

Equity	% Chg			
	26-Oct	1-day	1-mth	3-mth
India				
Sensex	19,243	2.5	11.3	26.3
Nifty	5,702	2.4	13.6	28.3
Global/Regional markets				
Dow Jones	13,807	1.0	(0.6)	4.1
Nasdaq	2,804	1.9	3.8	9.4
FTSE	6,661	1.3	3.0	7.2
Nikkei	16,701	1.2	(0.5)	(3.4)
Hang Seng	31,301	2.9	15.3	38.7

Value traded (Rs bn)	BSE	NSE
Cash	90.1	199.5
Derivatives	12.0	738.4
Total	102.1	937.9

Net inflows (Rs bn)	Recent trends (days)			
	25-Oct	-7d	-15d	-30d
FII	2.1	(32.3)	112.5	324.0
MF	7.1	5.5	(16.6)	(33.4)

Forex / Crude	% Chg			
	26-Oct	1day	1mth	3mth
Rs/US\$	39.5	(0.1)	0.9	2.6
Euro/US\$	1.4	0.1	1.2	5.2
Crude(\$/bbl)	92.6	0.8	13.4	20.3

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
Top gainers			
Engineers India	726.4	605.3	20.0
Electrosteel	60.3	50.3	19.8
OCL India	281.7	235.9	19.4
Top losers			
Idea Cellular	138.6	152.0	(8.8)
Asian Paints	1,009.6	1,080.2	(6.5)
Coromandel Ferti	101.4	108.0	(6.2)

In focus

UTV Software Communications – Results Update

Going strong CMP: Rs 708 Target: Rs 795 BUY

Cadila Healthcare – Results Update

Performance on track CMP: Rs 301 Target: Rs 416 BUY

MindTree Consulting – Results Update

Operational performance in line CMP: Rs 502 Target: Rs 497 SELL

Bank of Maharashtra – Results Update

Good results but AS-15 norms cloud prospects CMP: Rs 59 Target: Rs 73 HOLD

Peninsula Land – Results Update

PAT growth in line CMP: Rs 131 Target: Rs 153 BUY

Nicholas Piramal India – Results Update

Contract manufacturing gaining traction CMP: Rs 285 Target: Rs 342 BUY

Today's top picks

Allahabad Bank, Bank of India, SBI

News track

- ❖ The NPPA has noticed rampant overcharging by leading pharma companies in a survey across 12 cities and is preparing to issue notices to these players. (ET)
- ❖ Federal Bank will come out with 1:1 rights issue at a price of Rs 250 per share. (BL)
- ❖ Dr Reddy's is planning to partner with at least six US retail chains to enhance its share in the OTC market. (ET)
- ❖ SBI is planning to enter into general insurance in the next fiscal. (BL)
- ❖ India's hosiery industry is likely to witness 10-15% sales growth this year as the EU has recently released extra quota of ~Rs 3.5bn for readymade garments and other fabric to be imported from India. (FE)

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

Volume shockers

(No of shares)	26-Oct	2-mth avg	Chg (x)
Dredging Corp	549,022	37,122	14.8
Electrosteel	5,575,450	421,143	13.2
Bannari Amman	47,585	3,722	12.8

Delivery toppers

	Del (%)	Total vol	Cons days up
Jain Irrigation	95.0	231,158	5
Astra Microwave	76.8	258,721	4
Tata Elxsi	75.0	105,955	4

UTV Software Communications

Results Update

CMP: Rs 708

Target: Rs 795

BUY

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BSE code	532619
NSE code	UTVSOF

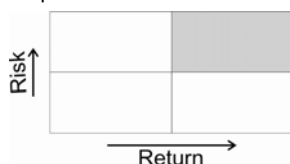
Company data

Particulars	
Market cap (Rs bn / US\$ mn)	16.2/400.2
Outstanding equity shares (mn)	22.9
52-week high/low (Rs)	756/174
6-month average daily volume	175,931

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	1,749.1	4,475.7	6,350.4
Growth (%)	(16.1)	155.9	41.9
Adj net profit (Rs mn)	463.3	845.5	1188.2
Growth (%)	225.8	82.5	40.5
FDEPS (Rs)	20.2	34.0	47.8
Growth (%)	177.4	68.2	40.5
P/E (x)	35.0	20.8	14.8
ROE (%)	29.9	44.4	41.9

Risk-return profile



Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	19.5	19.5
FIs	19.4	21.7
Banks & FIs	15.3	16.6
Public	45.8	42.2

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
UTV Software	708	11.4	43.0	113.3
Sensex	19,243	11.3	26.3	38.4

Company website www.utvnet.com

Going strong

UTV Software has exceeded our expectations, recording an 84% YoY growth in revenue to Rs 712.7mn during Q2FY08 as against Rs 662mn expected. The movie business contributed a bulk of the income with a 57% share. PAT recorded a robust 335% YoY growth to Rs 175.6mn, significantly higher than estimated due to an element of deferred tax (Rs 13.8mn).

The company has extensive plans for each of its business verticals, especially its movie business segment. We expect the performance in H2FY08 to be significantly stronger than that in H1 considering the pipeline of six movie releases which will earn production, co-production and distribution revenues for UTV. We maintain a Buy on the stock with an SOTP-based target price Rs 795.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	712.7	662.0	7.7
EBIDTA	176.2	178.7	(1.4)
PAT	175.6	140.8	24.7
EPS (Rs)	30.7	24.6	24.7

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Net revenue from	712.7	387.6	83.9	559.9	27.3
a) Direct costs	429.6	264.1	62.7	325.4	32.0
b) Personnel costs	44.4	37.5	18.4	60.7	(26.8)
c) Other expenses	62.4	27.2	129.2	55.9	11.8
Total expenditure	536.5	328.8	63.2	442.0	21.4
EBDIT	176.2	58.8	199.6	117.9	49.4
Depreciation	10.1	15.2	(33.6)	10.0	1.0
EBIT	166.1	43.6	280.7	108.0	53.9
Financial expenses	20.6	-	-	10.5	-
Other income	22.5	0.7	3026.3	11.2	100.7
PBT	168.0	44.4	278.8	108.7	54.6
Provision for tax	(7.6)	4.0	291.2	17.7	(143.1)
PAT	175.6	40.4	335.0	91.0	93.0
OPM (%)	24.7	15.2	-	21.1	-
Equity	228.9	228.9	-	228.9	-
EPS (Rs)	30.7	7.1	-	15.9	-

Source: Company, Religare Research

Result highlights

Films contributed 57% of revenues at Rs 406mn

Movie business contributes largest slice of revenues

During Q2FY08, UTV recorded revenues of Rs 712.7mn as compared to Rs 387.6mn in the same year-ago quarter, registering a growth of 84% YoY. Films contributed 57% of revenues while the television and interactive businesses contributed 29% and 14% respectively.

Rising thrust on film division leads five-fold rise in segmental revenues: The sale of music rights for a couple of movies together with bouquet sales of a part of the company's library supported revenue growth in the film division to Rs 406mn as against Rs 87mn last year. UTV Motion Pictures, the film subsidiary of UTV, released *Blue Umbrella* in August. During the quarter, the company signed a financing agreement with Twentieth Century Fox for 50% of the production costs of the movie *The Happening* with director Manoj Night Shyamalan.

TV segment revenues at Rs 207mn: The television segment brought in revenues of Rs 207mn from TV content and airtime sales. UTV provides content to the Star Plus, Doordarshan and Bindass channels, with two shows on the floor for National Geographic and Gemini TV. In airtime sales, the company has averaged 100 hours per month during the quarter across various South Indian channels such as SunTV, GeminiTV, SuryaTV and UdayaTV. The top 2 slots on SunTV belong to UTV.

Interactive business set to scale up: Revenues from the interactive business aggregated Rs 100mn with 60% coming from the animation segment and gaming bringing in the balance. We expect the interactive division to be a prominent growth area for the company in terms of revenue and margins from Q4FY08 onwards.

EBITDA margin stood at 24.7% as compared to 15.2% in Q2FY07

EBIT margin rises sharply

The company registered EBIT margins of 43% in films, 9% in television and 5% in the interactive business segment. Operating profit stood at Rs 176mn resulting in an operating margin of 24.7% during Q2FY08 as compared to 15.2% in Q2FY07. The significant margin expansion is on account of rising revenues from the film and interactive businesses. Net profit for the quarter came in at Rs 175.6mn with a net profit margin of 25% and an EPS of Rs 30.7. This represents a sizeable increase from a net profit margin of 10% and an EPS of Rs 7.1 in the same year-ago quarter.

Business developments

Bindass and Bindass Movies launched in Q2FY08 with five more channels by June 2008

- ❖ During the quarter, UTV listed its subsidiary UTV Motion Pictures on the London Stock Exchange. The Mauritius-based subsidiary handles the movie production business of the group. The company has raised US\$ 70mn for a 23% stake through the listing.
- ❖ UTV has also forayed into the broadcasting business with the set up of UTV Global Broadcasting (UGBL). During the quarter UGBL launched two youth-oriented channels, Bindass and Bindass Movies, with five more channels set for launch by June 2008.
- ❖ The company is close to finalising the sale of its post-production and VFX business to Prime Focus for a sum of Rs 120mn.

Future outlook

Strong pipeline of 30 movies to be released over the next two years

Strong movie pipeline

The UTV group has a strong pipeline of 30 movies to be released over the next two years, of which six will be released in H2FY08. This includes a mix of in-house production, co-production and distribution rights.

Diversification into broadcasting

The company has extensive plans on the broadcasting front keeping in mind the growth potential in this space. The 'pay channel' market indicates tremendous opportunities for broadcasters in terms of varied content need of consumers. The broadcasting venture also provides an avenue for UTV's television business to grow inorganically by way of content generation for UGBL channels.

Moving up the animation value chain; gaming to be a vital growth area

In animation, the company is making efforts to move up the value chain from outsourcing to content creation and IPR ownership. In the gaming business as well, UTV is looking to invest in its own console game development; this business is expected to be a significant contributor to revenues going forward.

Earnings set to grow at 60% CAGR through FY09

We expect a 91% CAGR in UTV's consolidated revenues during FY07-FY09 with the films business dominating growth. Operating profit is expected to log a CAGR of 417% during the same period on account of a strong movie pipeline for the next two years and growing contribution from the high-margin gaming and animation segments. We expect a net profit CAGR of 60% over the next two years.

Valuation

Diversified structure de-risks business model; Buy

Maintain Buy

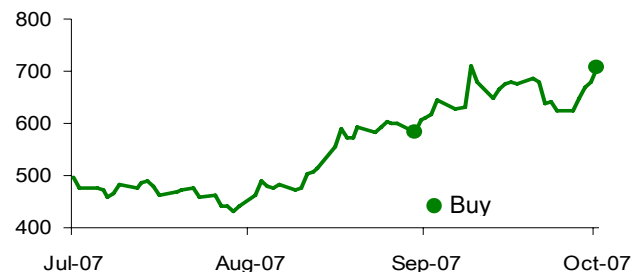
In our view, the company's diversified business structure would help mitigate the risks related to operating in the unpredictable movie segment to a considerable extent. Further, the thrust on the film segment, renewed focus on animation and gaming, and success in raising airtime sales and programming hours would drive significant growth. We maintain our sum-of-the-parts (SOTP) based target price of Rs 795 for UTV and continue with our Buy rating on the stock.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
25-Sep-07	Initiating Coverage	584	795	Buy
29-Oct-07	Results Update	708	795	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	2,084.2	1,749.1	4,475.7	6,350.4
Growth (%)	17.9	(16.1)	155.9	41.9
EBITDA	115.9	71.3	1355.6	1901.1
Growth (%)	(53.3)	(38.5)	1802.4	40.2
Depreciation	47.4	31.4	28.8	33.8
EBIT	68.5	39.9	1326.7	1867.3
Growth (%)	(64.9)	(41.8)	3225.9	40.7
Interest	-	16.1	26.4	28.4
Other income	47.9	18.1	33.0	40.0
EBT	116.4	41.9	1333.3	1878.9
Growth (%)	(45.5)	(64.0)	3079.5	40.9
Tax	24.8	(163.4)	266.7	375.8
Effective tax rate	21.3	(389.6)	20.0	20.0
Adj net income	142.2	463.3	845.5	1188.2
Growth (%)	(12.5)	225.8	82.5	40.5
Shares outstanding (mn)	19.5	19.5	20.5	21.5
FDEPS (Rs)	7.3	20.2	34.0	47.8
DPS (Rs)	0	0	0	0
CEPS (Rs)	9.7	21.6	35.2	49.2

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	142.2	463.3	845.5	1188.2
Depreciation	47.4	31.4	28.8	33.8
Other adjustments	(172.8)	(59.6)	355.8	0.0
Changes in WC	(710.8)	49.2	(1181.7)	(1485.9)
Operating cash flow	(694.1)	484.2	48.4	(263.9)
Capital expenditure	(158.9)	(501.5)	(209.0)	25.0
Investments	(35.1)	29.0	(328.5)	(100.0)
Other investing inc/(exp)	0.0	0.0	0.0	0.0
Investing cash flow	(194.0)	(472.4)	(537.5)	(75.0)
Free cash flow	(888.1)	11.8	(489.1)	(338.9)
Issue of equity	0.0	71.5	(18.0)	(0.0)
Issue/repay debt	830.4	622.4	250.0	12.8
Dividends paid	0.0	0.0	0.0	0.0
Others	(9.0)	(86.8)	260.7	409.9
Financing cash flow	821.5	607.1	492.7	422.7
Beg. cash & cash eq	132.6	66.0	684.8	688.4
Chg in cash & cash eq	(66.6)	618.8	3.6	83.8
Closing cash & cash eq	66.0	684.8	688.4	772.2

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	66.0	684.8	688.4	772.2
Accounts receivable	581.7	465.0	1226.2	1826.8
Inventories	783.2	1637.0	2452.4	3653.7
Others current assets	829.6	498.3	575.1	615.1
Current assets	2260.5	3285.1	4942.2	6867.8
LT investments	200.5	171.5	500.0	600.0
Net fixed assets	283.1	861.5	932.7	998.8
CWIP	124.3	16.0	125.0	0.0
Total assets	2868.4	4334.1	6499.8	8466.6
Payables	483.8	938.6	1406.0	1759.9
Others	5.4	5.6	10.0	12.0
Current liabilities	489.2	944.2	1416.0	1771.9
LT debt	1014.8	1637.2	1887.2	1900.0
Other liabilities	26.3	(60.5)	200.2	610.1
Equity capital	194.9	228.9	248.4	248.4
Reserves	1143.0	1584.3	2748.0	3936.2
Net worth	1338.0	1813.2	2996.5	4184.6
Total liabilities	2868.4	4334.1	6499.8	8466.6
BVPS (Rs)	68.6	79.2	120.6	168.5

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	5.6	4.1	30.3	29.9
EBIT margin (%)	3.3	2.3	29.6	29.4
Net profit margin (%)	6.8	26.9	23.8	23.7
FDEPS growth (%)	(12.5)	177.4	68.2	40.5
Receivables (days)	101.9	97.0	100.0	105.0
Inventory (days)	137.2	341.6	200.0	210.0
Payables (days)	17.8	69.2	34.7	26.2
Current ratio (x)	4.6	3.5	3.5	3.9
Interest coverage (x)	0.0	2.5	50.2	65.7
Debt/equity ratio (x)	0.8	0.9	0.6	0.5
ROE (%)	10.5	29.9	44.4	41.9
ROCE (%)	5.9	2.0	31.2	32.0
ROAE (%)	3.5	1.4	30.5	31.3
EV/Sales (x)	7.1	10.2	4.4	3.1
EV/EBITDA (x)	127.8	250.5	14.4	10.3
P/E (x)	97.1	35.0	20.8	14.8
P/BV (x)	10.3	8.9	5.9	4.2
P/CEPS (x)	72.8	32.8	20.1	14.4

Source: Company, Religare Research

CMP: Rs 301
Target: Rs 416
BUY
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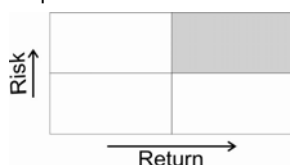
BSE code	532231
NSE code	CADILAHC

Company data

Particulars	
Market cap (Rs bn / US\$ mn)	37.8/956.0
Outstanding equity shares (mn)	125.6
52-week high/low (Rs)	414/273
6-month average daily volume	16,340

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	18,288.0	23,238.5	27,023.1
Growth (%)	23.2	27.1	16.3
Adj net profit (Rs mn)	2,338.0	2,902.5	3,367.3
Growth (%)	53.4	24.1	16.0
FDEPS (Rs)	18.6	23.1	26.8
Growth (%)	53.4	24.1	16.0
P/E (x)	16.2	13.0	11.2
ROE (%)	29.9	29.9	28.0

Risk-return profile

Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	72.0	72.0
FIs	4.2	4.8
Banks & FIs	15.6	15.1
Public	8.2	8.1

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Cadila Healthcare	301	1.8	(14.1)	(4.5)
Sensex	19,243	11.3	26.3	38.4
BSE HC	3,886	2.7	5.3	5.1

Company website www.zyduscadila.com
Performance on track

Cadila Healthcare's (CHL) Q2FY08 sales are in line with expectations driven by a 122% YoY jump in export formulations. Key geographies performed well during the quarter while revenues also started flowing in from the recently-acquired Brazil-based Nikkho (Rs 479mn). However, branded domestic formulation sales were lower than the industry average, coming off a high base in Q2FY07. The EBITDA margins came in at 21.6%, in line with estimates. PAT was below estimates mainly due to a rise in interest cost on account of increased borrowing.

CHL has delivered a consistent sequential performance without any volatility in earnings and we believe the trend will continue in H2FY08. As regards the Pantaprazole litigation, the management highlighted that while its partners do not expect any generic launch at risk, even in a worse case scenario the loss of business from Altana would be less than 20%. We believe the market is over-emphasising the Altana joint venture, although CHL's dependence on this business is clearly reducing. CHL's growth levers, namely domestic and export formulations, and the consumer division are on track to deliver a 20% PAT CAGR over FY07-FY09. We also expect news flow to continue on its innovative R&D molecules. We maintain a Buy on the stock with a target price of Rs 416.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	6,097	6,042	0.9
EBITDA	1,317	1,245	5.8
PAT	801	871	(8.0)
EPS (Rs)	6,097	6,042	0.9

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	Growth (%)	H1FY08	H1FY07	Growth (%)
Net sales	5,968	4,673	27.7	11,577	9,034	28.1
OI from operations	129	75	72.0	242	172	40.7
Expenditure	(4,780)	(3,658)	30.7	(9,390)	(7,218)	30.1
Operating profit	1,317	1,090	20.8	2,429	1,988	22.2
Other income	0	3	-	3	52	(94.2)
Interest	(127)	(54)	135.2	(109)	(123)	(11.4)
Depreciation	(235)	(213)	10.3	(474)	(410)	15.6
PBT	955	826	15.6	1,849	1,507	22.7
Tax	(114)	(100)	14.0	(235)	(176)	33.5
Adj PAT	801	705	13.6	1,540	1,289	19.5
OPM (%)	21.6	23.3	-	20.6	21.6	-
EPS (Rs)	6.4	5.6	13.6	12.3	10.3	19.5
P/E (x)	11.8	-	-	12.2	-	-

Source: Company, Religare Research

Result highlights

Export formulation sales rose 122% YoY, supporting revenue growth of 28% to Rs 6.1bn

Sales growth in line, on track to achieve projected numbers

Exports to US, France and Brazil bolster revenues: CHL's income from operations grew 28.4% YoY to Rs 6.1bn, in line with expectations. Export formulation sales to the US, France and Brazil remained a major growth driver for the company. The quarter also witnessed contributions of Rs 479mn from the recently-acquired Nikkho in Brazil and Rs 11mn from its Japanese acquisition. However, branded domestic formulation sales were lower than industry growth, coming off a high base in Q2FY07 which witnessed the breakout of chikungunya (a rare form of viral fever). The consumer division also clocked a robust 60% YoY growth to Rs 654mn.

Altana JV sales at Rs 157mn, no major downside from Pantaprazole: The Altana JV recorded sales of Rs 157mn as against Rs 207mn in Q2FY07. The management termed this as a timing issue (arising due to delayed shipments) and expect sales to achieve its full year guidance of Rs 850mn. CHL's management also spoke at length about the Pantaprazole litigation and highlighted that while its partners do not expect any generic launch at risk, even in a worse case scenario the loss of business from Altana would be less than 20% (25 tonnes of material to the US at risk out of the 120 tonnes supplied to Altana). In fact the company expects more business from Nycomed (Nycomed acquired Altana in early 2007) and is expanding capacity for the same. Sales should commence in FY10.

Rupee rise hits API exports: API exports for the quarter were down 17% YoY mainly due to the rupee appreciation. CHL is now planning to bill its clients in euros or rupees to mitigate the impact of the appreciating currency, which will help revive sales and protect margins.

Export sales mix

Management expects Altana sales to pick up and meet full-year guidance of Rs 850mn

(Rs mn)	Q2FY08	Q2FY07	% YoY Growth
USA	624	280	122.9
France	364	263	38.4
Brazil	81	38	113.2
Altana	157	207	(24.2)
Nikkho (Brazil)	479	-	-
Japan	11	-	-

Source: Company

Four ANDAs filed: CHL has filed four ANDAs for the US during the quarter and has cumulatively filed 66 ANDAs with the USFDA. The company has received 30 approvals and has launched 13 products in the market so far.

Business mix for Q2 and H1 FY08

(Rs mn)	Q2FY08	Q2FY07	% Growth	H1FY08	H1FY07	%Growth
Domestic revenues	3,928	3,497	12.3	7,853	6,775	15.9
Formulations	3,163	2,968	6.6	6,297	5,722	10.0
- Branded	2,962	2,697	9.8	5,947	5,223	13.9
- Generic	201	271	(25.8)	350	499	(29.9)
APIs	111	119	(6.7)	245	212	15.6
Consumer + Others	654	410	59.5	1,311	841	55.9
Export revenues	2,286	1,396	63.8	4,216	2,684	57.1
Formulations	1,798	810	122.0	3,054	1,550	97.0
APIs	488	586	(16.7)	1,162	1,134	2.5
Total gross sales	6,214	4,893	27.0	12,069	9,459	27.6

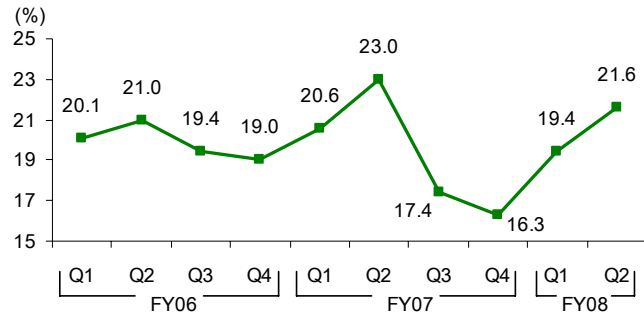
Source: Company

Nikkho which has margins of 80% and a better product mix raised gross margin by 180bps

Nikkho contribution, change in product mix boost gross margins

CHL's gross margins improved significantly by 180bps YoY to 66.6% despite rupee appreciation of ~10% against the dollar. Contribution from Nikkho which has margins as high as 80% and a product mix favouring high-margin products enlarged the gross margin. However, the EBITDA margin declined by 170bps YoY to 21.6% on account of higher staff cost due to the consolidation of Nikkho, loss incurred from the Japanese operations of Rs 6mn and foreign exchange loss of Rs 12mn.

EBITDA margin trend



Source: Company, Religare Research

PAT growth pegged back due to higher interest cost

PAT increased by 14% YoY as against sales growth of 28.4% to Rs 801mn. PAT growth was pegged back on account of higher interest cost (Rs 127mn as against Rs 54mn). CHL's debt position at the end of September 30, 2007 stood at Rs 8.4bn as against Rs 4.5bn at the end of FY07. EPS for the quarter stood at Rs 6.4.

Valuation

Consistent performance to continue in H2FY08

CHL has delivered a consistent sequential performance without any volatility in earnings and we believe the trend will continue in H2FY08. With the management highlighting that the worst downside from the Pantaprazole litigation would be a less than 20% loss of business from Altana, we believe that the market is overstating the possible negative impact.

In our view, CHL's growth levers, namely domestic and export formulations, and the consumer division are on track to deliver a 20% PAT CAGR over FY07-FY09. We also expect news flow to continue on its innovative R&D molecules. We maintain a Buy on the stock with a target price of Rs 416.

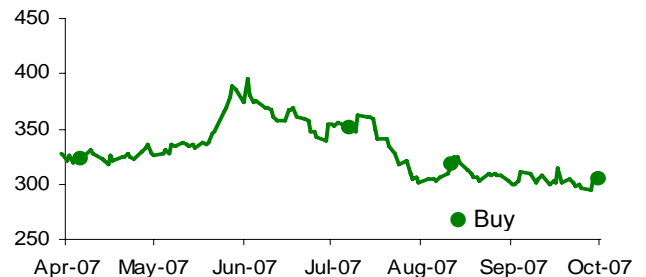
Too much emphasis on Altana JV; CHL on track to deliver 20% PAT CAGR through FY09

Recommendation history

Date	Event	Reco price	Tgt price	Reco
03-May-07	Initiating Coverage	322	416	Buy
01-Aug-07	Results Update	351	416	Buy
11-Sep-07	Company Update	320	416	Buy
29-Oct-07	Results Update	301	416	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	14,845.0	18,288.0	23,238.5	27,023.1
Growth (%)	18.6	23.2	27.1	16.3
EBITDA	2,877.0	3,521.0	4,717.4	5,674.9
Growth (%)	32.9	22.4	34.0	20.3
Depreciation	779.0	823.0	994.5	1,105.5
EBIT	2,098.0	2,698.0	3,722.9	4,569.4
Growth (%)	45.0	28.6	38.0	22.7
Interest	223.0	301.8	421.8	292.0
Other income	36.0	264.0	46.5	54.0
EBT	1,911.0	2,660.3	3,347.6	4,331.4
Growth (%)	56.0	39.2	25.8	29.4
Tax	243.0	324.0	520.1	630.2
Effective tax rate	12.7	12.2	15.5	14.6
Adj net income	1,524.0	2,338.0	2,902.5	3,367.3
Growth (%)	60.4	53.4	24.1	16.0
Shares outstanding (mn)	125.6	125.6	125.6	125.6
FDEPS (Rs)	12.1	18.6	23.1	26.8
DPS (Rs)	3.8	5.3	6.2	7.2
CEPS (Rs)	18.3	25.2	31.0	35.6

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	1,524.0	2,338.0	2,902.5	3,367.3
Depreciation	779.0	823.0	994.5	1,105.5
Other adjustments	94.0	175.0	65.0	189.1
Changes in WC	(666.0)	222.0	(2,497.2)	648.2
Operating cash flow	1,731.0	3,558.0	1,464.8	5,310.1
Capital expenditure	(1,202.0)	(2,277.0)	(1,410.2)	(1,275.0)
Investments	(247.0)	453.0	-	-
Other investing inc/(exp)	(586.0)	(613.0)	(773.5)	(808.7)
Investing cash flow	(2,035.0)	(2,437.0)	(2,183.7)	(2,083.7)
Free cash flow	(304.0)	1,121.0	(718.9)	3,226.4
Issue of equity	-	314.0	-	-
Issue/repay debt	598.0	103.0	3,000.0	1,000.0
Dividends paid	(483.0)	(664.0)	(782.7)	(906.3)
Others	14.0	(322.0)	(0.0)	0.0
Financing cash flow	129.0	(569.0)	2,217.3	93.7
Beg. cash & cash eq	613.0	438.0	990.0	2,488.4
Chg in cash & cash eq	(175.0)	552.0	1,498.4	3,320.1
Closing cash & cash eq	438.0	990.0	2,488.4	5,808.5

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	438.0	990.0	2,488.4	5,808.5
Accounts receivable	1,990.0	2,784.0	3,454.0	3,887.3
Inventories	2,475.0	3,896.0	5,136.7	5,696.7
Others current assets	1,588.0	2,201.0	2,974.5	3,783.2
Current assets	6,491.0	9,871.0	14,053.6	19,175.7
LT investments	714.0	261.0	261.0	261.0
Net fixed assets	7,693.0	8,559.0	9,396.7	9,917.2
CWIP	636.0	1,224.0	802.0	451.0
Total assets	15,534.0	19,915.0	24,513.3	29,804.9
Payables	2,404.0	4,588.0	3,847.2	5,354.7
Others	605.0	858.0	1,012.2	1,146.3
Current liabilities	3,009.0	5,446.0	4,859.5	6,501.0
LT debt	4,432.0	4,535.0	7,535.0	8,535.0
Other liabilities	1,104.0	1,279.0	1,344.0	1,533.1
Equity capital	314.0	628.0	628.0	628.0
Reserves	6,675.0	8,027.0	10,146.8	12,607.8
Net worth	6,989.0	8,655.0	10,774.8	13,235.8
Total liabilities	15,534.0	19,915.0	24,513.3	29,804.9
BVPS (Rs)	111.3	68.9	85.8	105.4

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	19.4	19.3	20.3	21.0
EBIT margin (%)	14.1	14.8	16.0	16.9
Net profit margin (%)	10.3	12.8	12.5	12.5
FDEPS growth (%)	60.4	53.4	24.1	16.0
Receivables (days)	39.6	47.6	49.0	49.6
Inventory (days)	107.5	127.1	143.3	149.6
Payables (days)	102.2	139.4	133.8	127.1
Current ratio (x)	2.2	1.8	2.9	2.9
Interest coverage (x)	9.4	8.9	8.8	15.6
Debt/equity ratio (x)	0.6	0.5	0.7	0.6
ROE (%)	23.6	29.9	29.9	28.0
ROCE (%)	18.0	20.0	21.8	21.3
ROAE (%)	14.5	15.2	16.8	16.8
EV/Sales (x)	2.8	2.3	1.8	1.5
EV/EBITDA (x)	14.5	11.9	8.9	7.4
P/E (x)	24.8	16.2	13.0	11.2
P/BV (x)	3.2	2.7	4.4	3.5
P/CEPS (x)	16.4	12.0	9.7	8.5

Source: Company, Religare Research

CMP: Rs 502

Target: Rs 497 ↓

SELL

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BSE code	532819
NSE code	MINDTREE

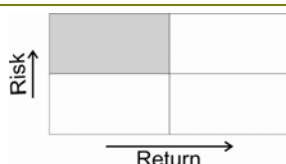
Company data

Particulars	
Market cap (Rs bn / US\$ mn)	19.0/478.6
Outstanding equity shares (mn)	37.8
52-week high/low (Rs)	1,022/450
2-month average daily volume	55006

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	5,903.5	7,323.8	9,257.0
Growth (%)	31.5	24.1	26.4
Adj net profit (Rs mn)	900.5	1,011.6	1,207.4
Growth (%)	67.5	12.3	19.4
FDEPS (Rs)	27.7	26.6	31.1
Growth (%)	59.7	(3.9)	17.0
P/E (x)	18.1	18.9	16.1
ROE (%)	20.7	19.0	18.4

Risk-return profile



Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	35.4	35.5
FIs	1.8	3.5
Banks & FIs	1.5	1.6
Public*	61.3	59.4

*Includes 34.5% locked-in shares of foreign venture funds

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
MindTree	502	(3.9)	(25.7)	(36.3)
Sensex	18,771	10.9	19.0	31.9
BSE IT	4,583	1.8	(8.4)	(7.6)

Company website	www.mindtree.com
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Operational performance in line

MindTree Consulting's Q2FY08 operational performance is in line with our expectations. Volumes grew by 12.7% during the quarter over Q1FY08 with a 3.4% rise in billing rates. The company recorded revenue growth of 17% and 14.4% in dollar and rupee terms respectively, on par with our estimates. However, higher other income due to forex gains has pushed net profit above our expectations, with a growth of 34.6% and 31.8% in dollar and rupee terms respectively.

We maintain our negative outlook on the company considering that it draws 56% of its revenues from development projects which are dependent on the customer's discretionary spending power. This represents a significant risk to growth given concerns of an impending economic slowdown in the US, which would result in a sharp curtailing of discretionary IT spends. While the management has maintained its FY08 growth guidance, we have revised our estimates to build in the quarter's out-performance as well as our modified exchange rate assumption of Rs 39/US\$ for FY09. Consequently we are revising our target price for the stock from Rs 556 to Rs 497; we maintain our Sell recommendation.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,819	1,790.5	1.6
EBIDTA	299	300.4	(0.5)
EBITDA margin (%)	16.4	16.8	(40bps)
PAT	272.0	223.3	21.8
EPS (Rs)	7.2	5.9	22.5

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q1FY08	% Chg QoQ	Q2FY07	% Chg YoY
Revenues	1819.0	1615.0	12.7	1537.0	18.0
Software development	1,176.9	1,017.6	15.7	906.2	29.9
Gross profit	642.6	597.4	7.6	631.0	1.8
SG&A expenses	343.5	341.7	0.5	368.9	(6.9)
EBITDA	299.1	255.7	17.0	262.1	14.1
Depreciation	80.8	78.8	2.6	64.0	26.3
EBIT	218.3	176.9	23.4	198.2	10.2
Interest	17.8	9.4	89.3	8.6	107.5
Other income	98.9	62.4	58.4	16.9	485.8
Profit before taxes	299.4	229.9	30.2	206.4	45.0
Current taxes	29.6	24.7	19.7	(7.5)	(496.4)
Deferred taxes	(1.8)	(0.9)	108.1	(10.2)	(82.5)
PAT	271.5	206.0	31.8	224.1	21.1
Adjustments	-	-	-	-	-
Adjusted net profit	271.5	206.0	31.8	224.1	21.1
EPS	7.2	5.5	30.9	7.5	(4)

Source: Company, Religare Research

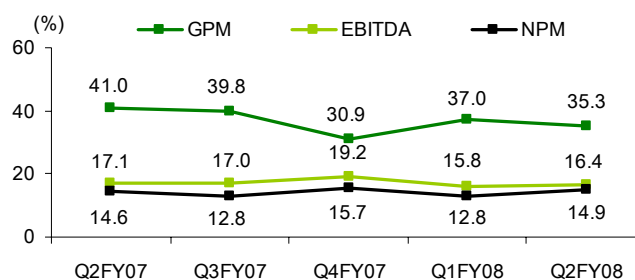
Result highlights

EBITDA margin up 60bps QoQ led by higher utilisation and stronger billing rates

EBITDA margin rises during the quarter

The EBITDA margin for Q2FY08 registered a 60bps QoQ expansion to 16.4%. The margin growth was mainly due to higher utilisation levels at 69.1% in Q2FY08 as against 65.2% in Q1FY08, and an increase in blended billing rates by 3.4%.

Profit margin movement



Source: Company, Religare Research

Increase in annuity revenues

Annuity revenues rose from 33% in Q1FY08 to 37% in Q2FY08. The contribution from maintenance projects to revenues has increased from 25.6% in Q1FY08 to 28.9% in Q2FY08. The company will be focussing on the testing and package implementation segment going ahead as these are fixed price projects which will facilitate a de-risking of the business model.

Key performance highlights

Parameters	Comments
Volume growth	Onsite and offshore volumes grew by 6.4% and 13.7% QoQ respectively, taking overall growth to 12.7% QoQ.
Onsite-Offshore mix	The onsite-offshore mix was biased towards offshore locations this quarter. Offshore business accounted for 86.6% of the total effort versus 85.8% in Q1FY08, with the revenue share rising 170bps QoQ to 72.7%.
Employee addition	Employee gross additions during the quarter stood at 784, raising the total number of employees to 4,896 in Q2FY08. The additions include 460 campus recruitments, and this figure is likely to rise to 560 in Q3.
Attrition rate	The attrition rate has inched up to 15.7% during the quarter as against 15.2% in Q1FY08.
Clients & deals	The company has added three fortune 500 companies operating in the financial, consumer electronics and beverage verticals to its client roster. The number of US\$ 1mn clients has risen from 34 to 41 in Q2FY08.
Utilisation levels	Utilisation levels excluding trainees improved by 400bps QoQ from 65.1% to 69.1% in Q2FY08.
Client growth	MindTree added 28 new clients during the quarter, enhancing its active client base to 192. The top client and top 10 clients witnessed a decrease in revenue contribution to 9% and 40.7% as against 9.6% and 42.8% in Q1FY08. The top 5 clients contributed 31.5% of total revenues in comparison to 28.4% in Q1FY08.
Services metrics	The revenue share of development, consulting and infrastructure management services is down 460bps, 140bps and 70bps QoQ respectively. Maintenance services contributed 28.9% of revenues, up from 25.6% in Q1FY08. Contributions across service offerings are likely to come down in Q3 due to the lower number of working days.
Vertical metrics	The contribution of the BFSI, travel & transportation, hi-tech and manufacturing verticals in IT services has been flattish to negative during the quarter. Consumer appliances and communications systems (R&D vertical) have recorded an increased revenue contribution as the new customers added in Q1FY08 have ramped up business.
Salary hikes	During the quarter, the company gave salary hikes of 12-13% to offshore employees and 3-5% to onshore employees, which had a negative impact of 2.5% on the margins. During Q3FY08, 7% of the total employees will be getting salary hikes of which offshore increments are likely to be 10-12% with onsite hikes at 3-5%.
Geographical mix	Revenue share from the US geography has decreased by 290bps to 67% of revenues during the quarter. The contribution from Europe has increased by 160bps to 18.2% as against 16.6% in Q1FY08.

Future outlook

FY08 guidance remains unchanged

The company has maintained its FY08 revenue target of US\$ 178mn–180mn and profit target of US\$ 22.5mn–22.6mn. Despite the positive performance during the quarter, the management has chosen to remain conservative with its guidance until clarity emerges on the growth trend in its key development and maintenance service segments.

We revise our estimates

MindTree's Q2FY08 operational performance has been in line with our expectations. However, other income due to forex gains has pushed net profit above our estimates, with a growth of 34.6% and 31.8% in dollar and rupee terms respectively. We are therefore increasing our net profit and EPS estimates for FY08 by 4% and 3.9% respectively. We are also realigning our FY09 estimates to an average exchange rate scenario of Rs 39/US\$ (from Rs 40.5/US\$) which has led to a 1.9% and 4% decline in our revenue and EPS estimates for FY09 respectively.

Estimates revised to build in quarter's out-performance and modified exchange rate assumption

Revised estimates

(Rs mn)	FY08			FY09		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Revenues	7,323.8	7,323.8	-	9,437.4	9,257.0	(1.9)
Net profit	972.4	1,011.6	4.0	1,258.1	1,207.4	(4.0)
EPS (Rs)	25.6	26.6	3.9	32.4	31.1	(4.0)

Source: Religare Research

EBITDA margin to decline in FY08

We expect the EBITDA margin to decline by 130bps in FY08 and to remain flat in FY09. The margin decline is on account of rupee appreciation anticipated in FY08 and FY09 and rising wage hike pressures.

We decrease our target price and maintain Sell

At the current price of Rs 502, the stock is trading at 18.9x and 16.1x its expected FY08 and FY09 earnings of Rs 26.6 and Rs 31.1 respectively. We have reduced our one-year target price for the stock to Rs 497 from Rs 556 to build in the impact of our estimate revisions. We maintain our Sell recommendation on the stock.

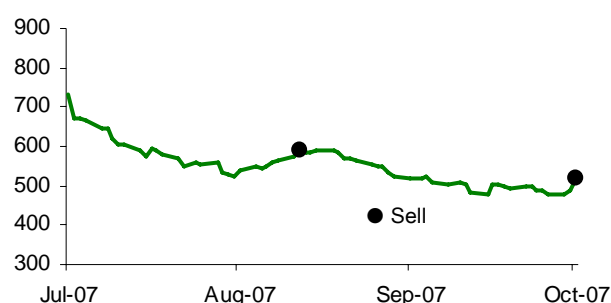
We lower our target to Rs 497; maintain Sell

Recommendation history

Date	Event	Reco price	Tgt price	Reco
05-Sep-07	Initiating Coverage	589	556	Sell
26-Oct-07	Results Update	502	497	Sell

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	4,488.0	5,903.5	7,323.8	9,257.0
Growth (%)	82.1	31.5	24.1	26.4
EBITDA	776.2	1,096.4	1,267.3	1,652.0
Growth (%)	206.6	41.2	15.6	30.4
Depreciation	231.8	244.4	364.4	519.6
EBIT	544.4	852.0	902.9	1,132.4
Growth (%)	281.0	56.5	6.0	25.4
Interest	52.6	30.0	59.4	50.7
Other income	65.7	73.6	279.2	280.5
EBT	557.5	895.7	1,122.7	1,362.2
Growth (%)	222.8	60.7	25.3	21.3
Tax	15.5	(4.9)	111.1	154.8
Effective tax rate	2.8	(0.5)	9.9	11.4
Adj net income	537.5	900.5	1,011.6	1,207.4
Growth (%)	201.0	67.5	12.3	19.4
Shares outstanding (mn)	29.4	37.8	38.4	39.1
FDEPS (Rs)	17.4	27.7	26.6	31.1
DPS (Rs)	2.0	2.0	2.0	2.0
CEPS (Rs)	28.7	36.7	36.2	44.5

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	537.5	900.5	1,011.6	1,207.4
Depreciation	231.8	244.4	364.4	519.6
Other adjustments	(32.7)	(68.4)	(186.4)	46.0
Changes in WC	(343.4)	(266.3)	(231.4)	(287.8)
Operating cash flow	393.2	810.2	958.2	1,485.2
Capital expenditure	(203.7)	(549.2)	(1,563.6)	(863.6)
Investments	(175.3)	(1,575.8)	257.1	-
Other investing inc/(exp)	(236.2)	(16.8)	-	-
Investing cash flow	(615.2)	(2,141.8)	(1,306.5)	(863.6)
Free cash flow	(222.0)	(1,331.6)	(348.3)	621.6
Issue of equity	64.6	2,365.3	131.1	119.1
Issue/repay debt	233.4	(472.1)	510.1	(200.0)
Dividends paid	(58.9)	(34.7)	(120.1)	(101.9)
Others	(24.0)	(21.1)	(5.3)	-
Financing cash flow	215.1	1,837.4	515.8	(182.8)
Beg. cash & cash eq	269.0	262.1	767.9	935.5
Chg in cash & cash eq	(6.9)	505.8	167.5	438.8
Closing cash & cash eq	262.1	767.9	935.5	1,374.2

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	262.1	768.0	935.5	1,374.2
Accounts receivable	1,097.7	1,171.6	1,440.4	1,794.9
Inventories	-	-	-	-
Others current assets	558.3	830.3	958.8	1,165.4
Current assets	1,918.1	2,769.9	3,334.7	4,334.6
LT investments	537.6	2,140.6	1,915.2	1,915.2
Net fixed assets	388.5	699.3	1,922.0	2,266.1
CWIP	-	46.4	50.2	54.2
Total assets	2,844.2	5,656.1	7,222.1	8,570.1
Payables	741.3	861.6	886.4	1,159.8
Others	73.1	176.0	232.0	282.0
Current liabilities	814.4	1,037.6	1,118.4	1,441.8
LT debt	742.0	263.8	776.0	576.0
Other liabilities	-	-	-	-
Equity capital	58.7	377.5	384.2	391.4
Reserves	1,229.1	3,977.2	4,943.5	6,160.9
Net worth	1,287.8	4,354.8	5,327.7	6,552.3
Total liabilities	2,844.2	5,656.1	7,222.1	8,570.1
BVPS (Rs)	43.9	115.3	138.7	167.4

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	17.3	18.6	17.3	17.8
EBIT margin (%)	12.1	14.4	12.3	12.2
Net profit margin (%)	12.0	15.3	13.8	13.0
FDEPS growth (%)	123.6	59.7	(3.9)	17.0
Receivables (days)	89.3	72.4	71.8	70.8
Inventory (days)	-	-	-	-
Payables (days)	72.9	65.4	53.4	55.7
Current ratio (x)	2.4	2.7	3.0	3.0
Interest coverage (x)	11.2	31.0	18.0	24.8
Debt/equity ratio (x)	0.6	0.1	0.1	0.1
ROE (%)	41.7	20.7	19.0	18.4
ROCE (%)	29.1	20.1	17.5	17.6
ROAE (%)	19.1	15.1	12.5	13.2
EV/Sales (x)	3.9	2.9	2.4	1.9
EV/EBITDA (x)	22.3	15.8	13.7	10.5
P/E (x)	28.9	18.1	18.9	16.1
P/BV (x)	11.4	4.4	3.6	3.0
P/CEPS (x)	17.5	13.7	13.9	11.3

Source: Company, Religare Research

CMP: Rs 59

Target: Rs 73

HOLD

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BSE code	532525
NSE code	MAHABANK

Company data

Particulars	
Market cap (Rs bn / US\$ mn)	25.4/633.9
Outstanding equity shares (mn)	430.5
52-week high/low (Rs)	65.3/32
3-month average daily volume	213,518

Financial snapshot

Particulars	FY07	FY08E	FY09E
NII (Rs bn)	10.9	12.9	14.7
Growth (%)	12.6	17.5	14.3
Adj net profit (Rs bn)	2.7	3.4	4.0
Growth (%)	435.2	25.1	18.2
FDEPS (Rs)	6.3	7.9	9.3
Growth (%)	435.2	25.1	18.2
P/ABV (x)	1.8	1.5	1.3
ROE (%)	16.4	18.3	19.1

Risk-return profile



Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	76.8	76.8
FIs	8.0	7.7
Banks & FIs	5.5	5.2
Public	9.7	10.3

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
BOM	58.9	(5.5)	4.9	47.1
Sensex	18,771	11.1	19.6	32.0
Bankex	10,274	12.7	25.5	41.6

Company website www.bankofmaharashtra.com

Good results but AS-15 norms cloud prospects

Bank of Maharashtra (BOM) has delivered above-expected results for Q2FY08 primarily due to higher interest earned on advances and strong growth in core fee income. NII expanded 17% YoY to Rs 2.9bn (as against Rs 2.7bn estimated) driven by the re-pricing of loans at higher rates and the maturity of low-yielding advances. Non-interest income rose 51% to Rs 618mn during the quarter, propelling PAT ahead of our estimates.

Going forward, the management expects yield on assets to remain stable with a lower cost of funds (due to a focus on raising CASA deposits), thereby improving margins. It also expects non-interest income to remain high on the back of sustained growth in fee income and improved recoveries.

Despite the bank's strong growth trajectory we see the implementation of the new AS-15 norms as a key risk to growth since this could translate to total provisions of Rs 3bn-4bn for BOM. Assuming this charge is spread over a period of five years, annual net profits would take a hit of Rs 600mn-800mn. We have a DDM-based target price of Rs 73 for the stock but recommend a Hold due to the significant threat to profit growth. At our price target, the stock would trade at a P/ABV of 1.6x on FY09E.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
NII	2,928.6	2,725.3	7.4
PPP	1,621.2	1,354.6	19.7
PAT	904.5	711.8	27.0
EPS (Rs)	2.1	1.7	23.5

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Interest on advances	6,107.6	3,903.8	56.5	5,792.8	5.4
Income on investments	2,349.0	2,261.8	3.9	2,299.8	2.1
Interest on bal with RBI	53.7	253.4	(78.8)	94.5	(43.2)
Interest income	8,510.3	6,419.0	32.6	8,187.1	3.9
Interest expenses	(5,581.7)	(3,914.8)	42.6	(5,122.4)	8.9
Net interest income	2,928.6	2,504.2	16.9	3,064.7	(4.4)
Other income	618.3	410.5	50.6	541.1	14.3
Total income	3,546.9	2,914.7	21.7	3,605.8	(1.6)
Operating expenses	(1,925.7)	(1,710.2)	12.6	(2,069.4)	(6.9)
Provisions and W/off	(321.7)	(281.10)	14.4	(293.6)	9.6
PBT	1,299.5	923.4	40.7	1,242.8	4.6
Taxes	(395.0)	(310.60)	27.2	(427.0)	(7.5)
PAT	904.5	612.8	47.6	815.8	10.6

Source: Company, Religare Research

Result highlights

Income from advances expanded 57% YoY due to re-pricing of loans at higher rates

Loan book re-pricing supports 17% YoY NII growth

BOM has posted 17% YoY growth in net interest income (NII) to Rs 2.9bn. The growth was led by a 57% rise in income from advances due to loan book re-pricing at the existing higher rates coupled with maturity of low-yielding loans. Yield on advances rose to 10.1% from 8.6% in Q2FY07. Interest earned on investments was almost flat due to stable yields, while interest on RBI balances was significantly lower due to the scrapping of interest on CRR funds and the CRR rate hike.

Higher cost of funds pulls down NIM

An increase in cost of deposits together with the absence of income on CRR balances led to a decline in the net interest margin (NIM) to 2.9% from 3% in Q2FY07. Going forward, the management expects low-cost CASA deposits to pick up while yield on assets would remain stable. This would keep margins at ~3%. CASA deposits as at end-Q2FY08 constituted 41.5% of the total as against 43.2% as at end-March 2007.

Income from third-party product distribution aided a 50% YoY rise in non-interest income

Non-interest income up 50% YoY

Non-interest income grew 50% YoY to Rs 618mn. The growth was primarily due to commission and exchange income which rose 29% to Rs 463mn led by fees from third-party product distribution. The bank is rapidly implementing CBS across its branches which would drive growth in fee income in the coming quarters. Recoveries from written-off accounts contributed Rs 210mn to non-interest income during the quarter as compared to Rs 116.4mn in Q2FY07. The management has set a target of Rs 2.5bn for recoveries in FY08, of which Rs 1.25mn has already been received. Treasury gains for the quarter accounted for Rs 145mn.

Following the RBI guidelines of treating exposure to IFCI in the AFS category, BOM has booked Rs 230mn as mark-to-market (MTM) losses in Q2FY08. Now, with IFCI granting the option to convert a part of the convertible debentures into equity, management do not foresee further MTM losses.

Operating expenses up 13%

A relatively higher employee base and a lower level of CBS implementation at present have resulted in a 12.6% YoY rise in operating expenses. The cost-to-income ratio has improved by 300bps sequentially to 54%, but this is still on the higher side. During the quarter, BOM fully provided for some doubtful assets which resulted in higher provisions towards NPAs at Rs 250mn as compared to Rs 70mn in Q1FY08. Overall provisioning expenses were thus higher by 14.4% YoY to Rs 321.7mn.

NPAs improve during the quarter

Gross and net NPAs declined to 3.2% and 1.1% as compared to 3.5% and 1.2% respectively at the end of FY07. By end-FY08, the management expects to bring net NPAs below 1% by way of higher recoveries and write-offs.

77% government holding leaves enough scope for equity issue to fund business growth

CAR at 13.6%; fresh equity issue likely

BOM's capital adequacy ratio (CAR) at the end of September 2007 stands at 13.6% with tier I capital at 7.1%. The bank has the option of raising Rs 2bn through the issue of hybrid tier II instruments, though we do not expect this measure in the current high interest rate scenario. We believe that with the 77% government holding in the bank, any capital requirement could be met through the issue of fresh capital.

JV with Shriram Transport for insurance business

BOM is likely to enter into a joint venture with Shriram Transport for its insurance business. The initial capital requirement for the venture is expected to be ~Rs 1bn with BOM holding a 15% stake.

Valuation

Overall business growth at 27% YoY for H1FY08

Above-industry business growth

BOM's overall business growth remains much ahead of the industry average at 27.2% YoY to Rs 619bn for H1FY08. Of this, advances grew 30.5% to Rs 250.6bn and deposits at 25% to Rs 368.7bn. Lending towards the agriculture and SME segments continues to drive growth in advances.

Yields have also improved by virtue of re-pricing several big loan accounts and increased lending to the high-yield retail and SME segments. Tie-ups with mutual funds and insurance firms along with CBS implementation have started yielding results, with immense potential to increase fee income. With lower slippage and higher recoveries, asset quality would also continue to improve.

Danger of stagnating profits due to higher employee benefit provisions under AS-15

AS-15 norms pose a significant threat to profitability; Hold

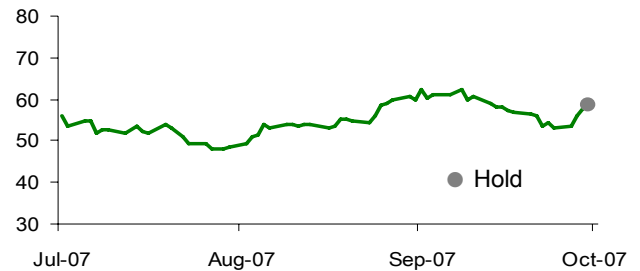
Despite the bank's strong growth trajectory, we see the implementation of the new AS-15 norms as a key risk to growth since this could translate to total provisions of Rs 3bn-4bn for BOM. Assuming this charge is spread over a period of five years, annual net profits would take a hit of Rs 600mn-800mn. We have a DDM-based target price of Rs 73 for the stock but recommend a Hold due to the possibility of stagnating profit growth. At our price target, the stock would trade at a P/ABV of 1.6x on FY09E.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
26-Oct-07	Results Update	58	73	Hold

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Interest earned	24.7	27.2	35.7	42.3
Interest expended	15.0	16.3	22.9	27.6
Net interest income	9.7	10.9	12.9	14.7
Growth (%)	10.2	12.6	17.5	14.3
Non-interest income	0.5	2.7	2.8	3.7
Comm, Exchange & Brokerage	1.3	1.7	2.1	2.6
Growth (%)	5.1	19.5	18.1	19.9
Operating expenses	6.6	7.5	8.2	9.2
Pre-provisioning profits	3.7	6.1	7.5	9.2
Growth (%)	(33.2)	68.0	22.3	22.6
Provisions & contingencies	2.8	2.8	2.6	3.4
PBT	0.9	3.4	4.9	5.7
Income tax, Interest tax	0.4	0.6	1.5	1.7
Net profit	0.5	2.7	3.4	4.0
Growth (%)	(71.4)	435.2	25.1	18.2

Source: Company, Religare Research

Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash in hand & bal with RBI	18.7	22.7	33.1	39.3
Balance with banks, Money at call	5.2	10.7	11.4	11.9
Investments	113.5	113.0	132.2	154.3
Advances	164.7	229.2	278.5	334.2
Fixed assets (net)	1.8	2.1	2.3	2.4
Other assets	8.2	12.4	10.7	12.5
Total assets	312.1	390.1	468.1	554.6
Equity capital	4.3	4.3	4.3	4.3
Reserves & surplus	11.4	13.1	15.4	18.1
Net worth	15.7	17.4	19.7	22.4
Deposits	269.1	339.2	408.9	490.9
Current deposits (a)	28.6	41.2	47.6	55.5
Savings bank deposits (b)	86.6	105.2	125.2	152.1
Term deposits (c)	153.8	192.8	236.2	283.4
Borrowings (incl sub-ord bonds)	14.8	18.4	21.8	20.9
Other liabilities & provisions	12.6	15.0	17.7	20.3
Total liabilities	312.1	390.1	468.1	554.6

Source: Company, Religare Research

Key ratios

Year-end March	FY06	FY07	FY08E	FY09E
Per share data				
Shares outstanding (mn)	430.5	430.5	430.5	430.5
FDEPS (Rs)	1.2	6.3	7.9	9.3
DPS (Rs)	0.4	2.0	2.2	2.7
Book value (Rs)	36.5	40.5	45.9	52.1
Adjusted book value (Rs)	28.1	33.4	39.1	44.6

Valuation ratios

P/E (x)	49.9	9.3	7.5	6.3
P/BV (x)	1.6	1.5	1.3	1.1
P/ABV (x)	2.1	1.8	1.5	1.3

Earnings quality (%)

Net interest margin	3.2	3.3	3.1	3.0
Yield on advances	8.0	8.7	10.0	10.0
Yield on investments	9.5	8.1	7.9	7.8
Cost of funds	5.0	4.9	5.7	5.7
Cost/Income	64.3	54.9	52.2	49.9
Return on average net worth	3.3	16.4	18.3	19.1
Return on average assets	0.2	0.8	0.8	0.8

Growth ratios (%)

Net interest income	10.2	12.6	17.5	14.3
Other income	(86.4)	407.4	6.9	29.2
Total income	(19.2)	32.8	15.4	17.0
Pre-provisioning profit	(33.2)	68.0	22.3	22.6
Net profit	(71.4)	435.2	25.1	18.2
Advances	26.1	39.2	21.5	20.0
Deposits	(6.7)	26.1	20.6	20.1

Asset quality

Proportion of low-cost deposits (%)	42.8	43.2	42.2	42.3
Credit-Deposit ratio (x)	61.2	67.6	68.1	68.1
Investment/Deposit (%)	42.2	33.3	32.3	31.4
Net NPA ratio	2.0	1.2	1.0	0.9
CAR	11.3	12.1	11.8	10.9
Tier-I ratio	7.5	6.0	6.2	5.7

Source: Company, Religare Research

CMP: Rs 131
Target: Rs 153 
BUY
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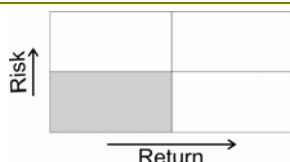
 BSE code 503031
 NSE code PENINLAND

Company data

Particulars	
Market cap (Rs bn / US\$ mn)	30.7/769.0
Outstanding equity shares (mn)	235.5
52-week high/low (Rs)	151/61
2-month average daily volume	155,277

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	3,194.2	6,672.8	14,390.3
Growth (%)	17.3	108.9	115.7
Adj net profit (Rs mn)	1,320.3	2,232.0	5,030.4
Growth (%)	(8.4)	69.0	125.4
FDEPS (Rs)	5.6	9.5	21.3
Growth (%)	(8.4)	69.0	125.4
P/E (x)	23.4	13.9	6.1
ROE (%)	36.3	30.1	40.6

Risk-return profile

Shareholding pattern

(%)	Sep-07	Mar-07
Promoters	62.3	65.2
FIIIs	3.6	1.5
Banks & FIs	21.6	19.8
Public	12.5	13.5

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Peninsula Land	131	17.8	33.6	59.7
Sensex	18,771	11.1	19.6	32.0

 Company website www.peninsula.co.in
PAT growth in line

Peninsula Land (PLL) recorded net sales growth of 24% QoQ to Rs 1.2bn for Q2FY08, which is substantially higher than our estimate of Rs 940mn. Although net sales registered a 14% decline on a YoY basis, this was due to the higher base in Q2FY07 when PLL booked income from the sale of the Crossroads mall in Mumbai as well as receipts from rent arrears. The company's net profit margin has decreased to 28% in Q2FY08 vis-à-vis an average margin of 35% in FY07. The margin decline occurred because PLL is no longer eligible for MAT (tax rate of 12.5% in FY07) and must bear the full tax burden from FY08.

We expect a significant uptick in revenue booking in the coming quarters considering that two of PLL's residential projects in Mumbai (Ashok Tower and Ashok Garden) will be completed by December 2008. During Q2FY08, the company has booked only 6% (Rs 230mn) and 3% (Rs 60mn) of the revenues from these two projects respectively although most of the units have been pre-sold. Revenue from Dawn Mills has also started coming into the books, with Rs 410mn booked in Q2FY08. We have raised our estimates to factor in the revenue booking from Dawn Mills. Accordingly, our NAV-based target price has been raised from Rs 139 to Rs 153. We maintain our Buy rating on the stock.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,173.7	940.0	21.0
EBIDTA	635.1	507.6	25.1
PAT	336.9	340.0	(0.9)
EPS (Rs)	1.4	1.4	-

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Net sales	1,173.7	1,367.8	(14.2)	943.7	24.4
Other Income	21.6	0.4	5300.0	4.0	440.0
EBIDTA	635.1	835.0	(23.9)	554.2	14.6
EBIDTA margin (%)	54.1	61.0	(11.4)	58.7	(7.9)
Interest	27.9	21.1	32.2	10.7	160.7
Depreciation	4.4	5.3	(17.0)	5.1	(13.7)
PBT	602.8	808.6	(25.5)	538.4	12.0
Tax	224.7	39.9	463.2	161.8	38.9
PAT	378.1	768.7	(50.8)	376.6	0.4
Extraordinary items	41.2	39.9	3.3	41.6	(1.0)
Adj PAT	336.9	728.8	(53.8)	335.0	0.6
Equity Capital	470.9	470.9	0.0	470.0	0.2
EPS (Rs)	1.4	3.1	(53.8)	1.4	0.4

Source: Company, Religare Research

Result highlights

Sales up 24% sequentially but down 14% YoY

PLL has logged a 24% QoQ increase in net sales to Rs 1.2bn during the second quarter as against Rs 943.7mn in Q1FY08. Sales declined 14% YoY because the company booked income from the sale of retail mall Crossroads (150,000sq ft) and also accounted for rent arrears amounting to Rs 740mn.

Revenue booking on two Mumbai projects to rise significantly in coming quarters

Two of the company's residential projects located in Mumbai, namely Ashok Tower and Ashok Garden, are nearing their completion date of December 2008. While the company has pre-sold 93% and 75% of these projects, it has booked only 44% and 13% of revenues respectively up to September 2007. In addition, the company is likely to strike a deal on commercial space at the Peninsula Technopark located at Kurla, Mumbai. We thus expect a higher percentage of revenue booking in the coming quarters.

Operating margins decline to 54%

The operating margin in Q2FY08 decreased to 54% as against 61% in Q2FY07 and 58.7% in Q1FY08. Higher cement and steel (raw material) prices caused the cost of realty to rise to 41% of sales in Q2FY08 as against 33.5% in the same period last year, leading to the margin decline. While the selling price of realty in Mumbai has increased exponentially, the company had pre-sold the Ashok Tower and Ashok Garden projects at an average price of just Rs 7,000/sq ft as against Rs 20,000/sq ft as on date.

The net margin also decreased to 28% in Q2FY08 as against 35% in Q2FY07 as PLL moved to a full tax structure (33% tax rate) from MAT (12.5% tax rate) in FY07.

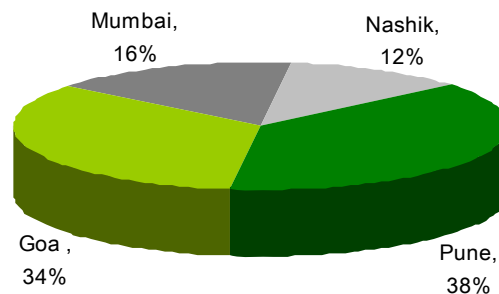
Business update

Plans to expand reach to 16 cities in western and southern India from four at present

Expanding footprint in western and southern India

PLL currently has a presence in four cities (Mumbai, Nashik, Goa and Pune). In order to spread its geographical risk, it now plans to expand into more than 12 cities in western and southern India including tier I, II and III areas. So far, PLL has announced its intention to enter into Chennai, Coimbatore, Mysore, Bangalore, Ahmedabad and Hyderabad.

Revenues by geography



Source: Company, Religare Research

Land bank totalling 29.4mn sq ft

PLL is currently executing projects across 4.1mn sq ft with another 25.4mn sq ft in the pipeline. The planned projects of 25.4mn sq ft comprise 25% of office space, 36% of residential space and the balance in SEZ space. PLL recently acquired 31 acres of land from Rallis India for Rs 910mn and continues to acquire land in southern and western India.

Project pipeline

Project	Segment	Area
Ashok Tower	Residential	1,077,095
Ashok Garden	Residential	898,920
Peninsula Technopark	Commercial	896,585
Peninsula Business Park	Commercial	1,154,960
Goa SEZ	SEZ-Biotech	7,800,000
Goa SEZ	SEZ-Gems & Jewellery	1,400,000
Goa SEZ	SEZ-Biotech	3,300,000
Pune	IT park	4,900,000
Pune	Integrated Township	5,000,000
Nashik	Residential	800,000
Nashik	Integrated Township	2,200,000
Total area		29,427,560

Source: Company, Religare Research

Launch of realty funds will enhance profitability

The company has launched two realty funds – a domestic fund of Rs 3.5bn-4bn and an offshore fund totalling US\$ 325mn-400mn. The funds will be deployed in real estate where it expects an IRR in excess of 25%.

Upon creation of the fund, PLL will not buy land independently but will co-invest up to 25% of the land cost with the fund. PLL will be the sole developer for all projects undertaken by the fund. The company will provide project management and facility management skills and also generate revenue by way of project management commission (4-6% of project value) and AMC fees (2%).

Valuation

We upgrade target and maintain Buy

We believe that PLL's strategy of projecting itself as a player with rich project management skills rather than a land bank story will translate to higher returns on capital employed and on equity for the company. We have raised our NAV-based target price from Rs 139 to Rs 153 to factor in the revenue booking from Dawn Mills that began during the quarter. At the current price of Rs 131, PLL discounts its FY09E EPS of Rs 21.3 by 6.1x which is attractive in comparison to its peers. We maintain a Buy on the stock.

PLL will co-invest with realty funds to buy land

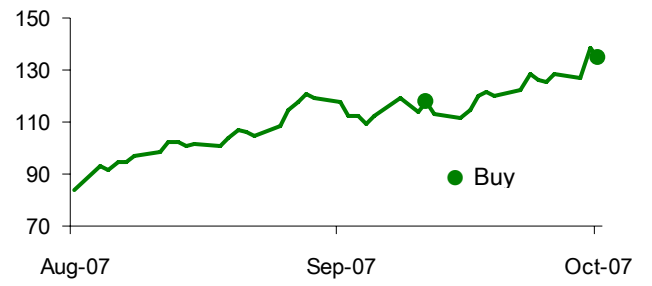
Focus on project management to fuel growth; Buy

Recommendation history

Date	Event	Reco price	Tgt price	Reco
05-Oct-07	Quarterly Preview	117	139	Buy
26-Oct-07	Results Update	131	153	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	2,723.5	3,194.2	6,672.8	14,390.3
Growth (%)	337.0	17.3	108.9	115.7
EBITDA	1,686.3	1,473.5	3,603.3	7,914.6
Growth (%)	-	(12.6)	144.5	119.7
Depreciation	63.0	12.7	70.0	90.0
EBIT	1,623.3	1,460.8	3,533.3	7,824.6
Growth (%)	-	(10.0)	141.9	121.5
Interest	177.5	65.6	251.0	427.0
Other income	209.7	14.9	15.0	20.0
EBT	1,445.8	1,395.2	3,282.3	7,397.6
Growth (%)	-	(3.5)	135.3	125.4
Tax	4.0	74.9	1,050.3	2,367.2
Effective tax rate (%)	0.3	5.4	32.0	32.0
Net income (adjusted)	1,441.8	1,320.3	2,232.0	5,030.4
Growth (%)	-	(8.4)	69.0	125.4
Shares outstanding(mn)	235.0	235.0	235.0	235.0
FDEPS (Rs)	6.1	5.6	9.5	21.3
DPS (Rs)	0.5	0.6	0.7	0.7
CEPS(Rs)	6.4	5.7	9.8	21.8

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	1,445.8	1,395.2	3,282.3	7,397.6
Depreciation	63.0	12.7	70.0	90.0
Other adjustments	(1,005.5)	65.6	251.0	427.0
Changes in WC	697.0	206.5	(5,159.3)	(8,091.9)
Operating cash flow	1,200.3	1,680.0	(1,556.1)	(177.3)
Capital expenditure	(73.5)	(103.3)	(50.0)	(40.0)
Investments	28.2	(864.9)	-	-
Other investing cash flow	-	-	-	-
Investing cash flow	(45.3)	(968.1)	(50.0)	(40.0)
Free cash flow	1,155.0	711.9	(1,606.1)	(217.3)
Issue of equity / warrants	-	1,499.1	1,583.4	-
Issue/repay debt	(1,121.1)	(1,081.8)	432.7	900.0
Dividends paid	-	(112.6)	(147.7)	(165.0)
Int Paid	-	(65.6)	(251.0)	(427.0)
Financing cash flow	(1,121.1)	239.1	1,617.4	308.0
Beginning cash & cash eq	53.0	86.9	1,039.0	1,050.0
Change in cash & cash eq	33.9	951.0	11.3	90.7
Closing cash & cash eq	86.9	1,039.0	1,050.0	1,139.0

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash	86.9	1,039.0	1,050.0	1,139.0
Accounts receivable	2,357.7	2,256.8	3,148.7	6,999.6
Inventories	2,507.6	2,242.7	6,200.0	9,895.0
Others current assets	954.2	1,956.2	2,620.9	2,789.6
Current assets	5,906.3	7,494.6	13,019.6	20,823.2
LT investments	137.5	1,002.3	1,002.3	1,002.3
Net fixed assets	241.8	332.4	312.4	262.4
CWIP	-	-	-	-
Total assets	6,285.6	8,829.3	14,334.3	22,087.9
Payable	430.0	497.5	600.0	900.0
Others	208.0	961.4	2,175.3	3,744.2
Current liabilities	638.0	1,458.8	2,775.3	4,644.2
LT debt	4,799.1	3,717.3	4,150.0	5,050.0
Other liabilities	-	12.6	-	-
Equity capital	395.5	421.5	470.9	470.9
Reserves	453.6	3,219.1	6,938.1	11,922.8
Networth	849.5	3,640.6	7,409.0	12,393.7
Total liabilities	6,286.6	8,829.3	14,334.4	22,087.9
BVPS(Rs)	4.3	17.3	31.5	52.6

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin(%)	61.9	46.1	54.0	55.0
EBIT margin(%)	59.6	45.7	53.0	54.4
Net profit margin(%)	52.9	41.3	33.4	35.0
EPS growth(%)	-	(8.4)	69.0	125.4
Receivables(days)	316.0	257.9	172.2	177.5
Tax/PBT	0.3	5.4	32.0	32.0
Mcapp/Sales	11.3	9.6	4.6	2.1
Current ratio(x)	9.3	5.1	4.7	4.5
Interest coverage(x)	9.1	22.3	14.1	18.3
Debt/equity ratio (x)	5.7	1.0	0.6	0.4
ROE(%)	169.8	36.3	30.1	40.6
ROCE(%)	22.4	16.5	18.4	28.2
ROAE (%)	22.9	15.0	15.6	22.8
EV/Sales(x)	13.0	10.8	5.2	2.5
EV/EBITDA(x)	18.2	20.8	8.5	3.9
P/E (x)	21.4	23.4	13.9	6.1
P/BV (x)	30.5	7.6	4.2	2.5
P/CEPS (x)	13.3	9.1	4.9	2.8

Source: Company, Religare Research

CMP: Rs 285
Target: Rs 342 
BUY
Alok Dalal

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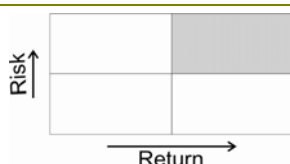
 BSE code 500302
 NSE code NICOLASPIR

Company data

Particulars	
Market cap (Rs mn / US\$ mn)	59.8/1.5
Outstanding equity shares (mn)	209
52-week high/low (Rs)	320/195
6-month average daily volume	102,803

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	24,719.3	29,914.9	34,073.1
Growth (%)	55.0	21.0	13.9
Adj net profit (Rs mn)	2,181.1	3,662.9	4,412.3
Growth (%)	80.8	67.9	20.5
FDEPS (Rs)	10.4	17.5	21.1
Growth (%)	80.8	67.9	20.5
P/E (x)	27.4	16.3	13.5
ROE (%)	21.7	34.1	35.1

Risk-return profile

Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	50.0	50.0
FIs	16.0	15.3
Banks & FIs	7.6	8.1
Public	26.4	26.6

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Nicholas Piramal	286	3.6	6.7	11.5
Sensex	18,771	10.9	19.0	31.9
BSE HC	3,833	3.8	1.2	(0.4)

Company website www.nicholaspiramal.com
Contract manufacturing gaining traction

Nicholas Piramal India (NPIL) has delivered a strong performance driven by domestic formulations which recovered well after a disappointing first quarter, as codeine supplies were restored. Another positive was increasing traction in NPIL's CMG sales which increased four times from Rs 170mn in Q2FY07 to Rs 694mn on the back of shipment of material to a key customer. However, Avecia and Morpeth recorded flat growth, which together with an appreciating rupee has resulted in flat EBITDA margins. If we were to exclude the expenditure on innovative research (transferred into a separate company effective April 1, 2007), margins have expanded by 100bps YoY to 20.3%. Lower tax outgo resulted in PAT growth of 58% YoY to Rs 848mn.

The quarterly performances validates our view that NPIL's CMG business is now gaining traction and is likely to deliver strong growth over the next two years. In light of the material shipment to a key customer, the management has increased its revenue growth guidance for Indian CMG to over 100% for FY08. While Q2 has been a good quarter for domestic formulations, material supply issues with Phensedyl remain. Although the worst is behind us, Phensedyl may report flattish sales growth for FY08. The outlook on this product along with an appreciating rupee has compelled the management to lower its continuing business growth guidance by 5% to 20% for FY08.

The management has, however, raised its guidance for EBITDA margin by 100bps to 18.7% and for EPS by Re 0.5 to factor in the savings from innovative research expenditure. Factoring in the latest developments, we have revised our FY08 and FY09 EPS numbers by 8% and 3% respectively. We have also increased our target price to Rs 342 from Rs 332. We reiterate our Buy rating on the stock.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	7,645.7	7,101.7	7.7
EBITDA	1,329.0	1200.0	10.7
PAT	847.7	615.0	37.8
EPS (Rs)	7645.7	7101.7	7.7

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	Growth(%)	H1FY08	H1FY07	Growth(%)
Net sales	7,645.7	6,546.6	16.8	13,726.4	11,772.3	16.6
Operating profit	1,329.0	1,138.1	16.8	2,169.6	2,015.4	7.7
Other income	0.0	1.7	-	20.2	1.8	-
Interest	(111.0)	(76.4)	45.3	(222.4)	(121.9)	82.4
Depreciation	(263.3)	(243.6)	8.1	(512.2)	(471.4)	8.7
PBT	954.7	819.8	16.5	1,455.2	1,423.9	2.2
Tax	(79.7)	(180.9)	(55.9)	(142.8)	(245.6)	(41.9)
Adj PAT	847.7	536.9	57.9	1,282.0	1,075.5	19.2
OPM (%)	17.4	17.4	-	15.8	17.1	-
EPS (Rs)	4.1	2.6	-	6.1	5.1	-

Source: Company, Religare Research

Result highlights

Resolution of codeine supply issues resulted in 13% growth in domestic formulations sales

Recovery in domestic formulations, Pathlabs and CMG drive sales growth

After a sluggish Q1FY08, NPIL has delivered a strong quarterly performance with sales growing by 17% YoY. The key highlight of the quarter was the recovery in domestic formulations sales growth at 13.2% YoY to Rs 3.5bn, as codeine supplies were restored following a disruption in Q1. Key therapeutic areas like anti-infective, CVS and CNS performed strongly. Phensedyl recorded a good performance after a de-growth in Q1FY08 due to material supply issues. These concerns remain and although the worst is behind us, Phensedyl may report flattish sales growth for FY08.

The Contract Manufacturing Group (CMG) from Indian operations witnessed a sharp rise in sales during the quarter from Rs 170mn in Q2FY07 to Rs 694mn as supplies began to a key customer (one of the top 5 global pharma companies). NPIL's chain of pathology labs (Wellsprings) continued to do well, delivering 77% sales growth in Q2FY08 to Rs 312mn driven by consolidation of Jankharia Imaging acquired earlier in the year. The only disappointment during the quarter was the performance of Avecia and Morpeth which together have reported flat sales of Rs 1.5bn.

Business mix for Q2 and H1FY08

(Rs mn)	Q2FY08	Q2FY07	% Change	H1FY08	H1FY07	% Change
Domestic formulations	3,542.6	3,129.8	13.2	6,450	6,023.3	7.1
CMG sales						
PDS	314.7	299.5	5.1	638.8	607.8	5.1
PMS	2,222.4	1,703.8	30.4	3883.7	2593	49.8
MMBB	599.4	550.3	8.9	1,005.7	1,052.7	(4.5)
Others	286.1	247.2	15.7	521.1	414.7	25.7
Total CMO sales	3,422.6	2,800.8	22.2	6,049.3	4,668.2	29.6
Pathology Labs	311.7	176.2	76.9	563.6	316.5	78.1
Others	368.8	439.9	(16.2)	663.4	764.1	(13.2)
Total	7,645.7	6,546.7	16.8	13,726.3	11,772.1	16.6

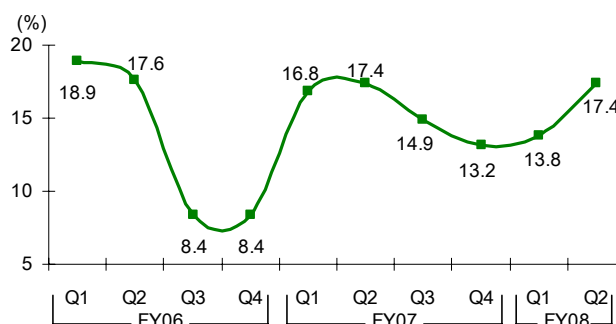
Source: Company

EBITDA margin flat YoY due to combined flat performance from Avecia and Morpeth

EBITDA margins remain flat despite strong topline growth

NPIL reported a flat EBITDA margin of 17.4% for the quarter which could be attributed to an overall flat performance from Avecia and Morpeth. If we were to exclude the expenditure on innovative research which has been transferred into a separate company with effect from April 1, 2007, the margin has expanded by 100bps to 20.3%. Avecia is operating at 5% margins, Morpeth at 15% and Indian operations at 25% levels. The overall gross margin too declined by 194bps YoY to 61.7%, reflecting the impact of the appreciating rupee.

EBITDA margin trend (%)



Source: Company, Religare Research

Lower tax outgo helps PAT grow 58% to Rs 848mn for the quarter

PAT growth came in at 58% YoY to Rs 848mn, ahead of sales growth due to a substantial decline in tax burden. The tax rate for the quarter stood at 8% as against 22% last year. In addition, NPIL had recorded a prior period item of Rs 102mn for Q2FY07. Adjusted for this, PAT growth stands at 32% YoY. EPS for the quarter stood at Rs 4.1. Excluding innovative R&D expenditure, EPS was at Rs 5.1.

Management revises guidance for the full year

NPIL's management has revised its guidance for the full year. We have outlined the key changes to guidance in the table below

Revision in guidance

Parameter	Old guidance	Revised guidance	Comments
Continuing business growth	25%	20%	Phensedyl supply issues and rupee appreciation
CMG revenue growth from Indian assets	100%	>100% (~Rs 2bn)	Increasing traction in CMG business, supplies to a key customer started in Q2FY08
EBITDA margin excluding NCE R&D spend	17.7%	18.7%	Savings from expenditure on innovative R&D
EPS (Rs)	17.0	17.5	Savings from innovative R&D transferred to new company

Source: Company

Valuation

Revising sales and PAT estimates to factor in the new guidance

We have revised our FY08 and FY09 numbers to factor in the guidance given by the management. Accordingly, our revised EPS estimates for FY08 and FY09 stand at Rs 17.5 and Rs 21.1 respectively. We have also increased our target price to Rs 342 from Rs 332 earlier and reiterate our Buy recommendation on the stock.

Estimates revision for FY08 and FY09

(Rs mn)	FY08E			FY09E		
	New	Old	% Change	New	Old	% Change
Net sales	29,914.9	29,812.4	0.3	34,073.1	32,710.0	4.2
EBITDA margins	18.9	17.9	100bps	19.5	18.7	80bps
PAT	3,662.9	3,387.0	12.4	4,412.3	4,281.5	18.6
EPS (Rs)	17.5	16.2	8.0	21.1	20.5	2.9

Source: Religare Research

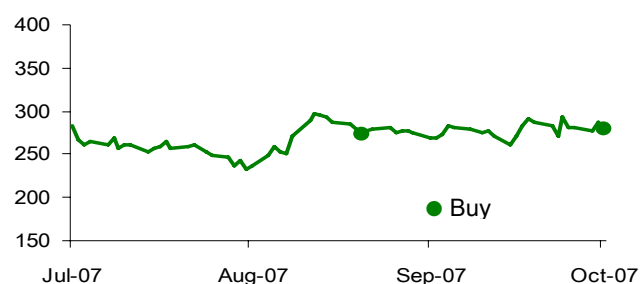
FY08 and FY09 EPS estimates raised by 8% and 3% respectively

Recommendation history

Date	Event	Reco price	Tgt price	Reco
14-Sep-07	Company Update	272	332	Buy
26-Oct-07	Results Update	286	342	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	15,944.2	24,719.3	29,914.9	34,073.1
Growth (%)	21.9	55.0	21.0	13.9
EBITDA	2,095.7	3,835.3	5,653.9	6,644.3
Growth (%)	23.7	83.0	47.4	17.5
Depreciation	688.1	818.2	1,042.9	1,115.4
EBIT	1,407.6	3,017.1	4,611.0	5,528.9
Growth (%)	20.4	114.3	52.8	19.9
Interest	173.0	305.1	439.9	505.7
Other income	282.0	3.9	29.9	34.1
EBT	1,516.6	2,715.9	4,201.0	5,057.2
Growth (%)	15.6	79.1	54.7	20.4
Tax	238.1	388.9	504.1	606.9
Effective tax rate	15.7	14.3	12.0	12.0
Adj net income	1,206.5	2,181.1	3,662.9	4,412.3
Growth (%)	(26.5)	80.8	67.9	20.5
Shares outstanding (mn)	209.0	209.0	209.0	209.0
FDEPS (Rs)	5.8	10.4	17.5	21.1
DPS (Rs)	3.4	4.0	5.2	6.3
CEPS (Rs)	9.1	14.4	22.5	26.4

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	1,206.5	2,181.1	3,662.9	4,412.3
Depreciation	688.1	818.2	1,042.9	1,115.4
Other adjustments	229.0	32.1	159.1	187.1
Changes in WC	179.8	(2,344.4)	314.5	(1,266.2)
Operating cash flow	2,303.4	687.0	5,179.4	4,448.6
Capital expenditure	(3,827.5)	(2,638.0)	(751.7)	(1,368.5)
Investments	(250.0)	-	-	-
Other investing inc/(exp)	(265.7)	(311.2)	3.5	(249.5)
Investing cash flow	(4,343.2)	(2,949.2)	(748.2)	(1,618.0)
Free cash flow	(2,039.8)	(2,262.2)	4,431.3	2,830.6
Issue of equity	38.0	-	-	-
Issue/repay debt	(565.9)	3,127.8	750.0	700.0
Dividends paid	(715.0)	(837.3)	(1,081.6)	(1,321.9)
Others	4,080.6	(475.4)	(2,038.9)	0.0
Financing cash flow	2,837.7	1,815.1	(2,370.5)	(621.9)
Beg. cash & cash eq	155.1	952.9	505.9	2,566.7
Chg in cash & cash eq	797.9	(447.1)	2,060.8	2,208.6
Closing cash & cash eq	952.9	505.9	2,566.7	4,775.3

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	952.9	505.9	2,566.7	4,775.3
Accounts receivable	2,429.3	3,673.4	4,352.9	5,361.3
Inventories	2,775.7	4,401.9	5,077.9	6,312.1
Others current assets	1,601.2	1,912.4	1,908.9	2,158.4
Current assets	7,759.1	10,493.6	13,906.5	18,607.1
LT investments	287.3	287.3	287.3	287.3
Net fixed assets	8,649.8	11,705.0	11,630.0	11,941.3
CWIP	1,767.9	532.5	316.3	258.1
Total assets	18,464.1	23,018.4	26,140.0	31,093.8
Payables	3,276.5	4,550.5	5,214.7	5,896.6
Others	1,063.6	315.5	1,321.3	1,615.8
Current liabilities	4,340.1	4,866.0	6,536.0	7,512.4
LT debt	3,648.1	6,775.9	7,525.9	8,225.9
Other liabilities	866.1	898.2	1,057.3	1,244.4
Equity capital	418.0	418.0	418.0	418.0
Reserves	9,191.9	10,060.3	10,602.7	13,693.2
Net worth	9,609.9	10,478.3	11,020.7	14,111.2
Total liabilities	18,464.2	23,018.4	26,140.0	31,093.8
BVPS (Rs)	46.0	50.1	52.7	67.5

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	13.1	15.5	18.9	19.5
EBIT margin (%)	8.8	12.2	15.4	16.2
Net profit margin (%)	7.6	8.8	12.2	12.9
FDEPS growth (%)	(26.5)	80.8	67.9	20.5
Receivables (days)	44.5	45.1	49.0	52.0
Inventory (days)	101.2	84.7	93.4	99.5
Payables (days)	103.2	92.3	96.2	97.1
Current ratio (x)	1.8	2.2	2.1	2.5
Interest coverage (x)	8.1	9.9	10.5	10.9
Debt/equity ratio (x)	0.4	0.6	0.7	0.6
ROE (%)	16.5	21.7	34.1	35.1
ROCE (%)	11.7	18.7	24.4	25.6
ROAE (%)	8.9	14.5	18.8	19.3
EV/Sales (x)	4.1	2.6	2.2	1.9
EV/EBITDA (x)	30.9	16.9	11.4	9.7
P/E (x)	49.5	27.4	16.3	13.5
P/BV (x)	10.9	6.2	5.7	5.4
P/CEPS (x)	31.5	19.9	12.7	10.8

Source: Company, Religare Research

Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
10-Oct-07	Ashok Leyland	Company Update	41	48	BUY
10-Oct-07	Prism Cement	Results Update	63	81	BUY
12-Oct-07	Infosys Technologies	Results Update	1,977	2,071	HOLD
12-Oct-07	Bihar Tubes	Results Update	146	204	BUY
12-Oct-07	South Indian Bank	Results Update	165	192	BUY
15-Oct-07	HDFC Bank	Results Update	1,430	1,585	BUY
16-Oct-07	Axis Bank	Results Update	813	904	BUY
16-Oct-07	Sasken Communication Tech.	Results Update	329	417	BUY
16-Oct-07	Tata Consultancy Services	Results Update	1,074	1,193	BUY
17-Oct-07	Shri Lakshmi Cotsyn	Results Update	123	210	BUY
17-Oct-07	HDIL	Company Update	699	871	BUY
18-Oct-07	Jubilant Organosys	Results Update	295	405	BUY
19-Oct-07	Biocon	Results Update	507	542	BUY
19-Oct-07	KPIT Cummins	Results Update	115	139	BUY
22-Oct-07	Wipro Tech	Results Update	501	540	HOLD
22-Oct-07	Hero Honda	Results Update	725	698	SELL
22-Oct-07	Petronet LNG	Results Update	73	73	SELL
22-Oct-07	ICICI Bank	Results Update	1,024	1,215	BUY
22-Oct-07	Great Offshore	Results Update	785	1,002	BUY
22-Oct-07	Garware Offshore Services	Results Update	190	272	BUY
22-Oct-07	Garware Wall Ropes	Results Update	154	301	BUY
23-Oct-07	Venus Remedies	Results Update	465	708	BUY
23-Oct-07	ACC	Results Update	1,018	1,110	HOLD
23-Oct-07	DS Kulkarni Developers	Initiating Coverage	230	502	BUY
24-Oct-07	K S Oils	Results Update	80	101	BUY
24-Oct-07	Reliance Industries	Results Update	2,602	2,740	HOLD
24-Oct-07	Bajaj Auto	Results Update	2,512	2,821	BUY
24-Oct-07	Tech Mahindra	Results Update	1,270	1,469	BUY
24-Oct-07	Greenply Industries	Results Update	244	300	BUY
24-Oct-07	Riddhi Siddhi Gluco Biols	Results Update	241	372	BUY
24-Oct-07	EMCO	Company Update	1,170	1,450	BUY
24-Oct-07	Satyam Computer Services	Results Update	462	523	BUY
25-Oct-07	Deepak Fertilisers and Petrochemicals	Results Update	101	158	BUY
25-Oct-07	Ashok Leyland	Results Update	37	48	BUY
25-Oct-07	Binani Cement	Results Update	109	148	BUY
25-Oct-07	Shringar Cinema	Results Update	60	75	BUY
25-Oct-07	Dishman Pharma and Chemicals	Results Update	295	341	BUY
25-Oct-07	Cipla	Results Update	197	178	SELL
26-Oct-07	Union Bank of India	Results Update	160	198	BUY
26-Oct-07	Opto Circuits India	Results Update	562	642	BUY
26-Oct-07	MindTree Consulting	Results Update	502	497	SELL
26-Oct-07	Bank of Maharashtra	Results Update	59	73	HOLD
26-Oct-07	Peninsula Land	Results Update	131	153	BUY
26-Oct-07	Nicholas Piramal India	Results Update	285	342	BUY
29-Oct-07	UTV Software Communications	Results Update	708	795	BUY
29-Oct-07	Cadila Healthcare	Results Update	301	416	BUY

Market trends

BSE sectoral indices

	% Chg				Constituent performance
	26-Oct	1-day	1-mth	3-mth	
Automobiles	5,617	2.1	5.3	13.6	
Banks	10,274	3.5	8.5	29.7	
Capital Goods	18,540	7.1	26.3	45.4	
Comm. & Tech.	3,981	0.5	5.7	5.2	
Consumer Durables	5,234	0.6	9.0	28.0	
FMCG	2,129	(0.3)	(1.5)	10.4	
Healthcare	3,886	1.4	2.7	5.3	
IT	4,636	1.2	0.2	(4.9)	
Metal	16,745	1.9	20.1	45.6	
Oil & Gas	11,103	2.8	16.1	38.5	
Mid-caps	7,921	2.2	6.7	20.0	
Small-caps	9,551	2.0	5.0	20.5	

Number of companies: 

Emerging markets

Country	% Chg				
	26-Oct	1-day	1-mth	3-mth	6-mth
Brazil	64,276	3.1	6.3	21.5	30.6
Shanghai	5,686	1.7	2.4	30.8	51.2
Hong Kong	31,301	2.9	15.3	38.7	52.6
India	19,243	2.5	11.3	26.3	38.4
South Korea	2,055	1.3	5.6	9.1	33.2
Taiwan	9,776	1.5	3.2	6.7	23.0

FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	52.8	406.7	4,090.5	17,109.2
South Korea	(271.9)	(932.8)	(2,791.6)	(18,904.6)
Taiwan	231.9	(1,212.0)	(310.8)	3,583.5
Thailand	5,050.5	153.0	417.4	3,484.0

Events calendar

Financial results

October 29	30	31
<ul style="list-style-type: none"> Mphasis Hindustan Petroleum Corporation House of Pearl Fashions ICRA Mahindra & Mahindra Titan Industries RPG Cables 	<ul style="list-style-type: none"> Balaji Telefilms Dolphin Offshore HDFC Meghmani Organics Tata Chemicals Tata Power Karnataka Bank 	<ul style="list-style-type: none"> Berger Paints Bharat Petroleum Corpn Celebrity Fashions Gangotri Textiles IVRCL Infr IVR Prime Hindalco Industries
November 1	2	3
<ul style="list-style-type: none"> Ranbaxy Lab – Interim Dividend 	<ul style="list-style-type: none"> Bampsl Securities - Bonus 2:5 Garden Silk Mills – Dividend Parenteral Drugs – Bonus Greaves Cotton 	<ul style="list-style-type: none"> Prime Securities – Dividend Modi Rubber

Trade data

Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Balaji Distl	Magna Umbrella Fund Plc	B	300,000	30.0
Champagn Ind	Lehman Brothers Asia Gra Finance Corp	B	100,000	720.0
Champagn Ind	Citigroup Global Markets Mauritius	S	100,000	720.0
Electrosteel Castings	KBC Financial Products UK FCCB Ac	S	1,260,273	57.2
Excel Indust	Landmark Capital Markets	S	93,000	55.2
Hfcl Infotel	The Indiaman Fund Mauritius	B	200,000	35.1
Indbul Real	JPMSL Cophall Mauritius Inv	S	3,316,612	615.8
Mather Pumps	UBS Securities Asia	S	173,466	160.2
Mather Pumps	BSMA	S	48,500	160.1
Niit Technologies	P ICICI Mutual Fund	B	444,600	353.8
Prithvi Information Solut	Deutsche Securities Mauritius	S	103,500	245.3
Sharyan Reso	UBS Securities Asia	S	109,508	350.6
Tata Stl	Sac Capital Advisors Llc Ac International Equities Llc	B	3,150,000	979.5
Tata Stl	Morgan Stanley And Co Intl Ac Mauritius Co	S	4,007,017	979.8

Source: BSE

Insider trading

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Ambuja Cements	A L Kapur	S	66	-	981,980	0.1
Ambuja Cements	Holderind Investments	B	50,000,000	3.3	462,240,524	30.4
Ambuja Cements	A L Kapur	S	5,000	-	976,980	0.1
Contech Software	Master Karan R Vasa	S	33,000	0.6	535,000	9.7
Dolat Investments	Khyati Investments	S	88,306	0.1	3,205,204	3.6
Gammon India	Reliance Diversified Power Sector Fund	B	1,394,100	1.6	4,548,536	5.2
Koutons Retail India	Fid Fds - Consumer Indu Pool & Pacs	B	226,264	0.7	1,566,075	5.1
KRBL	Anil Kumar Mittai	B	40,000	-	1,515,000	6.2
KRBL	Arun Kumar Gupta	B	40,000	-	1,582,000	6.5
KRBL	Anoop Kumar Gupta	B	40,000	-	1,555,000	6.4
Man Industries (India)	Rameshchandra Mansukhani	B	7,019	-	2,449,241	4.6
Man Industries (India)	Rameshchandra Mansukhani	B	5,000	-	2,454,241	4.6
Mastek	Ashank Desai	S	34,000	-	3,059,980	10.7
Mastek	Ketan Mehta	B	16,200	-	2,542,100	8.9
Mastek	Sudhakar Ram	B	17,800	-	2,819,580	9.9
Petronet Lng	Shri P Dasgupta	B	5,000	-	-	-
Petronet Lng	Shri P Dasgupta	B	5,000	-	195,000	-
Radha Madhav Corporation	Mr Anil J Agrawal	B	28,695	-	1,810,364	8.7
Radha Madhav Corporation	Mr Mitesh Agrawal	B	28,695	-	2,628,035	12.6
Ritesh Properties & Industries	Sanjeev Arora	B	2,597	-	956,053	10.4
Sharyans Resources	Arshad Wahedna	S	131,700	0.9	550,000	3.7
Sharyans Resources	Zainab Wahedna	S	70,500	0.5	167,000	1.1
Sharyans Resources	Kempro Traders	B	500,000	3.4	2,662,400	17.9
Sharyans Resources	A K Equities	B	500,000	3.4	1,117,404	7.5
Sterling Holiday Resorts (India) Lt	R Subramanian	B	168,175	-	847,174	2.4
Suzlon Energy	Kirti J Vagadia	S	1,000	-	-	-
Suzlon Energy	Hemal A Kanuga	S	500	-	-	-
Suzlon Energy	Hemal A Kanuga	S	200	-	3,000	-
Suzlon Energy	Kirti J Vagadia	S	1,000	-	22,000	-

Source: BSE

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Recommendation parameters

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

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

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