BUY

CMP Rs95

Gati Ltd

INITIATING COVERAGE — **July 6, 2007**

Stock Data

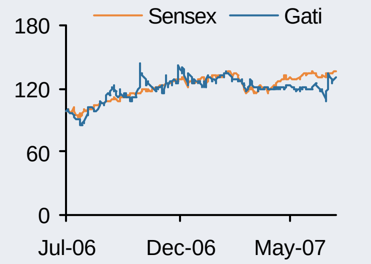
Target Price	Rs120
Upside	26%
Sensex	14,862
52 week H/L	Rs111/63
Avg. Vol. (6m)	52,999
Market Cap	Rs7bn
Face Value	Rs2
Bloomberg Code	GTIC IN
Reuters	GATI BO

Prices as on July 05, 2007

Share Holding Pattern

Mar'06	(%)
Promoters	50.0
Foreign & Institutions	5.9
Non Promoter Corporate	8.9
Public & Others	35.2

Share Price Trend



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Overweight on express segment-we like the leader of pack

Gati, a leader in express cargo services, with market share of ~10% in organized express segment is all set to benefit from the increase in trade activity and the outsourcing of logistics solutions. We expect Gati to witnesses a CAGR of 32% in express segment driven by more than 20% growth in express industry over next 5 years.

An integrated player with one stop solution

We feel that Gati is well poised to exploit logistic demand with its wide range of integrated services. Its services are driven by strong distribution network (covers 594 districts out of 602), IT facilities, +2000 vehicles on road & warehousing facilities (1mn sqft). Also tie up with Indian Airlines & international expansion through its 100% subsidiary Gati holdings Ltd, Mauritius makes Gati one stop solution for its clients.

Consistent performer showing strong growth visibility

Gati's net profit & adjusted earnings has witnessed a CAGR of 67% & 38% respectively over F6/04 - F6/07E. We expect momentum to continue with Gati's earnings to witnessed CAGR of 32% over F6/7-09E. This is driven by improvement in margins due to its re-engineering distribution network and better capacity utilization. The inclusion of a new vessel would also drive margin improvement in FY09 as Gati enjoys better operating margins in coast-coast than the express segment.

Valuation Justified

The stock is trading at 15.7x F6/09E earnings and 9.7x EV/EBIDTA F6/09E. We believe that an earnings growth of ~32% over F6/07-09E on a fully diluted basis, justifies the current multiples at which it trades. We are comfortable assigning a 20x multiple to its F6/09E EPS given the high growth visibility. We recommend a BUY with a target price of Rs120, representing an upside of 26% from current levels.

Key Highlights

Period to June 30 (Rs Mn)	FY05 (12)	FY06 (12)	FY07E (12)	FY08E (12)	FY09E (12)
Revenues	3,592	4,562	5,520	7,120	9,332
y-o-y growth (%)	17	27	21	29	31
EBIDTA	255	388	492	745	1,070
EBIDTA margin (%)	7.1	8.5	8.9	10.5	11.5
PAT	145	201	261	402	579
Pre Exceptional PAT	104	201	261	402	579
y-o-y growth (%)	86.9	94.0	29.7	53.8	44.3
EPS (Rs)	2.5	2.8	3.5	4.6	6.0
P/E	38.3	33.4	27.2	20.8	15.7
P/BV	6.9	4.2	3.3	2.4	1.8
EV/EBIDTA (x)	29.1	19.2	16.9	13.6	9.7
RONW (%)	20.1	18.6	14.0	9.2	9.5
ROCE (%)	15.3	16.6	11.7	12.2	14.2

Source: India Infoline Research, Company

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Investment rationale

Expansion in Warehousing capacity, additional vessel, sustainable growth more than 20% in express industry & better operational efficiency to drive earnings

Augmented Rs4.3bn for warehousing, additional vessel & technology infrastructure to exploit rising trade.

Dilution of further 32% to fund capex

Leader in the organized express segment

The opening up of the banking, insurance, retail, aviation and telecom sectors is one of the major growth drivers for India's express industry. The reach of retail, telecom and banking services to the Tier 2 cities and towns will trigger a rise in the need for express services in such locations. This bodes well for players like Gati, which connects 594 of 602 districts in India.

Additional warehousing capacity & vessel to drive growth

Gati has planned capex of over Rs4.3bn in F6/07-09E mainly for warehousing and technology infrastructure to exploit the growing express industry. Over the next two years, Gati will add 1mn sq ft in warehousing space and is expected to get one more vessel operational by March 2008 for its coast-coast shipping business.

Operating leverage to improve margins

Re-engineering its distribution network to the hub and spoke model (one central distribution centre in Nagpur and 19 express distribution centers at key places), and a better utilization of fleets and warehousing space will help the company to better its operating leverage. We expect Gati's operating margins to improve by 256bps over the next two years, which would drive profit at 49% CAGR over F6/07-09E.

Capex of Rs4.3bn over F6/07-09E

Increase in outsourcing and implementation of VAT will likely result in giving freight and warehousing to one vendor which has prompted Gati to invest a large part of capex on warehousing infrastructure. Gati has also earmarked around Rs575mn on technology up gradation.

Capex over F6/07-09E

Capex	Amt (Rs mn)	Funding	Amt (Rs mn)
Warehousing Infrastructure	2,750	FCCB	900
Technology	575	Preferential allotment of shares & warrants	2,050
New Vessel	400	Int. Accruals and Debt	1,300
Other Capex	525		
Total	**4,250**		**4,250**

Source: India Infoline Research, Company

Equity dilution of ~32% over the next two years

In order to fund above capex, Gati has raised Rs2.3bn through rights and FCCB issue. The total equity dilution will be around 32% over the next two years post conversion of FCCB. We have assumed conversion of FCCB (due in 2011) to take place in FY09. Due to this dilution, we expect Gati's ROE to come down from 18.5% in F6/06 to 9.5% in F6/09E but at the same time we expect net margins to improve from 4.73% in FY06 to 6.21% in F6/09. Further, with D:E of 0.45 in F6/07E, Gati has sufficient flexibility to finance growth.

Fully diluted equity capital (Rs mn)

Particulars	No of shares-Mn	Conversion price(Rs)	Equity Capital
Current equity shares O/S	72.39		144.8
Convertible warrants			
Issued at March 2006	3.08	84.6	6.2
Issued at Oct 2006	11.5	90	23.0
FCCB	7.15	125	14.3
ESOP	1.65		3.3
Total	**95.8**		**191.6**

Source: India Infoline Research, Company

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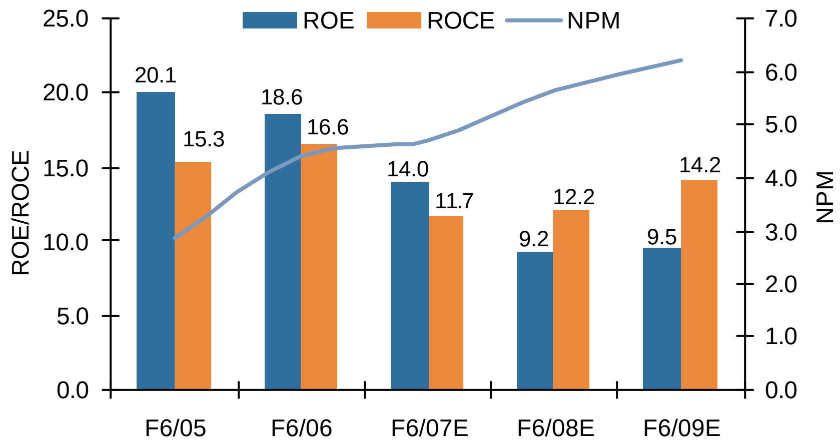
Return ratio to come down (%)



Source: India Infoline Research, Company

Revenues to grow at 30% CAGR during F6/07-09E

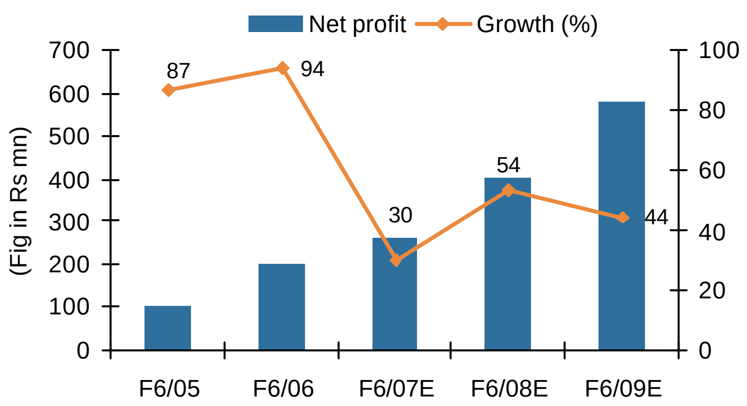
We expect Gati's consolidated revenues to grow at 30% CAGR over F6/07-09E. This is driven by 34% growth in coast-coast segment with the acquisition of new vessel. We expect the express segment to grow at ~32% driven by huge capex initiated in warehousing and technology, and a rise in international trade.

Sustainable growth in express business & margin improvement of 256bps over next 2 years to drive earnings

Earnings to grow at CAGR of 49% during F6/07-09E

We expect Gati's earnings to grow at CAGR of 49% over F6/07-09E. This is driven by improvement in margins due to its re-engineering distribution network and better capacity utilization. The inclusion of a new vessel would also drive margin improvement in FY09 as Gati enjoys better operating margins in coast-coast than the express segment. But 49% growth in earnings would drive only 32% growth in EPS due to 32% equity dilution over F6/07-09E.

Growth in net profit



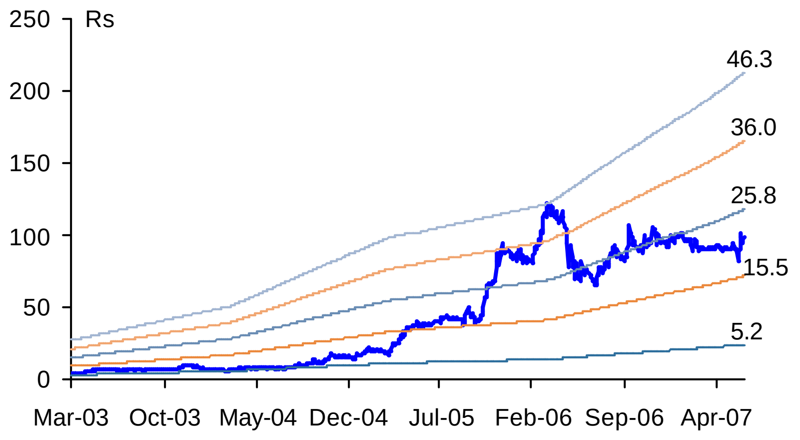
Source: India Infoline Research, Company

Sustainable high growth visibility justifies current valuations.

Valuations Justified

Gati is well positioned in the express segment, which is expected to witness a CAGR of over 20% in the next five years. The stock is trading at 15.7x F6/09E earnings and 9.7x EV/EBIDTA F6/09E. We believe that an earnings growth of ~32% over F6/07-09E on a fully diluted basis, justifies the current multiples at which it trades. We are comfortable assigning a 20x multiple to its FY09E EPS given the high growth visibility. We recommend a BUY with a target price of Rs120, representing an upside of 26% from current levels.

One Yr-Forward PE Bands



Source: India Infoline Research, Bloomberg

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Quarterly performance

Period to June 30 (Rs Mn)	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07
Revenue	**1,001**	**1,151**	**1,169**	**1,243**	**1,333**	**1,390**	**1,384**
% y/y					33.2	20.8	18.4
Express Distribution & Supply chain	704	830	850	873	913	990	992
% y/y					29.7	19.3	16.7
% total	70.3	72.1	72.7	70.2	68.5	71.2	71.6
Coast-Coast	114	124	122	132	158	143	161
% y/y					38.6	15.3	31.7
% total	11.4	10.8	10.4	10.6	11.9	10.3	11.6
Fuel Stations	183	197	197	238	262	257	232
% y/y					43.2	30.5	17.6
% total	18.3	17.1	16.9	19.1	19.7	18.5	16.7
EBIT	**97**	**119**	**102**	**103**	**115**	**136**	**148**
% y/y					18.6	14.3	45.3
% sales	9.7	10.3	8.7	8.3	8.6	9.8	10.7
Express Distribution & Supply chain	74	88	75	81	87	109	120
% y/y					17.6	23.9	59.9
% total	76.3	73.9	73.5	78.6	75.7	80.1	80.9
% sales	10.5	10.6	8.8	9.3	9.5	11.0	12.1
Coast-Coast	21	29	25	20	25	24	25.5
% y/y					19.0	-17.2	2.0
% total	21.6	24.4	24.5	19.4	21.7	17.6	17.2
% sales	18.4	23.4	20.5	15.2	15.8	16.8	15.9
Fuel Stations	2	2	2	2	3	3	2.8
% y/y					50.0	50.0	40.0
% total	2.1	1.7	2.0	1.9	2.6	2.2	1.9
% sales	1.1	1.0	1.0	0.8	1.1	1.2	1.2

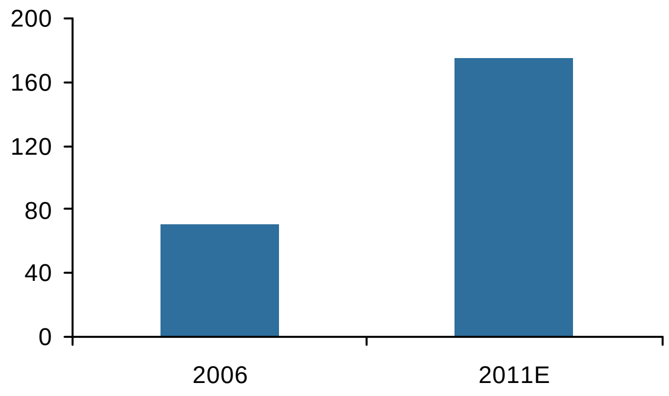
Source: India Infoline Research, Company

Express industry is at inflection point, expected to grow more than 20%

Express industry to witnessed CAGR of 20-25% over the next five years

With a rapid decline in trade barriers, globalization of markets and, more importantly, an improvement in infrastructure, foreign companies and multinationals are setting up shop floors and business operations as well as outsourcing business processes to India. This has and will continue to increase business activity, which would create a need for India-centric express delivery and logistics services, third party logistics and SCM, in India. With 65% of the express market dominated by the organized segment in terms of revenue and Gati being a leader in express cargo it would be a key beneficiary. We expect the express industry to grow at a CAGR of more than 20% over the next five years and is likely to cross Rs170bn by 2011.

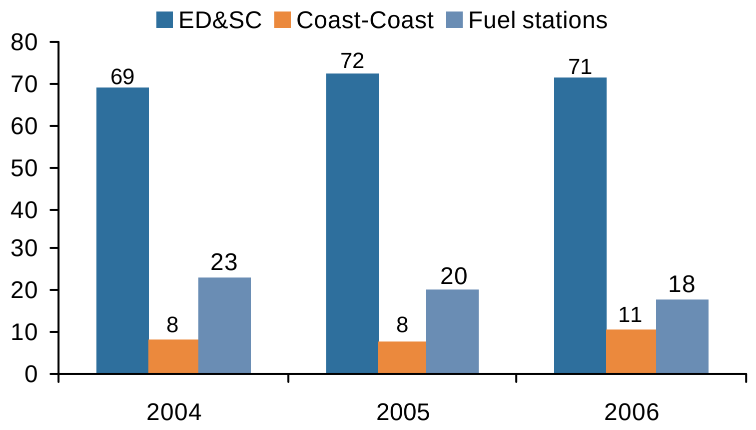
Size of express industry (Rs bn)



Source: India Infoline Research, CARE

Gati has three main line of businesses - express distribution and supply chain (ED&SC), coast-coast and fuel stations. Express distribution is its mainstay; contributing 71% of revenues in FY06. In order to focus on its core logistics business, the company is hiving off its low margin fuel business and transferring it to its 100% subsidiary w.e.f from July 1, 2006.

Revenue break-up (%)



Source: India Infoline Research, Company

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With cargo movement expected to pick up substantially, capacity utilization to increase from current levels of 65-70%.

Express distribution and supply chain

Gati offers comprehensive multi-modal transportation services to its customers with niche value ED&SC services such as surface cargo movement (express), trucking, warehousing, priority (air), ZIPP (courier) and international business. Gati has about 3,000 corporate clients (contributing 63% of revenues) and more than 40,000 retail customers, with the top customer contributing less than 2% of total revenues. Gati has well diversified express revenues - pharma (10.5%), electronics (9.8%), automotives and auto spares (8.4%), and eng products (8.4%) are the key verticals contributing 37% of revenues.

Surface cargo movement (express and trucking business) - contributes 77% of ED&SC revenues

The surface cargo movement is through road and rail and is suitable for bulk cargo transport. This service covers 594 out of 602 districts and works on the hub and spoke model. The company, with a fleet strength of more than 2,400 vehicles can handle 30,000 tonnes, 0.35mn dockets and 1.6mn packets per month.

Gati's network

Particulars	Numbers
No. of locations	340
No. of locations serviced	12,340
Delivery capability	594 out of 602 districts
No. of routes	322 with STD/STA concept
No. of vehicles (Own+hire+associates))	2,400+
Weights handled per month	30,000 tons
Packets handled per month	1.6mn

Source: India Infoline Research, Company

Phase out of CST giving boost to 3PL players to operate on hub & spoke model.

Warehousing facilities (logistics business) - contributes 10% of ED&SC revenues

Gati currently has 1mn sq ft of mechantronic warehouse space located in Gurgaon, Mumbai (Panvel), Kolkata (Shyam Bazar) and other non-metros such as Jaipur, Indore and Ludhiana to name a few. These warehouses are connected online, enabling a track on inventory and material status. Additionally, Gati is adding another 1mn sq ft by 2009 with one central distribution centre at Nagpur and the rest being express distribution centres across India. Today, customers are asking for services that include freight and warehousing from the same vendor in order to streamline processes and cut costs. Also, with the implementation of VAT and phase-out of the CST, Gati is well positioned to benefit in warehousing space thanks to the current expansion plan. We expect the company to grow more than ~50% over the next two years in warehousing space on account of expansion and better utilization.

Priority business - contributes 9% of ED&SC revenues

This is a value-added service that Gati offers its clients through an alliance with Indian Airlines. Gati has booked assured space on Indian Airlines flights covering 34 sectors. Gati offers two schemes under this service: Gati gold-delivery within 24 hours and Gati silver-delivery by next day's flight at the doorstep. This service operates around 80-90% of capacity. Gati also offers courier services to companies, SMEs and institutions on a regular basis. Indian Airlines and Gati have entered into a strategic tie-up to bring retail courier service under the ICC-ZIPP brand name. This business contributes 1% of express revenues.

Strategic tie-ups with Indian Airlines & CRIEL to drive business

Tie-up with Indian Airlines

Gati has also signed a wet lease agreement with Indian Airlines for five B737-200 freighter aircrafts for a period of five years covering all metros and other parts of the country for expanding its business. This can be extended for further periods by mutual consent. With Gati's expertise on ground and Indian Airlines' in sky, this would complement volume growth for both parties. The domestic air traffic has grown at a CAGR of ~13% over FY02-06 at 484mn tons. Also, the privatization of Mumbai and Delhi airports has created a dedicated cargo terminal which has speeded up the cargo handling process.

Focusing on International business in order to become leader in Asia-Pac region

International business - contributes 3% of ED&SC revenues

In order to increase its scope of services and to expand internationally, Gati has set up Gati Holdings Ltd, a wholly owned subsidiary in Mauritius, which has established five step-down subsidiaries. While currently custom house agent activities are outsourced in the international locations, Gati is expected to explore the economics of undertaking this activity on its own going forward. Gati plans to expand its operations in the Asia-Pacific region and expects its international business to contribute one-third of total revenue after five years.

MoU with China Railway Express International Logistics Company Ltd (CREIL)

Gati has signed a MoU with CREIL, a market leader in China for rail and road cargo and package delivery, to provide and be responsible for all necessary infrastructure requirements in India and vice versa. This tie-up will provide exporters and importers an opportunity for end-end connectivity in both countries. India–China trade is all set to exceed $40bn in 2010 from $17bn now.

CREIL Network

Particulars	Numbers
Reach	500 cities in all 31 provinces
Fleets	3,500+
Warehousing	2mn sq ft
Cargo handled by Rail in 2005	8.7mn tons
Cargo handled by Road in 2005	60,000 tons

Source: India Infoline Research, Company

Sound technology infrastructure

Gati's IT infrastructure includes online tracking of customer's consignments, scanned copy of proof of delivery through e-mail, call free number (for 24X7) and e-mail and SMS updates. It also has Gati Enterprise Management system (GEMS), a custom developed software to cater to the needs of Gati operations, Oracle CRM and Oracle Financial. This IT initiative by Gati gives it an extra edge over its unorganized competitors.

Re-engineering distribution network

In order to reduce manpower and multiple handling and damage of goods, Gati is re-engineering its distribution network to the hub and spoke model. In this model, the company will have one central distribution centre at Nagpur and 19 express distribution centers in key areas. Gati is also planning to open 1,500 customer convention centers (3C)/Café Delivers, which provides courier services to retail. This model will help to monitor its business partners, franchises, and 3C and will improve the company's operational efficiency.

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Existing network

Customer → Local Storage → Hub → Hub → Local Storage → Customer

Re-engineered network

Customer → Hub → Hub → Customer

Coast-coast business - contributes 11% of consolidated revenues

New vessel to run on longer routes which will improve margins

Gati offers coastal shipping through three container vessels operating mainly on the Chennai-Port, Blair-Yangon (Myanmar) - Chennai route. Gati has recently signed an agreement to purchase another vessel worth US$ 13.4mn to be delivered by March 2008, which would operate mainly on longer routes like Thailand, Singapore and Sri Lanka.

Gati coast-coast operations

Particulars	Capacity	
	DWT	TEU
Gati 1	4811	100
Gati Suvidha	6084	357
Gati Zipp	6779	260
New Vessel-Operational by March 08	7822	444
Total	**25496**	**1161**

Source: India Infoline Research, Company

Previously, Gati enjoyed capacity utilization of 60% because it operated only on one route, i.e.-Chennai-Port Blair. Now with the introduction of a new route, i.e. Chennai-Port Blair-Yangon-Chennai, the average utilization level has increased from 60% to 80%. Out of three vessels operational, two vessels make a roundtrip and one vessel sails between Chennai and Port Blair. On an average, Gati makes three round trips per month. Gati did dry docketing for a couple of its vessels in H1FY06, which affected EBIT margins as Gati did not incur any revenues on that. As per management, dry docketing has to be done every three years. Gati's coast-coast division enjoyed higher operating margins in the range of 17-20%.

Fuel division - contributes 18% of consolidated revenues

Transferring of low margin fuel business to its 100% subsidiary

Gati operates four fuel stations spread over three states. In order to focus on its core logistics business, Gati is hiving off its low margin fuel division and transferring it to its wholly owned subsidiary w.e.f from July 2006. Turnover in fuel business has grown by 30% for 9MFY07. The company enjoys less than ~1.5% operating margins in this business.

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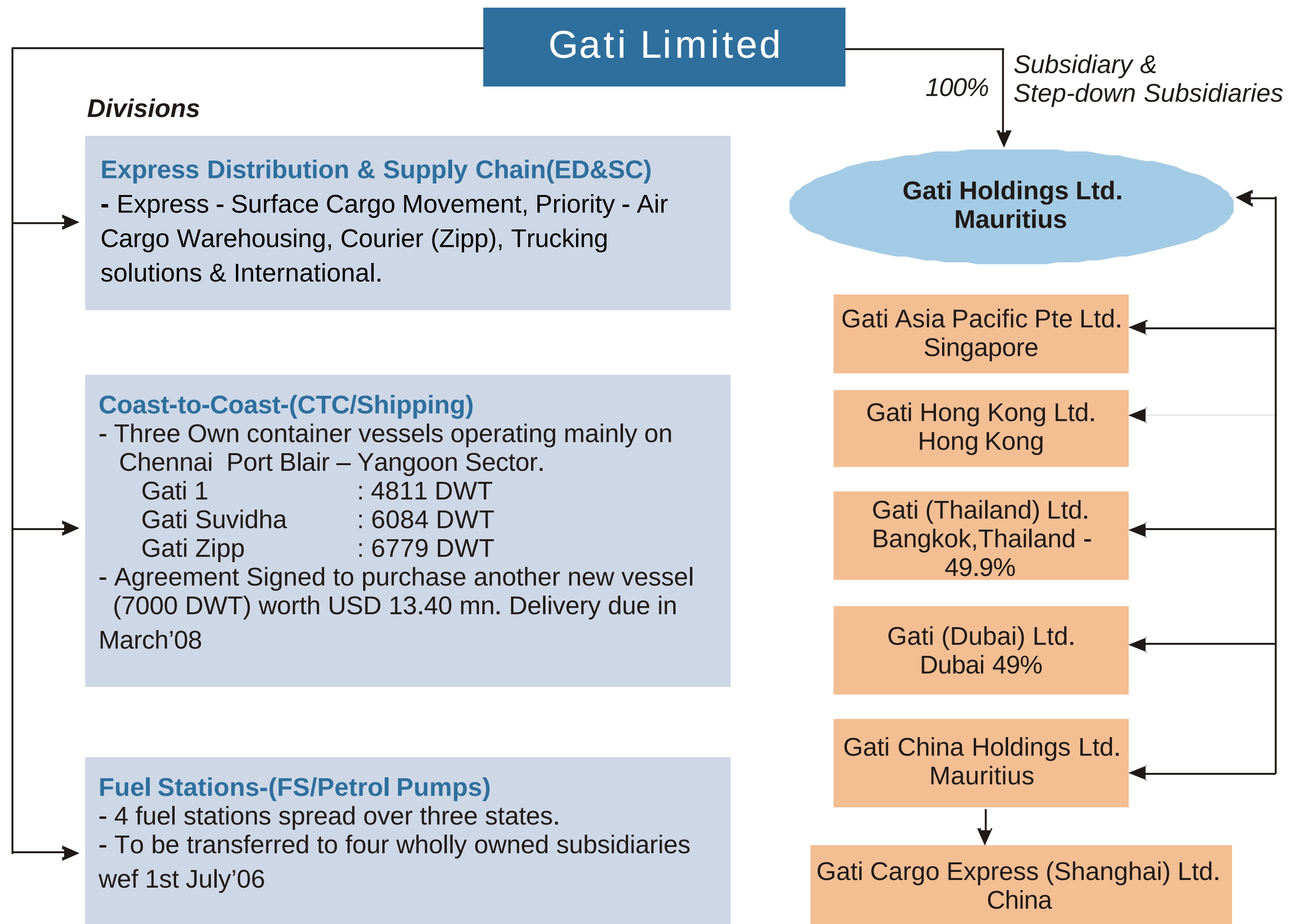
Company background

Gati Ltd, based at Secunderabad, is a leading domestic express cargo company with a pan-India distribution network offering multi-modal connectivity (road, rail, air and sea) and end-to-end logistics solutions. Gati handles 19 million packages annually and approximately 30,000 tonnes of cargo per month. Its services are driven by its strong team of 6,400 professionals, a fleet of +2,000 vehicles on road, delivery capabilities in 594 out of 602 districts in India through its hub and spoke model, 1mn sq ft of warehousing facilities and robust IT network.

Gati Group



Source: India Infoline Research

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Express Industry Scenario

As per Express Council of India (ECIL) and CARE, the Indian express industry was valued at Rs71bn in 2005-06, which occupies an indispensable position in facilitating trade. The express industry has grown in the range of 25-30% over the past three-four years and is expected to register same growth rate over the next five years. It offers a range of value-added services such as door-step collection of consignments, customized packing, online tracking of movement of consignments, custom clearance, confirmation/proof for delivery and, most importantly, timely delivery of consignments.

Industry structure - organized players contribute 65% of industry revenue

The express industry is highly fragmented, largely dominated by unorganized players. There are more than 2,500 estimated express players in India, of which only about 30-40 players exist in the organized segment. However, the organized segment contributes more than two-third of industry revenues. In the express service business, volume is important and size does really matter. Organized players boast strengths such as better collection/distribution channels, assets such as aircraft, light commercial vehicles, better technology which helps them to garner business from corporates. On the other hand, unorganized regional players have advantage over larger players in terms of pricing (operate on lower overheads) as well as a personal touch because of their regional approach.

Key strengths of organized and unorganized express players

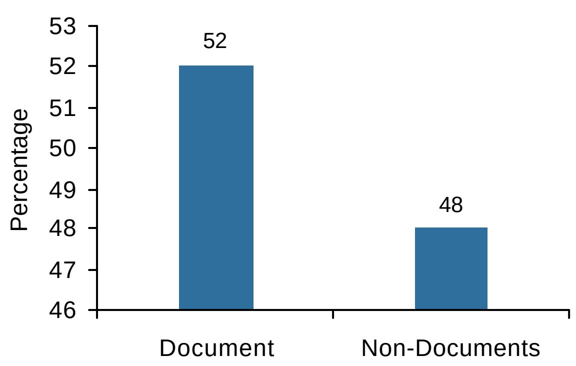
Organized players	Unorganized players
Wider reach	Personal touch
Brand visibility	Low pricing
International tie-ups	
Better technology	
Ability to handle larger volumes	

Source: India Infoline Research

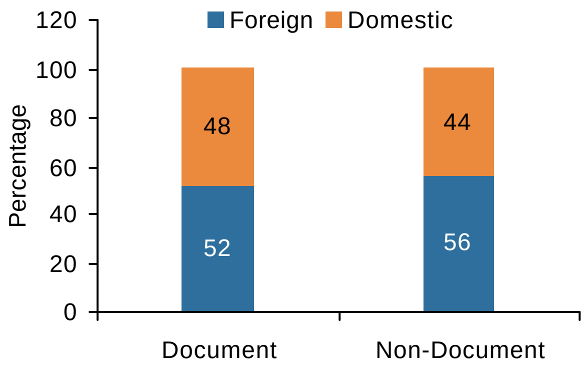
Non-document shipments - 48% of express revenues

The express industry is divided into two segments - document (52% of express industry revenue) and non-document shipments. Document shipments weighing less than 300gms account for ~70% of document revenues. The Indian postal service wants to create monopoly by having exclusive privilege to deliver letters. The implementation of Indian post Act, 1898 (in terms of Indian post monopoly on low weight documents) will affect small players who have a presence in this segment. Gati, which handles 98% cargo i.e. non-document and 2% document in the express segment, would be least affected by this amendment.

Industry Revenue break-up



Value wise break-up of shipments handled



Source: India Infoline Research, CARE

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Growth drivers of the express industry

Strong economic growth

Strong macro-economic growth across various industries has led to robust growth in trade. The growth of the express industry is inextricably related to the extent of growth in trade, which depends upon several factors such as growth in GDP and IIP. The two leading economic indicators of the state of economy, GDP and IIP have grown at 8-9% in the past three years and are expected to maintain the same momentum going forward. Even the manufacturing sector has recorded 8-9% growth over the past three years with India becoming a manufacturing hub due to low cost raw materials and employee cost in sectors such as textiles, auto, etc. This will drive demand for logistics in India.

Y-O-Y Growth in exports, GDP, IIP, non-oil imports, service tax revenue

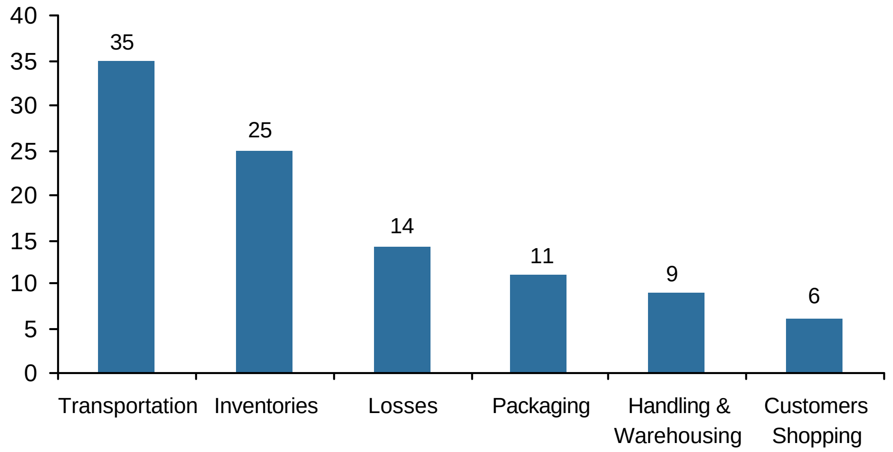
Growth rates (%)	2001-02	2002-03	2003-04	2004-05	2005-06
Exports	-1.6	20.3	21.4	24.4	23.4
Non-oil imports	7.2	17.0	31.7	33.6	25.5
GDP	5.8	3.8	8.5	7.5	9.0
IIP	2.7	5.7	7.0	8.4	8.2
Manufacturing	2.9	6.0	7.4	9.2	9.1
Service tax revenue from express industry	27.0	51.0	66.0	70.0	63.0

Source: CARE, NCEAR, CSO

Outsourcing of operations - increased demand for third party logistics (3PL)

The Indian 3PL market, estimated at about US$890.3mn in 2005, is expected to grow at a CAGR of 22% to reach US$3,557mn in 2012. Outsourcing of logistics to a 3PL has been happening in Europe and the US (80-90% of companies in America outsource their logistics requirement) for many years. However, in India 3PL picked up momentum in the last decade with companies offering end-end logistic solutions and a number of multinational companies setting up operations in India. Globally it has been seen that outsourcing logistics operations to 3PL saves cost by 5-10% and also helps companies to concentrate on its core activities.

Elements of logistics cost (%)



Source: India Infoline Research, FICCI

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Better technology

Most logistics companies have realized that they need to move beyond shipment tracking and integrate all their activities such as supply chain, sales force and warehouse management. Logistics companies are making it easier for customers to track their packages, either through the Internet or telephone. They are also making sure that the entire process of tracking goods has to be automated, from booking to delivery. Gati Cargo, for example, is implementing an enterprise resource planning (ERP) package from Oracle Finance to make its supply chain more manageable. It has tied up with Satyam Computers to deploy new technologies — Oracle CRM, Oracle Finance and related customized software.

Implementation of VAT - making hub and spoke model possible

The Indian government's proposed uniform tax regime is expected to drive Indian industries towards using more 3PL services. Introduced partially in 2005, a full implementation of this regime is expected to necessitate having centralized large warehouses in regional hub cities, to achieve best efficiency in logistics. Since building such large warehouses requires huge investments, most Indian companies are likely to outsource the warehousing function, creating immense potential market for 3PL service providers. The current Central sales tax rate (CST) is 3% which is expected to be phased out over the next two-three years.

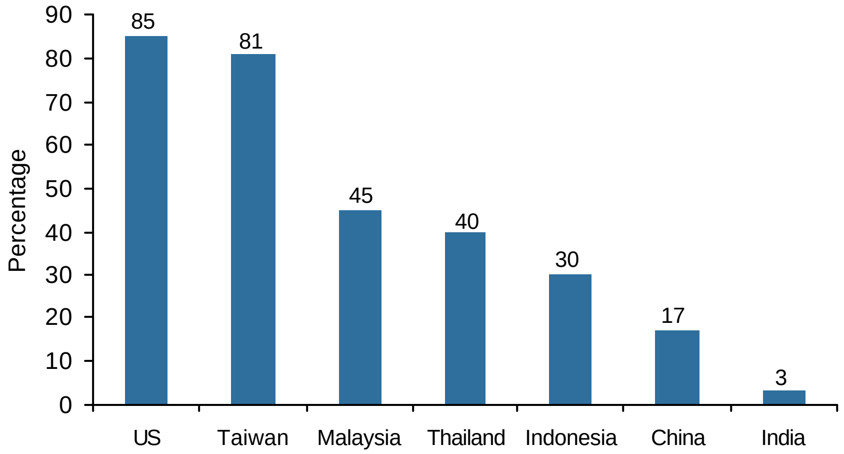
Improved infrastructure

As India further integrates itself with the global market, there is bound to be rapid growth in international and domestic trade cargo volumes. Hence, a considerable growth in freight traffic is expected. For seamless movement of such freight traffic, there is a need for an efficient transport network of roads, ports, airports and railways. Logistics companies would benefit the most with government planning to spend $320mn on infrastructure over the next five years.

Organized retail to drive the industry

With organized retailing a mere 3% of the total retailing pie, India is far behind developed countries and also its south Asian peers. While organized retailing is estimated to have recorded a CAGR of 25% in the past three years, we feel the growth rate is sustainable as the entry of big players with deep pockets will expand the market further. The government has opted for gradual opening of the sector to foreign players by relaxing norms by single brand outlets and through cash-and-carry model. Consequently, demand for logistics will rise.

Organized retailing share country-wise (%)



Source: Mckinsey

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Road map ahead

With an improvement in infrastructure, many MNCs and corporates are opening up shops in tier 1 and tier 2 cities. The key challenge for organized players would be to extend their services to such cities where currently presence is lacking. We expect price competition to increase as organized players gain market share from unorganized players. Going forward, express business would be driven more on volumes and we expect consolidation or strategic tie-ups to take place between organized and unorganized players.

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Financials

Projected Income Statement (Consolidated)

Period to June 30 (Rs mn)	FY05 (12)	FY06 (12)	FY07E (12)	FY08E (12)	FY09E (12)
Net Sales	3,592	4,562	5,520	7,120	9,332
Operating expenses	3,337	4,174	5,028	6,374	8,262
Operating profit	255	388	492	745	1,070
Depreciation	73	87	116	157	221
% Sales	2.0	1.9	2.1	2.2	2.4
PBIDT	182	301	376	588	849
Interest	47	42	48	80	96
% Sales	1.3	0.9	0.9	1.1	1.0
Other income	21	16	25	35	30
Profit before tax (PBT)	156	275	353	543	783
Tax	52	74	92	141	204
%PBT	33.5	26.9	26.0	26.0	26.0
Profit after tax (PAT)	104	201	261	402	579
Extraordinary / prior period items	41	-	-	-	-
Adjusted profit after tax (APAT)	145	201	261	402	579

Projected Balance Sheet (Consolidated)

Period to June 30 (Rs mn)	FY05 (12)	FY06 (12)	FY07E (12)	FY08E (12)	FY09E (12)
Sources					
Equity Share Capital	84	142	150	176	192
Reserves	492	1,452	1,977	3,346	4,749
Net Worth	576	1,594	2,127	3,522	4,940
Loan Funds	639	716	1,852	2,049	1,370
Net Def Tax Liabilities	55	58	58	58	58
Total	**1,270**	**2,368**	**4,037**	**5,629**	**6,369**
Uses					
Gross Block	943	1,386	2,486	4,486	5,336
Accd Depreciation	292	372	488	645	866
Net Block	652	1,014	1,998	3,841	4,470
Capital WIP	125	416	416	416	416
Total Fixed Assets	777	1,430	2,413	4,257	4,886
Investments	42	199	219	219	219
Total Current Assets	654	990	1,794	1,630	1,908
Total Current Liabilities	203	251	390	477	644
Net Working Capital	451	739	1,405	1,153	1,264
Total	**1,270**	**2,368**	**4,037**	**5,629**	**6,369**

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Projected Cash Flow Statement

Period to June 30 (Rs mn)	FY05 (12)	FY06 (12)	FY07E (12)	FY08E (12)	FY09E (12)
Cash Flow from operations					
Pre-Tax profit	156	275	353	543	783
Depreciation	73	87	116	157	221
Change in WC	(25)	(231)	(133)	(152)	(292)
Tax Paid	(52)	(74)	(92)	(141)	(204)
Others	4	3	0	0	0
Total (a)	**156**	**60**	**244**	**407**	**509**
Cash Flow from Investments					
Capital expenditure	(177)	(740)	(1,100)	(2,000)	(850)
(Purchase)/sale of Investments	(25)	(157)	(20)	0	0
Others					
Total (b)	**(202)**	**(897)**	**(1,120)**	**(2,000)**	**(850)**
Cash Flow from Financing activities					
Free cash flow	(46)	(837)	(876)	(1,593)	(341)
Equity raised	1	874	347	1,110	974
Debt raised/repaid	79	77	1,136	197	(679)
Dividend	(29)	(57)	(74)	(117)	(135)
Total (c)	**51**	**895**	**1,408**	**1,190**	**160**
Change in cash (a+b+c)	**6**	**57**	**532**	**(403)**	**(181)**
Opening Balance	69	74	131	664	260
Closing Balance	74	132	664	260	79

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Key Ratios

Period to June 30 (Rs mn)	FY04 (12)	FY05 (12)	FY06 (12)	FY07E (12)	FY08E (12)
Per share ratios (Rs)					
EPS	2.5	2.8	3.5	4.6	6.0
Div per share	0.6	0.7	0.9	1.1	1.2
Book value per share	13.8	22.5	28.4	40.1	51.6
Valuation ratios(x)					
P/E	38.3	33.4	27.2	20.8	15.7
P/BV	6.9	4.2	3.3	2.4	1.8
EV/Sales	2.1	1.6	1.5	1.4	1.1
EV/EBIDTA	29.1	19.2	16.9	13.6	9.7
Profitability ratios(%)					
OPM	7.1	8.5	8.9	10.5	11.5
PAT	2.9	4.4	4.7	5.6	6.2
ROCE	15.3	16.6	11.7	12.2	14.2
RONW	20.1	18.6	14.0	9.2	9.5
Liquidity ratios					
Current ratio	4.4	5.6	6.0	4.8	3.9
Debtors days	41.9	38.5	42.0	42.0	42.0
Inventory days	0.9	1.2	1.2	1.2	1.2
Creditors days	5.3	3.5	5.0	5.0	5.0
Leverage ratios					
Debt/Total equity	1.1	0.4	0.9	0.6	0.3
Component ratios (as % of net sales)					
Cost of Sales	20.0	17.6	17.8	16.6	15.2
Operating Expenses	50.2	52.6	52.4	52.0	52.3
Personnel Expenses	11.1	10.7	10.5	10.5	10.8
Administrative Expenses	10.3	9.7	9.7	9.7	9.5
Repairs & Maintanance exps	1.2	0.9	0.6	0.7	0.7
Total operating expenses	**92.9**	**91.5**	**91.1**	**89.5**	**88.5**

Our Recent Publications

Emami Ltd (FY07) - July 06, 2007

Gammon India Ltd (Q4 FY07) - July 05, 2007

Simplex Infrastructure Ltd (Analyst Meet Note) - July 03, 2007

Sical Logistics Ltd (FY07) - June 29, 2007

Oil & Natural Gas Corporation Ltd: Subsidy hang continues - June 28, 2007

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India Infoline Research can be also accessed on Bloomberg (Code IILL), Thomson First Call and ISI Emerging markets.