January 31, 2008

FOR PRIVATE CIRCULATION

Equity

	30 Jan 08	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
Sensex	17,759	(1.8)	(12.5)	(10.5)
Nifty	5,168	(2.1)	(15.8)	(12.4)
Banking	10,900	(2.0)	(4.5)	2.3
IT	3,278	(1.3)	(18.4)	(17.7)
Healthcare	3,654	(0.4)	(17.3)	(7.0)
FMCG	2,167	(1.8)	(6.6)	1.9
PSU	8,248	(2.5)	(21.2)	(14.3)
CNX Midcap	7,426	(2.4)	(19.3)	(0.3)
World indices				
Nasdaq	2,349	(0.4)	(11.4)	(17.8)
Nikkei	13,345	(1.0)	(12.9)	(20.3)
Hangseng	23,654	(2.6)	(16.5)	(25.9)

Value traded (Rs cr)

	30 Jan 08	% Chg - 1 Day
Cash BSE	3,855	(15.4)
Cash NSE	11,096	(8.2)
Derivatives	57,974	3.5

Net inflows (Rs cr)

	29 Jan 08	% Chg	MTD	YTD
FII	(285)	(81)	(13,222)	(13,222)
Mutual Fund	(117)	(132)	5,028	5,028

FII open interest (Rs cr)

	29 Jan 08	% chg
FII Index Futures	25,975	13.1
FII Index Options	12,321	4.2
FII Stock Futures	35,366	(5.3)
FII Stock Options	242	(2.6)

Advances/Declines (BSE)

30 Jan 08	A	B1	B2	Total	% Total
Advances	56	140	172	368	24
Declines	162	521	437	1,120	75
Unchanged	3	3	9	15	1

Commodity

	30 Jan 08	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	91.1	(1.4)	(5.1)	(3.7)
Gold (US$/OZ)	929.4	0.6	10.6	15.8
Silver (US$/OZ)	16.8	0.6	13.3	15.7

Debt/forex market

	30 Jan 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.60	7.54	7.72	7.85
Re/US$	39.39	39.38	39.42	39.42

Sensex

Source: Bloomberg

ECONOMY NEWS

- The Government has announced further liberalization of FDI in seven key economic sectors, allowing 74% FDI in non-scheduled airlines, 49% foreign investment in commodity exchanges and up to 49% FDI in credit information companies. (ET)
- NCAER has revised its GDP forecast upwards to 9.1%, from 8.9% earlier, for the current financial year. (ET)
- The Sebi chairman has said its board has cleared draft proposals for listing of debt securities and authorized the removal of initial issue expenses for closed-ended funds. (BL)

CORPORATE NEWS

- **TCS** has said its Diligenta subsidiary has won a £100 mn ($199 mn) order from Sun Life Financial's UK division. (BL)
- **Concor** has invited global bids from freight forwarding companies and feeder vessel operators. (ET)
- **Sun Pharma** has said it has commercially launched Pantoprazole tablets in the US, used for treating esophagus ailments. (BL)
- **DLF** has reported a 6% rise in consolidated net profit at Rs.21.39 bn for Q3FY08, when compared with Rs.20.18 bn in Q2FY08. (BS)
- **Bharti Airtel** has posted a 42% rise in its net profit at Rs.17.22 bn for Q3FY08 against Rs.12.15 bn in Q3FY07. (ET)
- **Bajaj Auto** has reported a 16.6% decline in consolidated net profit at Rs.2.74 bn for Q3FY08 when compared with Rs.3.28 bn in Q3FY07. (BS)
- **NTPC** has reported a 15.4% decline in net profit at Rs.17.8 bn for Q3FY08, as against Rs.21.03 bn in Q3FY07. (ET)
- **EIH** has reported a net profit of Rs.724 mn for Q3FY08 against Rs.619 mn in Q3FY07. (ET)
- **Bank of Baroda** has announced a 52.23% rise in net profit at Rs.5.01 bn for Q3FY08 as compared to Rs.3.29 bn reported during Q3FY07. (BL)
- **Shipping Corporation of India** has posted a net profit of Rs.1.77 bn for Q3FY08 as compared to Rs.2.27 bn in Q3FY07. (BL)
- **Andhra Bank** has posted a net profit of Rs.1.59 bn for Q3FY08 when compared with Rs.1.36 bn in Q3FY07, a growth of 16.69%. (BS)
- **Oriental Bank of Commerce** has reported a 24% decline in net profit at Rs.1.38 bn for Q3FY08 as compared to Rs.1.82 bn in Q3FY07. (BL)
- **Dabur** India posted a 22.9% growth in net profit of Rs.881 mn for Q3FY08 compared to Rs.717 mn in Q3FY07. (ET)
- **Tata Chemicals** has announced a 41.55% dip in PAT of Rs.910.9 mn for Q3FY08 as compared to Rs.1.56 bn in Q3FY07. (BS)
- **Aditya Birla Nuvo** has posted a 59.4% rise in net profit to Rs.840.1 mn for Q3FY08 as compared with Rs.527.1 mn shown during Q3FY07. (BL)
- **IndusInd Bank** has announced a 15.76% rise in net profit at Rs.250.4 mn for Q3FY08 as against Rs.216.3 mn in Q3FY07. (BS)
- **Aurobindo Pharma** has witnessed an 8% decline in net profit at Rs.552.5 mn for Q3FY08 when compared with Rs.601.2 mn in Q3FY07. (BS)
- **Sobha Developers** has reported a 33.69% rise in net profit at Rs.611 mn for Q3FY08 when compared with Rs.457 mn in Q3FY07. (BS)
- **MTNL** has announced a 53.17% decline in net profit at Rs.976.3 mn for Q3FY08 as compared to Rs.2.09 bn in Q3FY07. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

RESULT UPDATE

Awadhesh Garg
awadhesh.garg@kotak.com
+91 22 6634 1406

JUBILANT ORGANOSYS LTD

PRICE : RS.311 **RECOMMENDATION : BUY**
TARGET PRICE : RS.360 **FY09E PE :11.4x**

Key results highlights

- Jubilant Organosys has announced its results for Q3FY08, which are in line with our expectations. Net sales for the quarter have grown 36.7% to Rs.6.42 bn as compared to Rs.4.69 bn in the corresponding quarter of last year, driven by strong growth in pharma and life science segment.
- The pharma and life science products business grew 73.6% to Rs.3.98 bn and contributed to 62% of revenues in the quarter. The revenue from this segment includes sales of Hollister-Stier Laboratories. The industrial and performance products business grew only 1.5% to Rs.2.44 bn.
- International sales grew 64% to Rs.3.46 bn on the back of the Hollister acquisition and spectacular growth in the CRAMS business, contributing 54% to net sales.
- EBITDA grew 86.6% to Rs.1.29 bn as compared to Rs.694 mn in Q3FY07, due to continued strengths in the P&LSP businesses - especially in CRAMS, which is a high margin business. EBITDA margins expanded significantly by 540 bps to 20.2% during the quarter.
- Profit after tax grew 42.4% to Rs.887mn as compared to Rs.623mn in Q3FY07, on the back of the combined effect of improvement in operating margins and strong revenue growth.
- For 9MFY08, net sales grew 33.7% to Rs.18.0 bn while net profit grew 110% to Rs.3.38 bn. EBITDA margins were at 18.8%, which are better than our estimates. The company has posted a basic EPS of Rs.23.5 in 9MFY08, which is 80% of our FY08 EPS estimate.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Net Sales	18,097	24,335	29,211
Growth (%)	20.7	34.5	20.0
EBITDA	3,194	4,502	5,550
EBITDA margin (%)	17.7	18.5	19.0
Net profit	2,241	4,215	3,889
Net Margin (%)	12.4	17.3	13.3
EPS diluted (Rs)	15.6	26.9	21.7
Growth (%)	72.3	72.7	(19.3)
DPS (Rs)	1.3	1.3	1.3
RoE (%)	25.9	32.9	16.9
RoCE (%)	14.4	18.0	15.4
EV/Sales (x)	2.4	1.9	1.1
EV/EBITDA (x)	13.7	10.1	6.0
P/E (x)	20.0	11.6	14.3
P/BV (x)	4.0	2.9	1.9

Source: Company & Kotak Securities - Private Client Research

Consolidated Financial Performance (Q3FY08)

(Rs mn)	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)	FY07
Net Sales	**6,416**	**4,693**	**36.7**	**6,183**	**3.8**	**18,097**
Expenditure	5,121	3,999		5,050		15,560
Operating Profit	1,295	694	86.6	1,133	14.3	2,537
Depreciation	247	158		237		623
EBIT	**1,048**	**536**	**95.5**	**896**	**17.0**	**1,914**
Interest	123	49		109		195
Other Income	231	388		385		1,234
PBT	**1,156**	**875**	**32.1**	**1,172**	**-1.4**	**2,953**
Extra-Ordinary Items	(25)	(16)		-		-
Tax	244	236		76		712
Minority Interest	(7)	(14)		(4)		(39)
Profit After Tax	894	637	40.3	1,100	-18.7	2,280
Equity Shares (Mn)	144	143		143		143
EPS (Rs)	**6.2**	**4.4**	**39.7**	**7.7**	**-19.1**	**15.9**
EBIDTA Margin (%)	20.2	14.8		18.3		14.0
PAT Margin (%)	13.9	13.6		17.8		12.6

Source: Company

Pharma & life science products business lead growth driver

The pharma and life science products business continued to exhibit a strong performance in Q3FY08 largely driven by spectacular growth in the CRAMS business on the back of improved capacities, acquisitions, new launches and long-term contracts. The custom research and manufacturing services (CRAMS) remains the lead value creator for the company.

During the quarter, net sales grew 36.7% to Rs.6.42 bn as compared to Rs.4.69 bn in Q3FY07, with international sales rising 64% to Rs.3.46 bn. The pharma & life science products business, the leading revenue performer, recorded a growth of 73.6% to Rs.3.98 bn and contributed 62% to net sales in Q3FY08. The growth in the PLSP business was largely driven by CRAMS, which nearly doubled during the period.

Revenues from the CRAMS operation grew 98% to Rs.3.43 bn from Rs.1.73 bn in Q3FY07. This includes sales at Hollister-Stier of Rs.811 mn. In the ten-month period (till March 2008), we expect Hollister to deliver strong revenue contribution, as its revenues are expected to grow 40% in CY07. Sales from the industrial & performance products business were up 1.5% to Rs.2.44 bn during the quarter. The demand in IPP remained intact and Jubilant's key product lines demonstrated improved client traction.

Net sales for 9MFY08 were at Rs.18.0 bn, thereby recording 33.7% growth in the period, led by strong growth in outsourcing services, which has contributed 56.7%. CRAMS sales grew 75.4% to Rs.9.06 bn from Rs.5.17 bn in 9MFY07. Industrial and performance products grew 7.6% to Rs.7.3 bn given continued good demand for the company's products. Revenues from international operations grew 53.8% to Rs.9.51 bn in 9MFY08, led by noticeable contribution from regulated markets and China.

Business wise Revenue Break-up

(Rs mn)	Q3-08	Q3-07	FY07	FY06
Pharma & Life Science	**3,978**	**2,292**	**9,019**	**6,773**
% Sales	62.0	48.8	49.8	45.2
% Growth Y-o-Y	73.6	24.6	33.2	39.9
Industrial & Performance Products	**2,438**	**2,401**	**9,078**	**8,217**
% Sales	38.0	51.2	50.2	54.8
% Growth Y-o-Y	1.5	0.9	10.5	19.7
Net Sales	**6,416**	**4,693**	**18,097**	**14,990**

Source: Company

International business witnesses strong growth

International operations continue to deliver robust results. International sales grew 64% to Rs.3.46 bn from Rs.2.11 bn in Q3FY07, contributing 54% of the net sales. Regulated markets registered growth of 73% to Rs.2.42 bn and contributed 70% to international sales. The company has seen a significant growth in other markets due to exports of proprietary intermediates to China, which is emerging as an independent center of growth by itself.

Geographical Revenue Break-up

(Rs mn)	Q3-08	Q3-07	FY07	FY06
Domestic Sales (Net)	**2,954**	**2,579**	**9,779**	**9,103**
% Sales	46.0	55.0	54.0	60.7
% Growth Y-o-Y	14.5	3.1	7.4	21.3
Exports Sales	**3,462**	**2,114**	**8,318**	**5,887**
- Regulated Markets	2,416	1,396	5,614	3,585
- Other Markets	1,046	718	2,704	2,302
% Sales	54.0	45.0	46.0	39.3
% Growth Y-o-Y	63.8	23.1	41.3	40.1
Net Sales	**6,416**	**4,693**	**18,097**	**14,990**

Source: Company

EBITDA margins expanded 540 bps to 20.2%

EBITDA grew 86.6% to Rs.1.29 bn as compared to Rs.694 mn in Q3FY07, owing to continued strengths in the P&LSP businesses - especially in CRAMS, which is a high margin business. EBITDA margins significantly expanded by 540 bps to 20.2% during the quarter. This followed from an improved contribution across the business both in volume and in value terms. The strong trend in margins is likely to continue as the share of PLSPS revenues continue rising. Further, the company has witnessed good improvements in costs due to implementation of initiatives such as Six Sigma across the organization. Profit after tax grew 42.4% to Rs.887 mn as compared to Rs.623 mn in Q3FY07, on the back of a combined effect of improvement in operating margins and strong revenue growth.

We expect 35% sales growth in FY08 led by higher CRAMS contribution

We expect 35% sales growth for FY08 and 20% for FY09. The higher growth in FY08 sales is due to the acquisition of Hollister-Stier Laboratories, US. In the past, revenues were driven by the specialty chemicals business. However, from this year we expect the product mix to shift towards CRAMS and, to a lesser extent, API. This is consistent with the management's strategy to reduce cyclicality in its chemicals business and move up the value chain. We expect the specialty chemicals business to grow at a slower pace from this year, as Jubilant evolves as a dedicated CRAMS provider.

At present, Jubilant is catering to more than 130 global customers with more than 150 products used in 229 APIs and 17 agrochemicals. It has further strengthened the portfolio of intermediates used in NCEs undergoing Phase I, II and III clinical trials and has added new products to its existing portfolio.

We believe the focus will continue on CRAMS operations where higher volumes and margin expansion are expected due to the following factors:

- The exclusive synthesis business is expected to show increased revenues on account of the increase in the (customer) order book and strong pipeline with few products in Phase III of the customer's drug development program
- In the contract manufacturing business at Hollister-Stier, expanded capacities of sterile injectable from 48 mn to 120 mn vials per annum is expected to be commissioned in Q4FY08, which will add higher revenues from existing and new customers.
- The proprietary product business has seen the signing of long-term contracts with many customers with higher volumes and at better margins
- Drug delivery and development services are showing improved results. Given the pipeline of orders from existing and new customers, this is likely to result in higher revenues and operating profits.

Hollister acquisition to strengthen CRAMS business significantly

Jubilant had acquired Hollister-Stier Laboratories, a US-based contract manufacturing company for US$122.5 mn. Hollister is a profitable company with high growth outlook. We believe the acquisition significantly strengthens Jubilant's global CRAMS business via entry into the high barrier injectable segment. It will give Jubilant a ready entry into contract manufacturing of injectables and presents a compelling business opportunity, especially in the US market. It also brings with it, a high quality and steady cash flow allergy extracts and products business. We expect the Hollister business to grow at 40% CAGR over the next two years.

Drug discovery services to gain further traction

Jubilant forayed into the drug discovery services business in 2002 by setting up Jubilant Biosys to provide bio/chemo informatics databases to drug discovery companies for their early-stage lead generation programs. Jubilant Chemistry provides medicinal chemistry services for lead optimization in new chemical entities development. In the current environment, most of the drug discovery work is concentrated in the US. With an emphasis on accelerating the drug development process, the drug discovery companies are collaborating with CROs to outsource part of the drug development work. We expect that Jubilant's drug discovery business to grow at 30% CAGR to Rs.3.15 bn in FY09 from Rs.1.27 bn in FY07.

Drug Discovery partnership with Forest Laboratories, US

The company has recently entered into a collaborative agreement with Forest Laboratories, US, to discover small molecule drug candidates for a novel metabolic disorders target. According to the terms of the agreement, Forest will give the target to Jubilant Biosys and Jubilant will then conduct the drug discovery work, which will include development of hits-to-lead and optimization of leads. This discovery program will take around 26 months and will cover two aspects of metabolic disorder, namely, obesity and diabetes. Forest will have responsibility for the subsequent pre-clinical and clinical development and will own the drugs discovered under the collaboration with unencumbered worldwide commercialization rights. Jubilant will receive certain milestone payments (not disclosed) towards research funding, development and commercialization milestones.

We believe that with this agreement, Jubilant Biosys will be able to leverage its innovation capabilities in drug discovery and preclinical development while Forest will be able to get the access of India advantage, namely, much lower cost of drug development and high chemistry skills.

Non-pharma business to witness moderate growth with sustained cash flow

While the P&LS business should be the key growth driver, going forward, we expect the non-pharma business (industrial and performance chemicals) to provide sustained cash flow required for the company's growth plans. Importantly, these businesses do not involve much additional investment. Overall, we expect sales CAGR of 5% for the next two years.

We expect margins to improve, going forward, in the industrial chemicals business due to downward trend in molasses prices (main raw material) due to increase in sugarcane acreage, high level of integration with APIs/CRAMS business and improved margins from increased exports to South East Asia, West Asia and Europe.

Valuations & Recommendation

We maintain BUY on Jubilant Organosys with a price target of Rs.360

For FY08, we have modeled revenue growth of 35%, an 80 bps margin expansion on products mix and acquisition synergies (18.5% EBITDA) and 47.2% growth in adjusted net profit. In FY09, we expect revenue growth of 20% and net profit growth of 17.9%. We estimate an EPS of Rs.29.5 and Rs.27.2 for FY08 and FY09, respectively. At the current market price of Rs.311, the stock is trading at 10.6x FY08 and 11.4x FY09 basic EPS estimates. We maintain **BUY** with a target price Rs.360.

Key risks & concerns

- Failure of new molecule during clinical trials/studies
- Integration risk
- Rising competition in the CRAMS space
- Pricing pressure in the generics APIs and/or formulation business
- Molasses (raw material) price fluctuation

RESULT UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6634 1366

GATEWAY DISTRIPARKS LTD

PRICE : RS.112
TARGET PRICE : RS.200
RECOMMENDATION : BUY
CONS. FY09E PE : 10.7X

Summary table - Consolidated

(Rs mn)	FY07	FY08E	FY09E
Sales	1,610	2,673	4,011
Growth (%)	16.2	66.1	50.1
EBITDA	812	1,100	1,592
EBITDA margin (%)	50.5	41.2	39.7
Net profit	778	851	1209
Net debt	(1,993)	(879)	(424)
EPS (Rs)	8.4	7.4	10.5
Growth (%)	7.8	9.3	42.1
DPS (Rs)	5.0	5.0	5.0
ROE (%)	12.6	13.5	18.1
ROCE (%)	14.7	16.4	21.5
EV/Sales (x)	6.8	4.5	3.1
EV/EBITDA (x)	13.5	11.0	7.9
P/E (x)	13.3	15.2	10.7
P/BV (x)	1.7	2.0	1.9

Source: Company & Kotak Securities - Private Client Research

The Q3FY08 results of Gateway Distriparks were in line with our estimates. We maintain our earnings estimates. We recommend BUY on the stock with an unchanged price target of Rs.200 (79% upside potential)

- On a consolidated basis, GDL handled 95987 TEUs in Q3FY08 against 57374 TEUs in Q3FY07, thereby registering robust YoY volume growth of 67.3% and sequential growth of 6.3%. This was primarily due to addition of Punjab Conware CFS at JNPT and higher throughput at the Chennai CFS. Vizag CFS.
- On a consolidated basis, net sales for Q3FY08 were at Rs.719.9 mn up 74.0% YoY and up 12.4% on a sequential basis. This was due to 32.9% YoY growth in the revenues of the CFS business and 42.9% sequential growth in the revenues of the container rail business.
- The average realizations per TEU increased 4.0% YoY and 5.7% on a sequential basis to Rs.7500 per TEU. This is due to additional contribution from the Punjab Conware CFS that has higher average realizations compared to the Chennai and Vizag CFS.

Consolidated Q3FY08 results table

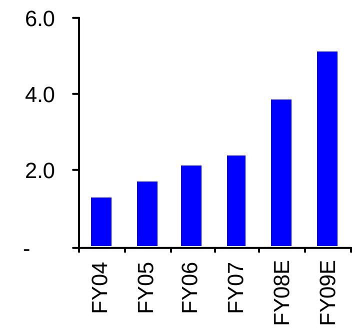
(Rs mn)	Q3FY08	Q3FY07	YOY (%)	Q2FY08	QoQ (%)	9MFY08	9MFY07	YOY(%)
Net Sales	**720**	**414**	**74.0**	**640**	**12.4**	**1,843**	**1,141**	**61.6**
staff cost	45	22	106.8	43	5.8	110	53	107.8
Transportation cost	200	87	128.9	165	21.0	458	204	124.5
Labour cost	42	22	93.7	35	19.3	98	44	121.9
Sub contract xp.	30	19	58.1	21	41.9	70	55	26.6
Auction exp.	0	8	(95.1)	3	(87.5)	5	12	(57.2)
other exp	91	57	61.4	91	(0.1)	287	180	60.0
Pujab conware exp.	26	-	-	26	-	53	-	-
Total Exp.	435	214.4	102.8	385	13.0	1,082	549	97.3
EBIDTA	**285**	**199.3**	**43.1**	**255**	**11.6**	**761**	**592**	**28.5**
Other income	27	35	(22.2)	43	(36.6)	119	181	(34.5)
Depreciation	76	36	110.0	69	10.1	190	93	103.6
EBIT	**237**	**198.6**	**19.4**	**230**	**3.0**	**689**	**680**	**1.4**
Interest	1	2	(74.8)	5	(88.3)	9	10	(8.1)
PBT	**236**	**196.2**	**20.5**	**225**	**5.1**	**680**	**670**	**1.5**
Tax & deferred tax	37	31	16.5	37	(0.2)	106	97	9.2
Net Profit	200	165	21.3	188	6.1	575	573	0.2
less minority int.	(1.4)	(2.4)	(42.0)	(1)	175.0	(1.1)	(2.1)	(48.5)
NPAT	**201**	**167**	**20.4**	**189**	**6.6**	**576**	**576**	**0.1**
Equity shares o/s (mn)	116	92.3		116		116	116	
Ratios								
Operting profit margin (%)								
excluding other income	39.6	48.2	down 8.6%	39.9	down 30 bps	41.3	51.9	down 10.6%
staff cost / sales	6.3	5.3		6.7		6.0	4.7	
transport cost / sales	27.7	21.1		25.8		24.9	17.9	
labour cost / sales	5.9	5.3		5.5		5.3	3.9	
sub cont. exp. / sales	4.1	4.6		3.3		3.8	4.8	
auction exp. / sales	0.1	2.0		0.5		0.3	1.1	
Other Exp. / Sales	12.7	13.7		14.3		15.6	15.8	
tax % of PBT	15.5	16.0		16.3		15.5	14.4	
EPS (Rs)	1.7	1.8		1.6		5.0	5.0	
CEPS (Rs)	2.4	2.2		2.2		6.6	5.8	
TEU`s handled	95987	57374	67.3	90277	6.3	267433	175311	52.5
Avg. Realisations per TEU	7,500	7,210	4.0	7,093	5.7	6,893	6,507	5.9

Source: Company

Segmental Breakup (Rs mn)	Q3FY08	Q3FY07	YOY (%)	Q2FY08	QoQ (%)	9MFY08	9MFY07	YOY(%)
Revenue (Rs mn)								
CFS	520.5	391.6	32.9	483.3	7.7	1,390	1,127	23.3
Container Rail	130.4	-	-	91.3	42.9	264	-	-
PBIT (Rs mn)								
CFS	229.4	176.6	29.9	205.7	11.5	622	555	12.1
Container Rail	(0.3)	-	-	(9.5)	(97.0)	(8)	-	-
PBIT %								
CFS	44.1	45.1		42.6		44.8	49.3	
Container Rail	(0.2)	-		(10.5)		(3.1)	-	

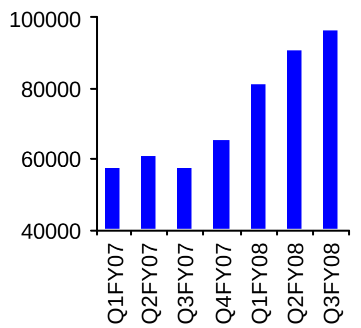
Source: Company

TEU`s Handled - Annual



Source: Company, Kotak Securities - Private Client Research

TEU`s handled - Quarterly



Source: Company, Kotak Securities - Private Client Research

- EBIDTA margins during Q3FY08 were down 8.6% to 39.6% YoY due to increase in transportation cost on account of running own container trains. Also, due to the ramping up of operations at the Punjab Conware CFS, deployment of two rakes by Gateway Rail Freight Ltd on the domestic route, other expenditure and fees on operations and management of Punjab Conware CFS have increased significantly in Q3FY08 as compared to the same quarter last year.
- The transportation cost to sales ratio stood at 27.7% in Q3FY08 as against 21.1% in Q3FY07. This was primarily due to the ramping up of the container rail business of the company.
- EBIDTA for Q3FY08 was at Rs.285.2 mn, up 43.1% YoY and up 11.6% on sequential basis.
- The other income of the company declined from Rs.35 mn in Q3FY07 to Rs.27.5 mn in Q3FY08 as the surplus funds of the company were deployed in various expansions of the company. GDL has already invested Rs.1.5 bn in the CFS and container rail business during 9MFY08.
- Depreciation of the company went up significantly from Rs.36 mn in Q3FY07 to Rs.75.6 mn in Q3FY08. This was primarily due to deployment of two rakes by Gateway Rail Freight Ltd for the domestic business.
- PBT for Q3FY08 was up 20.5% YoY and up 5.1% on sequential basis to Rs.236.5 mn.
- Consolidated PAT for Q3FY08 was at Rs.201.3 mn, up 20.4% YoY and up 6.6% on a sequential basis, thereby translating into quarterly EPS of Rs.1.7 and quarterly CEPS of Rs.2.4.
- Consolidated PAT for 9MFY08 was up 0.1% YoY to Rs.575.9 mn, translating into 9MFY08 EPS of Rs.5.0 and CEPS of Rs.6.6.

Commenced operations with own trains on Delhi JNPT route

- GRFPL has commissioned six trains for transporting containers through rail. Post signing the agreement with Concor, GRFPL has launched its two trains on the profitable Exim route, that is, Delhi-JNPT route in the firs week of January 2008. The remaining four trains would be deployed on domestic routes.
- GRFPL has already ordered six more trains that would be commissioned by June 2008 in stages. Thus, it would have 12 trains by June 2008.
- Ultimately, GDL has plans to induct 30 trains in the next two or three years.
- The company's second rail-linked inland container depot (ICD) at Faridabad and its third ICD at Ludhiana are progressing according to schedule and are expected to commence commercial operations in Q3FY09E.

Cold chain business to break even in current year

GDL's cold chain business through Snowman Frozen Foods has done well as revenues grew 116.3% YoY to Rs.53.5 mn. The company is also well on its way to turn around this business as the losses at EBIT level reduced from Rs.4.6 mn to Rs.3.8 mn, an improvement of 17.7%. The company is formulating its strategies for providing pan-India cold chain logistics services. The management is confident of making some profit in FY08E.

Cold Chain Business

(Rs mn)	Q3FY08	Q3FY07	YOY (%)	Q2FY08	QoQ (%)	9MFY08	9MFY07	YOY(%)
Revenues	53.5	24.8	116.3	71.4	(25.0)	189.8	24.8	666.8
EBIT	(3.8)	(4.6)	17.7	(3.7)	1.9	(12.5)	(4.6)	(171.4)
EBIT %	(7.1)	(18.7)		(5.2)		(6.6)	(18.7)	

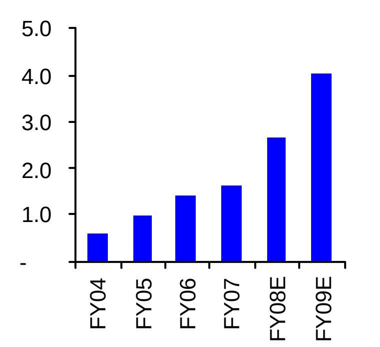
Source: Company

Valuation & recommendation

We recommend a BUY on GDL with unchanged price target of Rs.200 (79% upside)

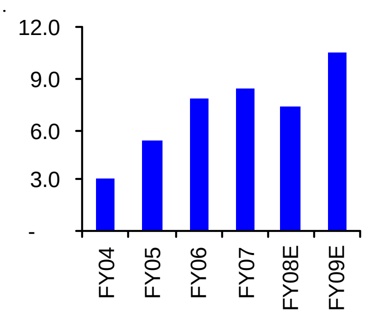
- We maintain our earnings estimates and expect GDL to report EPS of Rs.7.4 in FY08E moving upto Rs.10.5 in FY09E.
- At Rs.112, the stock trades at 1.9x book value, 10.7x earnings and 8.5x cash earnings based on FY09E.
- We remain positive on the growth prospects of GDL. Increasing containerization, export import trade and the company's presence at all major ports, rail linked ICDs, running of private container trains and expansion in the booming cold chain business would keep its position stronger in the future as well.
- We maintain our positive bias on the stock and continue to recommend a **BUY** with an unchanged price target of Rs.200 with 79% upside potential.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

COMPANY UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6634 1366

CONTAINER CORPORATION OF INDIA

PRICE : RS.1550 **RECOMMENDATION : BUY**
TARGET PRICE : RS.2875 **FY09E PE : 10.7X**

The results of Concor were inline with our estimates. There was a bonus issue in the ratio of 1:1. We recommend BUY with an unchanged price target of Rs.2875 (86% upside).

- Net sales for Q3FY08 were Rs.8.4 bn, against Rs.7.5 bn in Q3FY07, thereby registering a YoY growth of 12.9% and sequential growth of 3.0%. The growth in revenues is primarily due to buoyant 14.9% YoY growth in the Exim movement of containers by rail.
- The company recorded EBIDTA margins of 27.3% for Q3FY08, which is 250 bps lower YoY. The lower EBIDTA margins were primarily due to significant reduction in margins of the operation of the domestic segment where PBIT margins went down from 23.0% in Q3FY07 to 14.0% in Q3FY08.

Q3FY08 results table

(Rs mn)	Q3FY08	Q3FY07	YOY (%)	Q2FY08	QoQ (%)	9MFY08	9MFY07	YOY(%)
Net Sales	8,432	7,472.0	12.9	8,188	3.0	24,379	22,326	9.2
staff cost	142	83.4	70.0	110	28.6	362	252	43.8
rail expenditure	4,880	4,225.9	15.5	4,949	(1.4)	14,222	12,549	13.3
other exp	1,110	938.8	18.2	1,006	10.3	3,090	2,671	15.7
Total Exp.	6,131	5,248.1	16.8	6,065	1.1	17,674	15,472	14.2
EBIDTA	2,301	2,223.9	3.5	2,123	8.4	6,705	6,855	(2.2)
Other income	417	205.1	103.1	325	28.4	1,092	588	85.6
Depreciation	275	241.7	13.9	260	5.7	794	697	13.9
EBIT	2,442	2,187.3	11.7	2,187	11.7	7,003	6,746	3.8
PBT	2,442	2,187.3	11.7	2,187	11.7	7,003	6,746	3.8
Tax & deferred tax	513	530.9	(3.4)	446	15.1	1,462	1,530	(4.5)
Net Profit	1,929.2	1,656.4	16.5	1,741.0	10.8	5,541.1	5,215.7	6.2
Equity shares o/s (mn)	65.0	65.0		65.0		65.0	65.0	
Ratios								
Op. profit margin (%) excl.								
other income	27.3	29.8	down 250 bps	25.9	up 140 bps	27.5	30.7	down 370 bps
staff cost / sales	1.7	1.1		1.3		1.5	1.1	
rail / sales	57.9	56.6		60.4		58.3	56.2	
Other Exp. / Sales	13.2	12.6		12.3		12.7	12.0	
tax % of PBT	21.0	24.3		20.4		20.9	22.7	
EPS (Rs)	29.7	25.5	16.5	26.8	10.8	85.3	80.3	6.2
CEPS (Rs)	33.9	29.2		30.8		97.5	91.0	

Source: Company

Segmental Breakup

(Rs mn)	Q3FY08	Q3FY07	YOY (%)	Q2FY08	QoQ (%)	9MFY08	9MFY07	YOY(%)
Revenue								
EXIM	6,676.5	5,808.6	14.9	6,558.7	1.8	19,338.80	17,936.80	7.8
Domestic	1,755.8	1,663.4	5.6	1,629.0	7.8	5,040.50	4,389.60	14.8
Segmental Results - PBIT								
EXIM	1,908.5	1,672.5	14.1	1,758.9	8.5	5,460.40	5,559.60	(1.8)
Domestic	245.4	383.3	(36.0)	176.8	38.8	748.40	815.10	(8.2)
Segmental Margins (%)								
EXIM	28.6	28.8	(0.7)	26.8	6.6	28.2	31.0	(8.9)
Domestic	14.0	23.0	(39.3)	10.9	28.8	14.8	18.6	(20.0)

Source: Company

- In a bid to promote its domestics business, that is, to take away the container traffic from road to rail Concor introduced various incentive schemes like reduced container handling charges and attractive volume based discounts.
- However, we expect the cost pressures to ease out in the following quarters. The benefits of business promotion would result in increased container handling and, thereby, would result in higher operational efficiency, going forward.
- Some of the benefits are already visible as EBIDTA margins have gone up by 140 bps on a sequential basis. This is primarily due to improvement in the PBIT margins of domestic business from 10.9% in Q2FY08 to 14.0% in Q3FY08.
- EBIDTA stood at Rs.2.3 bn, up 3.5% YoY and up 8.4% on a sequential basis.
- The other income of the company went up significantly from Rs.205 mn in Q3FY07 to Rs.417 mn in Q3FY08 due to strong cash reserves on its books.
- Depreciation during Q3FY08 was higher by 13.9% YoY and 5.7% on a sequential basis to Rs.275 mn. This was due to an increase in the provisioning of depreciation due to acquisition of wagons and setting up of infrastructure related to the terminals.
- PBT for Q3FY08 was at Rs.2.4 bn, up 11.7% on both YoY and sequential basis.
- PAT for Q3FY08 is up 16.5% YoY and up 10.8% on sequential basis to Rs.1.9 bn, translating into a quarterly EPS of Rs.29.7 and quarterly CEPS of Rs.33.9.
- PAT for 9MFY08 is up 6.2% YoY to Rs.5.5 bn, translating into 9MFY08 EPS of Rs.85.3 and CEPS of Rs.97.5.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	30,373	33,895	41,155
Growth (%)	24.8	11.6	21.4
EBITDA	8,912.3	9,408.4	11954.5
EBITDA margin (%)	29.3	27.8	29.0
Net profit	7,038	7,803	9,429
Net debt	(10,626)	(12,699)	(16,575)
EPS (Rs)	108.3	120.1	145.1
Growth (%)	33.9	10.9	20.8
DPS (Rs)	22.0	24.0	25.0
ROE (%)	26.8	26.6	26.1
ROCE (%)	33.5	33.7	32.6
EV/Sales (x)	3.0	2.6	2.0
EV/EBITDA (x)	10.1	9.4	7.0
P/E (x)	14.3	12.9	10.7
P/BV (x)	3.8	3.1	2.5

Source: Company & Kotak Securities - Private Client Research

Agreement signed with Gateway Distriparks

- Concor and Gateway Rail Freight Pvt Ltd (GRFPL), a 90% subsidiary of Gateway Distriparks Ltd have entered into an agreement to set up a joint venture company (JVC) to construct and operate a rail-linked double-stack container terminal at Garhi Harsaru near Gurgaon in Haryana. Gateway Rail and Concor will have shareholding in the ratio of 51:49, respectively, in this JVC.
- Both companies can run Exim and domestic trains independently out of this Garhi ICD in equal proportion. The revenue and expenditure from running the trains will be charged to the respective companies. However, the revenues from ICD operations like container handling, warehousing and value-added services would be booked in the JVC in equal ratio.
- This is positive for Concor as it now has access to prime land near Delhi for further expanding its operations. Also, it would help to ease out the operations of the congested Tughlakabad ICD.

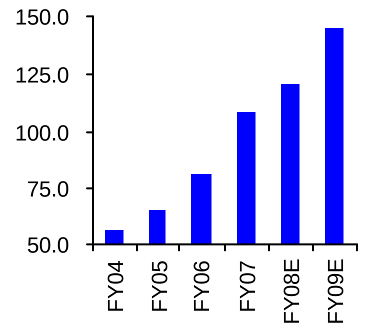
Foray into end-to-end logistics services

- Concor has successfully forayed into offering end-to-end logistics solutions to its customers for domestic cargo. The company has tied up with various service providers like road transporters and coastal shipping companies to offer the entire gamut of logistics services.
- It is also evaluating various proposals in terms of further domestic and international tie-ups to offer door-to-door delivery using various modes of transport like rail, road, sea and air.

Increasing its presence in port operations

- The company has 26% stake in Gateway Terminal India Pvt Ltd. (JNPT third terminal) and 15% stake in Vallarpadam port. The company is also further evaluating options of increasing its presence in port operations.
- The company's cold chain logistics subsidiary, that is, Fresh & Healthy enterprises Ltd has already set up 12000 MT controlled atmosphere store in Delhi. After the initial success of this project, it is looking to expand this on a pan-India basis with procurement, transportation, storage and distribution of fresh fruits and vegetables. This is typically a high margin business.
- Concor is looking to invest Rs.35-50 bn over next five years to create assets in the logistics business.

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

- Thus, Concor has elevated itself from a mere rail transportation provider to a multi-modal transport operator to offer the complete gamut of logistics services. We expect the newer high margin businesses to contribute significantly to the total revenues of the company in a couple of years.

Issue of bonus shares

The board of directors of Concor has approved the issue of bonus shares in the ratio of 1:1, that is, one share for every one share held. However, this is subject to requisite approvals of the shareholders and Government of India.

Recommendation and Valuation

Accommodating for lower operating margins in the domestic business, we revise our earnings estimates for FY08E. We expect the company to report net sales of Rs.33.9 bn, EBIDTA margin of 27.8% and PAT of Rs.7.8 bn. This translates into EPS of Rs.120.1 as against our earlier EPS estimate of Rs.125.0.

Change in Estimates (FY08E)

Rs. bn	Old	Revised
Net sales	35.6	33.9
EBIDTA %	29.0	27.8
PAT	8.1	7.8
EPS - Rs.	125.0	120.1
CEPS - Rs.	142.5	136.7

Source: Kotak Securities - Private Client Research

- However, we maintain our earnings for FY09E and expect Concor to report EPS of Rs.145.1 for FY09E.
- At Rs.1550, the stock trades at 2.5x book value, 10.7x earnings and 9.4x cash earnings based on FY09E.
- We feel that Concor has a tremendous advantage in terms of its scale of operations consisting of volume of traffic, network of terminals across the country, strong base of low-cost assets like high-speed wagons and containers. This would ensure its No.1 position in India in the visible future for transportation of containers through rail.

We recommend a BUY on Concor with a price target of Rs.2875

- Thus, we remain positive and reiterate our BUY on Concor with an unchanged price target of Rs.2875, which provides upside potential of 86% from the current level. We recommend **BUY** on Concor.

Note: Analyst Holding 50 Shares

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6634 1258

CUMMINS INDIA

PRICE : RS.333
TARGET PRICE : RS.380

RECOMMENDATION : BUY
FY09E PE : 18.1X

Highlights

- Cummins India's third quarter results are ahead of our expectations.
- Contraction in operating margins has been contained at just 40 bps despite the impact of rupee appreciation.
- We largely maintain our estimates.

We had recommended BOOKING PART PROFITS in our Q2FY08 update. Since then, the stock is down 20%.

Valuations are attractive at this point of time as we see margins stabilizing at FY08 levels. In view of this, we have upgraded the stock to **BUY** with a price target of Rs.380.

Further steep appreciation in the rupee remains a risk.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	21228	25826	31305
Growth %	19.6	21.7	21.2
EBITDA	4162	4696	5718
EBITDA margin %	19.6	18.2	18.3
Net profit	2679	3001	3667
Net cash (debt)	1738	1413	1913
EPS (Rs)	13.5	15.2	18.5
Growth %	45.9	12.0	22.2
CEPS	15.5	17.1	20.8
DPS (Rs)	4.7	4.7	4.7
ROE %	28.6	26.7	26.9
ROCE %	40.9	38.7	39.4
EV/Sales (x)	3.0	2.5	2.0
EV/EBITDA (x)	15.4	13.7	11.2
P/E (x)	24.7	22.1	18.1
P/Cash Earnings	21.5	19.4	16.0
P/BV (x)	6.5	5.4	4.4

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3FY08	Q3FY07	% chg	9MFY08	9MFY07	% chg
Net Sales	**5,902.30**	**4770**	**24**	**16,608**	**13,359**	**24**
Other Income	268.80	259.7	4	763	617	24
Total Income	6,171.10	5,030	23	17,371	13,976	24
Raw material costs	4,013.20	3193.5	26	11,347	8,767	29
Staff costs	329.70	295.8	11	991	853	16
Other exp	692.20	562	23	1,937	1,616	20
Total Expenditure +	5,035.10	4051.3	24	14,275	11,235	27
PBIDT	**867.20**	**718.5**	**21**	**2,333**	**2,123**	**10**
Interest	0.20	1.9	-89	3	3	-5
PBDT	**1,136**	**976**	**16**	**3,093**	**2,738**	**13**
Depreciation	86.40	77.1	12	240	252	-5
PBT	**1,049**	**899**	**17**	**2,854**	**2,485**	**15**
Tax	303.30	270.3	12	803	721	11
Adjusted Profit After Tax	746	628.9	19	2,051	1,764	16
Equity	396	396		396	396	
Raw Material cost to sales%	68.0	67.0		68.3	65.6	
Other expenditure to sales %	11.7	11.8		11.7	12.1	
PBDIT %	14.7	15.1		14.0	15.9	
Tax rate %	29	30		28	29	

Source: Company

Revenue growth in Q3FY08 recovers after subdued Q2

Cummins reported 24% growth in revenues as the company fully utilized its capacity. During the second quarter, the company had a downtime of seven days due to the implementation of Oracle 11i. Exports grew 19.9% to Rs.1.8 bn and accounted for 30% of the revenues.

Sales to the auto segment have grown strongly. The company sells its C-series and N14 series to the heavy commercial vehicle segment. Since this product has been recently introduced, its sales have more than doubled in the first nine months and contribute around 10% to revenues. The clients are Tata Motors as well as Eicher, Asian Motor Works, etc.

The industrial segment revenues grew 26% in 9M FY08 driven by the infrastructure segment.

The company maintained its outlook of 16-19% growth in domestic sales and 12-15% growth in exports sales.

Margin decline significantly contained in the quarter

Since the company has a net forex exposure of 15-16%, appreciation in the rupee has been hurting operating margins. For the quarter, the impact of forex has been to the extent of Rs.60-70 mn (110 bps in Q3). Despite this, the contraction in margins has been contained at 40 bps as the company's ongoing efforts at value engineering and Six Sigma has been yielding positive results.

Profit growth reflecting impact of rupee appreciation

For the quarter, profits have grown 19% YoY. For the first nine months, profits have increased 16% on a standalone basis.

Started production at Pirangute

The Pirangute facility for low KVA (below 150 KVA) was completed on schedule in Q3FY08. The capacity of this plant is 50000 units. The revenue potential of the Pirangute facility is Rs.3.0 bn per annum. The company is also on track to complete its expansion for high HP engines at its existing Kothrud facility. The expansion is expected to get completed in February and the facility would be fully ramped up by April 2008.

Significant capacity augmentation through new facilities at Pirangute and Phaltan

CIL plans to spend Rs.900 mn in FY08 and Rs.1.5 bn in FY09. The company is setting up a facility in Phaltan, which will triple capacity of C (160-250 KVA), L series and mid HP engines. The C and L series engines are used in highway applications.

Outlook & recommendation

We see margins stabilizing at FY08 levels. Thus, we see earnings growth largely moving in line with revenue growth. Capacity additions would further drive revenue growth and enable the company to increase its market share.

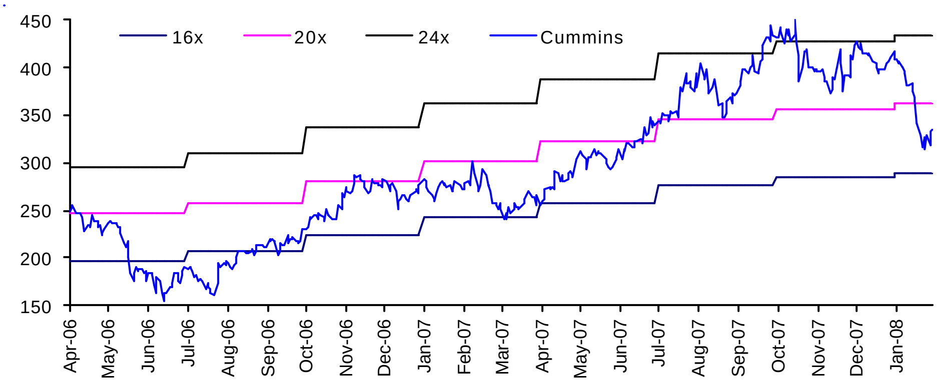
Key risk to margins stems from sharp appreciation in the rupee in FY09.

The CIL stock has underperformed the market and the sector peers over the last two quarters. We had recommended BOOKING PART PROFITS in our Q2FY08 update. Since then, the stock is down 20%.

We upgrade our recommendation to BUY on Cummins India with a price target of Rs.380

At the current price, the stock discounts the FY08 and FY09 earnings at 22.1x and 18.1x, respectively. The Cummins stock has traded in a P/E band of 16-20x and tended to peak at 24x one year forward. We upgrade the stock to **BUY** with a target price of Rs.380.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6634 1258

BLUE STAR

PRICE : RS.490 **RECOMMENDATION : BUY**
TARGET PRICE : RS.593 **FY09E PE : 19.8X**

Highlights

- The impressive profit growth continues. Numbers largely meet our expectations.
- Operating margin are up 440 bps aided by better pricing of projects and lower cost of imported components
- Order backlog at Rs.10.7 bn is up 29% YoY. Order inflows appear to have moderated.
- We maintain our **BUY** recommendation on the stock with a target price of Rs.593.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	15946	22394	28466
Growth %	36.4	40.4	27.1
EBITDA	1102	2448	3294
EBITDA margin %	6.9	10.9	11.6
Net profit (adjusted)	712	1648	2201
Net cash (debt)	-845	-166	1137
EPS (Rs)	7.9	18.3	24.5
Growth %	41.2	131.6	33.6
CEPS	10.2	20.7	26.9
DPS (Rs)	3.4	3.4	3.4
ROE %	37.0	58.0	48.0
ROCE %	36.0	62.0	58.0
EV/Sales (x)	2.9	2.0	1.5
EV/EBITDA (x)	40.7	18.1	13.0
P/E (x)	61.9	26.7	20.0
P/Cash Earnings	47.8	23.7	18.2
P/BV (x)	20.9	12.2	8.0

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3 FY08	Q3 FY07	% change
Net Sales	5149	3701	39
Other income	1	4	-74
Raw material costs	3825	2936	30
Staff costs	413	271	52
Other expenditure	354	257	38
Total Expenditure	4592	3463	33
PBDIT	557	238	134
Interest	16	22	-27
Depreciation	55	58	-4
PBT	487	158	208
Tax	133	48	180
PAT	354	111	220
PBDIT %	10.8	6.4	
Tax rate %	27.3	30.0	
Raw material cost to sales %	74.3	79.3	
Other expenditure to sales %	6.9	6.9	
Staff costs to sales %	8.0	7.3	

Source: Company

- For Q3FY08, the company reported net sales of Rs.5.1 bn as against Rs.3.7 bn in Q3FY07, thereby registering 39% YoY growth and a decline of 6% sequentially (seasonal in nature).
- The revenue growth was strong across various divisions. Revenue growth in the cooling products segment was strong. Normally, revenues in this division decline sequentially in the third quarter due to the winter season. However, during the quarter, the sequential decline in cooling products was contained at 3%. Cooling products growth was driven by increased sales of split airconditioners, as well as enhanced demand for refrigeration products and cold chain systems.

Segment Revenue Growth (Rs mn)

	Q3 FY08	Q3 FY07	% change
Central AC	3768	2762	36
Cooling products	1003	693	45
Professional electronics	377	247	53

Source: Company

- EBIDTA margins during Q3FY08 were up 440 bps YoY to 10.8% due to better priced orders and lower cost of imported components. Blue Star has been a beneficiary of rupee appreciation. Staff costs rose 52% YoY as it included Rs.9.8 mn towards payment of bonus for the previous year and provision of Rs.50.2 mn towards payment of incentives in the next year.

Segment Revenue Growth

(%)	Q3 FY08	Q3 FY07	Q2 FY08
Central AC	11.9	8.1	14.2
Cooling products	12.9	6.5	10.4
Professional electronics	22.9	20.9	18.8

Source: Company

- PAT for Q3FY08 was at Rs.354 mn, up 220% YoY but down 23% on a sequential basis (seasonal in nature). We expect strong numbers for the fourth quarter. In the nine months period, PAT grew 179% YoY to Rs.1.03 bn.
- Order backlog is up 29% YoY to Rs.1.07 bn. On a sequential basis, order backlog is up 4%. We see continued traction in the real estate, IT/ITeS and retail sector, which should drive order inflows. We expect the current order backlog to be sufficient to deliver a growth of 28% for the projects division, which contributes over 73% of revenues.

Earnings estimates maintained

We maintain our BUY recommendation on BLUE STAR with a price target of Rs.593

We have maintained our earnings estimates for the company as order inflows and margins have been in line with expectations.

Valuation

The stock is currently trading at 26.7x and 20x FY08 and FY09 earnings, respectively. We reiterate **BUY** with a price target of Rs.593.

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6634 1258

CROMPTON GREAVES

PRICE : RS.343 **RECOMMENDATION : HOLD**
TARGET PRICE : RS.380 **FY09E PE : 23.6X**

Highlights

- Crompton Greaves' third quarter numbers are below our expectations.
- Revenue growth has remained muted for the second consecutive quarter.
- Copper prices are down YoY, thus helping the company post margin gains.
- We expect revenue growth to recover in the coming quarters given healthy order backlog and good demand conditions in Europe.
- We reiterate **HOLD** on the stock with a reduced price target of Rs.380

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	56728	67969	82922
Growth %	34.0	23.7	20.0
EBITDA	5160	6774	8904
EBITDA margin %	9.1	10.0	10.7
Net profit	2866	3784	5325
Net cash (debt)	-6630	-4018	180
EPS (Rs) consolidated	7.8	10.3	14.5
EPS (Rs)	5.2	8.2	10.1
Growth %	11.5	32.1	40.7
ROE %	32.7	33.7	35.4
ROCE %	27.0	29.9	38.8
EV/Sales (x)	2.3	1.9	1.5
EV/EBITDA (x)	25.7	19.2	14.1
P/E (x) consolidated	43.9	33.2	23.6
P/BV (x)	13.0	9.8	7.1

Source: Company & Kotak Securities - Private Client Research

Quarterly performance - Standalone

Rs mn	Q3 FY08	Q3 FY07	% change
Net Sales	**9,152**	**8,130**	**12.6**
Other Income	144	72	99.7
Total Income	9,296	8,203	13.3
RM costs	6,394	5,927.40	7.9
Staff costs	455	421.10	8.1
Other costs	1,143	964.20	18.6
Total Expenditure	7,992	7,312.70	9.3
PBIDT	**1,160**	**818**	**41.8**
Interest	72	77.70	-8.0
PBDT	**1,233**	**812**	**51.7**
Depreciation	115	99.80	15.2
PBT	**1,118**	**713**	**56.9**
Tax	438	258.30	69.7
Reported Profit After Tax	679	454	49.5
RM costs to sale %	69.9	72.9	
Staff costs %	5.0	5.2	
Other costs %	12.5	11.9	
OPM%	12.7	10.1	
Total tax rate%	39	36	

Source: Company

CGL's standalone revenues grew 12.6% during the third quarter: Revenue growth has been lower than expectations. In the second quarter, the company had a fire in one of its plants, which resulted in loss of production. It is possible that production could have been affected in the third quarter as well. Revenue growth has slowed down across all divisions. However, we expect healthy revenue growth, going ahead, given sizeable order backlog.

In the industrial segment, the company makes motors and is the largest manufacturer of motors in India. The demand for motors is driven by capex in the industrial sector and manufacturing sector. CGL has launched new variants in the market and has also enhanced manufacturing capacity.

Segment revenues (Standalone)

(Rs mn)	Q3 FY08	Q3 FY07	% change
Power Segment	4731	4262	11
Consumer	2603	2263	15
Industrial	2634	2311	14

Source: Company

Consolidated

(Rs mn)	Q2 FY08	Q3 FY08	QoQ % change
Net Sales	**15755.5**	**17987.9**	**14**
Other Income	105.2	81.5	-23
Total Income	15860.7	18069.4	14
RM costs	9087.8	9587.5	5
Trading	1196.1	1266.9	6
Staff costs	1944.2	2041.6	5
Other costs	1931.3	3228.3	67
Total Expenditure	14159.4	16124.3	14
PBIDT	**1596.1**	**1863.6**	**17**
Interest	139.7	188.6	35
PBDT	**1561.6**	**1756.5**	**12**
Depreciation	292.1	396.4	36
PBT	**1269.5**	**1360.1**	**7**
Tax	349.3	519.5	49
Reported Profit After Tax	920.2	840.6	-9
OPM %	10.1	10.4	
Raw material cost to sales %	57.7	53.3	
Staff cost to sales %	12.3	11.3	
Other expenditure to sales %	12.3	17.9	
Tax rate %	27.5	38.2	

Source: Company

On a consolidated basis, revenues posted healthy growth on a sequential basis. Operating profits rose 14% led by a 30 bps margin expansion. However, profit growth was dampened by higher depreciation, interest and tax charges.

Strong margin gains on better material cost management

Standalone operating profit for the quarter rose 42% to Rs.1.16 bn. During the quarter, raw material prices remained range-bound, thus enabling the manufacturers to manage the price risk well. Several cost cutting initiatives including value-engineering and strategic sourcing enabled the company to report margin gains.

Segment Margins %

	Q3 FY08	Q3 FY07	Q2 FY08
Power Segment	12.4	7.7	11.9
Consumer	9.8	8.7	10.6
Industrial	18.3	14.3	18.1

Source Company

Earnings estimates reduced for FY08

In the first nine months, profit on a standalone basis grew 54% to Rs.1.89 bn. In view of the lower than expected revenue booking in 9MFY08, we have reduced our earnings estimates 10% for FY08 on a consolidated basis.

Strong demand environment

Growth in the power segment has been fueled by the simultaneous investment in power generation and T&D. As against the norm of 50% investment in T&D for every 100% investment in the power sector, the investment in T&D has been lagging at 30%. This has resulted in high T&D losses. Power Grid Corporation of India plans to invest Rs.550 bn during the Eleventh Plan to increase its transmission capacity.

The plan is to raise the current transmission capacity from 11,500 MW to 37,000 MW by 2012. PGCIL also plans to go for hybrid ultra high voltage transmission system, which will reduce transmission losses.

Outlook

Our outlook for the company remains positive on the back of a strong demand environment. Details on individual subsidiaries performance is not with us at the moment. We would be attending the conference call of the company to get a perspective of the subsidiary's performance.

We maintain our HOLD recommendation on Crompton Greaves with a price target of Rs.380

How fast CGL is able to turnaround the operations of Ganz and Microsol would be the key valuation drivers for the stock.

At the current price, CGL is currently trading at a P/E of 33.2x and 23.6x FY08 and FY09 earnings, respectively (Consolidated EPS of Rs.11.5 and Rs.14.4 per share in FY08 and FY09, respectively).

We maintain **HOLD** on the stock with a price target of Rs.380 per share, based on 26x FY09 earnings. Our target multiple is based on a 20% discount to sector leader ABB.

RESULT UPDATE

Saday Sinha
saday.sinha@kotak.com
+91 22 66341440

INDIAN OVERSEAS BANK (IOB)

PRICE : RS.164 **RECOMMENDATION : BUY**
TARGET PRICE : RS.237 **FY10E P/E: 5.3x, P/ABV: 1.25x**

IOB has reported its Q3FY08 numbers, which are overall in line with our expectations. Its net profit grew 24.9% (ahead of our expectations) on the back of strong non-interest income and lower provisioning. Its net interest income (NII) grew moderately at 8.4% (slightly below our expectations).

We are slightly tweaking our earnings estimates for FY08E and FY09E and incorporating FY10E numbers in our workings. We are maintaining BUY on the stock with a target price of Rs.237 (revised upward from Rs.177) mainly due to rolling over the base of our valuation to FY10E.

We recommend a BUY on IOB with a price target of Rs.237

At the target price, the stock would trade at 1.8x its FY10E adjusted book value. So, we maintain BUY on the stock with a target price of Rs.237.

Quarterly Performance,

(Rs mn)	Q3FY08	Q3FY07	YoY (%)
Interest on advances	14,279.2	9,923.5	43.9
Interest on Investment	5,938.1	4,362.0	36.1
Interest on RBI/ banks' balances	448.4	392.5	14.2
Other interest	93.2	58.8	58.5
Total Interest earned	20,758.8	14,736.9	40.9
Interest expense	14,198.9	8,685.7	63.5
Net interest income	**6559.9**	**6051.2**	**8.4**
Other income	2,194.6	1,343.9	63.3
Net Revenue (NII + Other income)	**8,754.6**	**7,395.1**	**18.4**
Operating Expenses	3,823.7	3,115.7	22.7
Payments to / Provisions for employees	2,598.1	2,133.3	21.8
Other operating expenses	1,225.7	982.4	24.8
Operating profit	4,930.9	4,279.4	15.2
Provisions & contingencies	366.7	614.9	-40.4
Provision for taxes	1,482.3	1,196.8	23.9
Net profit	**3,081.9**	**2,467.7**	**24.9**
EPS, Rs	5.66	4.53	24.9

Source: Company

NII grew moderately at 8.4% to Rs.6.56 bn in Q3FY08 from Rs.6.05 bn in Q3FY07. The modest growth in NII is due to higher growth in interest expense (63.5%) as compared to growth in total interest income (40.9%). NII for 9MFY08 grew 11.4% to Rs.19.97 bn from Rs.17.93 bn during the same period last year.

Net profit grew 24.9% to Rs.3.08 bn in Q3FY08 from 2.47 bn in Q3FY07 due to higher growth in other income (an increase of 63.3%) and lower provisioning (a decline of 40.4%). Net profit for 9MFY08 grew 24.7% to Rs.8.96 bn from Rs.7.19 bn during the same period last year.

Non-interest income rose 63.3% to Rs.2.19 bn in Q3FY08 from Rs.1.34 bn in Q3FY07.

Net revenues (NII and other income) of the bank rose 18.4% to Rs.8.75 bn in Q3FY08 from Rs.7.39 bn in Q3FY07.

The operating profit of the bank rose 15.2% to Rs.4.93 bn in Q3FY08 from Rs.4.28 bn in Q3FY07.

Total business of the bank rose 29.2% to Rs.1334.13 bn in Q3FY08 from Rs.1032.89 bn in Q3FY07.

- Total deposits of the bank rose 33.1% YoY to Rs.787.91 bn in Q3FY08. CASA accounts for around 31% of the total deposits at the end of Q3FY08.
- Advances of the bank increased 23.9% YoY to Rs.546.22 bn in Q3FY08.

Return on assets (RoA) stands at 1.30% at the end of Q3FY08 as compared to 1.38% at the end of Q3FY07.

Capital adequacy ratio (CAR) at the end Q3FY08 stands at 12.85% (with Tier-I at 8.49%) vis-à-vis 13.95% at the end of Q3FY07.

The NIM of the bank saw some kind of downward pressure and stand at 3.3% for 9MFY08 as against the 3.91% during same period last year. We have assumed in our workings that NIM would stabilize around 3.3% during FY09E and FY10E.

At the end of Q3FY08, gross NPA and net NPA stands at 1.87% and 0.36%, respectively.

Trends in NPA

(Rs. bn)	1Q 2007	2Q 2007	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008
Gross NPA	11.9	12.2	11.2	11.2	11.4	10.8	10.2
Gross (%)	3.13	3.00	2.54	2.34	2.34	2.10	1.87
Net NPA	1.8	2.3	2.1	2.6	2.4	1.8	1.9
Net (%)	0.48	0.60	0.48	0.55	0.50	0.35	0.36

Source: Company

Valuation

We are slightly tweaking our earnings estimates for FY08E and FY09E and incorporating FY10 numbers in our workings. We now expect net profit for FY08E, FY09E and FY10E to be Rs.12.17 bn, Rs.14.36 bn and Rs.16.98 bn, respectively. This will result into an EPS of Rs.22.34, Rs.26.36 and Rs.31.16 for FY08E, FY09E and FY10E, respectively.

Estimates

	Old		Revised		
(Rs. bn)	FY08E	FY09E	FY08E	FY09E	FY10E
Net Interest Income	28.7	33.5	28.3	33.2	39.0
Net Profit	11.4	13.2	12.2	14.4	17.0

Source: Kotak Securities - Private Client Research

The adjusted book value for FY08E, FY09E and FY10E is forecast at Rs.84.4, Rs.106.0 and Rs.131.8, respectively.

RoE - P/ABV valuation methodology

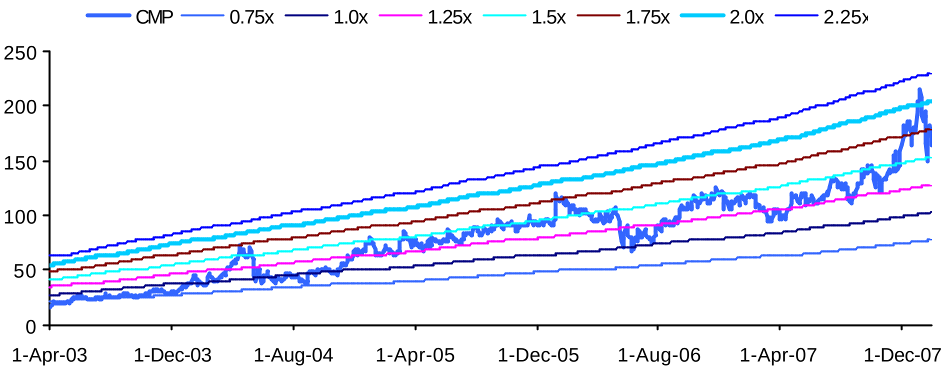
Historical Multiple (x)	1.50
RoE - P/ABV based Multiple (x)	2.09
Average Multiple (x)	1.80
ABV (FY 10E) (Rs)	131.8
Fair Value based on ABV (Rs)	236.7
Target Price	236.7

Source: Kotak Securities - Private Client Research

RoE - P/ABV valuation methodology

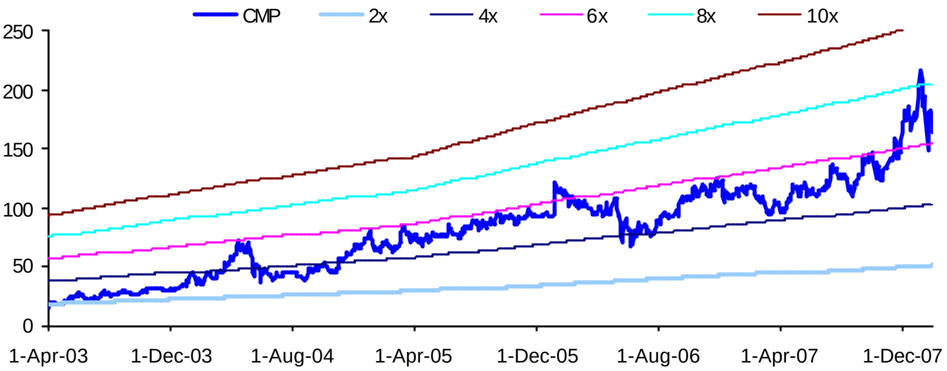
At the RoE of 25.75% (FY10E), cost of equity of 14.4% and perpetual growth rate of 4%, the theoretical fair value stands at 2.09x its adjusted book value. Historically, the stock has been trading in the range of 1.25x-1.75x ABV with the average around 1.50x. We are assigning 50:50 weights to both historical multiple and fair multiple based on single-stage Gordon Growth Model. By taking the simple average of these two multiples, we have arrived at the fair multiple of 1.8x.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

Therefore, we maintain our BUY recommendation on IOB with a price target of Rs.237 (revised upward from Rs.177). At the target price, the stock will trade at 1.8x its FY10E adjusted book value. This would provide 44% upside from current levels over a 12-month horizon.

Key data

Rs bn	2007	2008E	2009E	2010E
Interest income	58.32	80.39	93.37	109.21
Interest expense	32.71	52.04	60.14	70.24
Net interest income	25.61	28.35	33.23	38.96
Other income	3.87	7.21	8.60	10.01
Gross profit	15.60	20.21	24.90	30.30
Net profit	10.08	12.17	14.36	16.98
Gross NPA (%)	2.4	1.9	1.7	1.7
Net NPA (%)	0.5	0.5	0.4	0.3
Net interest margin (%)	3.7	3.3	3.3	3.3
RoE (%)	29.1	28.1	26.9	25.8
RoAA (%)	1.4	1.4	1.4	1.4
Dividend Yield (%)	2.1	3.0	3.0	3.0
EPS (Rs)	18.5	22.3	26.4	31.2
Adjusted BVPS (Rs)	68.5	84.4	106.0	131.8
P/E (x)	8.9	7.4	6.2	5.3
P/ABV (x)	2.4	1.9	1.6	1.2

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	**Scrip name**	**Name of client**	**Buy / Sell**	**Quantity of shares**	**Avg. Price (Rs)**
30-Jan	Apollo Sindh	Red Phoenix Consultancy Pvt Ltd	B	38,864	473.24
30-Jan	Gtl Limited	Bennet Coleman and Co Ltd	B	613,000	261.00
30-Jan	Mast Medi Sy	Bakliwal Financial Services India	B	25,000	63.10
30-Jan	Modipon Ltd	K K Modi Investments And Financial Services Private Limited	B	152,375	80.00
30-Jan	Parry Agro I	Kotak Securities	B	52,520	1,850.00
30-Jan	Parry Agro I	Seema Goel	S	36,700	1,850.00
30-Jan	Rai Sh Rek M	C S Buildwell Pvt Ltd	B	39,875	68.20
30-Jan	Rai Sh Rek M	Lovin Trading Co P Ltd	S	40,000	68.20
30-Jan	Refex Refrig	Maxim Financial Services Pvt Ltd	S	132,000	133.48
30-Jan	Shree Ashta	Mavi Investment Fund Ltd	B	289,586	305.00
30-Jan	Shree Ashta	Accurate Mercantile Pvt Ltd	S	251,363	305.04
30-Jan	Sybly Indusr	Millennium Inovations Pvt Ltd	B	30,653	9.87
30-Jan	Sybly Indusr	Hans Capital And Leasing Pvt Ltd	S	35,000	9.17
30-Jan	Uniflex Cabe	Prism Impex Pvt Ltd	B	90,000	42.00
30-Jan	Vas Infra	Jagdishprasad Poddar	B	100,000	83.00
30-Jan	Vas Infra	Sanjay Jagdish Poddar	S	100,000	83.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
BHEL	2,092	2.0	3.4	0.8
Sun Pharma	1,155	8.7	3.2	0.5
SAIL	220	1.5	2.3	10.9
Losers				
Reliance Ind	2,472	(4.1)	(26.4)	2.5
ONGC	968	(5.1)	(19.1)	1.1
NTPC	202	(4.7)	(14.2)	9.4

Source: Bloomberg

Forthcoming events

COMPANY / MARKET

Date	Event
31-Jan	BPCL, ACC, Tata Steel, Tata Motors, Indian Oil Corp, Reliance Communication, Gail India, Colgate Palmolive India, MRF, Cadila Healthcare, Siemens, Alok Industries, Jammu & Kashmir Bank, Punj Lloyd, Ispat Industries, Balrampur Chini Mills, CESC, Finolex Cables, Indraprastha Gas, Hero Honda Motors, IL&FS, KEC International, Madras Cements, Maharashtra Seamless, Moser Baer, Parsvanath Developers, Provogue (India) Rolda India, Torrent Pharma, TV18, TV Today Network, Aftek, United Phosphorous, Unitech earnings expected
1-Feb	Future Capital holdings hosts listing ceremony at BSE & NSE; Ambuja Cements to announce earnings and dividend

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals, Hotels	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Saurabh Agrawal	Metals, Mining	+91 22 6634 1291	agrawal.saurabh@kotak.com
Saday Sinha	Banking, Economy	+91 22 6634 1440	saday.sinha@kotak.com
Rohit Ledwani	Retail	+91 22 6634 1507	rohit.ledwani@kotak.com
Sarika Lohra	NBFCs	+91 22 6634 1480	sarika.lohra@kotak.com
Chetan Shet	FMCG, Power	+91 22 6634 1382	chetan.shet@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com