

**July 24, 2007**
**FOR PRIVATE CIRCULATION**
**Equity**

	23 July 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	15,732	1.1	8.7	11.3
Nifty	4,619	1.2	8.6	11.5
Banking	8,355	(0.5)	6.6	16.7
IT	3,893	0.2	5.3	3.7
Healthcare	3,798	(0.8)	(0.7)	0.8
FMCG	1,871	2.3	3.0	4.4
PSU	7,218	1.6	7.4	12.4
CNX Midcap	6,327	0.9	8.6	21.3
<b>World indices</b>				
Nasdaq	2,691	0.1	3.9	6.6
Nikkei	17,964	(1.1)	(1.3)	2.8
Hangseng	23,366	0.3	6.5	13.9

**Value traded (Rs cr)**

	23 July 07	07	% Chg - 1 Day
Cash BSE	4,624.3		(16.3)
Cash NSE	10,927.8		(11.9)
Derivatives	51,007.2		6.1

**Net inflows (Rs cr)**

	20 July 07	% Chg	MTD	YTD
FII	1,223	39	16,837	41,274
Mutual Fund	(317)	(384)	(1,504)	(1,528)

**FII open interest (Rs cr)**

	20 July 07	% chg
FII Index Futures	18,759.9	2.0
FII Index Options	13,147.1	2.8
FII Stock Futures	29,180.1	2.9
FII Stock Options	269.3	(0.2)

**Advances/Declines (BSE)**

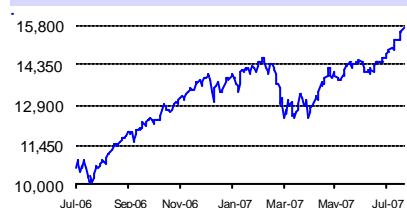
	23 July 07	A	B1	B2	Total	% Total
Advances	115	326	478	919	49	
Declines	95	385	425	905	48	
Unchanged	3	17	31	51	3	

**Commodity**

	23 July 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	74.7	(0.2)	8.1	15.7
Gold (US\$/OZ)	681.6	(0.3)	4.2	(0.2)
Silver (US\$/OZ)	13.3	(0.4)	1.6	(3.7)

**Debt/forex market**

	23 July 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.70	7.75	8.17	8.04
Re/US\$	40.3	40.3	40.9	41.7

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The \$100-a-barrel oil that Goldman Sachs Group said would prevail by 2009 may be only a few months away. Analysts say \$95 crude is likely this year unless Opec unexpectedly increases production. (BS)
- DoT has decided to go for a 'controlled ascending' auction rather than a direct auction for allocating 3G spectrum. This method was first developed for the US Federal Communications Commission's spectrum auctions in 1994. (ET)
- Banks may be allowed to invest more in unrated debt paper. The proposal, mooted by the Deepak Parekh committee on infrastructure financing, looks set to take wings with the Government and RBI reaching an agreement. (ET)
- India has successfully cut its fiscal deficit but progress in the next two years will be harder as growth slows and pressure for populist spending rises before elections. The Government relies on tax collection rather than spending reforms to narrow the shortfall. (ET)
- The Central Board of Trustees of the Employees Provident Fund has agreed to continue paying 8.5% interest rate on provident fund contributions for 2006-07. (BL)

**CORPORATE NEWS**

- **Reliance Industries** is planning to build the biggest greenfield fertilizer capacity in the country. (ET)
- **NTPC** has signed an MoU with Asian Development Bank to establish a joint venture power generating company. (BS)
- **Patni Computer** has made its fifth acquisition by buying out US-based life science information technology consulting company Taratec for \$27.2 mn in an all-cash deal. (ET)
- **ONGC** is mulling a takeover of oil firm Transmeridian. The US firm has 211-mn-barrel reserves in Kazakhstan. ONGC Videsh has conducted preliminary due diligence and is expected to take a decision anytime now, industry sources said. (BS)
- **Punj Lloyd** has said its joint venture firm Dayim Punj Lloyd has secured a Rs.3.2 bn order from Saudi Kayan Petrochemical Company to build tanks and terminals. (BL)
- **Polaris Software Lab** has reported about 11% growth in consolidated revenues at Rs.2.57 bn for the quarter ended June 2007. (BL)
- **Dr Reddy's** has reported a 45% rise in consolidated net profit at Rs.1.87 bn for the first quarter ended June 30, 2007 when compared with Rs.1.29 bn in Q1FY07. (BS)
- **Union Bank of India** has posted a 35% rise in net profit at Rs.2.25 bn for the first quarter of FY08 when compared with Rs.1.67 bn, in the corresponding quarter a year ago. (BS)
- **Sun Pharmaceutical** Group has posted a 28% rise in consolidated net profit at Rs.2.27 bn for the quarter ended June 30, 2007 when compared with Rs.1.77 bn for Q1FY07. (BS)
- **Dabur India** Group has posted a 29% rise in consolidated net profit at Rs.622.2 mn for the quarter ended June 30, 2007 when compared with Rs.482.2 mn for Q1FY07. (BS)
- **Jindal Stainless** has posted a 62.63% rise in net profit at Rs.826 mn for the first quarter ended June 30, as compared to Rs.507.9 mn for the same period last year. (BL)
- **Dewan Housing Finance Corporation** has registered a 43% rise in net profit for the first quarter of the current financial year at Rs.141.7 mn. (BS)
- **Century Textiles & Industries** has posted a net profit of Rs.1.08 bn for the quarter ended June 30, 2007. (BS)

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

## FROM OUR RESEARCH TEAM

### RESULT UPDATE

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## ORCHID CHEMICALS & PHARMACEUTICALS LTD

PRICE : Rs.234

RECOMMENDATION : HOLD

TARGET PRICE : Rs.300

FY09E PE : 12.7x

**The Q1FY08 results for Orchid Chemicals & Pharmaceuticals were disappointing. We lower our earning estimates for FY08 and downgrade the stock to a HOLD**

Orchid Chemicals announced its Q1FY08 results last week, which fails to meet our expectations at the net profit level. We have attended conference calls of the company after the result and discussed with the management recent developments and future prospects of the company. The conclusion we have derived from that discussion is not very encouraging and leads us to revise our earning estimates downward for FY08. The management, however, is very confident of achieving 25% growth in revenue and strong growth at net profit level in FY08, mainly driven by three new drug launches in the US market, namely, Cefdinir, Cefepime and Tazobactam.

We are, however, removing any upside for Tazobactum (Zosyn) because of the uncertainty for approval attached to it and lowering our revenue and earning estimates for FY08 due to the following compelling reasons -

- Below expected Q1FY08 net profit (adjusted for translation gain on FCCB) due to sharp increase in manufacturing and other expenses and higher depreciation.
- Delayed launch of Cefdinir in the US market.
- Expected delay in Tazobactum (Zosyn) approval due to citizen's petition filed by Sandoz.
- Further delay in approval for Ceftiofur (US\$150 mn drug).
- Higher debt and interest level. The company has raised US\$175 mn through FCCBs (convertible at Rs.348) to repay its outstanding debts and fund its capex plans. The company had repaid its debt to the tune of US\$138 mn from the FCCB proceed but has raised further debt of almost the same amount. We see this action of the management as a serious concern.
- Further equity dilution due to the above fund raising and promoters warrant pending for conversion.

We are revising our revenue and earning estimates for FY08 downward to Rs.11.44 bn and Rs.1.45 bn from our earlier estimates of Rs.13.75 bn and Rs.2.25 bn, respectively, to reflect the loss of sales due to delay in a few drug approval and decline in margins. This implies a 17% decline in revenue and 35% decline in net earnings. We are producing here some compelling reasons for this downward revision in estimates.

### Delay in Ceftiofur and Tazobactum approval

Orchid was expecting approval for Ceftiofur by the end of 2006 but this has got delayed and the management is not expecting approval in the near term. We had estimated sales of US\$10 mn in FY08. Since we are still not sure about the approval, we are not taking any revenue contribution in FY08. Ceftiofur is a different product for veterinary diseases with annual sales of US\$150 mn. The product patent has already expired, but it has not seen any generic entry till date. ACS Dobfar, Lupin and Aurobindo also have filed for the dossier. It has tied up with Teva to market this product in the US market.

#### Summary table

(Rs mn)	FY07	FY08E	FY09E
Revenues	9,638	11,442	13,670
Growth (%)	2.9	20.3	20.0
EBITDA	2,766	3,085	3,709
EBITDA margin (%)	29.9	27.7	27.7
Net profit	785	1453	1782
Net Margin (%)	8.5	13.0	13.3
EPS diluted (Rs)	11.9	20.9	18.4
Growth (%)	34.6	75.3	(12.0)
DPS (Rs)	4.5	4.5	4.5
RoE (%)	12.5	24.9	15.0
RoCE (%)	9.3	11.4	10.5
EV/Sales (x)	3.3	2.8	2.0
EV/EBITDA (x)	11.5	10.3	7.5
P/E (x)	19.6	11.2	12.7
P/BV (x)	3.4	2.4	1.3

Source: Company & Kotak Securities - Private Client Research

Tazobactam Piperacillin is a US\$480 mn injectable combination product of penicillin and betalactum which has gone off patent in February 2007. This molecule is difficult to manufacture as there are very few USFDA approved injectable penicillin facility owned by any generic company in the world. Orchid is the only generic company to have filed for both - tazobactam (sterile) and piperacillin and has got a process patent for Tazobactam, which enables it to launch the product upon patent expiry in February 2007. However, in November 2005 Sandoz filed the citizen's petition followed by Orchid in a US court and the subject matter is sub judice. This is delaying the approval and will impact the FY08 revenue.

### Higher interest cost (about 10%) than our earlier estimates

The management has said on several occasions that it will pare down the high interest bearing debt out of cash flow generation and FCCB proceeds, which will lead to interest cost saving and improve the profitability. We had considered the same in our earlier estimates. However, it did not happen and debt remained on the balance sheet at even higher levels. This eventually brought down the earnings in FY07 and is expected to have a dent on FY08 profitability also. We expect interest cost to go up by around 10% from the FY07 level.

### Below expectation Q1FY08 result; Lower margin to impact FY08 earnings

- Consolidated net sales for Q1FY08 are slightly above our expectation. However, the consolidated net profit (adjusted for foreign exchange gains on FCCB) is lower than our estimates. Net sales have grown 18.4% to Rs.2.52 bn as compared to Rs.2.12 bn in Q1FY07. The sales growth for the quarter was primarily driven by the launch of a key cephalosporin product (Cefepime injection) in the US market and the therapeutic expansion into NPNC segment.
- Operating margin has declined by 190 bps to 24.1% vs. 26% due to a sharp increase in manufacturing and other expenses. Operating profit grew by just 10% to Rs.607 mn as compared to Rs.552 mn in Q1FY07.
- Profit at net level has grown sharply by 348% YoY at Rs.486 mn from Rs.108 mn, mainly due to foreign exchange gain on FCCBs outstanding of Rs.528 mn (Rs.338 mn after tax). Adjusted net profit has risen 36% to Rs.148 mn, which is below our expectation.

#### Consolidated Financial Performance: Q1 FY08

(Rs mn)	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)	FY07
<b>Net Sales</b>	<b>2518</b>	<b>2126</b>	<b>18.4</b>	<b>2638</b>	<b>-4.6</b>	<b>9851</b>
Expenditure	1911	1574	21.4	1910	0.1	7085
<b>EBIDTA</b>	<b>607</b>	<b>552</b>	<b>9.8</b>	<b>728</b>	<b>-16.7</b>	<b>2766</b>
Depreciation	236	200		233		851
<b>EBIT</b>	<b>371</b>	<b>352</b>	<b>5.1</b>	<b>496</b>	<b>-25.2</b>	<b>1915</b>
Interest	167	223		245		993
Other Income	529	7		-12		4
<b>PBT</b>	<b>732</b>	<b>137</b>	<b>435.1</b>	<b>239</b>	<b>205.8</b>	<b>926</b>
Extra-Ordinary Items	0	0		0		0
Tax	246	29		53		140
<b>Profit After Tax</b>	<b>486</b>	<b>108</b>	<b>348.6</b>	<b>187</b>	<b>159.9</b>	<b>786</b>
Equity Shares (Mn)	66	66		66		66
<b>EPS (Rs)</b>	<b>7.4</b>	<b>1.6</b>	<b>348.5</b>	<b>2.8</b>	<b>159.9</b>	<b>11.9</b>
EBIDTA Margin	24.1	26.0		27.6		28.1
PAT Margin (%)	19.3	5.1		7.1		8.0

Source: Company Press Release

## US generics continue to be significant part of revenues in Q1FY08

During Q1FY08, the company's US generics business saw steady growth. The company got the approval for Cefepime injection from the USFDA in June 2007 and launched as a generic product in the US in distribution partnership with Apotex. Orchid is the sole generics player in the US for this product and we believe it would have this kind of sole market exclusivity position for a further period of six to eight months, leading to good revenue and profitability for the full year. The other products launched earlier continued to post stable sales, with the company's marketing partners winning some major bids and contracts in the US.

During the quarter, the company began its foray into the non-penicillin, non-cephalosporin (NPNC) product segment by launching its first NPNC product, terbinafine in distribution alliance with Actavis in the US. The company launched the product immediately upon patent expiry based on the USFDA approval received. With a cumulative filing count of 17 DMFs and 11 ANDAs in this segment, we expect further launches in this product area during the ensuing quarters with additional contribution to the revenues

## Revenue expected to grow at 20% CAGR over the next two years

Orchid is expected to be present on day one of patent expiry of Tazobactam/Zosyn (\$480 mn), Cefdinir/Omnicef (\$800 mn) and Cefepime/Maxipime (\$190 mn). Of these, generic Zosyn (Tazo and Pip) is a lucrative opportunity where Orchid expects minimal competition. The company has already launched the Cefepime injection upon approval and we expect the company to launch Cefdinir very soon as it has got the approval recently.

However, Cefdinir has already been launched by three players in the US market where we expect that price erosion is still up to 50%-60%. In addition, Orchid is expected to be the first generic in Ceftiofur/Naxcenel (\$150mn), a veterinary injectable. We expect FY08 and FY09 to be good years for Orchid led by some new products launches and expect revenue to grow at 20% CAGR over the next two years.

## Regulatory filings progressing well

The regulatory filing calendar has progressed well during Q1FY08. The cumulative count of the filings as of the end of the quarter stood at 45 DMFs and 40 ANDAs. Of the DMFs filed, 26 are in the cephalosporin space, 17 in the NPNC segment and two in the penicillin product area. Out of the 40 ANDAs filed, 27 correspond to cephalosporins, 11 to the NPNC products and two in the sterile penicillin area. As of date, Orchid has received approvals from the USFDA for 20 of its ANDAs.

For the EU market, the company has cumulatively filed 12 dossiers for marketing authorizations as of the first quarter. In the Canadian market, the company has till date filed six ANDAs and received USFDA approval for three ANDAs.

## Valuations and recommendation

We are revising our revenue and earning estimates for FY08 downward to Rs.11.44 bn and Rs.1.45 bn from our earlier estimates of Rs.13.75 bn and Rs.2.25 bn, respectively, to reflect the loss of sales due to delay in few drug approval and decline in margins. This implies a 17% decline in revenue and 35% decline in net earnings. The company has posted fully diluted EPS of Rs.11.9 in FY07 and we expect EPS of Rs.20.9 in FY08 and Rs.18.4 in FY09. At the current market price of Rs.234, the stock is trading at 11.2x FY08 and 12.7x FY09 fully diluted earnings. We have rolled over our DCF based price target to FY09, and our revised price target is Rs.300 (Rs.379 earlier). We are downgrading the stock to **HOLD**.

**We recommend a HOLD on  
Orchid Chemicals &  
Pharmaceuticals with a price  
target of Rs.300**

**RESULT UPDATE**

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**VOLTAS LTD.**

**PRICE : Rs.146**  
**TARGET PRICE : Rs.166**

**RECOMMENDATION : HOLD**  
**FY08E PE : 25.6x**

**Voltas has surprised us with an extremely impressive set of numbers for the first quarter. Margin expansion has been primarily driven by projects and the unitary cooling division. The unitary cooling division saw acceleration in volumes after a moderate growth in Q4FY07. We are forecasting that earnings will grow at a CAGR of 61% over FY07-09. The stock is trading at 25.6x FY08 earnings. We have valued the stock at Rs.166 and maintain a HOLD.**

**Summary table**

(Rs mn)	FY07	FY08E	FY09E
Sales	24,006	31,927	40,262
Growth (%)	28.7	32.9	26.1
EBITDA	1,087	2,668	3,529
EBITDA margin (%)	4.5	8.4	8.8
Net profit (adjusted)	1,064	1,884	2,453
Net cash (debt)	581	1,058	2,653
EPS (Rs)	3.2	5.7	7.4
Growth (%)	-0.5	77.1	30.2
CEPS	3.2	6.1	7.9
DPS (Rs)	1	1.2	1.2
ROE (%)	31.0	41.0	39.0
ROCE (%)	37.0	55.0	54.0
EV/Sales (x)	1.9	1.5	1.1
EV/EBITDA (x)	43.8	17.7	12.9
P/E (x)	50.7	25.6	19.6
P/Cash Earnings	44.9	24	18.5
P/BV (x)	12.7	9.1	6.5

Source: Company & Kotak Securities - Private Client Research

**Quarterly performance**

	Q1FY08	Q1FY07	% change
<b>Sales Turnover</b>	<b>8249</b>	<b>5804.0</b>	<b>42</b>
Other income	85	103.0	-18
Expenditure	7514	5540.1	36
RM costs	6116	4381.1	40
Staff costs	629	553.5	14
Other costs	769	605.5	27
<b>Operating profit</b>	<b>735</b>	<b>263.9</b>	<b>179</b>
Interest	6.7	2.6	158
<b>Gross Profit</b>	<b>813</b>	<b>364.3</b>	<b>123</b>
Depreciation	32	35.9	-12
<b>PBT</b>	<b>782</b>	<b>328.4</b>	<b>138</b>
Tax	267.8	111.00	141
<b>Adjusted PAT</b>	<b>513.8</b>	<b>217.4</b>	<b>136</b>
extraordinary items	7.8	1.0	680
Reported PAT	521.6	218.4	139
OPM (%)	8.9	4.5	
tax rate (%)	34.3	33.8	

Source: Company

- Net sales for the quarter rose 42% to Rs.8.2 bn. Revenue growth was driven by healthy growth across all major segments.
- Revenues from the projects business were primarily driven by domestic heating, and the ventilation & air conditioning business (HVAC), which has grown 52% YoY.

Growth in the engineering services business has been on the back of huge demand from the textile machinery (Voltas is an exclusive marketing agent for LMW) and materials handling sectors. Material handling and manufacturing items were major revenue drivers for the quarter.

The unitary cooling products business registered 29% YoY growth in air conditioner sales. Voltas has during the quarter shifted its entire production to the Pantnagar plant and has completely ceased production in Hyderabad.

**Segment revenues (Rs mn)**

	Q1FY08	Q1FY07	% change
Electromechanical projects	3,783	2,485	52
Engg products and services	1,152	806	43
Unitary cooling	3,334	2,578	29
Total	8,362	6,005	39

Source: Company

- **Operating margins posted a quantum leap:** Margins expanded from 4.5% in Q1FY07 to 8.9% in Q1FY08. In the projects business, a couple of large projects that had been initiated in FY08 reached the profit booking stage. Also, a large project, which had low margins, was completed in FY08. With a sizeable number of large projects reaching the billing stage, the company's profitability in the projects business is likely to remain at healthy levels.
- Unitary cooling had been going through a prolonged phase of negative profitability due to its cost inefficient operations at Hyderabad. Voltas had initiated process to shift entire manufacturing to Pantnagar in HP. During the quarter, the Hyderabad facility has been completely closed and the Pantnagar plant delivered the output. This plant enjoys excise tax benefits and employee productivity is higher. This division also benefited from rupee appreciation as it brought down the cost of dispensers, which are imported.
- Engineering services reported margins decline mainly arising out of product mix shift in favor of manufactured items.

#### Segment margins (%)

	Q1FY08	Q1FY07
Electromechanical projects	9.2	5.6
Engineering products and services	22.0	24.0
Unitary cooling	6.7	1.4
Others	15.9	19.9
Total	10.0	6.6

Source: Company

#### Order backlog flat YoY, yet order pipeline stays robust

Order backlog at Rs.2.0 bn is more or less flat on a YoY basis but has grown 25% on a sequential basis. The company has indicated that order pipeline for Q2 and Q3 remains robust. Notwithstanding any delays in order placement, the company should end the year with a healthy order backlog.

The company received compensation of Rs.65 mn on account of its claims filed against the contractor for the Queen Mary cruise liner.

#### Outlook

- The domestic aviation sector poses huge opportunities for Voltas and the company is well positioned against the competition.
- Voltas has also taken the lead in complying with the government's energy efficiency-labeling program, by launching India's first full range of star rated air-conditioners. The portfolio includes star-rated AC models, both splits and windows, ranging from highly-rated five-star units to the basic one-star models.
- Compared to FY07, profitability is likely to be substantially higher during the year.

We have substantially upgraded our estimates in view of the excellent performance.

#### Change in estimates

	FY08	FY09	% Change	
			FY08	FY09
Revenues	31927.3	40727.5	2.6%	4.7%
EBITDA	2668	3645	52.2%	41.7%
EPS Rs	5.7	7.7	26.7%	23.9%

Source: Kotak Securities - Private Client Research



### Valuation

The Voltas stock has performed well and participated in the rally in the engineering sector. Expansion in EBITDA margins should enable robust cash generation, thus enabling us to upgrade the company's valuations. Over and above the price arrived based on DCF of Rs.145, the company has value in land holdings in Hyderabad and Mumbai.

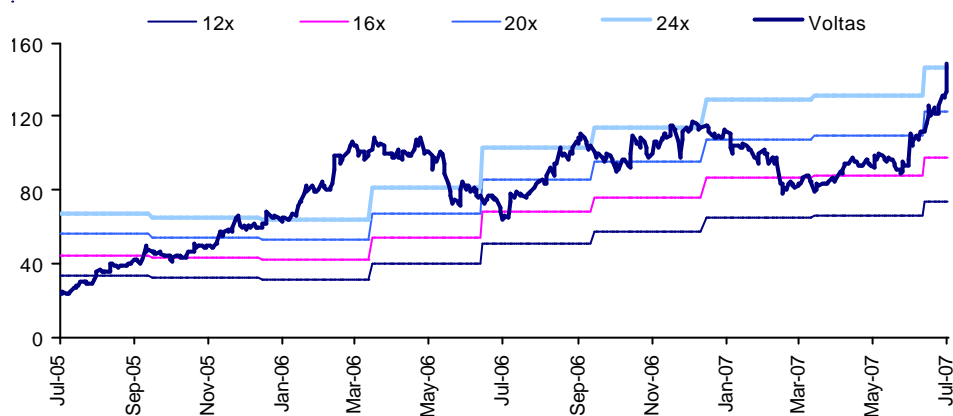
We like the high cash-generation and low asset and working capital nature of the business. The company has a diversified geographic revenue mix and enjoys top positioning in West Asia in MEP (overseas projects) business.

**We maintain HOLD on Voltas with a price target of Rs.166**

The Voltas stock has traded in a P/E band of 16-24x, one year forward earnings. With its three divisions reporting significant margin improvement, we see the company reporting strong numbers for the year. New order wins in the projects business and the company's progress on unlocking value in its land holding could be possible triggers.

We value the stock at Rs.166 per share based on the average of DCF and P/E based valuation (24x FY09 earnings).

### PE band



Source: Kotak Securities - Private Client Research

**RESULT UPDATE**

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**SIEMENS INDIA****PRICE : Rs.1322****RECOMMENDATION : HOLD****TARGET PRICE : Rs.1360****FY08E PE : 26.4x**

**Siemens has reported a disappointing numbers for the third quarter. Operating margins have shrunk on account of provisions for anticipated losses on power projects. Adjusted for the income from sale of investment, PBT has grown 12.2% for the quarter. We are revising our EPS downwards and revise our recommendation to a HOLD with a price target of Rs.1360.**

**Highlights**

- Revenue growth was ahead of our expectations
- Operating profit was up 15%, lower due to provisions made in the power segment
- Order backlog remains healthy. It was up 40%
- Siemens India has approved the sale and transfer of the of the company's 'Siemens Building Technologies Division' (SBT Division) to the company's subsidiary 'iMetrex Technologies Pvt Ltd.' at 'Book Value' on the date of transfer that is October 1, 2007

**Summary table - consolidated**

<b>(Rs mn)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>
Sales	60,586	93,762	124,359
Growth %	62.8	54.8	32.6
EBITDA	6,417	8,038	13,431
EBITDA margin %	10.6	8.6	10.8
Net profit	3,978	5,061	8,291
Net cash (debt)	6,719	3,175	7,361
EPS (Rs)	24.0	30.6	50.1
Growth %	28.7	27.2	63.8
ROE %	35.0	34.4	40.8
ROCE %	41.0	40.7	46.0
P/E (x) consolidated	55.0	43.2	26.4

Source: Company & Kotak Securities -  
 Private Client Research

**Quarterly performance**

<b>Rs mn</b>	<b>Q3FY07</b>	<b>Q3FY06</b>	<b>% change</b>	<b>Q2FY07</b>	<b>QoQ %</b>
<b>Net sales</b>	<b>17,902</b>	<b>10,466</b>	<b>71.0</b>	<b>21,352</b>	<b>-16</b>
Other operating income	79	-57	-237.7	60	32
RM costs	14,199	7,764	82.9	17,152	-17
Staff costs	987	687	43.6	987	0
Other costs	1,806	1,222	47.8	1,536	18
Total expenditure	16,992	9,673	75.7	19,675	-14
<b>PBDIT</b>	<b>910</b>	<b>792</b>	<b>14.8</b>	<b>1,677</b>	<b>-46</b>
Interest	123	117	4.4	105	17
Depreciation	121	90	34.3	109	11
Other income	36	24	46.9	57	-37
<b>PBT</b>	<b>948</b>	<b>844</b>	<b>12.2</b>	<b>1,731</b>	<b>-45</b>
Tax	388	279	38.9	650	-40
<b>PAT</b>	<b>560</b>	<b>565</b>	<b>-0.9</b>	<b>1,081</b>	<b>-48</b>
Sale of investment	259	0		0	
<b>Reported PAT</b>	<b>819</b>	<b>565</b>		<b>1,081</b>	<b>-24</b>
RM costs to sales (%)	79.7	73.8		80.6	
Other costs to sales (%)	10.1	11.6		7.2	
OPM (%)	5.1	7.5		7.9	
Tax rate (%)	41.0	33.0		38.0	

Source: Company



## Strong execution but margin pressures continue

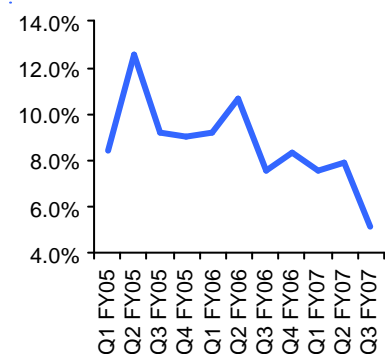
Siemens has reported a 69% growth in revenues, mainly led by strong order execution in the power and industrial solutions projects segment, where the company is executing large orders in power generation and T&D. The automation solutions and transport divisions have shown healthy revenue growth as well.

### Segment revenues

Rs mn	Q3FY07	Q3FY06	% change	Q2FY07	% change
Automation and drives	3,706	2,857	30	4,385	-15.5
Power	9,823	4,602	113	11,866	-17.2
Healthcare	1,199	896	34	1,586	-24.4
Industrial soln	2,369	1,177	101	2,713	-12.7
Transport	790	544	45	796	-0.7
Information and comm	465	346	34	469	-0.7
RealEstate	96	96	0	125	-22.8
Automotive	296	308	(4)	282	5.1
Building tech	230	155	48	252	-9.0
<b>Total</b>	<b>18,975</b>	<b>10,982</b>	<b>73</b>	<b>22,473</b>	<b>-15.6</b>

Source: Company

### Operating margin



Source: Company

## Margin erosion in largest revenue segment hurts operating profits

The power segment accounts for as much as 50% of the standalone revenues of the company. In this segment, the company is currently executing large domestic and overseas orders. In the power segment, profitability was hit due to certain provisions made. Segment margins have come down from 6.0% in Q3FY06 to 0.5% in Q3FY07.

However, apart from the power division, other major divisions have recorded a margin improvement.

### Segment margin (%)

	Q3FY07	Q3FY06	Q2FY07
Automation and drives	7.0	6.0	8.2
Power	0.5	6.0	5.9
Healthcare	4.5	1.3	2.9
Industrial soln	10.1	9.7	10.7
Transport	8.8	5.6	3.4
Information and comm	7.9	10.3	9.3
RealEstate	74.9	60.4	68.1
Auto	-2.1	3.4	0.3
Building systems	7.9	3.8	8.2
<b>Total</b>	<b>4.2</b>	<b>6.5</b>	<b>7.0</b>

Source: Company

### Valuation

	PE07	PE08	FY08 EV/ EBITDA
Siemens	43.2	26.4	14.6
ABB	36.2	26.5	15.9
Areva	40.8	31.3	19.8

Source: Kotak Securities - Private Client Research

**We recommend a HOLD on Siemens India with a price target of Rs.1360**

## Order backlog continues to remain healthy

Order inflows grew 45% during the quarter to Rs.17.54 bn. Order backlog is at healthy levels at Rs.108.1 bn, up 40% over Q3FY06.

## Outlook and Valuation

Siemens India continues to penetrate the neighboring export markets and this has resulted in a healthy accretion to order inflows. Siemens has a presence in the entire value chain of power from generation to distribution. Order backlog is healthy and up 40%, which should translate into robust revenue growth in the coming years.

We have adjusted our estimates downwards to Rs.30 for FY07. At the current price, Siemens is trading at 43.2x and 26.4x FY07 and FY08 earnings, respectively. We revise our rating to a **HOLD** with a price target of Rs.1360

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
23-Jul	Ansal Hsg Cn	Pooja Mukund Jalan	B	195,000	226.70
23-Jul	Ansal Hsg Cn	Ashita Bhavin Parekh	S	195,000	226.70
23-Jul	Balaji Distl	JMP Securities	B	273,983	10.72
23-Jul	Dollex Indut	Immortal Financial Serv	B	38,654	116.47
23-Jul	Elpro Intern	Goel Fintrade	B	33,685	243.88
23-Jul	Entegra Ltd	Devkant Synthetics India Pvt.	B	1,492,700	26.39
23-Jul	Entegra Ltd	Shabbir A Mun	S	500,000	26.40
23-Jul	Entegra Ltd	Khatija A.Mun	S	500,000	26.40
23-Jul	Entegra Ltd	Akbar A Mun.	S	500,000	26.40
23-Jul	Expo Ga Cont	Rajeswari Kodali	B	30,000	34.90
23-Jul	Gemstone Inv	Bhavesht Prakash Pabari	B	20,000	25.88
23-Jul	Gemstone Inv	Bina Atul Chauhan	S	15,000	25.88
23-Jul	Gitanjali Ge	Morgan Stanley And Co Intl Ac			
		Morgan Stanley DW Mau Ltd	B	500,000	250.00
23-Jul	Gitanjali Ge	Goldman Sachs I Mauritius	S	500,000	250.01
23-Jul	Great Offsh	Sunidhi Securites and Fin Ltd	S	244,000	878.46
23-Jul	Imp Finance	Dungarshi N Patel	B	6,150	17.87
23-Jul	Imp Finance	Kavita Gupta	S	6,100	17.87
23-Jul	Indo Borax C	Nisha Suman Jain	B	18,000	162.23
23-Jul	Kalptaru	Ajay Bhagwandas Karani	B	25,396	85.98
23-Jul	Mah Ind Leas	Bharat D Galal	S	20,000	52.10
23-Jul	Msk Projects	Meenakshi Jatia	B	150,000	83.47
23-Jul	Patel Airtem	Chirag Raval	B	79,380	40.02
23-Jul	Pitti Lamina	Meenakshi Jatia	B	88,204	79.48
23-Jul	Pruden Pharm	Mercury Fund Management	S	70,000	28.40
23-Jul	Ramco System	P.R.Venketramaraja	B	300,000	151.00
23-Jul	Ramco System	Rajapalayam Mills	S	300,000	151.00
23-Jul	Shakti Pumps	Pooja Mukund Jalan	B	86,721	167.35
23-Jul	Shakti Pumps	Meenakshi Jatia	B	80,000	167.25
23-Jul	Shakti Pumps	Santosh Industries	S	136,771	167.58
23-Jul	Steel Exch	Diamant Investment and Finance	B	66,936	28.02
23-Jul	Suryachakra	K S B Holdings	B	397,200	22.04
23-Jul	Suryachakra	Jigneshbhai Hiralal Shah	B	2,666,666	22.50
23-Jul	Suryachakra	Anand Yagesh Shares and Cons	B	1,333,333	22.50
23-Jul	Suryachakra	Srei Venture Capital Limited	S	1,029,024	21.56
23-Jul	Suryachakra	Sourabh Venture Cap Trust Balaji Fund	S	1,359,127	21.96
23-Jul	Suryachakra	Merrill Lynch Cap Mkts Espana S.A.Sv	S	600,000	22.22
23-Jul	Suryachakra	HBK Europe Mgmt Llp Ac			
		Triple M Invest	S	3,000,000	23.01
23-Jul	Switch Tec G	Haresh N. Khatri	B	16,055	76.20
23-Jul	Tricom India	Pooja Mukund Jalan	B	200,000	134.00
23-Jul	Tricom India	P F H Entertainment Ltd	S	61,000	133.79
23-Jul	Unity Infra	BSMA Ltd	B	100,000	617.00
23-Jul	Vij.Shanti B	Darashaw and Co	B	84,683	178.20

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
BHEL	1,766	7.1	11.0	1.6
ONGC	909	2.4	8.8	0.8
L&T	2,625	5.9	8.0	1.3
<b>Losers</b>				
Infosys Tech	1,948	(1.9)	(4.2)	1.9
ICICI Bank	970	(1.6)	(3.2)	1.4
Cipla	192	(4.7)	(1.4)	6.8

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
24-Jul	Housing Development & Infrastructure hosts listing ceremony at BSE & NSE; JSW Steel, Pidilite Industries, Kotak Mahindra Bank, GTL earnings expected
25-Jul	NIIT Ltd holds annual shareholders meetins. ONGC, Chambal Fertilizers & Chem, 3i Infotech, HDFC, Bongaigaon Refinery & Petrochemicals, SAIL, IDFC, Concor, Thermax, Wockhardt, Punjab National Bank, Matrix Laboratories, Sterlite Industries, Nicholas Piramal, Bombay Dyeing, Suzlon Energy earnings expected
26-Jul	ABB, Tata Power, Maruti Udyog, GlaxoSmithkline Pharma, Balaji Telefilms, GE Shipping, Bharti Airtel, Cummins India, Alfa Laval, Lanco Infratech, Federal Bank, Apollo Tyres, Dena Bank, Crompton Greaves, Sterlite Optical Tech earnings expected.
27-Jul	ITC to hold Annual Shareholders meeting; BPCL, Gail India, Amara Raja Batteries, Colgate Palmolive, Madras Cements, CESC, Bata India, Tata Chemicals, Titan Industries, Engineers India, Indian Overseas Bank, Ramco Systems, Tata Elxsi earnings expected
28-Jul	Grasim Industries, NTPC earnings expected
30-Jul	Mahindra & Mahindra, HPCL, Indian Oil Corp, BHEL, BEML, Wyeth, Aditya Birlo Nuvo, National Fertilizers, Hinduja TMT, Mirc Electronics, Jet Airways earnings expected
31-Jul	Unitech holds annual shareholders meeting; Hindalco, VSNL, Tata Motors earnings expected

Source: Bloomberg

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