The Front Page

February 4, 2008

- **What's Inside: India Strategy, Ambuja Cements (SELL), Emaar MGF IPO analysis**

Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	18,243	3.4	(10.1)
Nifty	5,317	3.5	(13.4)
BSE Smallcap	10,072	(0.5)	(24.5)
CNX Midcap	7,307	(0.0)	(20.6)
Nasdaq	2,413	1.0	(9.0)
DJIA	12,743	0.7	(3.9)
IBOV	61,080	2.7	(4.4)
FTSE	6,029	2.5	(6.6)
CAC	4,978	2.2	(11.3)

Turnover		US$m	% Chg
BSE		1,272	29.9
NSE		3,396	(36.6)
Derivatives (NSE)		9,103	(54.5)

FII F&O (US$m)		Index	Stocks
Net buying		396	47
Open interest		7,628	7,072
Chg in open int.		(86)	230

Equity Flows (US$m)	Latest	MTD	YTD
FII (31/1)	(841)	0	(4,271)
MF (30/1)	106	0	1,383

ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	121.0	1.4	1.3
Reliance	129.0	4.9	(0.1)
Infosys	43.5	5.1	7.6
Satyam	25.8	5.8	20.6
Wipro	12.6	4.6	13.8
ICICI Bank	62.3	2.5	2.3
SBI	112.5	0.0	1.3
ITC	5.1	2.8	(1.2)

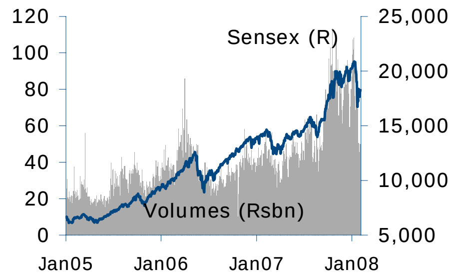
Commodities	Latest	%Chg	%YTD
Gold (US$/ounce)	912	(0.7)	9.3
Crude (US$/bl)	90	0.2	(4.2)
Aluminium (US$/MT)	2,676	1.2	13.8
Copper (US$/MT)	7,345	2.4	10.0

Forex Rates	Closing	% Chg	%YTD
Rs/US$	39.4	(0.0)	(0.1)
Rs/EUR	58.5	(0.3)	0.6
Rs/GBP	78.3	(0.1)	(0.6)

Bond Markets		Closing	bps Chg
10 yr bond		7.5	(7.0)
Interbank call		5.3	(263.0)

Charts Front Page

Sensex price volume trend



Sensex intraday

Corporate Front Page

- **Steel companies** on Friday hiked prices by Rs1,500-Rs2,500 a ton for various products, on higher input costs and strong demand.(BS)
- **British Gas** to pick up a 30% stake in **ONGC's** KG basin block and 25% in Mahanadi basin block.(ET)
- **Spencer's Retail Limited**, an RPG group company plans to roll out 500 new retail outlets across the country within a year at an investment of Rs10bn.(BS)
- **Cairn India** raised the potential plateau production of its Mangala field in Rajasthan by 25% to 125,000 barrels of crude oil a day.(BS)
- **JSW Steel** has entered into a JV with Chile's **Minera Santa Fe** to develop iron ore mines in South America.(ET)
- Top carmaker **Maruti Suzuki India** said on Saturday it had raised prices of many of its models by Rs1,000-11,000, mostly due to higher raw material prices.(FE)
- **Reliance Telecom Infrastructure** is planning to raise nearly Rs50-60bn through an IPO.(ET)
- **ICICI Venture** has picked up New Vernon Bharat's 40% stake in Chennai-based **Updater Services**, for ~Rs1bn.(ET)
- **ICICI** shelves plans to divest stake in the holding company to be created for its insurance and mutual fund businesses, after failure to get the Reserve Bank.(BS)
- The US$12bn **Posco** project in Orissa may have reached a dead-end as Posco India chief Soung-sik Cho has said that the project is not feasible without a mining lease.(FE)
- **Jet Airways** will be divesting 5% stake before 31st March, 2008.(BL)
- Swiss cement maker **Holcim** will invest about Rs100bn in the next five years to set up plants and raise capacity by 25mn tons in the country.(BS)
- **Aditya Birla Group** is planning to invest $120mn in a carbon black plant in Sri Lanka.(BS)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Hotel Leela	49	12.6	-33.0	Punj Lloyd	401	-9.3	-27.7
Bajaj Hindusthan	210	10.4	-26.5	Kotak Mahindra	961	-6.9	-25.8
I-Flex Solutions	1065	9.9	-29.5	Kalpataru Power	1357	-6.0	-25.9
Mphasis	247	9.5	-19.5	Asian Paints	1174	-5.8	6.5
Sterlite Ind.	816	8.6	-21.2	Moser Baer India	203	-5.5	-33.8

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Patel Engineering	727	1,102	209	50	316
Shree Precoated	311	935	833	237	252
Sobha Developers	747	1,383	38	12	221
Kirloskar Bros	336	904	37	12	199
Sterling Biotech	160	931	527	198	167
Kotak Mahindra	961	8,407	1,262	478	164
India Infoline	1163	1,577	363	153	137
Aurobindo Pharma	293	400	368	163	126
Siemens India	1627	6,967	236	110	114
Punj Lloyd	401	3,092	1,628	764	113

FII - FII trades

Scrip	1/31/2008			2/1/2008		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Tata steel	487	730	1.0	1,210	792	3.0
Sbi	76	2,301	5.0	616	2,325	7.0
Sesa goa	38	3,094	3.0	1	3,233	5.0
Grasim inds	17	3,030	3.0	13	2,997	-
Obc	57	265	3.0	-	-	-
Union bank	-	-	-	39	201	5.0
Iob	171	159	2.0	700	165	1.0
Pantaloon	51	660	6.0	-	-	-

Corporate Front Page

- **Glenmark Pharmaceuticals** has ended its deal with Germany's Merck KGaA for globally developing and marketing its experimental diabetes drug, Melogliptin.(ET)
- **Tata Motors** has reports a 11.76% fall in its passenger car sales in the domestic market during January at 20,119 units compared with 22,801 units in the same month a year ago.(BS)
- **IFCI** allots equity worth Rs13.2bn to 30 public sector banks and financial institutions.(ET)
- **McNally Bharat Engineering Company** has secured an order from **Uranium Corporation of India** worth Rs2bn.(BL)
- **ONGC** may tie up with Norway's **StatoilHydro** for carbon capture and sequestration technology.(BL)
- **Purvankara Projects** is in the final round of negotiations with PE firms to raise Rs20bn.(ET)
- **Bhel** has emerged as the sole bidder for a Rs26.4bn boiler order for stage II of NTPC Ltd's 1,320MW Barh project.(Mint)
- The country's major oil & gas Companies, including **ONGC, GAIL** and **BPCL**, are set to invest over Rs400bn in gas supply chain by financial year 2012.(FE)
- The **Aditya Birla** group will invest Rs80-100bn over the next three years to expand the More chain of supermarkets.(DNA)
- **MTNL** slashed international call rates to Re1 per minute for its VoIP customers to about 100 countries.(ET)
- **Tata Chemicals** may get into the biofuel business on a large scale if its pilot project at Nanded, Maharashtra, is successful.(BS)
- **KEC International** has bagged Rs975mn orders from **Power Grid Corporation of India.**(ET)
- **ONGC Videsh** and **Cairn India** have bid for oil exploration blocks in Sri Lanka.(DNA)

Results Front Page

Rs m	Revenues	%YoY	PAT	%YoY
Deccan Aviation	5,676	19.5	(1,909)	(2,079.9)
Petron Engineering Construction Ltd	648	14.8	11	(68.8)
Salora International Ltd	3,330	33.9	49	30.8
Zodiac Clothing Company Ltd	594	0.3	58	8.8
Prime Focus Ltd	220.33	48.4	59	5.0
BPL Ltd	212	(15.2)	(294)	234.6
DS Kulkarni Developers Ltd	790	65.7	103	(11.5)
Celebrity Fashions Ltd	866	0.4	(13)	(15.1)
Energy Development Company Ltd	157	(36.0)	42	9.0
Hindustan Dorr Oliver Ltd	755	37.4	50	58.4
Navneet Publications India Ltd	591	29.2	36	7.7
Dwarikesh Sugar Industries Ltd	615	(4.1)	(134)	(409.7)
BAG Films & Media Ltd	131	20.0	19	47.7
Kohinoor Foods Ltd	1,559	(14.2)	83	3.1
Maxwell Industries Ltd	524	9.4	25	10.6
Kalpataru Power Transmission Ltd	2,519	(36.0)	303	(21.9)
Viceroy Hotels Ltd	207	58.2	25	134.2
Electrotherm India Ltd	3,819	81.9	197	71.7
Nahar Industrial Enterprises Ltd	2,095	(17.6)	(20)	(109.0)
Indo Asian Fusegear Ltd	669	24.0	28	(36.3)
Kalyani Steels Ltd	2,733	4.6	207	(17.6)
Bajaj Electricals Ltd	3,651	28.9	189	90.2
International Combustion India Ltd	231	18.4	31	59.8
Uniply Industries Ltd	237	(23.0)	10	(19.4)
Amtek Auto Ltd	3,199	18.0	647	10.2
Blue Bird India Ltd	1,190	12.6	60	(10.9)
XL Telecom & Energy Ltd	1,505	16.6	87	55.1
PBA Infrastructure Ltd	910	29.6	28	(21.9)
Balrampur Chini Mills Ltd	4,275	26.8	(1)	(100.3)
Kesoram Industries Ltd	8,841	59.1	1,074	64.3
RPG Life Sciences Ltd	305	19.4	7	(305.9)
TV Today Network Ltd	694	21.4	167	18.6
McNally Bharat Engineering Company Ltd	1,181	2.4	50	29.2
GTL Infrastructure Ltd	373	120.5	(160)	(323.6)
Tube Investments of India Ltd	4,176	8.7	(65)	(131.6)
Madhucon Projects Ltd	2,012	66.9	130	32.7
AIA Engineering Ltd	1,670	59.5	317	116.0
Mukand Ltd	4,774	4.5	190	(31.9)
Dewan Housing Finance Corporation Ltd	1,412	59.3	228	68.7
Salora International Ltd	3,330	33.9	49	30.8
Zodiac Clothing Company Ltd	594	0.3	58	8.8
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Economy Front Page

- The government asked the steel industry to justify the frequent price hikes and said that failure to do so could attract a price regulatory mechanism.(BS)
- The dependence on borrowings by central and state governments to finance their Plan expenditure will drastically come down during the Eleventh Five-Year Plan period (2007-12) on the back of revenue buoyancy and fiscal prudence.(BS)
- Merchandise exports from India in December 2007 grew 16.0% in dollar terms to US$12.31 billion as against a growth of 14.9% to US$10.61 billion a year ago.(BS)
- The National Pharmaceutical Pricing Authority (NPPA) has announced a price cap on medicines sold in liquid form, bringing an additional 15% of the retail medicine market worth over Rs40bn under direct price control.(BS)
- In a move to increase revenue for the Government, the department of telecommunications is planning to levy an upfront spectrum acquisition charge.(FE)
- A host of public sector banks may cut lending rates following premier home loans lender HDFC slashing the rates by 0.25%.(FE)
- The government is vetting a proposal put forward by SEBI to provide for a tax waiver on dividend income of Real Estate Investment Trust.(ET)
- The government has allowed public sector banks to raise through QIP or preferential allotment of shares.(ET)
- The empower group of ministers will take up SEZ land cap issue today.(ET)
- The ministry of IT and communication seeks duty reduction on peripherals.(TOI)
- Assets under management of mutual funds have declined by Rs8.3 or 0.15% in January from December (BS)
- The Cabinet, headed by Prime Minister Manmohan Singh, is likely to meet tomorrow to consider raising petrol and diesel prices necessitated due to a surge in international crude oil prices.(FE)

India strategy

A near-cleansing of froth

4 February 2007

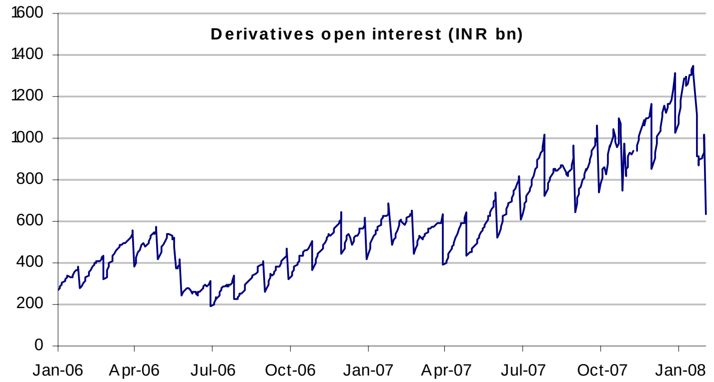
The inevitable outcome of every market shake-up is the cleansing of speculative froth and that's what has happened in the past 2-3 weeks. After the vertical rise in 4Q-07, it all took just two weeks for the bottom quartile of all NSE-listed stocks to lose on average a third of their value. Derivatives open interest is now down 50% from its peak. With volatility indices at new highs (UST implied vols. now at almost LTCM-crisis levels), it's understandable that risk premia are at multi-year highs, but if history is any guide, volatility never stays put at such extremes. As risk premia and volatility revert to more sustainable levels, we believe FII flows will turn positive. The retail frenzy, which we banked on as one of the drivers of 2008 market rally, has been badly dented and near-term focus will shift back to large-cap quality stocks. We launch our model portfolio, with a heavy bias towards domestic cyclicals, particularly financials.

- In 4Q-07, ~10% of NSE stocks doubled in value, volumes moved up 65% QoQ, and futures open interest rose 75%. The collusion of a number of events, some of which were random, triggered off a big correction (esp. in junk stocks), forced unwinding of derivative positions, thereby cleansing the market of its speculative froth.

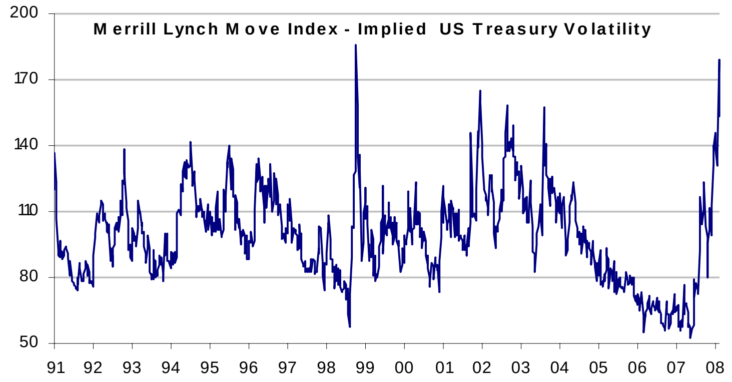
- Global risk premia and bond market volatility indices have risen very sharply and history suggests that they never remain at such extremes. A return of volatility to more sustainable levels will drive down the risk premia and that will drive the next phase of FII flows into Indian equities. RBI's concern about the excess money is understandable, but the sharply widening differentials in onshore-offshore interest rates and consequent impact on capital flows, makes us believe that sooner than later, domestic interest rates will need to be re-aligned.

- Our model portfolio consists of 23 stocks, with an overweight on financials, industrials, telecom and staples sectors and underweight on IT, materials, utilities and healthcare sectors. We have a zero weight on utilities and healthcare sectors.

Market leveraged positions lowest since June last year

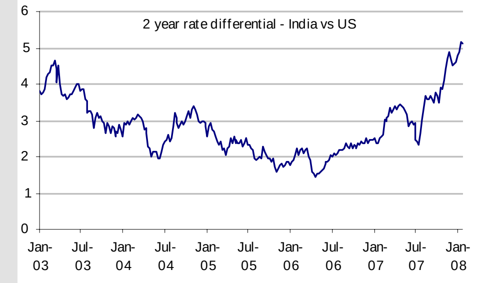


US Treasury Implied Volatility – at LTCM levels



Source: Bloomberg. Note: Merrill Lynch Move Index is a yield curve weighted index of normalized implied volatility on 1-month US treasury options. 'MOVE' is a trademark product of Merrill Lynch

Offshore-Onshore rate differential unsustainably high



Source: Bloomberg

High conviction 'must own' stocks

Axis Bank
IDFC
BHEL
L&T
ABB
Sterlite Industries
Bharti
ITC

Source: IIFL Research

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Global markets have been through yet another round of correction – 4th major correction in this bull market now almost 4 years old. MSCI AC World fell 15% from its top and emerging markets underperformed falling by 17%. India fell in sympathy, but the pace of the fall was much more sharper given the large speculative positions built in the futures market and the temporary squeeze on liquidity due to the US$28bn application money for Relpower IPO, locked up in the escrow account.

Figure 1: Major Global Corrections

	May - June 06	July - Aug 07	Oct - Nov 07	Dec 07 - Jan 08
Duration (days)	35	34	21	43
Global Equities	-11%	-11%	-9%	-15%
Developed Equities	-11%	-10%	-9%	-15%
Emerging Equities	-21%	-14%	-10%	-17%
Chinese Equities	-19%	-14%	-19%	-28%
Indian Equities	-29%	-7%	-6%	-17%
Base Metals	-17%	-15%	-12%	2%
Oil	-3%	-4%	4%	2%
Gold	-20%	-2%	0%	10%
Baltic Dry Index	12%	9%	-1%	-36%

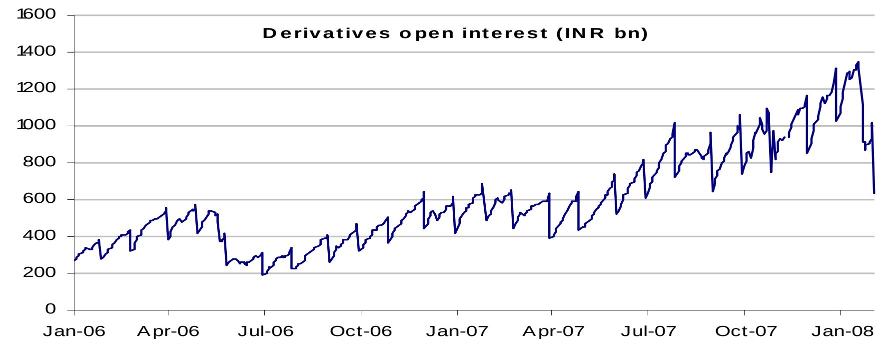
Source: Bloomberg, IIFL Research

A key distinguishing factor of this correction vis-à-vis the earlier corrections has been the rally in commodities even as stocks were falling with precious metals touching all time highs.

From a domestic equity market perspective, we view this sharp correction as having cleansed much of the froth seen over the preceding few weeks with leveraged positions substantially reduced. Between 1 October 2007 and 7 January 2008, when markets made a top, at least 100 stocks doubled in value. Turnover in the cash market had increased more than 65%, by almost 50% in the derivatives market and open interest in the derivatives market had risen by almost 75% from the July-September quarter.

Post correction, open interest and volumes in the derivatives market are down by more than a third and as against the 18% decline in the broader BSE500 from its top, the 224 stocks with derivatives trading down by around 25% on average, with 23 F&O stocks (10% of total) falling by more than 40% during that period. Small cap stocks are down almost 25% as compared to 13% for large caps.

Figure 2: Derivatives open interest down by half



Source: Bloomberg

Figure 3: Performance of F&O stocks from 7 January 2008

Fall in value	No. of F&O stocks
More than 40%	23
30-40%	46
20-30%	68
10-20%	59
Less than 10%	28

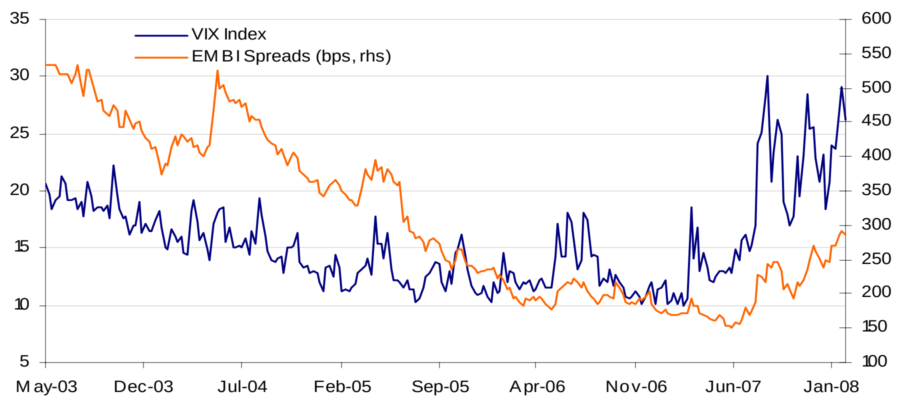
Source: NSE, Capitaline, Bloomberg

Although from a fundamental standpoint nothing really has changed over the past few weeks for us to alter our medium term bullish stance, given that the mood amongst market participants has clearly soured, the market would need fresh positive triggers for a resumption of the bull rally. We see 3 triggers for markets to resume their bull run.

Normalisation of volatility

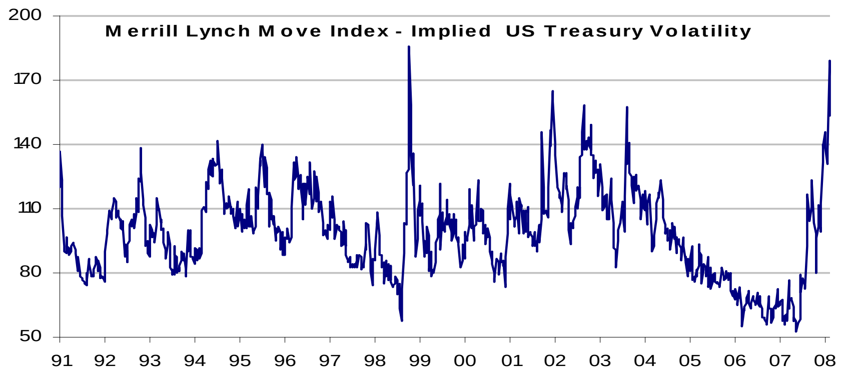
The key to near-term equity performance is the lowering of current risk aversion in financial markets. Both junk bond spreads and volatility have risen sharply relative to historical levels, on the back of continued negative news flow from the US, on the broader economy as well as the credit markets (first it was holders of credit derivatives; now it is their insurers who seem to be in trouble). But we have been here before—risk appetite had shrunk dramatically in May 2004, May-June 2006, February and August-September 2007.

Figure 4: Credit spreads & Equity volatility have risen sharply



Source: Bloomberg

Figure 5: US Treasury option volatility at LTCM levels



Source: Bloomberg

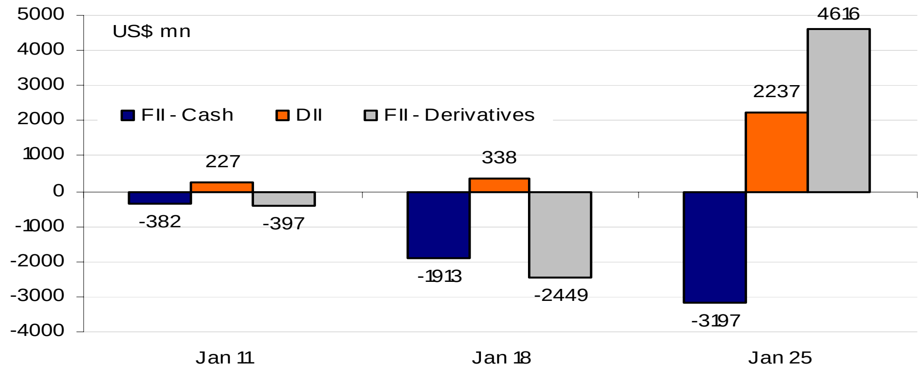
Note: Merrill Lynch Move Index is a yield-curve-weighted index of normalised implied volatility on one-month US treasury options. 'MOVE' is a trademark product of Merrill Lynch

In particular, option volatility in US treasuries has moved from historical lows to historical highs in a matter of weeks. However, as we have seen in the past, markets typically go from periods of unsustainably low risk aversion to unreasonably high risk aversion. Each time this has happened in the recent past, risk premia over a period of time reverts to more sustainable levels. It is difficult (if not impossible) to forecast when this will happen—but when it does, FIIs flows would turn positive vs. the sustained negative flows we have seen in the past few weeks.

Improvement in domestic liquidity

In our view, a technical factor that held back markets was the short term liquidity squeeze due to the Reliance Power's IPO. We estimate that as much as US$28bn of liquidity has been sucked out of the system by the IPO and has in a way accentuated FII selling in the secondary market. Even if only a part of this money finds its way back to the secondary markets, it would be incrementally positive. Given the massive retail participation generated by this IPO, its success (in terms of generating at least modest listing gains) is crucial from a retail flow perspective. Seasonally we are in a strong 'flow' period for insurance companies – the biggest incremental source of domestic liquidity.

Figure 6: Weekly institutional activity in secondary markets



Source: NSE

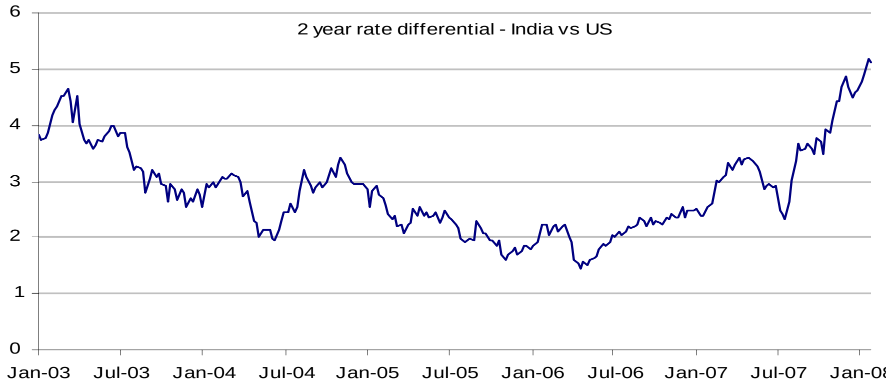
Note: Dates refer to week ending as on those respective dates

On the brighter side, the markets have managed to absorb more than US$5bn of foreign selling (though a part of it is reverse-arbitrage-led flows as FIIs bought futures and sold cash), thanks to almost US$3bn of buying from domestic institutions—once again highlighting the power of domestic liquidity as a counter to volatile foreign flows. Domestic equity mutual funds had received inflows of almost US$1bn during December, and much of this money must have found its way into the markets after last week's correction. Buying during periods of FII selling has proved a profitable strategy for domestic institutions during the past four years of the Indian markets' bull run. As is always the case when such violent corrections happen, the retail segment has been the worst hit and wounds need to heal, before they return back.

Accommodative global monetary policy

Although the RBI held rates steady last week, in our view, the unexpected 125bps rate cut by US Fed would force RBI's hand to cut domestic rates sooner than it would have liked. Offshore-onshore rate differentials have reached unsustainably high levels and capital in all guises would—and in fact is—finding its way into India, to play the rate arbitrage (which gets amplified by the appreciating INR).

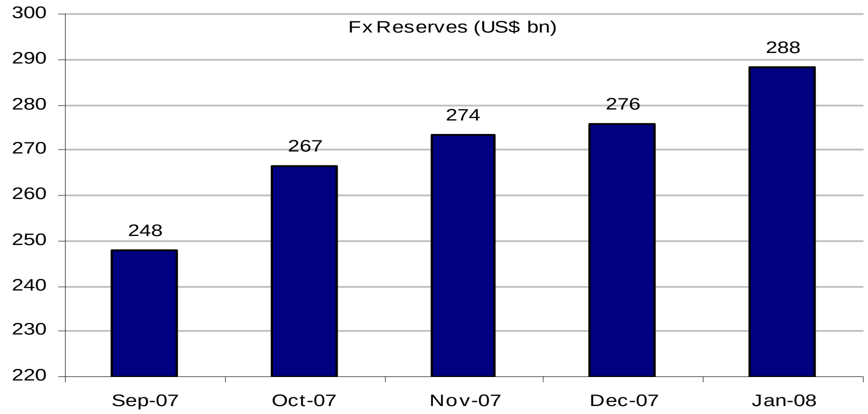
Figure 7: Offshore-onshore rate differential unsustainably high



Source: Bloomberg

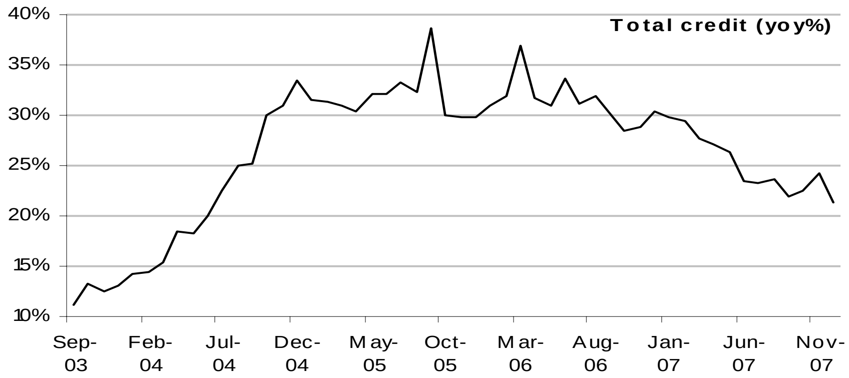
In addition, this widening rate differential directly impacts the fisc through the cost of sterilisation (wherein RBI/Govt earns UST rates on its Fx reserves and pays INR domestic yields on MSS deposits).

Figure 8: Fx reserves continue to rise



Source: Bloomberg

Figure 9: Credit growth – sharp slowdown



Source: Bloomberg

However, with credit growth slowing to a 3 ½ year low and banks having to park funds in low yielding securities, we would expect banks to reduce lending rates to stimulate credit growth especially on the retail side. Incidentally, HDFC reduced its benchmark lending rate for mortgages by 25bps last Thursday.

An environment of falling interest rates coupled with strong economic growth is supportive of equities. Lower interest rates should also aid sustain the market multiple, which many see as being very high in absolute terms.

Further, as we have argued before, an environment of falling interest rates globally, is highly supportive of continued robust capital flows into India and accordingly we expect capital flows to resume over the next few weeks as financial markets stabilise.

Portfolio stance

Given such a backdrop our portfolio positioning continues to be to overweight core domestic cyclical/growth sectors of banks, telecoms and capital goods and underweight the global cyclicals/growth exposed sectors like materials and IT.

The only major change we are making since the start of the year is downgrading cement sector to an underweight due to rising margin pressures from increasing input costs especially coal.

IIFL Model Portfolio

			Current Price	Price added	BSE200 sector weight	IIFL recommendation: Sector weight	Stock weight	Deviation	Sector stance
Consumer Discretionary					5%	5%		0%	Neutral
	MSIL IN	Maruti Suzuki	905	905			3%		
	BJA IN	Bajaj Auto	2450	2450			2%		
Consumer Staples					5%	8%		+3%	Overweight
	ITC IN	ITC	205	205			3%		
	UNSP IN	United Spirits	1718	1718			3%		
	CLGT IN	Colgate India	420	420			2%		
Energy					15%	15%		0%	Neutral
	RIL IN	Reliance Industries	2542	2542			10%		
	ONGC IN	ONGC	1045	1045			5%		
Financials					26%	29%		+3%	Overweight
	AXSB IN	Axis Bank	1088	1088			6%		
	IDFC IN	IDFC	205	205			5%		
	SBIN IN	State Bank of India	2186	2186			4%		
	HDFCB IN	HDFC Bank	1567	1567			4%		
	HDFC IN	HDFC	2998	2998			4%		
	ICICIBC IN	ICICI Bank	1198	1198			3%		
	UNBK IN	Union Bank	193	193			3%		
Health Care					3%	0%		-3%	Underweight
Industrials					16%	20%		+4%	Overweight
	BHEL IN	Bharat Heavy Electricals	2065	2065			8%		
	LT IN	Larsen & Toubro	3722	3722			6%		
	ABB IN	ABB	1133	1133			6%		
Information Technology					8%	6%		-2%	Underweight
	TCS IN	Tata Consultancy Services	929	929			3%		
	HCLT IN	HCL Technologies	265	265			3%		
Materials					11%	8%		-3%	Underweight
	STLT IN	Sterlite Industries	816	816			6%		
	GRASIM IN	Grasim Industries	3007	3007			2%		
Telecommunication Services					6%	9%		+3%	Overweight
	BHARTI IN	Bharti Airtel	908	908			5%		
	RCOM IN	Reliance Communications	612	612			4%		
Utilities					6%	0%		-6%	Underweight

Source: Bloomberg, IIFL Research

Ambuja Cements - SELL

ACEM IN	Rs119	Cement	04 Feb 2008	4QCY07 Result Review

Tax pains

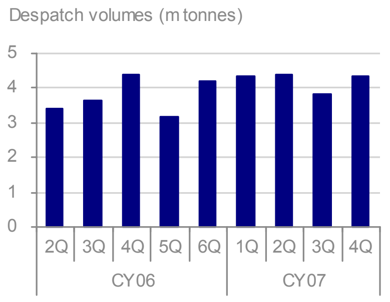
Ambuja Cements's (ACL) 4QCY07 revenues and EBITDA beat our expectation, but PAT fell short. Revenues rose 13.4% YoY (against our expectation of an 11.1% rise) and EBIDTA rose 5.1% (against our expectation of a 4.1% fall), but PAT dropped to Rs82m from Rs3,323m in the year-ago period on account of a large tax provision. Going forward, we expect ACL's volume growth to remain muted for the next one year, as most of its existing plants are running at near-peak utilisation levels, and most of its proposed new capacity would become operational beyond 1QCY09. Muted growth in volume and realisations would weigh on profitability. We cut our EPS estimate for CY08 by 12% but leave it unchanged for CY09. Accordingly, we downgrade our recommendation from MP to SELL with a revised target of Rs110, based on an EV/EBITDA of 8x on CY09ii.

Higher tax provision mars net profit: In 4QCY07, ACL nearly tripled its tax provision on account of a change in its view on taxability of sales-tax incentives. Interest cost also rose sharply, partly on account of interest on a Rs2bn tax provision for earlier years. Given lack of clarity on the company's tax provision policy, we have changed our valuation metric for the company from PE to EV/EBITDA.

Cement realisations improve in 4QCY07, but likely to drop in the quarters ahead: Cement realisation rose 10% YoY and 2.5% QoQ, partly owing to a 1-2% price increase in northern markets and sales to higher-yielding markets. With new production capacities coming up in the north—a key market for ACL—we expect pressure on ACL's realisations in the quarters ahead. Our estimates factor in a drop in realisations, by 2% in CY08 and 4% in CY09. However, there is an upside risk of prices not falling, given sharp increases in costs (like in the last two cycles).

Volume growth to remain muted for the next 5-6 quarters: ACL plans to expand its cement capacity by 6mtpa in the next two years and most of the new capacity is to become operational in 2QCY09. As the company's existing plants are running near peak utilisation levels, volume growth would be muted for the next 5-6 quarters. Per-tonne costs would likely drop following an increase in captive power plant capacity, but overall profit growth would be subdued. We expect EBITDA to grow 2% in CY08 and fall 10% in CY09. Sell.

Muted volume growth



Source: Company

Financial summary (consolidated)

Y/e 31 Dec	FY05A	18M06A	CY07ii	CY08ii	CY09ii
Revenues (Rs m)	26,025	62,791	57,921	60,136	63,674
EBIDTA	7,241	21,331	20,353	20,827	18,778
EBITDA Margins (%)	27.8	34.0	35.1	34.6	29.5
Reported PAT (Rs m)	4,683	15,033	18,461	16,337	13,197
EPS (Rs)	3.4	9.9	8.2	9.0	8.7
Growth (%)	5.1	186.3	-16.7	9.1	-3.5
PER (x)	**34.5**	**12.0**	**14.4**	**13.2**	**13.7**
ROE (%)	21.5	43.1	26.0	23.1	19.7
EV/EBITDA (x)	22.0	8.2	8.3	8.2	9.3
Price/Book (x)	**7.4**	**5.2**	**3.8**	**3.1**	**2.7**

Price as at close of business on 1 February 2008

12-mth Target price (Rs) 110 (-8%)

Market cap (US$ m)	**4,584**
52Wk High/Low (Rs)	161/100
Diluted o/s shares (m)	1,523
Daily volume (US$ m)	1.1
Dividend yield FY08ii (%)	2.9
Free float (%)	53

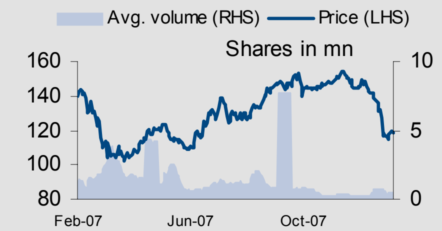
Shareholding pattern (%)

Holcim	47
FIIs	28
Domestic MFs/FIs	14
Others	11

Price performance (%)

	1M	3M	1Y
Ambuja Cement	-20.1	-17.5	-14.9
Rel. to Sensex	-9.9	-10.0	-42.7
ACC	-26.7	-28.4	-27.2
Grasim	-20.1	-18.0	8.4
Ultratech Cement	-11.2	-11.0	-17.0

Stock price movement



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Core EBIDTA margin eases with increase in costs: Per-tonne cost increased 15% YoY, bringing margins down. On a QoQ basis, costs dropped marginally, so EBITDA margin expanded 210bps. Power cost rose on account of an increase in domestic and international coal prices. We expect realisations to ease in CY08 for ACL, leading to a modest drop in margins.

Efficiency gains not to offset muted volume growth

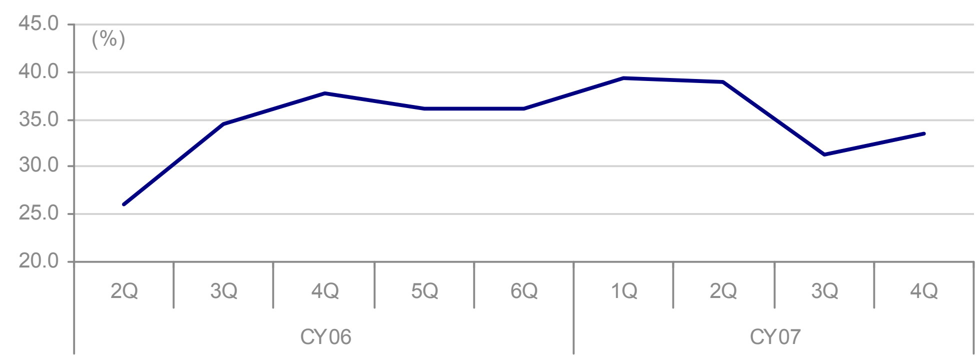
We expect domestic cement demand to grow by 10% pa, on the back of 8-9% growth in the economy and the government's thrust on infrastructure investment. We believe any price increases in cement would be modest, given possible price controls. We prefer companies with large capacity expansion plans in the next one year.

ACL plans to increase its current production capacity of 18mtpa by 6mtpa in the next two years. Most of this expansion would come through in 2QCY09. We reduce our volume growth expectation for CY08 from 8% to 6% but retain that for CY09 at 10%. The company is setting up 150MW captive power capacity; the full benefit of this capacity will be evident in CY09. We expect ACL to underperform the sector for the next one year, on account of slower-than-industry growth.

Figure 1: 4QCY07 result snapshot (standalone)

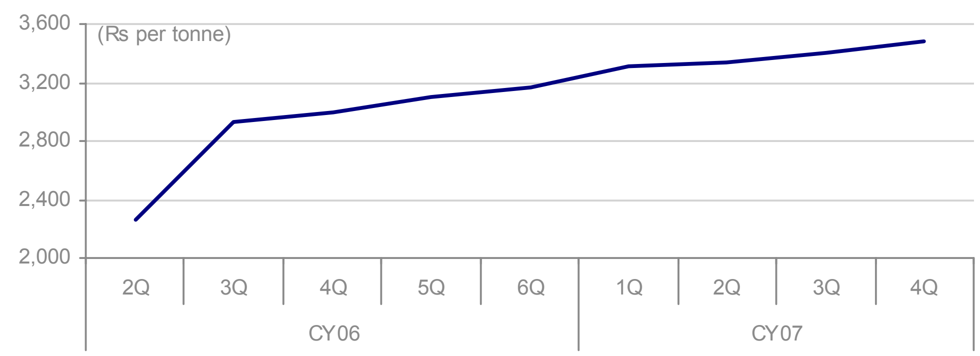
	6Q18M06	4QCY07	% QoQ	% YoY
Net sales	13,291	15,067	15.9	13.4
Total expenditure	(8,500)	(10,031)	12.3	18.0
EBIDTA	4,791	5,036	23.8	5.1
EBITDA margin (%)	36.0	33.4	210bps	(260bps)
Depreciation	(572)	(598)	2.5	4.6
Interest	(45)	(1,108)	(808.6)	2366.6
Other income	403	1,008	320.4	150.4
PBT	4,576	4,338	11.8	(5.2)
Tax	1,199	3,481	(464.7)	190.4
Pre-exceptional PAT	3,378	857	(70.7)	(74.6)
EO and prior-period items	55	(775)	-	-
PAT	3,323	82	(97.4)	(97.5)
Number of shares (m)	1,522.6	1,522.6	-	-
EPS (Rs) - quarterly	2.2	0.1	(60.9)	(97.5)

Figure 2: EBIDTA margin picks up in 4QCY07 with cost control



Source: Company

Figure 3: Growth in realisation continues



Source: Company

Figure 4: All-India cement demand-supply scenario

	FY07	FY08ii	FY09ii	FY10ii
Effective cement capacity (m tonnes)	157	168	208	245
Production (m tonnes)	155	167	183	201
Capacity utilisation (%)	99	99	88	82
Demand including exports (m tonnes)	155	170	188	207
Demand growth (%)	9	10	10	10
Import	-	1	3	3
Possible production	157	165	194	232
As a % of demand	101	97	104	112
Surplus/(Deficit) over demand (m tonnes)	2	-5	7	25

Source: Industry, IIFL Research

Figure 5: ACL's cement plant expansion schedule

Place	Region	Capacity (mtpa)	Expected date of commissioning
Surat (Grinding)	West	1	1QCY08
Bhatapara	East	2.3	2QCY09
Rauri	North	2.3	2QCY09
Dadri (Grinding)	North	1.5	2QCY09
Panipat (Grinding)	North	1.5	3QCY09
Effective capacity addition		**6**	

Source: Company, IIFL Research

Financial summary

We estimate cement volume growth of 6% and 10% in CY08ii and CY09ii respectively; realisations to drop by 2% and 4%, respectively

Free cash flow to support further capex

Income statement summary (Rs m)

Y/e 31 Mar	FY05A	18MCY06A	CY07A	CY08ii	CY09ii
Revenue	26,025	62,791	57,921	60,136	63,674
EBIDTA	7,241	21,331	20,353	20,827	18,778
EBIT	6,033	19,206	20,709	20,195	17,140
Interest expense	-848	-790	-771	-800	-80
Depreciation	-1,954	-3,261	-2,372	-2,632	-3,738
PBT	5,185	18,416	19,938	19,395	17,060
Taxes	-503	-3,384	-7,413	-5,726	-3,864
Net profit	4,683	15,033	12,526	13,669	13,197
PAT after extraordinary items	4,683	15,033	18,461	16,337	13,197

Cashflow summary (Rs m)

Y/e 31 Mar	FY05A	18MCY06A	CY07ii	CY08ii	CY09ii
EBIT	6,033	19,206	20,709	20,195	17,140
Depreciation and amortisation	1,954	3,261	2,372	2,632	3,738
Working capital Δ	-271	44	-47	20	117
Other operating items	-97	744	0	0	0
Operating cash flow	7,618	23,255	23,034	22,847	20,995
Net interest/ tax/ others	-1,219	-5,294	-8,183	-6,526	-3,944
Capital expenditure	-1,776	-7,954	-10,000	-15,000	-17,000
Free cash flow	4,624	10,008	4,851	1,321	51
Debt financing/disposal	-1,140	-3,402	-2,500	0	0
Dividends paid	-1,827	-4,766	-5,253	-5,253	-5,253
Other items	-1,480	1,075	5,935	2,668	0
Net change in cash	177	2,916	3,033	-1,263	-5,202

Source: Company data, IIFL Research

Financial summary

Balance sheet summary (Rs m)

Y/e 31 Mar	FY05A	18MCY06A	CY07ii	CY08ii	CY09ii
Cash & Cash equivalents	12,116	15,112	18,146	16,882	11,681
Sundry Debtors	458	900	830	861	912
Inventories - trade	3,170	4,088	3,704	3,876	4,427
Other current assets	18	50	50	50	50
Fixed assets	23,633	31,241	38,869	51,237	64,499
Other term assets	1,431	3,034	3,034	3,034	3,034
Total assets	40,827	54,426	64,633	75,941	84,603
Short term debt	1,068	1,687	1,687	1,687	1,687
Sundry Creditors	2,890	5,329	4,829	5,053	5,771
Long term debt	11,275	8,654	6,154	6,154	6,154
Other long term liabilities	3,811	3,839	3,839	3,839	3,839
Networth	21,784	34,917	48,126	59,210	67,153
Total liability and equity	40,827	54,426	64,633	75,941	84,603

Strong growth in reserves with improvement in cement realisations

Ratio analysis

Y/e 31 Mar	FY05A	18MCY06A	CY07ii	CY08ii	CY09ii
Revenue growth (%)	32.4	141.3	-7.8	3.8	5.9
Op EBIDTA growth (%)	34.8	194.6	-4.6	2.3	-9.8
Op EBIT growth (%)	44.0	218.4	7.8	-2.5	-15.1
Op EBIDTA margin (%)	27.8	34.0	35.1	34.6	29.5
Op EBIT margin (%)	23.2	30.6	35.8	33.6	26.9
Net Profit margin (%)	18.0	23.9	21.6	22.7	20.7
Dividend payout (%)	40.4	30.7	41.9	38.4	39.8
Tax rate (%)	9.7	18.4	37.2	29.5	22.6
Net Debt/Equity (%)	13.6	-7.5	-16.9	-11.6	-2.5
Net Debt/Op EBIDTA (x)	0.4	-0.1	-0.4	-0.3	-0.1
Return on Assets (%)	15.0	33.4	33.1	24.8	17.2

Source: Company data, IIFL Research

Balance sheet continues to be strong, can support substantial capex or acquisitions

Emaar MGF – Do not subscribe

Emaar MGF	Real-Estate	04 Feb 2008	IPO Analysis

Emaar MGF IPO analysis

Emaar MGF (EMGF) has priced its IPO at Rs540-630 per share. The issue values the company at US$13.65bn at the lower end of the price band and US$15.92bn at the upper end. The company's key strengths are a well-diversified and almost fully paid-up land bank, a well-capitalised balance sheet, significant land in Delhi and healthy off-take in its current pipeline. However, these are offset, in our view, by: 1) the limited track record of the Indian promoter in real-estate development; 2) 50% concentration in tier II and III cities; 3) the company lacking clear titles to 15.6% of its land bank; and 4) and its high exposure to the residential segment in the NCR region, which is witnessing slowdown in demand and a softening bias on prices. Our best-case valuation for EMGF is Rs463 per share. We advise investor to avoid the IPO at these valuations.

Valuations are stretched: Our best-case valuation for EMGF is Rs463 per share (assuming that the whole pipeline is developed and sold in 12 years). This is 16.6% below the lower end of the IPO price band. Citigroup Ventures and New York Life invested in EMGF in November 2006 at Rs195 per share, and the latter invested in EMGF again in May 2007 at Rs248 per share. The price at the lower end of the IPO band is 2.77x the valuation that was offered to EMGF in November 2006 and 2.18x the valuation offered to EMGF in May 2007. Compared to this, DLF has appreciated 48% from its early-July 2007 IPO price, and Unitech has appreciated 31% over the same period. With limited track record, and 50% of the land bank in tier II and III cities, the valuation premium at the IPO band appears stretched, in our view.

Competitive advantage over likes of DLF and Unitech not apparent: EMGF is primarily a residential player with a significant presence in Gurgaon, Hyderabad, Pune and Kochi, apart from about 50% of its land bank in tier II and III cities. Large developers have concentrated land banks in most of these cities and EMGF will be targeting the same customer segment. However, without an established brand and a limited track record of execution, the company will face stiff competition from the likes of DLF and Unitech. In our opinion, DLF and Unitech, with experience of launching projects across India, are at a competitive advantage compared to EMGF.

Financial summary*

Y/e 31 Mar	FY07A	H108A
Revenues (Rs m)	169	5,017
EBITDA Margins (%)	-349.8	42.7
Reported PAT (Rs m)	-473	1,298
EPS (Rs)	-0.5	1.3
Growth (%)		374.4
PER (x)	-1,312.9	478.4
Debt/Equity (x)	0.5	0.9
EV/EBITDA (x)	-1,093.1	308.8
Price/Book (x)	13.3	12.8

* Based on upper end of the IPO price band

Market cap (US$ m) 13,651/15,927

Shareholding pattern post IPO (%)

Promoters	85.3
Others	4.3
Public	10.4

Offer details

Price band	540-630
Number of shares	103
% of dilution	10.4
Money raised (Rs bn)	55.4 / 64.6

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Positives

Diversified land reserves that are almost fully paid
EMGF has a land bank of 13,024 acres spread across 26 cities in north, west and southern India. The company has made 89% of the payments due for the land, which indicates that a high proportion of the land is fully paid-up. The land has been acquired mainly in the last three years, as MGF had put in 3000 acres in the EMGF JV to start with.

One of the largest land owners in Delhi
EMGF owns 1,313 acres in Delhi, including the Commonwealth Games village (through a JDA with Delhi Development Authority), which makes it one of the largest land owners in Delhi. The FSI rules in Delhi vary across the city; however, at a realistic FSI assumption of 1.5, the land translates into 85.8m sq ft of saleable area. This includes about 1.8m sq ft of saleable interest in the Commonwealth Games Village. Though the company has indicated that some of this land is under sole development rights, rather than being owned directly, in our opinion, this is the jewel in the crown of the company.

Strong off-take in its current project pipeline
The company has launched eight residential projects and has made 6 of them available for sale till date. It has reported strong off-take on 5 of these projects. The response has been lukewarm in its Chennai project where sales have lagged construction till date.

Figure 1: Strong off-take in 5 of the 6 ongoing projects

	Sold (%)	Completion (%)
Mohali hills (plots)	94	86
The Views, Mohali	94	23
Palm Springs, Gurgaon	87	79
Palm Drive, Gurgaon	66	8
Boulder Hills, Hyderabad	Not launched	7
The Villas, Mohali	52	16
Chennai Esplanade	40	42
Commonwealth Games Village, Delhi	Not launched	38

Source: Company

Well capitalized Balance Sheet

EMGF has a well capitalized balance sheet with shareholder funds at Rs48.4bn as of 2Q08. It had outstanding debt of Rs41.6bn as of 2Q08, indicating a debt to equity ratio of 0.86. In our opinion, the strength of the balance sheet would enable EMGF to have access to sufficient funds to develop its real estate pipeline.

Negatives

Indian promoter has limited track record in real estate development
MGF brings in the local know how into the JV while Emaar, in our opinion, brings in global best practices and funds. The company would be reliant largely on MGF's execution capabilities to deliver on its aggressive development plans. However, MGF has delivered only 2m sq ft of mall space till date and has about 3m sq ft under development. It has not undertaken any commercial project, and its foray into the hospitality and residential segments is through the EMGF JV.

Our analysis suggests EMGF's land acquisition cost in Mohali is about 50% higher than that of Unitech's in the same city, and about 40% higher than DLF's land acquisition cost in Chandigarh. This could be the result of MGF having acquired the land in more recent times compared to the 2 largest players.

However, our discussions with premier property consultants suggest that developers with existing strong corporate relationships are at a considerable advantage compared to new entrants in filling out commercial space in the city suburbs. With significant office space supply in the pipeline in the NCR region, EMGF, with its city suburb and peripheral strategy, could face considerable competition from large north India based developers in filling out its commercial space.

15.59% of the company's land, categorised as 'Land on which the company has sole development rights' relates to those parcels where the counterparty does not have ownership rights or clear titles to the land

EMGF's declared land bank includes 2,030 acres, or 15.59% of its total land reserves, that it has categorised under sole development rights, where the counter-parties that have granted them the development rights do not have ownership rights or clear titles on the land. This indicates that EMGF has acquired development rights on a significant portion of its declared land bank from entities other than the legal owners of such land. We remain sceptical on the company's ability to derive beneficial interest on all of this land.

This is particularly worrisome, as this relates to a part of its land bank in Delhi, where the parties who have granted it the development rights have land arrangements or agreements without titles or ownership. Some parts of its land bank in Punjab and Pune also fall under the same category.

Concentration issues in tier II and III cities

50% of EMGF's land bank is in tier II and III cities with large concentrations in Mohali (2775 acres), Dehradun (1139 acres), Goa (463 acres), Jaipur (416 acres) and Lucknow (390 acres). With prices having appreciated significantly in most tier II and III locations across the country, significant demand for EMGF's supply cannot be taken for granted.

80% of the land bank comprises agricultural land; any delays in approval for conversion could negatively affect timelines for EMGF's projects

EMGF has declared that 80% of its declared land bank comprises agricultural land where they have not obtained a change of land use. It is undertaking change of land use on 1214 acres currently for a consideration of Rs18.25bn. However, the fee for change of land use could escalate going forward, especially in Gurgaon that is an attractive real estate destination and where EMGF has substantial land reserves that require such change. Any delays in obtaining such approvals could have a negative impact on the timelines of projects to be launched by the company in the future.

Extrapolating the average cost per acre of conversion to the balance land bank (and hence, assuming no escalation of conversion charges) indicates that EMGF would need to spend about Rs137bn to obtain change of land use for its present land bank.

Large exposure to the residential segment in city suburbs a concern

EMGF's portfolio consists of 80% of residential development primarily in the suburban areas of cities. Plots and villas account for 24% of its portfolio, which in our opinion is significantly higher than those of large developers like DLF and Unitech.

Figure 2: 80% of EMGF's portfolio is residential development

Segment	m sq ft	%	DLF (%)	Unitech (%)
Residential	318.8	56.4	65.7	82.8
Plots/Villas	136.5	24.2		
Commercial	88.9	15.7	20.2	10.6
Retail	18.0	3.2	11.8	5.8
Hospitality	4.0	0.5	2.3	0.7
Total	**566**	**100**	**100**	**100**

Source: Company

EMGF's large exposure to the residential segment especially in the city suburbs remains an area of concern as prices are witnessing a softening bias in key markets in the NCR region. Most major developers have admitted to a significant slowdown in residential volumes compared to the CY07 levels and our channel checks have indicated a widening gap between primary and secondary prices of ready to move in property (in Gurgaon, the gap has widened to 20%). The softening bias on prices is expected to continue, ensuring speculators are not coming back any time soon.

The turmoil in the IT sector in the face of a cut in IT capital expenditure by the financial services and retailing sector in the US plagued by the sub-prime crisis has triggered cuts in variable compensation paid to IT employees in select companies. With the IT sector indicating a moderation in the yearly growth in salaries in the sector, we could see affordability getting hit and people postponing purchasing decisions in anticipation of a correction in prices. The outstanding home loan portfolio of the largest home loan under-writer in the country, ICICI Bank, has been stagnant over the past 3 quarters (as against over 40% YoY growth in FY07). We remain particularly concerned on the residential market in the suburban areas of cities where the demand is largely driven by IT/ITES employees and feel EMGF could face challenges with off-take in its projects.

Current development pipeline has limited rent yielding potential
EMGF's current project pipeline has only 1 retail project and no commercial projects. It has not received formal approval for any SEZs till the date of the RHP.

Figure 3: Current development pipeline has limited rent yielding potential

Type	Saleable area (m sq ft)
Residential	17.3
Commercial	-
Retail	0.5
Hospitality	1135 keys

Source: RHP

It has plans to launch 13 commercial projects and 7 retail projects in CY08, but the first phase will be ready for fit outs only by FY11. Hence, rental revenues are at least 3 years away from achieving scale, and in the interim, the company will be exposed to the cyclical slowdown in transaction activity in the residential segment.

Valuation appears stretched, do not subscribe

Our best case valuation for EMGF comes to Rs463 per share. We have assumed that EMGF will be able to develop and sell all 566.2m sq ft in 12 years.

Figure 4: Our best case valuation of EMGF is Rs 463/share

Blended Average Selling Price (Rs p sq ft)	4462
- Average sale price for residential (Rs p sq ft)	3600
-Average sale price for plots/villas (Rs p sq ft)	3600
- Average sale price for commercial and retail (Rs p sq ft)	8000
Average Margin @ 40% (a)	1785
WACC (%)	15
Twelve year discount factor (b)	0.452
Contribution margin p sq ft (Rs) (a*b)= (c)	806
Saleable area (m sq ft) (d)	566.2
Total value (Rs m) (c*d)	456466
No. of shares (m)	986.3
Value per share (Rs)	463

Source: IIFL Research

In November 2006, Citigroup Venture capital and New York Life had invested in EMGF at Rs195 per share. New York Life had made further investments into the company in May 2007 at Rs248 per share. The price at the lower end of the IPO band is 2.77x the valuation that was offered to EMGF in November 2006 and 2.18x the valuation offered to EMGF in May 2007. With limited track record, and 50% of the land bank in tier II and III cities, the valuation premium at the IPO band appears stretched in our view.

We advise investors not to subscribe to the EMGF IPO at current valuations.

Background

Emaar MGF Land (EMGF), as a joint venture between Emaar properties PJSC of Dubai and MGF Development Ltd of India was incorporated in 2005 to carry out operations in India. Emaar is one of the world's leading real estate companies with operations in 16 countries and has developed around 50m sq ft of residential, commercial and other business segments as on 31st Dec, 2007. MGF Ltd is engaged in the field of retail real estate development in Northern India since 1996 with approximately 2m sq ft of retail space delivered and 3m sq ft of retail space under development. In the Emaar MGF JV, Emaar has 41.9 per cent stake while MGF Development has 53.3 per cent share (Pre IPO holding structure).

Object of the issue

The company is offering 102.57m shares (10.4% of fully diluted capital) which will raise Rs55bn-65bn depending on price band (Rs540-630/share). Post IPO, Emaar will have 37.58% stake while MGF Development will have 47.73% in EMGF.

Figure 5: Proceeds to be used primarily for land payments and loan repayment

(Rs m)	Financed from issue
Part payment towards land acquisition & development rights	25,605
Project Palm drive	7,755
Repayment of loans	14,496
General corporate & issue purposes	Balance

Source: RHP

Land bank details

The company's current land bank is 13024 acres, of which development plans for 12028 acres have been finalized with developable area of 588m sq ft. The saleable area for the same works out to be 566m sq ft, out of which over 17.8m sq ft is under development.

Figure 6: Details of land ownership

Owned land	Acres	Developable area (M sq ft)	Saleable area (M sq ft)
Land owned by Emaar MGF & its subsidiaries	6744.49	381	381
Land over which Emaar has sole development rights	4711.45	147	131
MOU/agreements to sell & purchase to which Emaar is party	1556.78	59	53
Joint development			
Entered through joint development agreements	11.02	1	1
Total	**13024**	**588**	**566**

Source: RHP

Though EMGF's land reserves are spread across 26 cities in 16 states, it is predominantly a north based player with 76% of its current land bank in the region. A significant portion of its land bank is in tier II and III cities, as it holds significant land in Mohali, Dehradun, Goa, Lucknow and Jaipur.

Figure 7: North India based player with strong presence in tier II and III cities

Location	Acres	%
Mohali	2775	21.3
Gurgaon	2808	21.6
Delhi	1313	10.1
Dehradun	1139	8.7
Hyderabad	510	3.9
Pune	520	4.0
Kochi	386	3.0
Goa	463	3.7
Lucknow	390	3.0
Jaipur	416	3.2
Others	2304	17.5
Total	**13024**	**100**

Source: RHP

Development strategy
EMGF has four key lines of business - residential, commercial, retail and hospitality.

Residential: The company focuses on developing integrated master planned communities on the peripheries of cities and it mainly caters to the mid and luxury segments. The company sells a fair mix of villas, townhouses and apartments of varying sizes. Large integrated townships enjoy an average FSI of 1.

Commercial: The company intends to focus on providing commercial offerings which are both built to suit and multi-tenanted catering to a wide spectrum of customers including IT & ITES. The commercial properties shall include both stand alone commercial sites and properties forming part of integrated township. Most of its commercial developments are planned to cater to the IT/ITES industry.

Retail: The company intends to leverage its promoters (MGF Ltd) experience which has presence in retail real estate development in Northern India since 1996 with approximately 2m sq ft of retail space delivered and 3m sq ft of retail space under development. The company intends to lease malls with multiple anchor stores and international brands. The company intends to offer retail space in its malls across various cities to the same tenant to help the tenant in a pan India rollout.

Hospitality: - The company intends to have strategic tie-ups in its hospitality business in the luxury, up-market, mid-market and budget segments across India.

Its key strategic tie-ups include-

- JV with Accor & Premier Inn in relation to management and operation in the budget and mid market category under brands 'Formula 1' and 'Premier Inn' respectively.
- Entered into management agreement with Intercontinental Hotels Group to build a 'Holiday Inn' branded hotel in Kolkata.
- Entered into an operating agreement with Marriot Hotels under the 'Courtyard by Marriott' brand in Amritsar and 'JW Marriott' brand in Kolkata.
- Entered into LoI for developing a hotel under the 'Four Seasons' brand in Hyderabad.

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	H108A
Revenue	169	5,017
EBITDA	-590	2,144
EBIT	**-631**	**2,108**
Interest expense	-47	-94
Exceptional items	10	0
Profit before tax	**-668**	**2,014**
Taxes	196	-716
Minorities and other	-1	0
Net profit	**-473**	**1,298**

Source: Company, IIFL Research

Cashflow summary (Rs m)

Y/e 31 Mar	FY07A	H108A
Profit before tax	-687	2,014
Depr. & amortization	41	36
Tax paid	-12	-296
Working capital Δ	-35,383	-16,372
Other operating items	19	45
Operating cashflow	-36,022	-14,572
Capital expenditure	-5,887	-2,122
Free cash flow	**-41,908**	**-16,694**
Equity raised	22,662	516
Investments	-250	-312
Debt financing/disposal	1,417	3,907
Other items	16,654	11,919
Net change in cash	-1,424	-665

Source: Company, IIFL Research

Financial summary

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	H108A
Cash & equivalents	1,261	688
Sundry debtors	0	18
Inventories - trade	57,706	69,925
Other current assets	12,306	17,852
Fixed assets	**8,089**	**10,577**
Investments	260	556
Total assets	**79,621**	**99,616**
Current Liabilities	7,720	9,393
Provisions	43	257
Long-term debt/CBs	25,167	41,577
Minorities/other equity	1	0
Net worth	**46,690**	**48,388**
Total liabs & equity	**79,621**	**99,616**

Source: Company

Key to IIFL recommendations:
BUY: Absolute return of > +10%
SELL: Absolute return of < -10%
Market Performer: Absolute return of -10% to +10%