January 19, 2007

FOR PRIVATE CIRCULATION

Equity

		% Chg		
	18 Jan 07	1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,218	0.6	6.2	11.7
Nifty	4,109	0.8	7.2	11.7
Banking	7,465	(0.5)	8.0	20.5
IT	3,738	0.4	7.2	16.3
Healthcare	3,935	0.3	6.9	8.2
FMCG	1,935	1.1	1.6	(4.8)
PSU	6,294	1.3	7.0	7.9
CNX Midcap	5,320	(0.0)	7.7	13.0
World indices				
Nasdaq	2,443.2	(1.5)	0.6	4.4
Nikkei	17,371	0.6	2.9	4.3
Hangseng	20,278	1.1	6.7	12.5

Value traded (Rs cr)

	18 Jan 07	% Chg - 1 Day
Cash BSE	4,659	6.4
Cash NSE	10,178	16.1
Derivatives	39,533	67.4

Net inflows (Rs cr)

	17 Jan 07	% Chg	MTD	YTD
FII	91.2	(10.0)	(599)	(599)
Mutual Fund	89.6	24.7	(70)	195

FII open interest (Rs cr)

	17 Jan 07	% chg
FII Index Futures	13,055.0	4.2
FII Index Options	8,196.7	3.1
FII Stock Futures	16,934.1	0.9
FII Stock Options	149.9	4.1

Advances/Declines (BSE)

18 Jan 07	A	B1	B2	Total	% Total
Advances	100	288	421	809	49
Declines	108	351	371	830	50
Unchanged	1	8	15	24	1

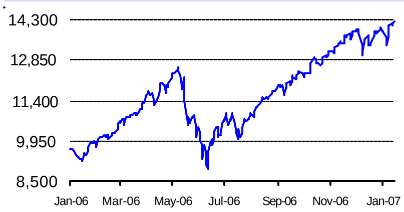
Commodity

		% Chg		
	18 Jan 07	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	50.5	(3.4)	(18.9)	(12.4)
Gold (US$/OZ)	627.7	(0.6)	0.9	4.9
Silver (US$/OZ)	12.6	(1.3)	0.2	4.8

Debt/forex market

	18 Jan 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.79	7.79	7.59	7.68
Re/US$	44.34	44.17	44.64	45.38

Sensex



Source: Bloomberg

ECONOMY NEWS

- The Government's proposals for the reworked SEZ policy include a cap on the number of SEZs in a particular sector, ban on acquisition of built-up land and ban on the conversion of existing ports into SEZs. (ET)
- The Insurance Regulatory and Development Authority is reviewing the minimum level of premium that non-life companies are expected to generate from rural areas under the norms for rural social obligations. (ET)
- The Rural Development Ministry plans to introduce the new national rehabilitation policy for all industrial and infrastructure projects through an executive order by the last week of January. (BS)
- The Cabinet Committee on Economic Affairs has accorded its approval for enhancing the number of the 26 existing Scheme for Integrated Textile Parks to 30 during the current Tenth Plan period itself, which is scheduled to over by March 31. (BL)
- India has approved crucial amendments in the WTO agreement on TRIPS, permitting the Governments to break the monopoly of manufacturers of patented drugs by giving 'compulsory licenses' in emergency situations. (BS)

CORPORATE NEWS

- **Reliance Industries** has recorded a net profit of Rs.27.99 bn, well above analyst estimates of Rs.21-22 bn. Net profit is up 57% over last year, when the Jamnagar refinery had undergone a maintenance shutdown. Profits are marginally above the Q2 numbers of Rs.27.09 bn. (ET)
- The board of **Tata Steel** is set to empower group chairman Ratan Tata and company managing director B Muthuraman to 'take a final decision on the proposed revised acquisition of Anglo-Dutch steelmaker Corus'. Tata Steel may first raise its offer price to 530 pence per share, and study CSN's response before deciding its course of action. (ET)
- **Tech Mahindra** posted a 122% rise in consolidated net profit at Rs.1.67 bn in the third quarter ended December 31, 2006 as against Rs.751 mn in Q3FY06. Total revenue during the period under review rose 131% to Rs.7.7 bn as against Rs.3.33 bn during the same period a year ago. (BS)
- **SubexAzure Ltd** set a new acquisition record in Indian IT history after it announced plans to buy out Canadian firm Syndesis Ltd in a \$164.5-mn (about Rs.7.3 bn) all-cash deal. (BL)
- **Aurobindo Pharma Limited** has received yet another approval from the US Food and Drug Administration for Amoxicillin Tablets for oral suspension in dosages of 200 mg and 400 mg. (BL)
- **Power Finance Corporation** is planning to offer 11,73,16,700 shares in an initial public offering in the price band of Rs.73-85 per share. The IPO will open on January 31 and close on February 6. The issue will constitute 10.22% of the fully diluted post-issue capital of the company. (BS)
- **MTNL** is in talks with builders to develop commercial properties on the large tracts of land it owns in prime locations across Mumbai, Delhi and the National Capital Region. (ET)
- The Government is considering a proposal to disinvest 5% stake in each of the three state-owned power sector companies, **Power Grid Corporation, National Hydroelectric Power Corporation** and **Rural Electrification Corporation**, via IPOs. (ET)

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

FROM OUR RESEARCH TEAM

RESULT UPDATE

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

Summary table

(Rs mn)	FY06	FY07E	FY08E
Revenues	17,518	20,528	23,232
Growth (%)	38.2	17.2	13.2
EBITDA	2,800	3,404	4,137
EBITDA margin (%)	16.5	17.0	18.2
Net profit	1,734	2,444	3,201
Net Margin (%)	10.2	12.2	14.1
EPS diluted (Rs)	21.6	27.7	36.3
Growth (%)	88.0	28.4	31.0
DPS (Rs)	6.5	4.0	5.0
RoE (%)	31.2	25.2	22.1
RoCE (%)	19.1	18.5	19.5
EV/Sales (x)	2.6	2.4	2.1
EV/EBITDA (x)	16.2	14.5	11.6
P/E (x)	23.6	20.8	15.9
P/BV (x)	6.6	3.9	3.2

Source: Company & Kotak Securities - Private Client Research

LUPIN LTD
(Rs.575; FY08E PE: 15.9x; HOLD)

Q3FY07 Result Highlights

- Total income has risen 14.1% at Rs.4.97 bn in Q3FY07 as compared to Rs.4.35 bn in the last year for the same period, primarily driven by strong performance in the formulation business, which grew 31% at Rs.3.12 bn against Rs.2.38 bn in Q3FY06. The key reason for the robust performance was strong growth in regulated markets and promotional and branded generic markets.
- This quarter also saw a sharp rise in Suprax (branded formulation) sales in the US market. The US subsidiary has recorded Suprax sales to US$7.6 mn from US$3.7 mn in Q3FY06. Formulation sales from advanced markets, namely, North America and Europe grew by 28% at Rs.851 mn.
- Operating margin improved by 90 bps to 16% in Q3FY07 vs. 15.1% in Q3FY06 mainly due to increased formulation sales from regulated markets and drop in material costs.
- Standalone net profit for the quarter grew by 26.8% to Rs.560 mn, while the consolidated net profit was at Rs.620 mn. This sharp growth is attributable to improved business performance and operating margin.
- The company has reported consolidated EPS of Rs.20.5 in 9MFY07. We maintain our EPS estimates for FY07E and FY08E of Rs.27.7 and Rs.36.3, respectively. We maintain **HOLD**.

Strong growth seen in formulation business

Total income has risen 14.1% at Rs.4.97 bn in Q3FY07 as compared to Rs.4.35 bn in the last year for the same period, primarily driven by strong performance in the formulation business, which grew 31% at Rs.3.12 bn against Rs.2.38 bn in Q3FY06.

The key reason for the robust performance was strong growth in regulated markets and promotional and branded generic markets. This quarter also witnessed sharp increase in Suprax (branded formulation) sales in the US market. The US subsidiary has recorded Suprax sales to US$7.6 mn from US$3.7 mn in Q3FY06. Formulation sales from advanced markets, namely, North America and Europe grew 28% at Rs.851 mn. Lupin has consistently growing in excess of 25% in domestic formulation market for the last few quarters, which we believe is very positive. The company has launched new products including line extensions in new therapeutic areas.

Sales Analysis - Business wise (Q3-FY07)

	Q3-07	Q3-06	FY06
Total API Sales	**1,951**	**2,002**	**7,280**
% Total Sales	38.0	46.0	44.0
% Growth y-o-y	-3.0	26.0	10.0
Total Formulation Sales	**3,120**	**2,385**	**9,107**
% Total Sales	62.0	54.0	56.0
% Growth y-o-y	31.0	81.0	68.0

Source: Company

Generic Cefdinir is next big growth driver

Lupin is focusing on generics and branded pediatric segment in the US markets through its own sales and distribution channel (except for hospital products). In FY06, sales from US markets were US$45 mn, of which about 70% came from two major products. Going forward, we expect US sales to rise to US$69 mn in FY07 and US$100 mn in FY08E (contributing around 20% to FY08E revenues) driven by around 10 launches including line extensions of Suprax and generic Cefdinir.

In FY08E, it will launch Cefdinir (Omnicef) in the US market, which is having approximate annual sales of US$600 mn. We have assumed US$30 mn sales from this product in FY08, assuming 80% price erosion and 25% market share.

Valuation and recommendation

We believe the company can clock revenue growth of 17% in FY07E and 13% in FY08E. Operating margin was 15.6% in Q2FY07, which the company hopes to better, with improved product flow and capacity utilization. Our model assumes operating margin (including other operating income) of 17% in FY07E and 18.2% in FY08E, up from 16.5% in FY06. We expect net profit of Rs.2.44 bn in FY07E and Rs.3.2 bn in FY08E, which implies a fully diluted EPS of Rs.27.7 and Rs.36.3, respectively.

We maintain HOLD on the stock with a price target of Rs.610

At the current market price of Rs.575, the stock is trading at 20.8x FY07E and 15.9x FY08E earnings and 11.6x FY08E EV/EBITDA. We maintain **HOLD** with a target price of Rs.610.

Quarterly Performance (Standalone) (Q3-FY07)

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	FY06
Sales & Operating Income	4,967	4,352	14.1%	4,958	0.2	16,625
Expenditure	4,174	3,693		4,123		13,778
EBIDTA	**793**	**658**	**20.5%**	**835**	**-5.0**	**2,847**
Depreciation	121	101		112		404
EBIT	**672**	**558**	**20.6%**	**722**	**-6.9**	**2,444**
Interest	89	79		93		303
Other Income	145	14		163		161
PBT	**729**	**492**	**47.9%**	**793**	**-8.1**	**2,302**
Tax	168	51		210		475
Reported PAT	560	442	26.8%	583	-3.9	1,827
Equity Shares (Mn)	80	80		80		80
EPS (Rs)	**7.0**	**5.5**	**26.7%**	**7.3**	**-3.9**	**22.8**
EBIDTA Margin (%)	16.0	15.1		16.8		17.1
PAT Margin (%)	11.3	10.2		11.8		11.0

Source: Company

RESULT UPDATE

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

Downgrading the stock to HOLD

NICHOLAS PIRAMAL INDIA LTD
(RS.273, FY08E PE: 17.3X, HOLD)

Q3FY07 Result Highlight

- Consolidated net sales rose 60.1% to Rs.6.49 bn in Q3FY07 vs. Rs.4.06 bn in Q3FY06 mainly driven by sales contribution from acquired entities (Avecia and Morpeth facility) and 12.6% growth in domestic formulations business.
- During the quarter, NPIL has witnessed significant traction in its discovery research pipeline. It expects that five NCEs and one phyto-pharma molecule will enter phase-I clinical trials in 2007. R&D expenditure during the quarter was up 75.6% to Rs.309 mn from Rs.176 mn in Q3FY06.
- Operating margins improved 320 bps to 14.9% vs. 11.7% in Q3FY06 and we expect NPIL to maintain operating margin 16% in FY07E. Operating profit grew sharply by 104% to Rs.970 mn from Rs.476 mn in Q3FY06 for the abovementioned reason.
- Net profit after taxes and prior period items increased by 472% to Rs.556 mn against Rs.97 mn in Q3 FY06. This translated into EPS of Rs.2.7 for Q3FY07.
- The company reiterated its guidance for sales growth 25%, operating margin 15.5% and EPS Rs10.

Major growth in revenues came from acquired business

Nicholas has registered a sharp 60% jump in net sales on consolidated basis for Q3FY07 to Rs.6.49 bn as compared to Rs.4.06 bn in Q3FY06. A majority of this growth came from two acquired entities, namely, Avecia and Pfizer's Morpeth facility, which combined have contributed an additional sales over Rs.2 bn (Nil in Q3FY06). On a like-to-like basis, net sales have grown around 11% to Rs.4.5 bn.

International sales gain momentum, form 46% of revenues

The company's international sales (excluding India) registered a growth of 209% to Rs.3.02 bn in Q3FY07 as compared to Rs.976 mn in Q3FY06, largely due to consolidation of revenues of the businesses acquired in UK from Avecia/Pfizer. Global sales now form 46% of the total revenues of the company. During the quarter, sales from custom manufacturing contracts from Indian facilities were Rs.180 mn. The Avecia UK operations continue to remain on track for break-even by year-end, with good sales growth in the business. The pharmaceutical development services (PDS) business has continued to show significant growth across the Canadian and Indian assets.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	15,984	22,568	25,886
Growth (%)	21.5	41.2	14.7
EBITDA	2,136	3,611	4,789
EBITDA margin (%)	13.4	16.0	18.5
Net profit	1,246	2,282	3,302
Net Margin (%)	7.8	10.1	12.8
EPS diluted (Rs)	6.0	10.9	15.8
Growth (%)	(31.1)	83.2	44.6
DPS (Rs)	3.0	3.0	3.0
RoE (%)	15.9	21.1	25.8
RoCE (%)	13.8	18.2	21.6
EV/Sales (x)	3.4	2.5	2.1
EV/EBITDA (x)	25.3	15.9	11.4
P/E (x)	41.9	25.0	17.3
P/BV (x)	5.4	5.1	4.2

Source: Company & Kotak Securities - Private Client Research

Consolidated Revenues Break-Up (Q3 FY07)

	Q3-06	FY 06	Q3-07
India Sales			
Branded Formulations	2,950	2,620	10,497
CMO	194	183	945
Pathlabs	167	109	450
Others	170	168	664
Sub-Total	**3,480**	**3,080**	**12,555**
% of Sales	54.0%	76.0%	79.0%
% Growth	13.0%		10.0%
Global Sales			
CMG Sales			
- PDS	422	160	414
- PMS (Avecia, Morpeth)	1,919	242	904
- MMBB (Formulation, Inhalation, Vitamins)	614	526	1,890
Others	60	49	181
Sub-Total	**3,015**	**976**	**3,389**
% of Sales	46.0%	24.0%	21.0%
% Growth	209.0%		108.0%
Total Sales	**6,495**	**4,056**	**15,944**

Source: Company

Domestic formulation business report subdued growth

In Q3FY07, the domestic branded formulations business reported a subdued growth of 12.6% to Rs.2.95 bn mainly due to de-growth in 'others' segment by 8.9%. The company has performed particularly well in respiratory, CVS, Nutritional, biotek, gastro-intestinal, dermatology and anti-inflammatory therapeutic segments. During the quarter, the company has launched five new products, and also has unveiled a new growth initiative in domestic market by launching a new division called NPIL Healthcare for mass-market branded formulations focusing specialty on general physicians.

Domestic Formulation Sales Break-up (Q3-FY07E)

(Rs Mn)	Q3FY07		Q3FY06		yoy gth
	Sales	Contribution	Sales	Contribution	(%)
I. Nicholas Piramal					
Respiratory	597	20%	526	20%	13.4
Anti-infective	391	13%	366	14%	6.9
Nutritionals	178	6%	155	6%	14.4
CVS	381	13%	311	12%	22.3
Gastro-intestinal	144	5%	128	5%	13.0
Biotek	42	1%	29	1%	42.5
CNS	287	10%	274	10%	4.7
Anti-diabetic	128	4%	121	5%	5.6
NSAIDs	174	6%	138	5%	26.0
Dermatology	170	6%	126	5%	34.5
Others	335	11%	368	14%	(8.9)
II. Allergan India					
Opthalmology	91	3%	79	3%	15.9
III. Healthcare					
Formulation	34	1%			
Total	**2950**	**100%**	**2620**	**100%**	**12.6**

Source - Company Annual Report

Pathlabs business doing well; likely to touch Rs.1.0 bn sales in FY07E

During the quarter, Nicholas (through Wellspring) has acquired Jankharia Imaging, the most successful radiology and imaging centre in Mumbai, following which it became the first corporate diagnostic provider to enter into high-end health imaging services. The Pathlabs business has registered a growth of 53% to Rs.167 mn in Q3FY07 against Rs.109 mn. The management is quite optimistic and aggressive for this business and expects sales of around Rs.0.8-1.0 bn in FY07E.

NCE pipeline seems robust; R&D expenditure to be around 6-7% of sales

During the quarter, company has witnessed significant traction in its discovery research pipeline. It expects that five new chemical entities and one phyto-pharmaceutical molecule will enter Phase-I clinical trials in 2007. R&D expenditure during the quarter was up by 75.6% to Rs.309 mn from Rs.176 mn in Q3FY06.

Nicholas' focus areas are cancer (CDK-4 inhibitors), diabetes, inflammation (TNFa) and infectious diseases. It is also working on pro-drugs, mainly in the area of NSAIDs like aspirin and diclofenac. It has one NCE and two phyto-pharmaceutical products in the clinic currently. The management has guided that the R&D expenditure will be around 6-7% of the revenue. Overall, it seems NPIL is progressing very well in its NCE research endeavors.

Valuations and recommendation

We expect the company to register a 28% and 63% consolidated revenues and earnings CAGR over FY06-08E, respectively, while improving return on equity (RoE) to 25.8% in FY08E. In our estimates, we have considered potential milestones payments (based on probability) from recent Eli Lilly deal in discounted cash flow valuation.

We recommend a HOLD on the stock with a price target of Rs.300

The company has posted an EPS of Rs.6 in FY06 and we expect EPS to grow 83% and 45% to Rs.10.9 and Rs.15.8 in FY07E and FY08E, respectively. At the current market price of Rs.273, the stock is trading at 25x FY07E and 17.3x FY08E earnings and 11.4x FY08E EV/EBITDA. Since the stock has risen significantly from our initial recommendation and now offers limited upside potential, we are now downgrading the stock to **HOLD** with a target price to Rs.300.

Consolidated Quarterly Performance (Q3-FY07)

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	FY06
Net Sales	**6,495**	**4,056**	**60.1**	**6,547**	**-0.8**	**15,944**
Expenditure	5,525	3,580		5,408		13,840
Operating Profit	970	476	103.8	1,138	-14.8	2,105
Depreciation	222	170		244		688
EBIT	**748**	**307**	**144.1**	**895**	**-16.4**	**1,417**
Interest	88	23		76		173
Other Income	2	4		2		273
PBT	**663**	**287**	**130.7**	**820**	**-19.2**	**1,517**
Extra-Ord/Prior Period Items	2	(137)		(102)		(33)
Tax	110	53		181		210
Profit After Tax	556	97	472.1	537	3.4	1,274
Equity Shares (Mn)	209	209		209		209
EPS (Rs)	**2.7**	**0.5**	**472.1**	**2.6**	**3.4**	**6.1**
EBIDTA Margin	14.9	11.7		17.4		13.2
PAT Margin (%)	8.6	2.4		8.2		8.0

Source: Company

RESULT UPDATE

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

PANACEA BIOTEC LTD
(RS.391, FY08E PE: 13.2X, BUY)

Q3 FY07 Result Highlights

- Panacea Biotec has reported a strong set of numbers for Q3FY07, which are above our expectation. Net sales rose 79.2% at Rs.1.97 bn vs. Rs.1.1 bn in Q3FY06. This was primarily driven by 93% growth in vaccine sales and 52% growth in formulation sales. The company continues to expand its geographical reach by exporting branded formulations and vaccines in several countries. Total export turnover has grown 138% during Q3FY07.
- For 9MFY07, the vaccines business has grown 60% to Rs.4.75 bn from Rs.2.98 bn in the corresponding period of last year. Formulation sales for the nine months also grew around 30% to Rs.1.32 bn from Rs.1.02 bn.
- The company has launched around 10 new products including line extensions in domestic markets in various therapeutic areas, namely, anti-diabetic, hypertension, osteoarthritis, anti-inflammation, antibiotic and dental pain management.
- Operating margins improved 510 bps to 22.7% vs. 17.6% in Q3FY06. We expect the company to maintain operating margins at 29% in FY07E. Operating profit grew sharply by 131% to Rs.447 mn from Rs.194 mn in Q3FY06 due to the same reason.
- Net profit after taxes rose sharply by 420% to Rs.271 mn against Rs.52 mn in Q3FY06 led by improvement in operating margin, drop in interest cost and higher other income. This translated into an EPS of Rs.4.1 for Q3FY07. For 9MFY07 EPS was Rs.18.8, which is almost equal to our FY07 EPS estimate.
- The company has reported a strong set of numbers, which are above our expectations. We are revising our revenue and earning estimates upward for FY07. We now expect an EPS of Rs.21.4 and Rs.30.2 for FY07E and FY08E, respectively. We maintain a BUY call on this stock.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Revenues	5,419	7,810	10,842
Growth (%)	65.3	44.1	38.8
EBITDA	1,199	2,265	3,144
EBITDA margin (%)	22.1	29.0	29.0
Net profit	592	1522	2151
Net Margin (%)	10.9	19.5	19.8
EPS diluted (Rs)	10.4	21.4	30.2
Growth (%)	117.1	106.1	41.3
DPS (Rs)	1.0	1.0	1.0
RoE (%)	25.9	29.4	24.7
RoCE (%)	18.0	27.1	30.8
EV/Sales (x)	4.3	3.2	2.2
EV/EBITDA (x)	19.5	10.9	7.7
P/E (x)	37.1	18.3	13.0
P/BV (x)	14.2	3.7	2.9

Source: Company & Kotak Securities - Private Client Research

Q3FY07 Performance (Standalone)

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	FY06
Net Sales	**1,971**	**1,100**	**79.2%**	**1,743**	**13.1%**	**5,364**
Expenditure	1,524	907		1,164		4,115
EBIDTA	**447**	**194**	**131.0%**	**579**	**-22.8%**	**1,249**
Depreciation	92	47		87		182
EBIT	**355**	**147**	**141.7%**	**492**	**-27.8%**	**1,067**
Interest	11	23		30		133
Other Income	41	16		173		71
PBT	**385**	**139**	**176.2%**	**635**	**-39.4%**	**1,004**
Tax	114	87		170		393
Extra-Ordinary Items	-	-		-		(2)
Profit After Tax	271	52	419.2%	465	-41.8%	609
Equity Shares (Mn)	66	66		66		66
EPS (Rs)	**4.1**	**0.8**	**419.2%**	**7.1**	**-41.8%**	**9.3**
EBIDTA Margin	22.7%	17.6%		33.2%		23.3%
PAT Margin (%)	13.7%	4.7%		26.7%		11.4%

Source: Company

Institutional business of vaccines

Panacea is the largest supplier of Oral Polio Vaccine (OPV) to Unicef for their requirements in India. In FY06, the company also started export of OPV to Unicef for their international requirements and registered an export turnover of Rs.267 mn. In H1FY07, the export of OPV to Unicef has further grown to Rs.723 mn. This indicates large demand for OPV in the international market. Even in the domestic market, the demand for OPV is likely to rise in the wake of recent increase in the number of polio cases in India, which has risen from 66 in 2005 to around 522 in 2006. The polio eradication program is expected to continue till 2010.

Combination Vaccines would be key growth driver

The company has recently received WHO pre-qualification for EnivacHB (r-Hep B) making it one of the nine companies in the world to get this pre-qualification. The process for WHO pre-qualification of other innovative combination vaccines is in an advanced stage. We expect combination vaccines to register US$5 mn sales in FY07E and US$30 mn sales in FY08E on the back of supplies to Unicef/WHO for their global requirements. Total vaccine business (domestic and exports) is likely to grow at 39% CAGR over FY06-08E.

JV with Novartis Vaccines to drive growth in domestic vaccine industry

In 2005, Panacea launched innovative branded combination vaccines - EnivacHB (r-Hep B), Ecovac4 (Hep B+DTP), Easyfour (Hib+DTP) and Easyfive (Hep B+DTP+Hib) in the domestic market through its 50:50 JV with Novartis Vaccines (formerly Chiron Corporation), which is doing very well. In the first year of operations, the company has added a turnover of Rs.161 mn as the JVs contribution to its consolidated turnover. The joint venture has already registered a turnover of Rs.194 mn in H1FY07, as against Rs.211 mn in FY06.

The market size for these combination vaccines is close to Rs.1.25 bn and is growing at 25-30% per annum. We expect the JV to capture about 25% market share in FY07E to Rs.300 mn and 30% in FY08E to Rs.450 mn of potential revenues.

Proprietary NDDS-based products for international markets - Next big growth driver

At present, Panacea is exporting its branded formulations to several countries in CIS regions, African Region and SEA region. The export turnover has registered a growth of 78% in H1FY07 at Rs.134 mn as against Rs.75 mn in H1FY06. According to company, it is in process of registering its existing branded formulations in several countries in these regions and plans to launch Panimun Bioral (Cyclosporin) NDDS formulations in the Brazilian market by FY07-08.

We have assumed that Panimun Bioral could yield revenues of US$10 mn in FY08E and US$15 mn in FY09E. Further, formulations exports in other developing countries are expected to yield around US$10 mn in FY08E. Overall, we expect NDDS-based proprietary product exports to contribute around 10% to revenues by FY08E.

Strategic collaborations for new innovative vaccines to benefit in the medium-to-long-term

Panacea Biotec has entered into several strategic collaborations and tie-ups with various global institutions for developing, manufacturing and marketing innovative vaccines for launch over the next few years. These collaborations are of a long-term nature and are likely to turn out to be one of the growth drivers in the medium-to-long term.

Valuations and Recommendation

The company has posted an EPS of Rs.10.4 in FY06 and we expect EPS to grow by 106% and 41% to Rs.21.4 and Rs.30.2 in FY07E and FY08E, respectively. At the current market price of Rs.391, the stock is trading at 18.3x FY07E and 13x FY08E fully diluted earnings. We maintain **BUY** with a one-year target price of Rs.513.

Key risks and concerns

- Price cuts and/or a potential slowdown in the domestic formulation market and risk of failure in NDDS research initiatives.
- Timely execution risk - Panacea is working on several new combination vaccines and proprietary products. Any delay in execution of new business segment could roll over the revenue to farther period.
- Potential delays in regulatory approvals for combination vaccines, Panimun Bioral (Cyclosporin), Sitcom (piles management) and other NDDS-based formulation products.
- Separation risk - The company has entered into several collaborations and tie-ups/JVs. The premature break-up of these long-term relationships would impact the revenue directly.

RESULT UPDATE

Lokendra Kumar
lokendra.kumar@kotak.com
+91 22 6634 1540

GUJARAT STATE PETRONET LTD.
(RS.49, FY08E P/BV: 2.4X, BUY)

GSPL's Q3FY07 results were marginally higher than our expectation. Net profit for the quarter grew 27% QoQ to Rs.284.2 mn. The growth was on the back of 13% growth in revenues to Rs.909.9 mn. Reflecting on the strong quarterly performance, we fine-tune our FY08-09 volume and earning estimates, resulting in slight revision of our DCF-based target price to Rs.58. The target price provides 18% upside over CMP. Hence, we upgrade our recommendation to **BUY**.

The company transported 16.4 mmscmd of gas volumes compared to the previous quarter's figure of 12.9 mmscmd. The growth in volume was on account of 5-6 mmscmd spot volumes transported from Shell's terminal at Hazira. Operating margins remained stable at 87%. With depreciation and interest charges remaining at the same level as the previous quarter, net profit margins for the quarter improved significantly to 31.2% from the previous quarter figure of 27.9%.

We believe rise in net profit margin is more of a onetime rather than recurring as depreciation and interest charges are expected to rise on the back of recently commissioning of Anand Rajkot Morbi (224 kms) pipeline involving capital cost of Rs 5.2 bn. However we also believe stable volume growth would compensate for rise in depreciation and interest charges, resulting in stable growth till FY08 with net profit margins stabilizing around 27%. After that we do expect major earning jump in FY09 due to commissioning of gas supply to Reliance. The stock is expected to show steady increase in the earnings in the quarters to come; hence we believe it'll continue to remain market performer.

Summary table

(Rs mn)	FY07E	FY08E	FY09E
Sales	3,688	4,572	7,420
Growth (%)	37.7	24.0	62.3
EBITDA	3,161	3,988	6,545
EBITDA margin (%)	85.7	87.2	88.2
Depriciation + Int (%)	46.0	46.1	50.4
EBT Margin (%)	41.8	41.5	38.3
Net profit	956	1,177	1,760
Net cash (debt)	9,757	14,464	11,422
EPS (Rs)	1.8	2.2	3.3
Growth (%)	104.8	23.2	49.5
DPS (Rs)	0.25	0.25	0.25
ROE (%)	9.9	11.1	14.7
RoIC (%)	9.5	7.3	10.0
EV/Sales (x)	9.9	9.0	5.1
EV/EBITDA (x)	11.5	10.3	5.8
P/E (x)	27.8	22.6	15.1
P/BV (x)	2.6	2.4	2.1

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q4FY06	Q1FY07	Q2FY07	Q3FY07	QoQ (%)
Sales Turnover	**675**	**715**	**758**	**871**	**14.8**
Other Income	457	41	44	39	(12.2)
Total Income	**1,131**	**756**	**803**	**910**	**13.3**
Total Expenditure	180	157	100	117	16.4
Operating Profit (EBITDA)	952	599	702	793	12.9
EBITDA Margin (%)	**84.1**	**79.3**	**87.5**	**87.2**	
Depreciation	225	215	230	236	2.8
Interest	124	89	100	104	3.1
Profit Before Tax	603	296	372	453	21.8
Net Profit	**537**	**193**	**224**	**284**	**26.9**
PAT Margin	47.5	25.6	27.9	31.2	
Equity share capital		5,422	5,422	5,422	
EPS (Rs)	**0.99**	**0.36**	**0.41**	**0.52**	**26.93**
Gas volumes transported (mmscmd)		12.8	12.9	16.4	27.3

Source: Company

Assumptions

Terminal growth rate (%)	3.00
D/E (Mkt value)	0.21
WACC (%)	12.55
NPV (Rs mn)	8917
TV (Rs mn.)	32306
NFO (Rs mn.)	9757
Equity Value (Rs mn.)	31467
Number of shares (Rs mn.)	542
Fair value per share (Rs)	**58**

Source: Kotak Securities - Private Client Research

Valuation

	FY06	FY07E	FY08E	FY09E	FY10E	FY11E	FY12E
Gas Volumes (mmscmd)	10.8	15.0	18.8	32.9	37.4	40.1	41.4
Average Tarrifs - Rs/tcm	665.8	642.1	660.8	612.4	604.2	615.8	614.5
Net Sales	**2,635**	**3,517**	**4,529**	**7,360**	**8,249**	**8,847**	**9,145**
Total Expenses	692	528	584	876	956	1,019	1,062
Dept	791	1,096	1,595	2,307	2,366	2,435	2,507
EBIT	**1,152**	**1,894**	**2,350**	**4,177**	**4,928**	**5,393**	**5,576**
Taxes on EBIT	457	720	893	1,587	1,873	2,049	2,119
NOPLAT	695	1,174	1,457	2,590	3,055	3,344	3,457
GCF	1,486	2,270	3,052	4,897	5,421	5,779	5,964
Increase in WIP	3,583	(1,165)	(3,300)	285	23	28	29
Inc. NWC	238	0	0	1	1	8	11
Capex	1,141	9,992	10,678	638	923	946	974
Gross Investment	4,962	8,827	7,379	924	947	982	1,014
FCF	**(3,477)**	**(6,557)**	**(4,327)**	**3,973**	**4,474**	**4,797**	**4,951**

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

RIDDHI SIDDHI GLUCO BIOLS (RSGB)
(RS.294, FY08E PER: 8.0X, BUY)

RSGB reported excellent Q3FY07 result, which are above our expectations. We continue to recommend BUY with an increased price target of Rs.410 (40% upside).

- Net sales for Q3FY07 were Rs.1.03 bn as against Rs.630 mn in Q3FY06, thereby registering a YoY growth of 64.3%. More importantly, it recorded sequential growth of 38.1%. The growth in sales is primarily due to strong demand for the maize-based starch products thereby leading to higher average price realizations and higher capacity utilization for the plant.
- The company recorded an EBIDTA margin of 15.6% for Q3FY07, which is 260 bps higher on YoY and 10 bps higher on sequential basis. The higher EBIDTA margin was achieved due to operating leverage on account of higher capacity utilization and also due to strong demand for its products leading to higher average price realizations.
- Depreciation during Q3FY07 was higher by 39.7% YoY and 30.4% QoQ to Rs.31 mn. This was due to the rise in the provisioning of depreciation due to the expansion and debottlenecking programme at Gokak and at Viramgam plant.
- PBT for the Q3FY07 was at Rs.94 mn up 201.8% YoY up 73.4% on a sequential basis.
- PAT for Q3FY07 is up 192.5% YoY and up 53.9% on sequential basis to Rs. 83 mn translating into a quarterly EPS of Rs.7.5 and quarterly CEPS of Rs.10.3 on a fully-diluted basis.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	2,299	3,681	5,261
Growth (%)	25.0	60.1	42.9
EBITDA	328	573	838
EBITDA margin (%)	14.3	15.6	15.9
Net profit	113	272	411
Net debt	1,303	2,273	2,755
EPS (Rs)	13.4	24.4	36.9
Growth (%)	187.1	140.0	51.0
DPS (Rs)	2.0	2.0	2.0
ROE (%)	12.9	19.6	23.4
ROCE (%)	10.9	14.4	16.3
EV/Sales (x)	2.0	1.5	1.1
EV/EBITDA (x)	14.0	9.7	7.2
P/E (x)	21.9	12.0	8.0
P/BV (x)	2.7	2.1	1.7

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

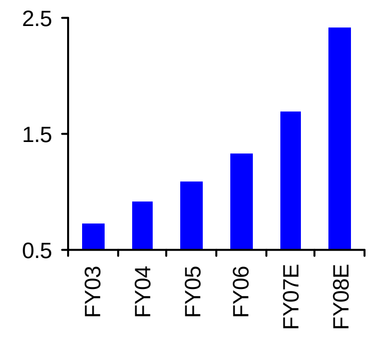
Rs mn	Q3FY07	Q3FY06	YoY%	Q2FY07	QoQ (%)	9MFY07
Net Sales	**1,035**	**630**	**64.3**	**749**	**38.1**	**2,495**
Total exp.	874	548	59.4	633	38.0	2,112
EBIDTA	**161**	**82**	**97.2**	**116**	**38.8**	**383**
Depreciation	31	22	39.7	24	30.4	78
EBIT	**130**	**59**	**119.0**	**92**	**41.0**	**305**
Interest	36	28	28.0	38	(4.9)	110
PBT	**94**	**31**	**201.8**	**54**	**73.4**	**195**
Tax & deferred tax	11	3	303.8	-	-	22
NPAT	**83**	**28**	**192.5**	**54**	**53.9**	**174**
Equity shares o/s (mn)	10.6	6.4		10.6		10.6
Equity shares o/s (mn) diluted	11.1	11.1		11.1		11.1
Ratios						
Operting profit margin (%)	15.6	13.0	+260 bps	15.5	+10 bps	15.4
EPS Reported(Rs)	7.9	4.4		5.1		16.4
EPS (Rs) - Fully Diluted	**7.5**	**2.6**		**4.8**		**15.6**
CEPS (Rs) - Fully Diluted	10.3	4.6		7.0		22.6

Source: Company

12000 TPA value-added starch processing unit at Gokak

Riddhi Siddhi has set up a 12000 TPA value-added starch processing unit at Gokak. The plant has commenced commercial production in the current month. Basically, the starch produced by the company is further processed to make value-added modified starch products for the textile and paper industries. These value-added products command better pricing power. Thus, the company would enjoy superior operating margins out of this plant.

Quantity sold - lakh tons



Source: Company, Kotak Securities - Private Client Research

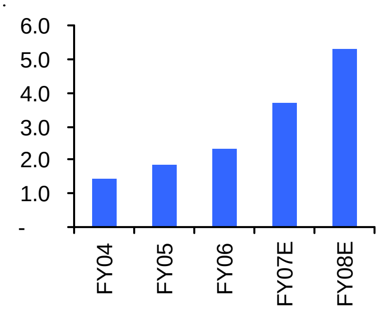
Gokak plant running at full capacity

Due to heavy demand in the maize-based starch products, the company has been running the Gokak plant at peak capacities. Riddhi Siddhi has also undertaken various debottlenecking measures and has been able to achieve higher maize starch yield. Due to backlog of orders, the plant is likely to run at full capacities in the future also. Accordingly, we have now factored in the increased capacity utilization into our earnings estimates.

Higher operating margins due to surge in demand and high quality innovative products

- The demand for the products of the company, namely, maize starch powder, liquid glucose, dextrose monohydrate, malto-dextrine, sorbitol and various other value-added starch products have been growing at a very rapid pace.
- The chocolate and confectionary industry has been growing at more then 30%. Also, industries like paper, textiles and pharma have been growing at double-digit growth rates. This has led to heavy demand for the products of the company and is thus driving the prices up.
- Also there are only five major organised players (RSGB, Gujarat Ambuja Exports, Maize Products, Anil Starch and Sukhjit Starch) in the market, which is restricting any sort of oversupply in the market.
- Maize is the main raw material for the company. Maize prices have been rising over the last year due to heavy demand and lower production. Maize prices have gone up from Rs.6.1 per kg in December 2005 to Rs.7.8 per kg in December 2006. However, in comparison to the rise in prices of maize, final product prices have shot up significantly. From December 2005 to December 2006, there has been an increase of around 29% in the price of maize while price of finished goods have gone up 35% to 71% in different product range. Hence, the company is able to capture additional margins due to rise in final product prices.
- Also, going forward the focus of the company would be on the value added starches, which typically offer superior margins. The company is in advanced stages of development of new grades of dextrose and sugar free starches, which should again help to improve the margins going forward.

Net Sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

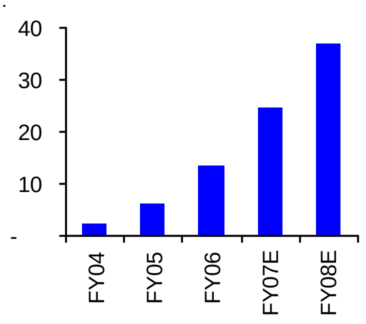
Tie-up with French starch major Roquette Freres to be value accretive

- The company has entered into a financial cum technical tie up with Roquette Freres of France. Roquette is a leading global player in starch and derivatives with revenues exceeding 2 bn euros. Roquette is among the top five leading manufacturer of starch and starch derivatives in the world. Roquette has production facilities in seven nations across Europe, America and Asia employing more then 5700 people worldwide. Roquette markets over 600 products in more than 100 countries worldwide and processes 6 MMT of agricultural raw material every year.
- With the alliance with Roquette, the company plans to enter into high value products for nutrition, health, construction, biotech and fermentation categories and dextrose for the manufacture of sugar-free products. Currently, most of the sugar-free sweeteners are imported in India. We expect RSGB to benefit significantly due to its expected synergies with Roquette.

Uttaranchal plant to commence commercial production by June 2007

The new plant at Pantnagar, Uttarakhand, with maize crushing capacity of 500 TPD is running a couple of months behind schedule. Civil construction is already going on in full swing and the plant and machinery has also been ordered. The unit is expected to commence trial production runs in three to four months. We expect the plant to commence commercial production in June 2007. The unit is expected to stabilize its operations in a couple of months after production. Hence, we feel the full potential of the plant will be realized in the second half of FY08E and FY09E.

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Change in estimates

(Rs mn)	Old		Revised	
	FY07E	FY08E	FY07E	FY08E
Revenues	3,163	4,217	3,681	5,261
EBIDTA (%)	15.6	15.9	15.6	15.9
Profit	188	278	272	411
EPS (Rs)	16.9	25.0	24.4	36.9
CEPS (Rs)	26.4	37.1	34.1	49.5

Source: Kotak Securities - Private Client Research

- Accommodating Q3FY07 results we are revising our earnings estimates. We estimate the company to report higher net sales of Rs.3.7 bn in FY07E and Rs.5.3 bn in FY08E as against our earlier estimate of Rs.3.2 bn and Rs.4.2 bn, respectively.
- We expect the company to report higher PAT of Rs.272 mn in FY07E and Rs.411 mn in FY08E as against our earlier estimate of Rs.188 mn and Rs.278 mn, respectively.
- Accordingly, we are increasing the EPS estimate of the company from Rs.16.9 to Rs.24.4 in FY07E and from Rs.25.0 to Rs.36.9 for FY08E.

Recommendation and valuation

We maintain BUY with increased price target of Rs.410 (40% upside)

- At Rs.294, the stock trades at 2.1x for FY07E and 1.7x FY08E to book value.
- It discounts FY07E and FY08E earnings at 12.0x and 8.0x, respectively.
- The stock looks very attractive on cash earnings basis. It discounts FY07E and FY08E cash earnings at 8.6x and just 5.9x, respectively.
- We remain positive and reiterate our BUY on RSGB with an increased price target of Rs.410, which provides an upside potential of 40% from the current level. We recommend BUY.

Key risks

- Any delay in commencement of the expansion would lead to flat or marginal growth for the company.
- Maize is the main raw material for the company. Thus, any increase in the prices, which cannot be passed on to the customers could impact the profitability of the company.
- An oversupply of products in the market could lead to competitive pricing and may impact the profitability of the company in the short-term.

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6634 1237

SHREE CEMENT
(Rs 1515, EV/EBITDA FY08 6.3x, BUY)

For the current quarter, Shree Cement has registered a sharp jump of 153% (YoY) in revenues, operating margins of 44% and a robust 274% YoY growth in profits.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	6,677	13,280	18,312
Growth (%)		99.0	38.0
EBITDA	2,217	5,979	8,422
EBITDA margin (%)	33.2	45	46
Net profit	185	3,292	4,656
EPS (Rs)	5.3	94.5	133.6
Growth (%)		1,684	41.0
DPS (Rs)	5	6	7
ROE (%)	5.2	65.2	52.9
ROCE (%)	8.9	61.8	66.1
EV/Sales (x)	8.4	4.1	2.9
EV/EBITDA (x)	25.4	9.2	6.3
P/E (x)	286.1	16.0	11.3
P/BV (x)	15.0	8.0	4.8

Source: Company & Kotak Securities - Private Client Research

Key Highlights of the result

(Rs mn)	Q3FY07	Q3FY06	YoY%
Net Sales	**3645.4**	**1442**	**153%**
Expenditure	2043.9	1011.1	102%
(Inc)/Dec in stock	-23.3	-35.3	
RM	449.3	185.1	
% of net sales	12	13	
Power and fuel	617	289	
% of net sales	17	20	
Transport and forwardin	510.9	235.9	
% of net sales	14	16	
Staff cost	138.2	79.7	
% of net sales	4	6	
Other	351.8	256.7	
% of net sales	10	18	
EBITDA	**1601.5**	**431.0**	**272%**
EBITDA margin (%)	44	30	
Depreciation	262.9	122.7	
EBIT	**1338.6**	**308.3**	**334%**
Interest	6.52	33.4	
EBT(Exc. Other income)	1332.1	274.9	
Other income	47.1	7.1	
PBT	**1379.2**	**282.0**	**389%**
Tax	337.6	3.3	
Tax (%)	24	1	
PAT	1041.6	278.7	274%
No. of shares	34.8	34.8	
EPS (Rs)	**29.9**	**8.0**	

Source: Company

Pricing trend

The company has been able to achieve net realizations of Rs.2819 per ton for the current quarter, which is up 40% on a YoY basis. We believe that with higher construction activity in the coming months, prices are expected to go up further. Based on a favorable demand supply scenario and positive outlook on cement prices, we are revising our estimates for net realizations for Shree Cement for next year from Rs.2873 in our earlier estimates to Rs.2935 in FY08.

Volume expansion

The company had recently commissioned the greenfield expansion of 1.5 MT in February 2006 at Ras, which has expanded the capacity to 4.5MT. This new capacity is operating at 100% capacity utilization, so the full benefits of the new capacity are visible in current financial year. Apart from this, Shree Cement is also carrying out a further expansion by 1.5 MT at Ras along with a captive power plant of 18 MW, which is expected to become operational by March 2007. Hence, volume expansion will be visible in FY08.

Another line of clinker and cement unit of 1.2 MT is likely to become operational by December 2007. Hence, we expect the company to obtain dispatches of 4.7 MT and 6.2 MT in FY07 and FY08, respectively.

Volume expansion coupled with price hikes is expected to result in a robust growth in revenues. We expect Shree Cement to register revenues of Rs.13.2 bn and Rs.18.3 bn in FY07 and FY08, respectively.

Operating margins

Rise in cement prices, volume expansion and high capacity utilizations have resulted in a trickling down of benefits to operating margins. With efficient cost control measures, Shree Cement has been able to maintain operating margins of 44% for the current quarter, which translates into EBITDA/ton of Rs.1238 compared to Rs.604 in Q3FY06.

Valuation and recommendation

We are fine-tuning our estimates for revenues to take into the account the improved capacity utilizations for FY07 and increase in the cement prices in FY08.

Financial estimates

	Old estimates		New estimates	
Key changes	**FY07E**	**FY08E**	**FY07E**	**FY08E**
Despatches(MT)	4.5	6.24	4.68	6.24
Price per tonne	2837	2873	2837	2935
Revenues(mn)	12766.5	17928	13277	18314

Source: Kotak Securities - Private Client Research

We recommend a BUY on the stock with a price target of Rs.1800

At the current price of Rs.1515, the stock is currently trading at 9.2x and 6.3x EV/ EBITDA multiples for FY07 and FY08 estimates. On P/E multiples, it is available at 16x and 11.3x for FY07 and FY08 estimates. Based on our revision in estimates, we arrive at the price target of Rs.1800. At our target price, the stock would be trading at 7.5x EV/EBITDA and 13.5x P/E multiples for FY08. Our target price provides an upside of 19% from current levels, we recommend **BUY.**

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6634 1237

ULTRATECH CEMENTS
(RS.1148, EV/EBITDA: 8.7X, HOLD)

For Q3FY07, the company has registered a 60% YoY growth in revenues, operating margins of 30% and a robust 791% YoY growth in profits.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	32,995	46,822	50,905
Growth (%)		42.0%	9.0%
EBITDA	5,497	14,862	18,180
EBITDA margin (%)	16.7	31.7	35.7
Net profit	2,252	8,040	9,671
EPS (Rs)	18.1	64.6	77.7
Growth (%)		257.0%	20.0%
DPS (Rs)	1.8	2.0	2.0
ROE (%)	21.4	56.3	42.3
ROCE (%)	14.6	46.6	40.8
EV/Sales (x)	4.7	3.3	3.1
EV/EBITDA (x)	28.2	10.3	8.7
P/E (x)	63.4	17.8	14.8
P/BV (x)	13.8	7.9	5.2

Source: Company & Kotak Securities - Private Client Research

Key highlights of the result

(Rs mn)	Q3FY07	Q3FY06	YoY (%)
Net Sales	**12604.5**	**7885.7**	**60%**
Expenditure	8803.1	6783.3	30%
Inc/Dec in expenses	39.9	-294.2	
RM	1044.3	689.5	
(% of sales)	8.3	8.7	
Purchase of finished goods	490.2	1020.2	
(% of sales)	3.9	12.9	
Staff cost	315.4	213	
(% of sales)	2.5	2.7	
Power and fuel	2893.3	2289	
(% of sales)	23.0	29.0	
Freight and handling	2509	1796.8	
(% of sales)	19.9	22.8	
Other exp	1511	1069	
(% of sales)	12.0	13.6	
EBITDA	**3801.4**	**1102.4**	**245%**
EBITDA margin (%)	30	14	
Depreciation	571	515	
EBIT	**3230.4**	**587.4**	**450%**
Interest	201.6	227.7	
EBT(Exc. Other income)	3028.8	359.7	
Other income	166.8	70.9	
PBT	**3195.6**	**430.6**	**642%**
Tax	1071.8	192.3	
Tax%	33.5%	45%	
PAT	**2123.8**	**238.3**	**791%**
No. of shares	124.5	124.5	
EPS (Rs)	**17.06**	**1.9**	

Source: Company

Pricing trend

UltraTech Cements has been able to achieve net realizations of Rs.2803 per ton for the current quarter, which is up 36% on a YoY basis. In western markets, the company has seen a rise in cement prices. We expect prices to rise in southern markets after the onset of construction activities. We maintain our positive outlook for cement prices and expect prices to rise further. Based on this, we are revising our estimates for net realizations for UltraTech Cements for the next year from Rs.2861 in our earlier estimates to Rs.2908 in FY08.

Revenue growth

On account of improving capacity utilizations, this quarter has seen an improvement in the despatches to 4.45 MT as compared to 3.92 MT in Q3FY06. Hence, we expect the company to operate at 100% capacity utilization for FY07 and FY08, till new capacity becomes operational in the beginning of FY09. We are fine-tuning our estimates for volume growth to factor in the improvement in capacity utilization and increase in average realization for UltraTech Cements. We expect the company to register revenues of Rs.46.8 bn and Rs.50.9 bn in FY07 and FY08 respectively.

Improvement witnessed in operating margins

Rise in cement prices and cost control measures have resulted in improving the operating margins of the company from 14% in Q3FY06 to 30% in Q3FY07. This translates into EBITDA/ton of Rs.846 for the current quarter. UltraTech has been able to control the power and fuel and freight expenses. With the commissioning of the captive power plants, power costs are expected to go down further. Hence, we expect an improvement in operating margins for the company for the next year.

Valuation and recommendation

We have fine-tuned our estimates to factor in the improvement in capacity utilization and increase in cement prices.

Financial estimates

	Old estimates		New estimates	
Key changes	**FY07E**	**FY08E**	**FY07E**	**FY08E**
Despatches (MT)	16.49	16.975	17	17.5
Price per ton	2,752	2,861	2,754	2,909
Revenues(mn)	45,387	48,572	46,823	50,908

Source: Kotak Securities - Private Client Research

We recommend HOLD on the stock with a price target of Rs.1189

At the current price of Rs.1148, the stock is currently trading at 10.3x and 8.7x EV/EBITDA multiples for FY07 and FY08 estimates. On P/E multiples, it is available at 17.8x and 14.8x for FY07 and FY08 estimates. Based on our revision in the estimates, we arrive at a price target of Rs.1189. At our target price, the stock would be trading at 9x EV/EBITDA and 15.3x P/E multiples for FY08. Our target price provides an upside of 4% from current levels, we recommend a **HOLD.**

RESULT UPDATE

Vinay Goenka
vinay.goenka@kotak.com
+91 22 66341291

BHARAT BIJLEE LTD
(Rs.1353, FY08E PE: 14.6x, HOLD)

Bharat Bijlee has reported healthy growth numbers for the third quarter. Earnings are in line with our expectations. The company has been able to significantly scale up its operating margins. In view of this, we maintain our HOLD with a target price of Rs.1500.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	3,008	4,209	5,261
Growth (%)	22.30	39.90	25.00
EBITDA	512	635	820
EBITDA margin (%)	17.0	15.1	15.6
Net profit	318	401	525
Net cash (debt)	(364)	(379)	(177)
EPS (Rs)	56.2	71.0	93.0
Growth (%)	70.8	26.3	30.9
CEPS	62.9	74.8	97.2
DPS (Rs)	9.0	9.0	9.0
ROE (%)	51.0	43.0	39.0
ROCE (%)	49.0	45.0	46.0
EV/Sales (x)	2.3	1.6	1.3
EV/EBITDA (x)	13.4	10.8	8.4
P/E (x)	24.1	19.2	14.6
P/Cash Earnings	21.5	18.1	13.9
P/BV (x)	10.9	7.3	5.1

Source: Company & Kotak Securities - Private Client Research

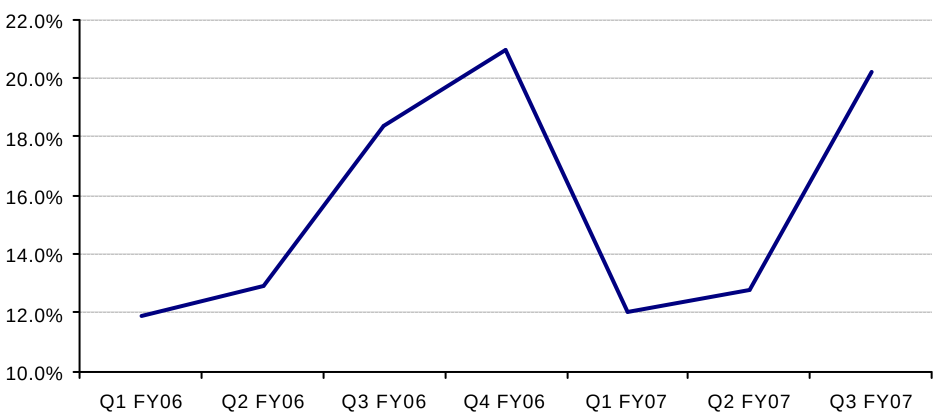
Quarterly performance

	Q3 FY07	Q3 FY06	% Change
Net Sales	**1,097**	**854**	**28**
Other Income	6	5	17
Total Income	**1,103**	**859**	**28**
Total Expenditure	875	697	26
PBIDT	**222**	**157**	**41**
Interest	15.3	10.0	53
PBDT	**212**	**152**	**40**
Depreciation	6.00	4.80	25
PBT	**206**	**147**	**40**
Amortization of VRS exp	(4)	-	
Tax	69	40	73
Reported Profit After Tax	**133.3**	**106.9**	**25**
OPM (%)	20.2	18.4	
Tax rate (%)	33.5	27.2	

Source: Company

- Healthy revenue growth: BBL reported 28% YoY growth in Q3FY07 to Rs.1.1 bn. We expect robust volumes in the coming quarters on the back of a healthy order backlog.
- Operating margins have expanded by 180 bps. The company has been able to reverse the declining margin trend in this quarter. We expect firm margins going ahead assuming metal prices would remain stable in the fourth quarter.
- BBL is currently trading at 19.2x and 14.6x FY07E and FY08E earnings, respectively. We maintain **HOLD** on the stock with a target price of Rs.1500.

Quarterly trend in operating margin



Source: Company

RESULT UPDATE

Vinay Goenka
vinay.goenka@kotak.com
+91 22 66341291

SIEMENS INDIA LTD.
(RS.1216, FY07E P/E: 33.1X, HOLD)

Driven by high revenue translation from its projects business, Siemens reported strong earnings for Q1FY07 with net profit growing at 100% over the corresponding quarter of the previous year. Earnings growth has been strongly aided by other income even as its operating margins have shrunk in the quarter. We are maintaining our earnings estimates for Siemens and reiterating a HOLD with a price target of Rs.1325.

Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	45,397	72,879	102,877
Growth %	62.3	60.5	41.2
EBITDA	4,041	6,941	10,666
EBITDA margin %	8.9	9.5	10.4
Net profit	3,601	5,522	8,126
Net cash (debt)	6,719	4,733	11,265
EPS (Rs) (cons)*	23.7	36.7	52.6
Growth %	27	54.6	43.3
CEPS	24.6	36.5	52.5
ROE %	34.6	42.2	47.3
ROCE %	12.1	16.6	19.8
P/E (x) consolidated	51.2	33.1	23.1

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

	Q1FY07	Q1FY06	% change
Net sales	**16,331**	**8,601**	**90**
RM costs	13,265	6,169	115
Staff costs	850	538	58
Other costs	984	1,104	-11
Total expenditure	15,100	7,810	93
PBDIT	**1,232**	**791**	**56**
Interest	126	54	132
Depreciation	103	150	-31
Other income	152	9	1,581
PBT	**1,406**	**705**	**100**
Tax	425	215	98
PAT	**981**	**490**	**100**
RM costs to sales%	81.2	71.7	
Other costs to sales%	6.0	12.8	
OPM (%)	7.5	9.2	
Tax rate (%)	30	30	

Source: Company

Segment revenues Rs mn

	Q1FY06	Q1FY07	% change
Automation and drives	2263	3164	39.8
Power	3495	9887	182.9
Healthcare	761	766	0.7
Industrial solution	956	1638	71.3
Transport	626	584	-6.7
Information and comm	354	352	-0.5
Real Estate	90	113	24.6
Automotive	316	289	-8.4
Building tech	160	248	54.9
Total	**9021**	**17040**	**88.9**

Source: Company

Key Highlights

Revenue growth driven by power segment: For the quarter, revenue grew 90% YoY to Rs.16.3 bn, which was ahead of our expectation. Revenue growth has been driven by the power segment, which has grown 183% YoY in the quarter. We believe this could be due to bunching of project-related revenues. Automation and drives and industrial solutions segment revenues grew at a healthy pace.

Segment margin (%)

	Q1FY06	Q1FY07
Automation and drives	6.3	4.4
Power	7.4	7.2
Healthcare	1.2	8.7
Industrial soln	9.3	11.3
Transport	11.7	9.5
Information and comm	10.2	7.1
Real Estate	56.4	64.2
Auto	-7.6	48.7
Building systems	5.9	4.8
Total	7.1	8.3

Source: Company

Segment profits impacted due to lower margins in automation division: Automation and power segments contribute close to 70% of the turnover and these segments have witnessed a margin decline. This has pushed the overall margins down.

We maintain HOLD with a target price of Rs.1325

Robust Order intake continues: New orders intake stood at Rs.51, 275 mn as compared to Rs.41, 623 mn in the corresponding period of the previous year, registering a rise of 23%. The major driver was the mega repeat order received from Qatar by the Power Transmission and Distribution Division (PTD). Even after adjusting large orders in the comparable quarters of the last fiscal and current fiscal, the order value rose 50%. The company's unexecuted order value position as of December 31, 2006 was Rs.110 bn, a rise of 56%.

Valuation

We are projecting consolidated EPS of Rs 36.5 and Rs 52.5 per share in FY07 and FY08, respectively. At the current price, Siemens is trading at 33.1x and 23.1x FY06 and FY07 earnings, respectively.

EVENT UPDATE

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

AREVA T&D

(RS.1054, CY07 P/E: 29X, HOLD)

Areva T&D has announced that it has received three orders totaling Rs.2.52 bn. These are landmark orders for the company and are one of the largest orders that the company has received.

- Areva T&D India Ltd has received an order worth Rs.425 mn from Reliance Petroleum for its Jamnagar refinery in the special economic zone being developed by Reliance Industry. This is one of the highest orders for the company. The scope of this order covers six 161MVA 220kV generator transformers and two 100MVA 220kV autotransformers. The deliveries are likely to be completed by June 2007.
- The company has also won a major order from Nalco for their Angul plant in Orissa, worth Rs.1.9 bn for 220 kV conversion substations, 220kV switchyard, power distribution system and various numerical relays.
- Third is an export order from GECOL, Libya. The company's instrument transformer unit in Bangalore has received an order for 245 kV wall bushings valued at Rs.161.7 mn. GECOL is the state power firm of Libya and has ambitious plans to match the electricity demand with a substantial investment program.

We recommend HOLD on the stock with a price target of Rs.1100

These orders should provide a boost to the growth prospects of the company. Areva is trading at 28.8x and 21.4x CY07 and CY08 earnings, respectively. Areva T&D has outperformed its sector peers in the last quarter. As a result, the valuation gap between Areva and ABB has narrowed significantly. In view of this, we downgrade the stock to a **HOLD** with a price target of Rs.1100.

Summary table

(Rs mn)	CY06E	CY07E	CY08E
Sales	**12949.7**	**17482.2**	**22726.8**
Growth (%)	48.9	35.0	30.0
EBITDA	**1606.2**	**2277.3**	**3070.1**
EBITDA margin (%)	12.4	13.0	13.5
Net profit (Adj)	1040.2	1461.6	1968.9
Net cash (debt)	-56.3	597.7	1083.5
EPS (Rs)	**26.1**	**36.6**	**49.4**
Growth (%)	149.5	40.5	34.7
CEPS	28.9	40.1	53.5
DPS (Rs)	2.5	2.5	2.5
ROE (%)	41.4	41.7	38.5
ROCE (%)	57.1	59.4	55.8
EV/Sales (x)	3.3	2.4	1.8
EV/EBITDA (x)	26.2	18.2	13.3
P/E (x)	40.4	28.8	21.4
P/Cash Earnings	36.5	26.3	19.7
P/BV (x)	17.3	11.1	7.5

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
18-Jan	ABG Heav Ind	Prudential ICICI Trust Ltd	B	109,000	228.06
18-Jan	ABG Heav Ind	ABN Amro Mutual Fund Acco	S	110,459	228.04
18-Jan	Acrow India	H.R.Javeri	S	14,000	439.89
18-Jan	Alchemist Lt	Ayodhyapati Investment	B	309,685	27.51
18-Jan	Allianz Secu	Divyaraj Mercantile Priva	B	300,000	48.00
18-Jan	Allianz Secu	Suruchi Agro Properties	S	300,000	48.01
18-Jan	Dagger Forst	Pavan Anil Gandhi	S	67,420	74.99
18-Jan	Dagger Forst	Pari Stock Trading Pvt Ltd	S	34,670	74.97
18-Jan	Emmso Intern	Nucleus Securities Limited	B	45,683	56.00
18-Jan	Emmso Intern	Faith Finstock Pvt Ltd	S	70,086	56.00
18-Jan	Galada Power	Hemant Kumar Gupta	B	57,893	29.77
18-Jan	Galada Power	Hemantkumar Mahabir Gupta	B	68,812	29.63
18-Jan	Guj Amb Expo	Soros Fund Management	B	1,460,000	35.95
18-Jan	Guj Amb Expo	Rolterdam Agro Commoditie	S	892,791	36.00
18-Jan	Indiabulls	Clsa Mauritius Ltd	B	1,400,000	300.00
18-Jan	Indiabulls	Merrill Lynch Capital Mar	S	2,155,165	300.15
18-Jan	Interf Fin S	Ayodhyapati Investment	B	820,539	402.00
18-Jan	K S Oils Ltd	Bsma Limited	B	126,500	350.00
18-Jan	K S Oils Ltd	Shradha Tradelinks Pvt Ltd	S	225,000	350.16
18-Jan	K Sera Sera	Bhagwan Chandiramani	S	120,000	33.60
18-Jan	Kaman Hsg	Sanchar Udyog Ltd	B	21,315	312.96
18-Jan	Kaman Hsg	Jmp Securities Pvt. Ltd.	B	31,401	294.10
18-Jan	Kaman Hsg	Nucleus Securities Limited	B	25,000	314.10
18-Jan	Karut Net L	HSBC Financial Services M	B	50,000	221.95
18-Jan	Kovilp Lak R	Chamiers Investments Pvt	S	42,279	56.17
18-Jan	Lok Housi Co	Volga International Ltd	S	73,577	311.45
18-Jan	Madhav Mar G	Emerging Capital Advisors	B	50,000	153.49
18-Jan	Madhav Mar G	Volga International Ltd	S	60,000	158.91
18-Jan	Maharastra	Gagan Gupta	B	65,000	107.85
18-Jan	Maharastra	Kalpesh C Visharia	S	40,000	106.00
18-Jan	Mangalam Cem	Vincent Commercial Co. Ltd	S	155,000	253.00
18-Jan	Paramo Commu	Dsp Merrill Lynch Capital	B	100,000	240.00
18-Jan	Paramo Commu	Emerging Capital Advisors	S	105,810	240.00
18-Jan	Preci Contnr	Malti R Merchant	B	20,000	40.35
18-Jan	Preci Contnr	Ketan R Sheth	B	20,000	40.35
18-Jan	Punjab Woolc	Anil Goel	S	104,431	18.74
18-Jan	Raj Rayon Li	SCB Corporation	S	134,000	48.97
18-Jan	Ridd Sid Glu	Morgan Stanley And Co Int	B	35,918	292.97
18-Jan	Royale M H I	Ayodhyapati Investment P	B	227,461	34.61
18-Jan	Royale M H I	Maheshkumar P Gandhi	S	84,227	34.70
18-Jan	Royale M H I	Ayodhyapati Investment P	S	227,461	35.05
18-Jan	Sai Ser Stat	Hilton Sales Private Limi	B	22,091	170.62
18-Jan	Sanco Trans	Shriprakash Vinaykumar Sa	B	10,000	111.85
18-Jan	Shree Ram	UBS Securities Asia Ltd.	B	200,000	488.60
18-Jan	Shree Ram	Rajkumari Kasliwal	S	175,000	488.72
18-Jan	Sujana Metal	Bsma Limited	B	272,390	101.76
18-Jan	Sumeet Indus	Master Finlease Ltd	B	300,000	20.80
18-Jan	Sumeet Indus	ISF Securities Limited	B	117,240	20.80
18-Jan	Suryajyoti S	A V Investments Corporati	B	80,000	76.00
18-Jan	Suryala Spin	Ravinder Reddy Nandi	B	147,000	65.80
18-Jan	Vanasth Text	Nanavati Vaibhavi Devang	B	79,000	20.25
18-Jan	Vanasth Text	Jasubhai Harinaxi Siddhar	S	249,900	20.40
18-Jan	Yashraj Cont	Mathew Easow Research Sec	B	26,600	79.65

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	915	2.2	8.5	2.1
Reliance Ind	1,367	1.3	4.9	3.5
HDFC	1,600	3.4	2.7	0.4
Losers				
ICICI Bank	971	(1.6)	(2.8)	1.2
Reliance Com	436	(1.4)	(2.5)	4.6
Tata Steel	476	(1.7)	(1.0)	2.1

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
19-Jan	Dabur India, Raymond, IDFC, Ballarpur Industries, Hindustan Construction, Satyam Computers, Gujarat Narmada Valley Fertilizers company, ING Vysya Bank, Dena Bank, Indo Rama Synthetics, NIIT Ltd, Orchid Chemicals, Tata Teleservices (M), Sonata Software, Wyeth, Jain Irrigation, Deccan Chronicle, Jet Airways, i-flex Soluttions, Marico earnings expected
20-Jan	ICICI Bank, Godrej Consumer, Gujarat Alkalies, Chennai Petroleum Corp, Nirma, Pfizer, Hindustan Zinc earnings expected
22-Jan	Zee Telefilm, JSW Steel, Bank of India, Nalco, India Cements, Cadila Healthcare, Merck Ltd, Maruti Udyog, Kotak Mahindra Bank, Bank of India, Colgate Palmolive India, Jammu & Kashmir Bank, Ingersoll Rand (I), Jindal Stainless Steel earnings expected
23-Jan	Bharti Airtel, Grasim Industries, Tata Motors, Bharat Electronics, Cipla, Pidilite Industries, IPCA Laboratories, Bharat Earth Movers, Neyveli Lignite, LIC Housing, Indian Hotels, MRPL, Ceat, United Spirits, Glenmark Pharma earnings expected
24-Jan	HDFC, Bank of Baroda, Rolta India, IOB, Oriental Bank of Commerce, Balaji Telefilms, Gujarat Industries Power Co, Bombay Dyeing, Petronet LNG, D-Link India, Corporation Bank, HCL Infosys, earnings expected
25-Jan	BHEL, Hindalco, Novartis India, Titan Industries, Hindustan Motors, Deccan Aviation, Century Textiles, Century Enka, Titan Industries, MRF, GE Shipping, Arvind Mills, Cummins Indiam, Moser Baer, SSI Ltd, Pantaloon Retail earnings expected

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Mid Cap, Power	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Vinay Goenka	Auto, Auto Ancillary, Sugar	+91 22 6634 1291	vinay.goenka@kotak.com
Saday Sinha	Economy, Banking	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

Disclaimer

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.