	7,455.1	7,355.1	12,455.1
CWIP	878.9	766.2	3,800.0	500.0
Total assets	9,194.0	12,206.7	14,554.2	16,905.0
Payables	248.6	458.8	620.0	830.0
Others	276.8	693.8	800.0	860.0
Current liabilities	525.4	1,152.6	1,420.0	1,690.0
LT debt	6,916.9	7,296.5	6,660.0	6,150.0
Other liabilities(Deff.Tax)	(380.4)	(380.4)	(380.4)	(380.4)
Equity capital	497.7	610.9	611.8	611.8
Reserves	1,634.4	3,527.2	6,242.8	8,833.6
Net worth	2,132.1	4,138.0	6,854.6	9,445.4
Total liabilities	9,194.0	12,206.7	14,554.2	16,905.0
BVPS (Rs)	42.9	72.5	112.0	154.4

Source: Company, Religare Research

### Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	20.8	30.3	33.6	35.4
EBIT margin (%)	11.6	25.1	28.3	29.6
Net profit margin (%)	9.5	21.1	22.1	23.1
FDEPS growth (%)	126.5	180.0	30.9	12.2
Receivables (days)	13.2	7.7	6.9	9.9
Inventory (days)	23	24	25	27
Payables (days)	16	20	20	25
Current ratio (x)	3.7	3.0	2.0	1.7
Interest coverage (x)	3.5	5.9	10.7	10.3
Debt/equity ratio (x)	3.8	1.3	1.0	0.5
ROE (%)	36.4	62.2	47.3	35.3
ROCE (%)	8.9	22.1	27.8	27.0
ROAE (%)	7.4	18.2	22.9	22.8
EV/Sales (x)	2.6	1.8	1.3	1.2
EV/EBITDA (x)	12.4	5.8	3.9	3.5
P/E (x)	15.3	5.5	4.2	3.7
P/BV (x)	4.0	3.0	1.8	0.9
P/CEPS (x)	7.8	5.6	3.9	2.4




Source: Company, Religare Research

## Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
4-Dec-07	Asian Oilfield Services	Company Update	238	280	BUY
4-Dec-07	Maruti Suzuki	Company Update	1,029	1,225	BUY
5-Dec-07	State Bank of India	Company Update	2,317	2,790	BUY
6-Dec-07	Shri Lakshmi Cotsyn	Company Update	152	210	BUY
4-Dec-07	Ispat Industries	Initiating Coverage	52	101	BUY
6-Dec-07	Hindustan Construction Company	Initiating Coverage	209	333	BUY
10-Dec-07	Garware Offshore	Company Update	268	364	BUY
10-Dec-07	Deep Industries	Initiating Coverage	216	401	BUY
11-Dec-07	Parsvnath Developers	Company Update	407	512	BUY
13-Dec-07	HDIL	Company Update	978	1,076	BUY
14-Dec-07	Adhunik Metaliks	Company Update	215	246	BUY
17-Dec-07	Jindal Drilling & Industries	Company Update	1,317	1,305	HOLD
18-Dec-07	Hero Honda	Company Update	702	745	HOLD
19-Dec-07	PVR	Company Update	313	391	BUY
24-Dec-07	Vishal Retail	Company Update	777	1,018	BUY
24-Dec-07	Mercator Lines	Initiating Coverage	115	177	BUY
24-Dec-07	K P R Mill	Initiating Coverage	165	212	BUY
26-Dec-07	Tata Metaliks	Initiating Coverage	163	234	BUY
27-Dec-07	Apar Industries	Initiating Coverage	347	458	BUY
27-Dec-07	REI Agro	Initiating Coverage	728	1,007	BUY
28-Dec-07	Gulf Oil Corp	Initiating Coverage	291	477	BUY
31-Dec-07	Bank of India	Company Update	365	400	HOLD
1-Jan-08	Indoco Remedies	Company Update	313	383	BUY
1-Jan-08	Gremach Infrastructure Equipments	Initiating Coverage	360	529	BUY
2-Jan-08	Venus Remedies	Company Update	565	708	BUY
3-Jan-08	Ganesh Housing Corp	Initiating Coverage	751	1,201	BUY
4-Jan-08	Tulip IT	Company Update	1,118	1,015	HOLD
4-Jan-08	Indian Bank	Initiating Coverage	212	257	BUY
4-Jan-08	Indian Overseas Bank	Initiating Coverage	201	241	BUY
4-Jan-08	Allahabad Bank	Initiating Coverage	138	167	BUY
8-Jan-08	Information Technology	Quarterly Preview	NA	NA	NA
9-Jan-08	Mahindra & Mahindra	Company Update	830	940	BUY
10-Jan-08	Axis Bank	Results Update	1,095	1,272	BUY
10-Jan-08	Prism Cement	Results Update	67	91	BUY
10-Jan-08	Bank of India	Company Update	400	457	BUY
11-Jan-08	South Indian Bank	Results Update	237	271	BUY
14-Jan-08	Infosys Technologies	Results Update	1,580	1,935	HOLD
14-Jan-08	Reliance Power	IPO Note	405 - 450	NA	SUBSCRIBE
14-Jan-08	Future Capital Holdings	IPO Note	700 - 765	NA	SUBSCRIBE
15-Jan-08	Elecon Engineering	Initiating Coverage	306	424	BUY
16-Jan-08	Indian Bank	Results Update	219	257	BUY
17-Jan-08	Apollo Tyres	Results Update	54	70	BUY
17-Jan-08	Tata Consultancy Services	Results Update	945	1,095	HOLD
17-Jan-08	J K Lakshmi Cement	Results Update	171	324	BUY
18-Jan-08	Shri Lakshmi Cotsyn	Results Update	151	300	BUY

## Market trends

### BSE sectoral indices

	% Chg				Constituent performance
	17-Jan	1-day	1-mth	3-mth	
Automobiles	5,308	0.7	(4.6)	(1.6)	
Banks	11,971	(1.6)	11.2	32.5	
Capital Goods	18,932	1.4	0.2	17.3	
Comm. & Tech.	3,556	(0.3)	(3.9)	(9.8)	
Consumer Durables	6,059	0.7	(0.0)	26.6	
FMCG	2,347	1.8	6.2	12.6	
Healthcare	4,125	(0.0)	(3.2)	9.2	
IT	3,854	(0.8)	(7.4)	(17.6)	
Metal	18,147	0.7	0.4	20.7	
Oil & Gas	13,381	(2.0)	8.7	26.7	
Mid-caps	9,340	0.8	2.7	25.8	
Small-caps	12,740	1.7	7.8	40.3	

Number of companies: 

### Emerging markets

Country	% Chg				
	17-Jan	1-day	1-mth	3-mth	6-mth
Brazil	57,037	(3.0)	(6.6)	(9.8)	(0.9)
Shanghai	5,166	0.3	6.8	(11.3)	31.5
Hong Kong	24,384	(2.9)	(8.8)	(17.2)	6.8
India	19,701	(0.8)	3.3	9.5	28.8
South Korea	1,696	(1.6)	(8.9)	(15.4)	(12.2)
Taiwan	7,988	(1.4)	2.3	(17.1)	(15.8)

### FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	(565.1)	(465.9)	(4.4)	(4.4)
South Korea	(784.6)	(2,961.6)	(4,905.6)	(4,905.6)
Taiwan	(210.1)	1,276.6	(665.1)	(665.1)
Thailand	(2,315.1)	(91.3)	(91.3)	(91.3)

## Events calendar

### Quarterly results

January 18, 2008		19	20
Wipro		Idea Cellular	Nucleus Software Exports
HCC		ICICI Bank	Shasun Chemicals & Drugs
HDFC		Sagar Cements	
Power Finance Corporation		Sasken Communication Technologies	
Tayo Rolls		Ipca Laboratories	
IFCI		Binani Industries	
21		22	23
Satyam Computer Services		Balaji Telefilms	Fortis Healthcare
Glenmark Pharmaceuticals		Greenply Industries	Chennai Petroleum Corporation
Canara Bank		Excel Industries	Sonata Software
HDFC Bank		Sparsh Bpo Services	MRO - TEK
Riddhi-Siddhi Gluco Biols		MindTree Consulting	Mid-Day Multimedia
Tanla Solutions		Bank of India	Ballarpur Industries
Religare Enterprises		Pantaloon Retail	Bank of Maharashtra
Sterlite Technologies			
24		25	26
3i Infotech		Dr. Reddy's Laboratories	Century Enka
South Asian Petrochem		GIPCL	
Honeywell Automation India		Ashok Leyland	
Sun Pharma Advanced		ICRA	
Mysore Paper Mills		Tvs Motor	
GMR Infrastructure		Century Textiles & Industries	
Gemini Communication		Zee News	
27		28	29
Mangalam Cement		Hindustan Motors	Tata Power
		Mahindra & Mahindra Financial Services	Asian Paints
		Remsons Industries	Dabur India
		Sundaram Brake Linings	Eicher Motors
		Andhra Pradesh Paper Mills	Maruti Suzuki India
		Apar Industries	Subex Azure

## Trade data

### Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Bihar Tubes	Mavi Investment Fund	B	200,000	195.0
Gayatri Proj	Merill Lynch Capital Market Espana	B	120,000	678.0
Gulsha Sug C	Landmark Capital Markets	B	300,000	78.3
LIC Housing Finance	Taib Securities Mauritius (Tsml)	B	650,000	380.5
Orient Paper & Ind	Birla Mutual Fund	B	74,358	709.0
Orient Paper & Ind	Birla Mutual Fund	S	74,358	709.0
Oswal Chem & Fert	Reliance Capital Trustee Co	S	1,674,949	66.8
Sayaj Hotels	Clearwater Capital Partners Cyprus	S	100,000	120.0
Shree Renuka Sugars	Morgan Stanley Mauritius Company	B	150,000	1,251.5
Unity Infraprojects	Clearwater Capital Partners Investments	B	94,852	875.0
Usher Agro	Mavi Investment Fund	B	100,000	202.2

Source: BSE

### Disclosures under insider trading regulations

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Core Projects & Technologies	Sanjay Chandoskar	S	500	-	2,500	-
Crazy Infotech	Gyan Chand Shadija	S	4,785	-	--	-
Dolat Investments	Pankaj D Shah	S	1,522,581	0.9	15,664,027	8.9
FDC	Dr Satish Shripad Ugrankar	S	2,500	-	560,990	0.3
Gayatri Projects	II&Fs Equity Trust-Leverageindiafund	S	216,649	2.2	703,351	7.0
Grindwell Norton	Dilnavaz S Variava	S	4,138	-	657,788	1.2
Gujarat Lease Financing	Gujarat Industrial Invest Corpn	S	25,000	0.1	2,553,333	9.4
Hi-Tech Gears	Pranav Kapuria	B	1,500	-	317,924	3.4
Hi-Tech Gears	Anuj Kapuria	B	1,702	-	322,504	3.4
ICICI Bank	Madhav Kalyan	B	3,000	-	3,000	-
ICICI Bank	Unmesh Kulkarni	B	1,800	-	1,800	-
ICICI Bank	Mohit Batra	S	1,000	-	59,150	-
ICICI Bank	Ramni Nirula	S	3,000	-	165,800	-
ICICI Bank	Smita Gune	S	1,000	-	59,854	-
ICICI Bank	Nihal Desai	S	5,000	-	27,050	-
ICICI Bank	Srirang TK	S	500	-	15,600	-
ICICI Bank	Anup Saha	S	1,800	-	--	-
ICICI Bank	Chidambaram N	S	2,500	-	31,000	-
ICICI Bank	Rakesh Bansal	S	400	-	2,450	-
ICICI Bank	Vikas Agarwal	S	1,600	-	--	-
ICICI Bank	Viral Rupani	S	800	-	2,078	-
ICICI Bank	Balasubramanian V	S	400	-	5,100	-
ICICI Bank	Saiprasad Somayajula	S	458	-	2,400	-
ICICI Bank	Sanjay Shirole	S	750	-	3,300	-
ICICI Bank	Shyamsunder Tailor	S	500	-	6,000	-
ICICI Bank	Shyamsunder Tailor	S	450	-	-	-
ICICI Bank	Tina Singh	S	500	-	900	-
ICICI Bank	Palaniappan P	S	1,000	-	1,850	-
Iqms Software	JSSuryanarayana	S	425,000	0.2	905,000	0.5
KS Oils	Ramesh Chand Garg	B	229,749	-	24,719,997	7.8
KS Oils	Ramesh Chand Garg	B	139,155	-	24,859,152	7.9
KS Oils	Ramesh Chand Garg	B	299,764	-	24,069,578	7.6

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
KS Oils	Ramesh Chand Garg	B	420,670	-	24,490,248	7.8
Lime Chemicals	Shri H I Dawoodani	B	26,000	-	-	-
Lime Chemicals	Shri H I Dawoodani	B	29,000	-	260,580	7.9
Luminaire Technologies	Indianivesh	B	8,037,030	33.5	12,078,030	50.3
Mahindra Lifespace Developers	Merrill Lynch Cap Markts Espana S A S V	B	25,000	0.1	2,002,626	5.0
Mahindra Lifespace Developers	Merrill Lynch Cap Markts Espana S A S V	B	22,500	0.1	2,025,126	5.1
Oriental Trimex	Rajesh Punia	B	50,000	-	1,977,647	13.4
Rajshree Sugars & Chemicals	Rajshree Pathy	B	5,100	-	--	-
Rajshree Sugars & Chemicals	Rajshree Pathy	B	10,400	-	6,145,468	27.1

Source: BSE

## RELIGARE RESEARCH

### Fundamental Research

Amitabh Chakraborty, CFA, FRM	President - Equity	amitabh.chakraborty@religare.in	(91-22) 6612 4602
Piyush Parag	Automobiles, Shipping	piyush.parag@religare.in	(91-22) 6612 4730
Abhishek Banerjee	Automobiles, Shipping	abhishek.banerjee@religare.in	(91-22) 6612 4764
Abhishek Agarwal	Banking, Sugar	abhishek.a@religare.in	(91-22) 6612 4753
Dinesh Shukla	Banking, Sugar	dinesh.shukla@religare.in	(91-22) 6612 4739
Vinod Nair	Capital Goods, Engineering, Power	nair.vinod@religare.in	(91-22) 6612 4731
Ronald Siyoni	Capital Goods, Engineering	ronald.siyoni@religare.in	(91-22) 6612 4615
Dalpat Mehta	Cement, Textiles	dalpat.mehta@religare.in	(91-22) 6612 4696
Suman Memani	Construction, Realty, Mid-caps	suman.memani@religare.in	(91-22) 6612 4736
Anurag Purohit	IT, Telecom, Power	anurag.purohit@religare.in	(91-22) 6612 4795
Hitesh Punjabi	IT, Telecom	hitesh.punjabi@religare.in	(91-22) 6612 4769
Ram Patnaik	Media, FMCG	ram.patnaik@religare.in	(91-22) 6612 4752
Rahul Singhvi	Metals	rahul.singhvi@religare.in	(91-22) 6612 4749
Sudeep Anand	Oil & Gas, Chemicals	sudeep.anand@religare.in	(91-22) 6612 4670
Alok Dalal	Pharmaceuticals	alok.dalal@religare.in	(91-22) 6612 4750
Rahul Gajare	Power	rahul.gajare@religare.in	(91-22) 6612 4749

### Technical Research

Birendrakumar Singh	birendrakumar.singh@religare.in	(91-22) 6612 4657
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### Derivatives Research

Samir Badami	samir.badami@religare.in	(91-22) 6612 4637
Somendra Agarwal	somendra.agarwal@religare.in	(91-22) 6612 4767

### Production

Anisha deSa	anisha.desa@religare.in	(91-22) 6612 4729
Rajesh Mhatre	rajesh.mhatre@religare.in	(91-22) 6612 4728
R Murali	r.murali@religare.in	(91-22) 6612 4674

### Administration

Shraddha Hosalkar	shraddha.hosalkar@religare.in	(91-22) 6612 4680
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**Recommendation parameters**

<b>Large-caps*</b>	> 10%	< - 5%	<b>Returns</b>	<b>Absolute</b>
	BUY	SELL		
<b>Mid-caps**</b>	> 25%	< 10%		

*\*Market cap over US\$ 1bn \*\*Market cap less than US\$ 1bn*

**Religare Securities**

**Mumbai:** 3rd Floor, Dheeraj Arma, Anant Kanekar Marg, Bandra (East), Mumbai-400 051. Phone: +91 22 66124600 Fax- 66124781  
**New Delhi:** 19, Nehru Place, New Delhi - 110019, Phone: +91 11 30815100.

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