SSKI

INDIA
MID-CAP RESEARCH

The Extra Mile

10 January 2007

BSE Sensex: 13566

Solectron Centum

Rs281
UNRATED

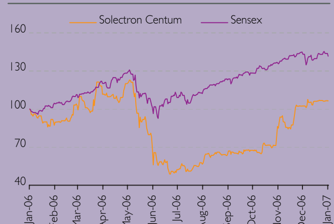
Crystal Clear

Mkt Cap: Rs4.2bn; US$93.4m

Stock data

Reuters	CMAC.BO
Bloomberg	CTE IN
1-yr high/low (Rs)	340/127
1-yr avg daily volumes (m)	0.021
Free Float (%)	38.6

Price performance



Performance (%)

	3-mth	6-mth	1-yr	3-yr
Solectron	57.9	103.6	6.5	150.7
Sensex	10.3	29.9	41.6	123.5

Solectron Centum is a medium-sized company operating in the EMS (electronic manufacturing services) and electronic component design space. Fully backed by its strong global parent, Solectron Centum is all set to ride the new EMS wave. The Indian EMS industry is estimated to touch US $2.5bn in size by 2010. Supported by its aggressive expansion plans and sustained high growth projected for the industry verticals served by it, we expect Solectron Centum to deliver excellent earnings growth in the coming period. We see merit in the company's long-term prospects with a demerger being the short-term catalyst for the stock.

Ideally placed to capitalize on EMS outsourcing wave: While global EMS players are setting up shop in India, Solectron Centum has a first mover advantage. The company has an enviable global parent – Solectron Corp, a US $10bn global giant that pioneered the EMS concept and is a global leader in the EMS space. Solectron Centum's pedigree provides it access to cutting edge technology and other resources of the parent.

Aggressive expansion and demerger plans: Solectron Centum has chalked out an ambitious expansion and demerger strategy focusing on the fledgling but promising EMS segment. The rapidly rising share of EMS in its topline (from 5% in FY04 to over 70% in FY07E) has prompted Solectron Centum to demerge the EMS unit, to be managed by the parent Solectron Corp, in order to allow for greater management focus and attention. Post the demerger, a shareholder will be entitled to one share each in the demerged company and the resulting company for every two shares in the current entity.

Exports and domestic demand – twin engines fuelling earnings growth: We expect Solectron Centum to deliver robust topline growth on the back of its expansion and demerger plans. We expect the business to scale upto over $100 mn over the next three years. Over the next few years, growth would be fed by a domestic opportunity estimated at USD2.5bn by 2010 (21% CAGR). Based on our analysis, we foresee India emerging as a low cost export hub for global EMS players in the coming years.

Key valuation metrics

Year to 31 March	FY03	FY04	FY05	FY06	FY07E
Net sales	215	346	422	833	1,541
Shares in issue (m)	14.8	14.8	14.8	14.8	14.8
Adj. EPS (Rs)	0.5	5.6	8.7	6.8	10.4
% growth	*770.0*	*1,099.4*	*57.1*	*(22.0)*	*51.7*
PER (x)	-	50.3	32.0	41.0	27.0
Price/Book (x)	31.1	19.2	11.4	9.1	6.8
EV/EBITDA (x)	122.9	39.4	35.8	26.2	15.8
ROE (%)	2.1	47.2	44.6	24.6	28.7
ROCE (%)	1.5	30.5	24.4	27.7	29.5
EV/CE (x)	17.2	14.0	10.4	8.0	4.5

Nikhil Vora
nikhilvora@sski.co.in
91-22-6638 3308

Jayendran Rajappa
jayendran@sski.co.in
91-22-6638 3327

S.S. Kantilal Ishwarlal Securities Pvt. Ltd. (SSKI)
701-702 Tulsiani Chambers,
7th Floor (East Wing),
Nariman Point,
Mumbai 400 021.
Fax: 91-22-2204 0282

INVESTMENT ARGUMENT

The Indian EMS industry, growing at 20% per annum vis-à-vis the global average of 6%, is emerging as a preferred destination for global EMS players. We expect the industry to touch US $2.5bn in size by 2010 on the back of increasing consumerism fuelling a stupendous growth in the telecom (50% per annum) and electronics industries. Setting up of manufacturing bases by global vendors like Nokia and Motorola in India presents a direct business opportunity for EMS players in India like Solectron Centum. The company has a focused business model comprising a distinct products line (FCP and HMC) and a rapidly growing services line (EMS). With a supportive parent, first mover advantage and aggressive expansion plans to attain scale, we expect Solectron Centum to reap the benefits presented by this vast opportunity and deliver exciting numbers.

INDIAN EMS INDUSTRY: THE TRICKLE TURNING INTO A FLOOD

Spiraling growth in consumer electronics and telecom industries has prompted major OEM vendors to set up manufacturing bases in India. In line with the global practice, most vendors outsource their requirements to EMS providers to take advantage of the consequent cost and scale efficiencies. This opens up a US $2.5bn opportunity by 2010 in the Indian EMS space. This phenomenon can well be compared to auto majors outsourcing their requirements to auto component manufacturers, which resulted in the subsequent success of the sector.

❑ Indian EMS industry set to outpace global growth average

Indian EMS industry growing at 20% p.a. vis-à-vis 6% for the global industry…

Industry experts estimate that the global EMS industry, ~US $200bn in 2005, is expected to grow at a modest rate of 6% annually to $380bn by 2010. In contrast, the Indian EMS industry is projected to grow at 21% CAGR to $2.5bn by 2010. Even if one discounts the low base upon which this growth is projected, the opportunity is no doubt huge for global EMS majors scouting for new growth frontiers.

…on the back of impressive growth in user industry verticals

The massive pent up domestic demand, led primarily by the telecom sector, can no longer be ignored. While Asia accounts for over 67% of the global EMS sites/ facilities, China is a major EMS base within Asia. However, India too is rapidly emerging as a preferred destination for global EMS players.

Global OEM majors like Nokia and Motorola setting up shop in India

A case in point is a tender won by Nokia (along with Ericsson) in late 2006 to supply 45.5m GSM lines to BSNL, a state-owned telecom major, over a 3-year period. This tender, worth over US $4.5bn, was billed as the largest contract ever in the Indian telecom space. The terms of the tender stipulated that at least 30% of the sourcing for the contract would be derived from domestic manufacturing. This policy decision will encourage domestic manufacturing capacity in the telecom sector and also lead to a direct business opportunity for EMS players in India.

❑ India – an emerging destination for global EMS players

India offers better IPR protection and more skilled workforce compared to China

While China has been acknowledged as the ultimate low cost mass market manufacturing destination owing to various well documented factors, India seems to have emerged as an ideal base for EMS manufacturing. Given the technology-intensive nature of the industry and China's poor record in protecting Intellectual Property Rights (IPR), it is believed that only very low value EMS activities are outsourced from Chinese facilities. On the other hand, India – with its strong IPR laws and a low cost, highly qualified and abundantly available versatile technical human resource base – scores over China in this area. Recent efforts to improve India's infrastructure is another positive in this context.

A growing domestic demand for EMS products and services luring global EMS majors to India

Global EMS majors are increasingly gravitating towards India, borne out by the fact that major international EMS players like Flextronics, Elcoteq, Jabil Circuit have already set up base in the country. India offers obvious benefits to these companies by way of a growing domestic demand fuelled by a consumption boom in electronic items. Additionally, the country also provides skilled manpower and an investor friendly regime. From a strategic viewpoint, India provides a derisking strategy to companies exposed to China.

> ***"India is five to seven years ahead of China in the engineering services space."***
>
> **Booz Allen Hamilton**

❑ Indian EMS – another auto component like story in the making

EMS industry in India to mirror the fortunes of verticals served by it, i.e. the telecom sector

India is one of the top five nations having a 130m plus subscriber base with telecom service providers adding more than 5m new subscribers a month. The Indian telecom industry is growing at 50% per annum. This growth has, in turn, prompted global OEM majors like Nokia, Samsung, Motorola, etc to set base in India. It would not be amiss to state that the growth pattern and potential of the EMS industry in India would closely track the fortunes of the verticals served by it, i.e. the telecom sector.

A parallel with the auto component sector indicates the direction of the future growth pattern of EMS industry

In an effort to chart the future growth pattern of the Indian EMS industry, we draw a parallel with the growth and development pattern witnessed by the Indian auto component industry. Both EMS and the auto component industry share similar characteristics and growth potential. Essentially, both supply to OEM vendors and their fortunes are tied to the industry verticals they serve (autos and telecom respectively). Five years ago, the Indian auto component industry achieved its first breakthrough in the form of robust growth in the domestic auto industry. Soon enough, it developed an export focus with exports currently accounting for over 20% of the US $10bn auto components industry. Similarly, robust growth in telecom industry has given birth to the EMS industry. Going forward, we foresee exports as a major growth driver and complementing the strong domestic demand.

SOLECTRON CENTUM: BRIGHT PROSPECTS AHEAD

The fact that the business model of global OEM majors revolves around outsourcing their EMS activities should spell a great opportunity for Solectron Centum. Given Solectron Centum's experience, domain knowledge and its management focus, we expect the company to grab a major chunk of the domestic market and consolidate its position to as a key player.

❑ A winning business model

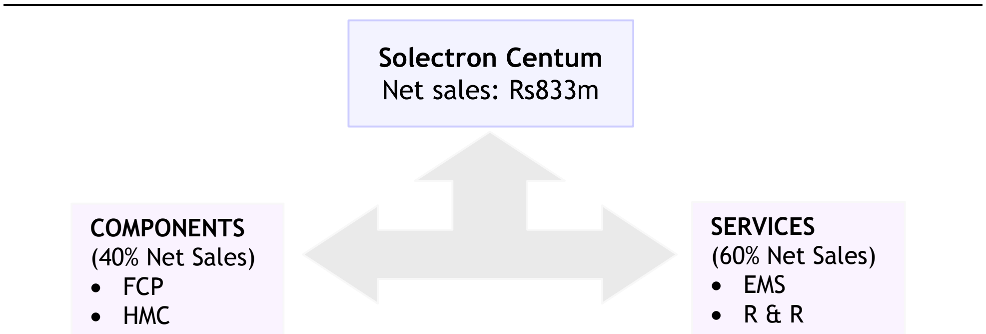
Model encompassing two lines of business – products and services

Solectron Centum has a focused business model encompassing two mutually exclusive lines of business. The products business involves the design and manufacture of FCPs (Frequency Controlled Products) and HMCs (Hybrid Micro Circuits). Typically, players in this area need to possess strong engineering design and development expertise matched by high caliber manufacturing abilities. Major customer segments in this vertical comprise telecom, defence and aerospace sectors. Significantly, Solectron Centum is the largest Indian player dealing in design, manufacture and export of FCP and HMC products. Global giants like ABB and C-MAC are the key customers.

EMS contributes 60% to total revenues

Solectron Centum's other business comprises a service-based line dominated by EMS (Electronic Manufacturing Services), which has emerged as a prime contributor (over 60%) to the topline over the last two years. Repairs & Returns (R&R) is another revenue stream within the services business. In view of the inherent potential offered by EMS, the management has chalked out ambitious plans to nurture and expand the business, which has registered astounding growth.

Exhibit 1: Present Corporate Structure



FCP: Frequency Control Products; EMS: Electronic Manufacturing Service; HMC: Hybrid Micro circuits; R&R: Repairs & Returns

❑ Strong global parentage – strengthening Solectron's capabilities

The parent, Solectron Corporation, is a global leader in the EMS space and holds over 50% stake in Solectron Centum

Solectron Centum initially started as an independent outfit but soon became a subsidiary of C-MAC Industries (a global giant in the electronic product manufacturing space), which itself was acquired by Solectron Corporation in the year 2001. Subsequently, in FY05, C-MAC was divested by Solectron Corporation as part of a restructuring agenda. Thus, Solectron Centum's current parent is Solectron Corporation though it still maintains good commercial and technical ties with C-MAC Industries.

Solectron Corporation, based out of Milipitas, USA, is a global leader (US $10bn) in the EMS space and holds over 50% stake in Solectron Centum. It is noteworthy that the global EMS industry was pioneered by Solectron Corporation in 1977, which thereafter emerged as a global player with footprint across continents.

Parent's international standing boosts Solectron's ability to offer state-of-the-art solutions

The parent company's strong international standing should considerably boost Solectron Centum's ability to offer cutting edge state-of-the-art solutions, on par with global best practices. This would further be bolstered by the company's ability to draw upon Solectron Inc's global resources, experience and client network.

Exhibit 2: Top 10 global EMS players

2005 rank	2004 rank	Company	2005 annual revenues (USD m)
1	2	Foxconn	27,315
2	1	Flextronics	15,582
3	3	Sanmina-SCI	11,343
4	4	Solectron	10,207
5	5	Celestica	8,471
6	6	Jabil	8,057
7	7	Elcoteq	5,179
8	9	Benchmark	2,257
9	8	Venture	2,007
10	10	USI	1,622
	Total Top 10	**92,040**	

Data by iSuppli Corp; Figures in USD m

❑ Greenfield expansion – plant to exclusively serve EMS clients

Order book set to grow exponentially, in line with the potential of the EMS space

In sync with the changing environment and with the intent to ride and exploit the emerging EMS wave in India, Solectron Centum has drawn up aggressive expansion plans. The company plans to set up a greenfield EMS facility near Chennai to exclusively service its EMS clients. It is noteworthy that while major telecom vendors like Nokia have manufacturing facilities near Chennai, Solectron Centum has hitherto always operated out of Bangalore.

The proposed expansion, when seen in light of the impending demerger, will impart clarity on the company's strategy. Our estimates indicate that Solectron Centum's EMS orders from Nokia alone could be in the range of US $50m per annum with significant potential for growth as Nokia scales up its Indian operations. With Motorola and other players also in the process of setting up manufacturing facilities in India, the potential of the EMS space is only set to grow with time.

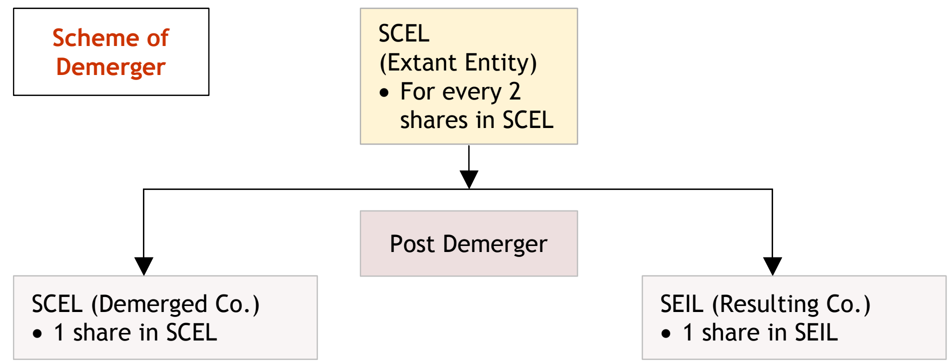
❑ Business to be demerged into services and products components

Demerger to result in two companies; services business to be managed by parent

In a significant development, Solectron Centum has decided to demerge the services (EMS) business into a new company named Solectron EMS India (SEIL), which will be listed on the bourses shortly. The demerger will result in two new companies focusing on two mutually exclusive lines of business, viz. the product and the service business respectively. SEIL, with its focus on the services business, will be managed by Solectron Corp. On the other hand, the products business will be taken over by Solectron Centum India (SCIL) and managed by the Indian promoter.

Post the demerger, the current chare capital of Solectron Centum would stand equally divided among the two companies. The scheme of the demerger envisages that for every two equity shares of Rs10 each held by a shareholder in Solectron Centum prior to the demerger, a shareholder would be entitled to receive one equity share of Rs10 in SEIL and one equity share of Rs10 in SCIL post the de-merger.

Exhibit 3: The new corporate structure post the demerger



❑ Demerger…unlocking value

Demerger signals keen interest of the parent in Indian entity as also the interest that India evokes as an EMS destination

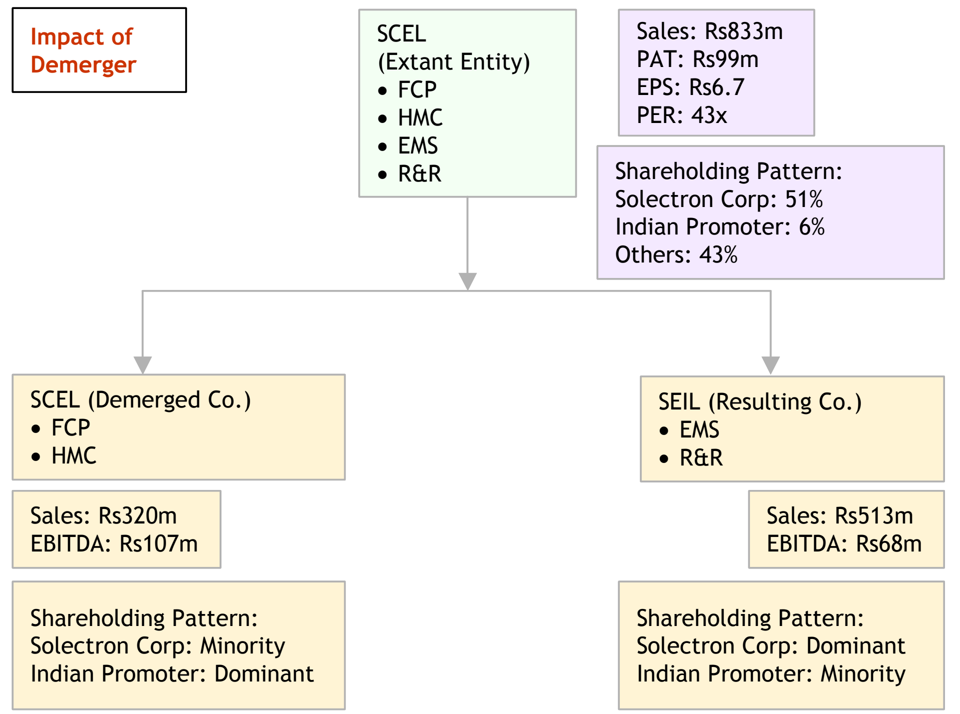
The high growth delivered by the EMS segment and the potential inherent in the vertical has led the parent company to declare its intent to micromanage the affairs of the demerged entity. This development signals the keen interest of the global parent company as also the interest that India evokes as an EMS destination among global EMS industry leaders.

With C-MAC now operating as an independent entity, Solectron Centum is expected to derive significant business from C-MAC. Solectron Centum has historically had strong commercial and technical ties with C-MAC. This will now be leveraged to gain economic advantage while partnering C-MAC in its quest for growth subsequent to its spin off from Solectron Corporation. It is of import that C-MAC does not have any low cost manufacturing base in emerging markets. This presents immense opportunities for Solectron Centum to emerge as a preferred supplier for C-MAC. To sum up, the demerger will help the components line of business (i.e. the demerged company SCEL) to forge deeper and stronger ties with C-MAC and piggyback on C-MAC's expansion plans.

Demerger to bring greater management focus and clarity to each business

On the other hand, the resulting entity (i.e. SEIL) would focus on the EMS business with Solectron Corporation managing its affairs. We expect the demerger to bring greater management focus and clarity to each business and result in a classic example of sum of the demerged and resulting parts turning out to be of greater value than the current undivided entity. Therefore, the demerger is expected to unlock shareholder value in the near term.

Exhibit 4: Demerged Entities



❑ Solectron Centum – ahead of competition

Solectron Centum has first mover advantage over competition

Solectron Centum is the first mover in the Indian EMS space with valuable experience of doing business in India. This should assist Solectron Centum in its expansion plans and provide it an edge vis-à-vis competition. Industry experts conservatively estimate the size of the EMS industry to grow to $2.5bn by 2010. We believe Solectron Centum is uniquely positioned to capture the opportunity presented by the domestic and global environment to Indian EMS vendors. Despite entry of global majors like Elcoteq, Flextronics, etc in the Indian market and the new entrants competing for the same business opportunity, we believe the pie is big enough to allow for all EMS majors to thrive. Having said that, we reiterate that Solectron Centum is well positioned to capitalize on its first mover advantage and thus maintain its a lead vis-à-vis competition. In consonance with the above, we understand the company already has on hand orders from Nokia to the tune of about $50m per annum. Going forward, we expect Solectron Centum's order book to bulge further.

❑ Export driven growth…but domestic demand is catching up

Though exports have been a major contributor, the company plans to capitalize on the strong domestic demand boom

Exports contributed almost 50% of Solectron Centum's topline growth in FY06. Interestingly, exports have traditionally been a strong contributor. The growing proportion of export earnings is an indicator to the future direction and strategy of the company. When juxtaposed against the enhanced interest evinced by the parent company and the recent demerger initiative, the strategy seems to be geared towards exploiting domestic pent up demand as also to simultaneously grow the exports portfolio.

Going forward, we expect equal contribution from domestic sales and exports to revenues

On the components side of the business, the divestiture of C-MAC by Solectron Corp has imparted greater hunger for growth in the former. Solectron Centum is uniquely positioned to partner C-MAC in its quest for growth and secure its position in C-MAC's value chain, thereby giving greater fillip to export revenues. Further, in the near term, we expect import duty realignments following India's WTO commitments causing an imminent fall in the landed price of imported components used as inputs by Solectron Centum. We see this translating into cost efficiencies, which would accordingly lead to better margins for Solectron Centum. Going forward, we expect domestic sales and exports to contribute in equal proportion to the topline growth of Solectron Centum.

❑ Strong earnings visibility ahead

We expect Solectron Centum to surpass telecom industry in terms of growth

Solectron Centum is poised to take full advantage of the winds of change blowing in the electronics and telecom industry. While EMS is at a take off stage in India, the strong interest evinced in India by the parent company (post the demerger) seems pregnant with possibilities. Interestingly, Solectron Centum's revenues from EMS jumped 10 fold from Rs49m in FY05 to Rs470m in FY06. While such dramatic growth will obviously not be sustainable as the industry matures, we estimate growth rates to surpass telecom industry's growth rates (currently ~50% per annum).

The ramp up in employee strength from 260 in April 2005 to over 700 in June 2006 is a further indicator of things to come. As mentioned earlier, Solectron Centum is poised to take advantage of its ties with a resurgent C-MAC and play the role of a trusted partner in its growth plans. This augurs well for the components business, for which C-MAC is a major customer.

Private participation in defence sector opens a new growth avenue for Solectron Centum

Another favorable development stems from the government inviting private partnership in defence production and defence projects. We expect Solectron Centum to benefit from this policy change, which opens a hitherto closed sector. We understand that Solectron Centum has bagged supply orders from ISRO for the satellite programme, which attests to its technical competence and high quality standards. It may be pertinent to note that supplies to the defence sector are typically long-term contracts with lucrative margins.

Overall, we infer that post the demerger, each of the new entities will have a focused management pursuing not only domestic opportunities but also tapping their respective foreign partners to emerge as preferred low cost export hubs.

❑ Key risks

Client concentration risk – mitigated by parent outsourcing from the Indian entity

With 80% sales generated from just 12 key customers, Solectron Centum's fortunes are intricately tied to those of its clients. We are inclined to view this as a natural and unavoidable fallout of the industry structure. However, as Solectron Centum is treated as a low cost export hub by the parent company, the risk has been mitigated to some extent.

Foreign exchange fluctuations – a key risk in view of high export contribution

With exports driving the company's topline growth, managing the currency risk arising from foreign exchange fluctuations could pose a major challenge and consume considerable management resources. Needless to say, increasing integration of the Indian economy with the global economy imposes its own set of risks on entities deriving their growth from exports.

Margins could align with global benchmarks and come under pressure; however, volumes to compensate for the same

Another area of concern is that globally, the EMS industry is a high volume game with low margins (when compared to traditional industries). Though margins are currently not under pressure for Solectron Centum, we expect margins to come under pressure and align with the global industry benchmark as the nascent EMS sector in India attains scale and attracts competition. Nevertheless, increasing volumes should compensate for the softness in margins and the company should be able to generate healthy returns on the capital invested. It may also be noted that the components line of business typically commands attractive margins, which should fuel sustained bottomline growth and partially serve to offset margin pressure in the services line of business.

ANNEXURE

Brief description of scientific terms used

Electronic manufacturing services (EMS) is a term used for entities that design, test, manufacture, distribute and provide return/ repair services for electronic component and assemblies for original equipment manufacturers (OEMs). These entities engage in concept to delivery for the electronic sub-systems they supply. Further, they provide materials, logistics and overall global supply chain support to the primary vendors. Of late, the entities have also started taking part in new product design and development.

Frequency Control Products (FCPs) include crystals and oscillators.

Crystals may be defined as: A natural or synthetic crystalline material having piezoelectric or semi conducting properties OR an electronic device, such as an oscillator or detector, using such abovementioned material.

In electronics, the term crystal is restricted to mean piezoelectric crystal. Piezoelectric crystals contract or expand under application of electric voltages, and conversely they generate voltages when compressed. They are used in oscillators, pressure sensors and position actuators.

Oscillator: An oscillator is an electronic circuit that generates a periodic output, often a sinusoid or a square wave. Oscillators have a wide range of applications in electronic circuits: they are used, for example, to produce the so-called clock signals that synchronize the internal operations of all computers; they produce and decode radio signals; they produce the scanning signals for television tubes; they keep time in electronic wristwatches; and they can be used to convert signals from transducers into a readily transmitted form. They find application in the telecom industry.

Hybrid Micro Circuit (HMC): This refers to an electronic circuit composed of different types of integrated circuits and discrete components, mounted on a ceramic base. It is commonly used in military, space and communications applications, and is particularly suited for building custom analog circuits including A/D and D/A converters, amplifiers and modulators.

It also finds applications in telecom equipment, automotive control systems, medical electronics and power systems (stabilizers, UPS systems, converters, etc).

Earnings model

Year to Mar 31 (Rs m)	FY03	FY04	FY05	FY06	FY07E
Net sales	**215**	**346**	**422**	**833**	**1,541**
% growth	*(91.3)*	*61.2*	*21.7*	*97.6*	*84.9*
Operating expenses	181	241	314	675	1,264
EBITDA	**34**	**105**	**108**	**158**	**277**
% growth	*(49.4)*	*205.0*	*2.5*	*46.9*	*75.3*
Other income	6	11	21	9	20
Net interest	(9)	(8)	2	(12)	(51)
Depreciation	25	22	27	36	57
Pre-tax profit	**6**	**86**	**133**	**127**	**189**
Deferred Tax	0	2	(1)	7	0
Current Tax	(1)	1	4	19	36
Profit after tax	7	82	129	101	153
Preference dividend	0	0	0	0	0
Non-recurring items	0	0	29	6	0
NPafter non-recurring items	**7**	**82**	**159**	**107**	**153**
% growth	*390.5*	*1,099.4*	*92.8*	*-32.4*	*42.6*

Balance sheet

Year to Mar 31 (Rs m)	FY03	FY04	FY05	FY06	FY07E
Paid-up capital	148	148	148	148	148
Reserves & surplus	(15)	68	217	309	463
Total shareholders' equity	133	216	365	457	611
Total current liabilities	63	74	246	433	760
Total Debt	112	77	0	38	338
Deferred tax liabilities	0	2	1	9	9
Other non-current liabilities	1	1	5	12	25
Total liabilities	176	154	252	491	1,131
Total equity & liabilities	**309**	**370**	**616**	**948**	**1,742**
Net fixed assets	149	157	146	283	535
Investments	0	0	0	0	0
Total current assets	160	212	470	665	1,206
Deferred tax assets	0	0	0	0	0
Other non-current assets	0	0	0	0	0
Working capital	97	138	224	233	446
Total assets	**309**	**370**	**616**	**949**	**1,742**

Cash flow statement

Year to Mar 31 (Rs m)	FY03	FY04	FY05	FY06	FY07E
Pre-tax profit	6	86	133	127	189
Depreciation	25	22	27	36	57
chg in Working capital	260	13	122	(239)	(159)
Total tax paid	1	(1)	(4)	(19)	(36)
Ext ord. Items	0	0	29	6	0
Operating cash Inflow	292	120	306	(89)	51
Capital expenditure	328	(31)	(13)	(172)	(309)
Free cash flow (a+b)	621	89	293	(262)	(258)
Chg in investments	94	0	0	0	0
Debt raised/(repaid)	(273)	(35)	(77)	38	300
Capital raised/(repaid)	(115)	0	0	0	0
Dividend (incl. tax)	(3)	0	(13)	0	0
Misc	(584)	1	(53)	(76)	(76)
Net chg in cash	(259)	55	151	(300)	(34)

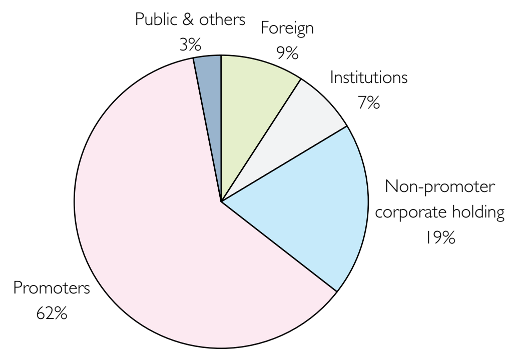
Key ratios

Year to Mar 31	FY03	FY04	FY05	FY06	FY07E
EBITDA margin (%)	16.0	30.3	25.5	19.0	18.0
EBIT margin (%)	4.2	23.8	19.3	14.7	14.3
PAT margin (%)	3.2	23.8	30.7	12.1	9.9
ROE (%)	2.1	47.2	44.6	24.6	28.7
ROCE (%)	1.5	30.5	24.4	27.7	29.5
Gearing (%)	0.7	(0.0)	(0.8)	(0.0)	0.4

Valuations

Year to Mar 31	FY03	FY04	FY05	FY06	FY07E
Reported EPS (Rs)	0.5	5.6	10.7	7.3	10.4
Adj. EPS (Rs)	0.5	5.6	8.7	6.8	10.4
PER (x)	603.4	50.3	32.0	41.0	27.0
Price/Book (x)	31.1	19.2	11.4	9.1	6.8
EV/Net sales (x)	19.7	12.0	9.2	5.0	2.9
EV/EBITDA (x)	122.9	39.4	35.8	26.2	15.8
EV/CE (x)	17.2	14.0	10.4	8.0	4.5

Shareholding pattern



As of September 2006

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research: Banking, Strategy	pathik@sski.co.in	91-22-6638 3304
Shirish Rane	Cement, Construction, Power	shirish@sski.co.in	91-22-6638 3313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	91-22-6638 3395
Ganesh Duvvuri	IT Services, Telecom	ganesh@sski.co.in	91-22-6638 3358
Varatharajan S	Oil & Gas, Engineering	varatharajan@sski.co.in	91-22-6638 3307
Chirag Shah	Textiles, Metals	chiragshah@sski.co.in	91-22-6638 3306
Bhoomika Nair	Construction, Power	bhoomika@sski.co.in	91-22-6638 3337
Shiladitya Dasgupta	Textiles, Metals	shiladitya@sski.co.in	91-22-6638 3365
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	91-22-6638 3217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	91-22-6638 3367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	91-22-6638 3311
Nilesh Parikh	Banking	nilesh@sski.co.in	91-22-6638 3325
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	91-22-6638 3371
Salil Desai	Cement	salil@sski.co.in	91-22-6638 3373
Jayendran Rajappa	Mid Caps	jayendran@sski.co.in	91-22-6638 3327
Suchit Sehgal	Mid Caps	suchitsehgal@sski.co.in	91-22-6638 3333
Uday Joshi	Technical Analyst	udayjoshi@sski.co.in	91-22-6638 3392
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	91-22-6638 3382

Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	CEO	naishadh@sski.co.in	91-22-6638 3211
GV Alankara	Head of Dealing	alankara@sski.co.in	91-22-6638 3201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	91-22-6638 3212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	91-22-6638 3363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	91-22-6638 3368
V Navin Roy	AVP - Sales	navin@sski.co.in	91-22-6638 3370
Rohan Soares	AVP – Sales	rohan@sski.co.in	91-22-6638 3310
Rishi Kohli	VP – Derivatives	rishikohli@sski.co.in	91-22-6638 3321/403
Pawan Sharma	AVP – Derivatives	pawansharma@sski.co.in	91-22-6638 3403
Dipesh Shah	AVP – Derivatives	dipeshshah@sski.co.in	91-22-6638 3403
Manohar Wadhwa	AVP – Derivatives	manohar@sski.co.in	91-22-6638 3403

Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

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