

The Week Gone By

Weekly Newsletter



Parag's View

Approaching Investing in a Business-Like Manner

Investing is actually part and parcel of growing our wealth, albeit slowly and steadily instead of instantly. Thus, the attitude one should take when approaching this important activity should be one of utmost seriousness, which is why the title mentions "business-like manner".

So what exactly does business-like manner mean?

Warren Buffett says "When I buy a stock, I think of it in terms of buying a whole company, just as if I were buying a store down the street." If you were buying a store you would want to know all about it. What were its products? How consistent are the sales? Do they keep trying new products or do their products stay fairly constant? What competitors does the store have and what distinguishes it from them? What would be the most worrying thing about owning such a store?

This means observing a company as if you are a stakeholder who wishes to do business with the company, or acquire the company. Think of the company as a business and examine all facets of it.

First of all, one should apply what I call a "common-sense" view of a business, by examining the nature of its principal activities. Companies which are in "commodity" businesses or those with a weird business model (a.k.a. something overtly innovative and which has no history of commercial success) should be shunned because it is unlikely that they can sustain increased earnings or ensure steady and predictable profits.

This is what I consider the "raw filter" for assessing companies for investment purpose. By using common sense to review whether a business has endearing characteristics or not, one can then make a conscious decision to pick and select the better businesses to drill down in detail.

Finer filters can then be applied to assess the fundamentals and prospects of each individual company so as to ascertain its merits and demerits.

By adopting a business-like attitude towards investing, one can approach companies from a more practical stand point to see if their business will be viable and sustainable in the near to medium term. Of course, any events may occur which may cause our initial assumptions to be invalid, but detailed research and in-depth reading about the company's industry and the company's financials should mitigate such risks. Still, there will always be residual risk in any investment which cannot be eliminated, such as Acts of God (e.g. fires, floods, earthquakes and typhoons) and also deliberate and pervasive fraud.

This is why the margin of safety concept always applies to protect the investor from massive losses, and how it will always remain a central concept in value investing.

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Mphasis Limited

Accumulate
CMP Rs. 227.0 | Target Rs. 260.0

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Mphasis delivered a muted performance for the last quarter of fiscal 2008. The topline grew 4% Q-Q but the PBT grew at a paltry 1%; this too after factoring a forex gain of Rs. 42 mn. in Q4 versus a forex loss of Rs. 44 mn. in Q3, effectively signifying a sequential de-growth. The reported PAT however grew by 8% on account of negative taxation (deferred tax credits) in the quarter.

The key reason for such a performance could be attributed to the poor onsite utilization in the Applications business, down from 85% in Q3 to 82% in Q4. Almost 30-40% of application segment is project based churn business. The projects which got concluded in Q3 were expected to get replaced through new orders in Q4. But this is now seen as being shifted further to Q1FY08, on account of deferment in decision by clients, most of them being in the dilapidated BFSI segment.

While the company would catch up on the Application business in the current quarter, the overall growth rates may moderate going ahead. Mphasis has scaled down its FY08 recruitent plans from 8-10,000 people to now 7-8000 new employees.

On a full year basis , the growth has been very good and the integration with EDS seems to have been working well as selling & general expenditures have reduced meaningfully in % terms. However, the overall environment has been and continues to be quite challenging as reflected in the over 240 bps increase in the cost of sales on an annual basis. This year Mphasis benefited on account of the deferred tax credits, the next few years would see a gradual increase in the exchequer's share.

Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q4FY08	Q3FY08	Q-Q(%)	Q4FY07	Y-Y(%)	FY08	FY07	Y-Y(%)
Net Revenues	6,575.7	6,322.5	4.00%	5,040.2	30.46%	24,230.7	17,606.2	37.63%
Cost of Revenues	4,861.5	4,616.4	5.31%	3,704.4	31.24%	18,047.3	13,187.7	36.85%
Gross Profit	1,714.2	1,706.1	0.47%	1,335.8	28.33%	6,183.5	4,418.5	39.94%
Selling Expenses	243.6	204.5	19.12%	267.2	-8.84%	946.0	918.4	3.00%
General & Admin Expenses	806.7	762.6	5.78%	398.3	102.53%	2,410.9	1,442.0	67.19%
Provision for Doubtful debts	13.1	9.1	43.96%	0.5	2367.04%	34.8	14.7	137.61%
Total Expenditure	5,924.9	5,592.6	5.94%	4,370.4	35.57%	21,439.0	15,562.8	37.76%
Operating Profit	650.8	729.9	-10.84%	669.8	-2.83%	2,791.7	2,043.4	36.62%
OPM (%)	9.90%	11.54%	-14.27%	13.29%	-25.52%	11.52%	11.61%	-0.73%
Forex Gain/(Loss)	41.8	(43.9)	-195.22%	(33.9)	-223.41%	(219.1)	(133.6)	64.02%
Other Income	17.1	16.2	5.56%	26.7	-35.97%	89.0	73.3	21.34%
PBT	709.7	702.2	1.07%	662.6	7.11%	2,661.7	1,983.2	34.21%
Tax	(4.5)	39.7	-111.34%	34.1	-113.21%	108.8	182.5	-40.36%
PAT Before MI	714.2	662.5	7.80%	628.5	13.63%	2,552.8	1,800.7	41.77%
Minority Interest	0.0	0.0		0.0		0.0	0.0	0.00%
PAT	714.2	662.5	7.80%	628.5	13.63%	2,552.8	1,800.7	41.77%
Equity Capital	2,087.3	2,086.6	0.03%	2,081.8	0.26%	2,087.3	2,081.8	0.26%
EPS	3.4	3.2	8.25%	3.0	14.05%	12.2	8.6	41.40%

Quarterly Analysis

Ratio Analysis								
YE March (Rs. Mn.)	Q4FY08	Q3FY08	Q-Q(bps)	Q4FY07	Y-Y(bps)	FY08	FY07	Y-Y(bps)
GPM (%)	26.07%	26.98%	(91.6)	26.50%	(43.5)	25.52%	25.10%	42.3
OPM (%)	9.90%	11.54%	(164.7)	13.29%	(339.2)	11.52%	11.61%	(8.5)
PBT (%)	10.79%	11.11%	(31.4)	13.15%	(235.4)	10.98%	11.26%	(28.0)
PAT (%)	10.86%	10.48%	38.3	12.47%	(160.9)	10.54%	10.23%	30.8

Segmental Analysis								
YE March (Rs. Mn.)	Q4FY08	Q3FY08	Q-Q(%)	Q4FY07	Y-Y(%)	FY08	FY07	Y-Y(%)
Revenues								
Application Services	4,162.8	4,170.4	-0.18%	3,230.5	28.86%	15,811.1	12,100.9	30.66%
BPO Services	1,512.5	1,369.4	10.45%	1,246.3	21.36%	5,440.6	4,115.2	32.21%
ITO Services	900.4	782.7	15.04%	563.4	59.81%	2,979.0	1,390.0	114.32%
Total	6,575.7	6,322.5	4.00%	5,040.2	30.46%	24,230.7	17,606.2	37.63%
Profits								
Application Services	776.1	920.8	-15.71%	906.2	-14.35%	3,559.4	3,206.8	11.00%
BPO Services	419.0	300.4	39.48%	339.9	23.28%	1,355.7	986.6	37.42%
ITO Services	165.6	149.9	10.47%	89.8	84.41%	579.9	225.1	157.56%
Total	1,360.7	1,371.1	-0.76%	1,335.8	1.86%	5,495.0	4,418.5	24.36%
YE March (%)	Q4FY08	Q3FY08	Q-Q(bps)	Q4FY07	Y-Y(bps)	FY08	FY07	Y-Y(bps)
Margins								
Application Services	18.64%	22.08%	(343.6)	28.05%	(940.6)	22.51%	26.50%	(398.8)
BPO Services	27.70%	21.94%	576.6	27.27%	43.1	24.92%	23.97%	94.5
ITO Services	18.39%	19.15%	(76.0)	15.94%	245.4	19.47%	16.20%	326.8
Total	20.69%	21.69%	(99.3)	26.50%	(581.0)	22.68%	25.10%	(241.9)
Business Mix								
Application Services	63.31%	65.96%	(265.5)	64.10%	(78.9)	65.25%	68.73%	(347.9)
BPO Services	23.00%	21.66%	134.2	24.73%	(172.5)	22.45%	23.37%	(92.0)
ITO Services	13.69%	12.38%	131.3	11.18%	251.4	12.29%	7.89%	439.9
Total	100.00%	100.00%		100.00%		100.00%	100.00%	
ROCE								
Application Services	10.69%	13.53%	(284.3)	15.03%	(434.3)	49.01%	53.19%	(417.8)
BPO Services	12.60%	7.87%	473.8	8.53%	407.1	40.78%	24.77%	1,601.1
ITO Services	50.69%	20.34%	3,035.2	26.32%	2,436.7	177.49%	65.99%	11,149.9
Total	12.47%	12.07%	40.0	12.90%	(43.5)	50.35%	42.68%	767.1

Overall, though there is a marginal dip in terms of expectations, the overall aggressive capex & growth strategies of the company are likely to payoff positively over the coming years. However on a near-to-medium term basis, we expect the upside to be limited as we value the company at Rs. 260 (16.5x FY09E EPS of Rs. 15.76). One may accumulate at Rs. 215 levels.

Mphasis Limited - Financials

Earnings Statement				
YE March (Rs. Mn.)	FY06	FY07	Fy08	FY09E
Net Sales	9,401.1	17,606.2	24,230.7	31,984.6
Cost of Revenues	6,485.6	13,187.7	18,735.7	24,854.8
Selling Expenses	584.6	918.4	952.7	1,226.1
General & Admin Expenses	868.1	1,456.7	1,750.5	2,223.1
Total Expenditure	7,938.3	15,562.8	21,438.9	28,304.0
Operating Profit	1,462.8	2,043.4	2,791.8	3,680.5
Other Income/Forex Gain	76.5	(135.4)	(215.1)	-
EBIT	1,539.3	1,908.1	2,576.7	3,680.5
Interest	(17.5)	(75.1)	(84.9)	(76.2)
PBT	1,556.8	1,983.2	2,661.6	3,756.7
Tax	58.2	182.5	108.7	370.9
PAT	1,498.6	1,800.7	2,552.9	3,385.8

Ratio Analysis				
YE March (Rs. Mn.)	FY06	FY07	Fy08	FY09E
OPM (%)	15.6%	11.6%	11.5%	11.5%
EBITDA (%)	16.4%	10.8%	10.6%	11.5%
PBIT (%)	16.4%	10.8%	10.6%	11.5%
PAT (%)	15.9%	10.2%	10.5%	10.6%
EPS (Rs.)	8.9	8.4	11.9	15.8
P/E (x)	25.5	27.1	19.1	14.4
P/BV (x)	5.8	4.8	4.2	3.5
BVPS (Rs.)	39.2	46.9	53.9	64.9
Market Cap (Rs. Mn.)	38,226.6	48,783.8	48,760.2	48,760.2
M Cap/Sales (x)	4.1	2.8	2.0	1.5
EV (Rs. Mn.)	38,263.5	48,812.2	48,817.0	48,817.0
EV/EBITDA (x)	24.9	25.6	18.9	13.3
EV/Sales (x)	4.1	2.8	2.0	1.5
ROCE (%)	23.2%	18.9%	22.2%	26.3%
RONW (%)	22.7%	17.9%	22.1%	24.3%
Debtors T/o Days	82.3	87.5	87.4	80.0
Advances T/o Days	27.6	31.3	44.5	33.0
Creditors T/o Days	32.5	41.0	45.6	33.0
Working Cap T/o Days	91.0	97.6	79.6	77.0
Fixed Assets T/o (Gross)	3.0	3.1	3.1	3.0
DPS (Rs.)	2.9	2.3	3.3	4.0
Dividend Payout (%)	32.5%	27.5%	27.8%	25.4%
Dividend Yield (%)	1.3%	1.0%	1.5%	1.8%

Balance Sheet				
YE March (Rs. Mn.)	FY06	FY07	Fy08	FY09E
Equity Capital	1,684.0	2,149.1	2,148.0	2,148.0
Reserves	4,921.9	7,935.9	9,420.7	11,801.3
Shareholders Funds	6,605.9	10,085.0	11,568.8	13,949.3
Borrowed Funds	36.9	28.4	56.8	56.8
Total Liabilities	6,642.8	10,113.4	11,625.5	14,006.1
Fixed Assets	1,455.3	2,518.3	3,632.8	4,579.5
Goodwill	2,676.5	2,710.5	2,710.5	2,710.5
Current Assets				
Sundry Debtors	2,119.3	4,221.6	5,804.4	7,010.3
Loans & Advances	711.2	1,508.3	2,955.6	2,891.8
Cash & Bank Balance	988.5	1,892.6	952.5	1,081.8
Current Liabilities				
Sundry Creditors	836.2	1,975.3	3,025.9	2,891.8
Provisions	638.3	939.9	1,403.0	1,340.8
Net Current Assets	2,344.5	4,707.1	5,283.6	6,751.2
Deferred Tax Assets	166.5	177.4	260.1	226.4
Total Assets	6,642.8	10,113.4	11,625.5	14,006.1

Cash Flow				
Particulars	FY06	FY07	Fy08	FY09E
Opening Cash & Bank	954.7	988.5	1,892.6	952.5
Profit After Tax	1,498.6	1,800.7	2,552.9	3,385.8
Less : Invnt Income	8.7	1.8	(4.0)	-
Depreciation	518.2	1,692.6	1,329.2	1,598.5
Deferred Taxation	(18.2)	9.2	(87.0)	33.7
Others	(22.8)	196.9	4.3	-
Change in Working Cap	(301.6)	(857.7)	(1,516.5)	(1,338.4)
CF - Operating Activities	1,682.9	2,843.4	2,278.8	3,679.6
Change in Fixed Assets	(785.4)	(1,706.9)	(2,443.7)	(2,545.1)
Change in Investments	(791.7)	(5.3)	261.5	-
Investment Income	(8.7)	(1.8)	4.0	-
CF - Investing Activities	(1,585.8)	(1,714.0)	(2,178.2)	(2,545.1)
Increase in Equity	219.0	337.1	(239.7)	(0.0)
Changes in Borrowings	(9.4)	(8.5)	28.4	-
Dividend Paid	(272.9)	(553.9)	(829.3)	(1,005.2)
CF - Financing Activities	(63.3)	(225.3)	(1,040.7)	(1,005.2)
Net Change in Cash	33.8	904.1	(940.1)	129.3
Closing Cash & Bank Bal	988.5	1,892.6	952.5	1,081.8

Lakshmi Energy & Foods Limited

CMP Rs. 207.50

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Lakshmi Energy & Foods (LEAF) has delivered an near expected results for the fourth quarter & full fiscal of 2008. LEAF earned a PAT of Rs. 341.5 Mn. on a turnover of Rs. 3098 Mn. For the entire fiscal, the company managed a handsome PAT of Rs. 1009 Mn. on a revenue of Rs. 9545 Mn.

Our calculations suggest that LEAF earned -Rs. 240 Mn. in the form of inventory gains out of the total PBT of Rs. 1530 Mn. Our outlook & expectations from the company remain the same, except for a change in calculation of inventory, which earlier was erroneously calculated as a function of same-year sales rather than next-year revenues.

We remain bullish on the prospects of this company, primarily on account of its mainstay rice business. This is generally a steady margin business with high volume growth prospects. But couple it with margin expansion on account of further processing of by-products and the inherent play on inventory gains, it is a fantastic 18-20% margin business with attractive return ratios. The increasing share of value added sales to non-FCI clients and new income from sale of renewable energy remain additional triggers. Being the only key listed non-basmati rice company and with no possibility of any competition threat in the foreseeable future, make LEAF one of the more attractive agri-plays in the current times. We maintain BUY with our target price of Rs. 280.

Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q408	Q308	Q-Q(%)	Q407	Y-Y(%)	FY08	FY07	Y-Y(%)
Net Revenues	3,097.9	2,466.4	25.61%	2,050.2	51.11%	9,544.9	6,962.7	37.09%
Cost of Materials	2,398.3	1,866.2	28.51%	1,607.2	49.22%	7,311.9	5,611.2	30.31%
Gross Profit	699.7	600.2	16.57%	442.9	57.96%	2,232.9	1,351.5	65.22%
Staff Costs	12.5	10.3	21.01%	11.7	6.47%	41.2	32.8	25.69%
Other Expenses	83.7	43.1	94.17%	97.3	-14.00%	182.8	151.5	20.65%
Total Expenditure	96.2	53.4	80.03%	109.0	-11.79%	224.1	184.4	21.55%
Operating Profit	603.5	546.8	10.37%	333.9	80.74%	2,008.8	1,167.2	72.11%
OPM (%)	19.48%	22.17%	-12.13%	16.29%	19.61%	21.05%	16.76%	25.55%
Other Income	10.7	2.8	283.57%	9.9	8.27%	24.0	21.0	14.28%
EBITDA	614.2	549.6	11.76%	343.8	78.65%	2,032.9	1,188.2	71.09%
Depreciation	37.7	58.3	-35.33%	87.6	-56.95%	194.3	121.9	59.35%
EBIT	576.5	491.3	17.35%	256.2	125.00%	1,838.5	1,066.2	72.43%
Interest	129.0	111.3	15.90%	18.2	610.08%	308.5	45.0	585.34%
PBT	447.6	380.0	17.78%	238.1	88.00%	1,530.0	1,021.2	49.82%
Tax	106.1	50.4	110.41%	74.0	43.33%	521.3	417.9	24.75%
PAT	341.5	329.6	3.61%	164.1	108.15%	1,008.7	603.3	67.19%
Equity Capital	120.1	120.1	0.00%	114.3	5.03%	120.1	114.3	5.03%
EPS	5.7	5.5	3.61%	2.9	98.18%	16.8	10.6	59.19%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q408	Q308	Q-Q(bps)	Q407	Y-Y(bps)	FY08	FY07	Y-Y(bps)
OPM (%)	19.48%	22.17%	(268.9)	16.29%	319.4	21.05%	16.76%	428.3
EBITDA (%)	19.83%	22.28%	(245.6)	16.77%	305.7	21.30%	17.06%	423.3
EBIT (%)	18.61%	19.92%	(130.9)	12.50%	611.2	19.26%	15.31%	394.9
PAT (%)	11.02%	13.36%	(234.0)	8.00%	302.1	10.57%	8.66%	190.3

Lakshmi Energy & Foods Limited - Financials

Earnings Statement								
Particulars	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Total Revenues	2,272.0	4,077.1	5,583.9	6,962.7	9,544.9	13,397.0	17,901.3	18,789.4
- Growth (%)		79.5%	37.0%	24.7%	37.1%	40.4%	33.6%	5.0%
Total Expenditure	2,187.9	3,748.1	4,841.1	5,795.5	7,536.0	10,379.4	14,020.4	14,137.4
Operating Profit	84.1	329.0	742.8	1,167.2	2,008.8	3,017.6	3,880.9	4,651.9
Other Income	66.0	42.3	7.8	21.0	24.0	8.2	10.2	17.9
EBITDA	150.1	371.3	750.6	1,188.2	2,032.9	3,025.8	3,891.1	4,669.8
Depreciation	20.3	27.2	49.2	121.9	194.3	297.5	416.2	535.0
EBIT	129.8	344.1	701.4	1,066.2	1,838.5	2,728.3	3,474.9	4,134.9
Interest	28.9	54.0	65.1	45.0	308.5	591.9	615.9	595.9
PBT	100.9	290.1	636.4	1,021.2	1,530.0	2,136.4	2,859.0	3,539.0
Tax	10.7	109.6	216.4	417.9	521.3	438.0	443.1	548.5
PAT Before EI	90.2	180.5	420.0	603.3	1,008.7	1,698.5	2,415.9	2,990.4
- Growth (%)		100.1%	132.7%	43.6%	67.2%	68.4%	42.2%	23.8%
EI: Misc Expd written off	(0.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported PAT	89.4	180.5	420.0	603.3	1,008.7	1,698.5	2,415.9	2,990.4
Ratio Analysis								
Particulars	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	3.7%	8.1%	13.3%	16.8%	21.0%	22.5%	21.7%	24.8%
EBITDA (%)	6.6%	9.1%	13.4%	17.1%	21.3%	22.6%	21.7%	24.9%
PBIT (%)	5.7%	8.4%	12.6%	15.3%	19.3%	20.4%	19.4%	22.0%
PAT (%)	4.0%	4.4%	7.5%	8.7%	10.6%	12.7%	13.5%	15.9%
Interest Cover (x)	4.5	6.4	10.8	23.7	6.0	4.6	5.6	6.9
EPS (Rs.)	1.8	3.5	7.7	10.6	16.8	26.9	38.2	47.3
P/E (x)	113.8	59.7	26.9	19.7	12.4	7.7	5.4	4.4
P/BV (x)	12.5	10.8	6.9	4.8	3.3	2.2	1.6	1.2
BVPS (Rs.)	16.6	19.2	30.0	43.6	63.4	94.3	130.8	175.3
Market Cap (Rs. Mn.)	10,264.0	10,776.5	11,295.3	11,861.7	12,458.3	13,111.9	13,111.9	13,111.9
M Cap/Sales (x)	4.5	2.6	2.0	1.7	1.3	1.0	0.7	0.7
EV (Rs. Mn.)	10,701.3	11,385.4	12,284.7	13,497.3	17,192.3	19,805.0	19,951.6	19,830.8
EV/EBITDA (x)	71.3	30.7	16.4	11.4	8.5	6.5	5.1	4.2
EV/Sales (x)	4.7	2.8	2.2	1.9	1.8	1.5	1.1	1.1
ROCE (%)	10.2%	20.5%	25.8%	22.6%	20.0%	20.4%	21.8%	22.3%
RONW (%)	11.0%	18.1%	25.7%	24.2%	26.5%	28.5%	29.2%	27.0%
Debt/Equity Ratio (x)	0.5	0.7	0.7	0.9	1.4	1.2	0.9	0.7
Inventory T/o Days	107.9	87.1	129.6	147.0	216.3	200.4	157.4	165.0
Debtors T/o Days	14.0	10.6	1.3	2.0	5.5	5.0	5.0	5.0
Advances T/o Days	23.4	35.8	35.3	48.2	38.6	40.0	40.0	40.0
Creditors T/o Days	20.8	35.8	27.3	65.1	21.2	25.0	25.0	25.0
Working Cap T/o Days	125.8	104.1	128.8	142.1	226.9	218.0	176.8	181.5
Fixed Assets T/o (Gross)	2.8	4.5	4.3	2.8	2.2	2.1	2.0	1.7
DPS (Rs.)	0.0	0.6	0.4	0.9	0.5	1.0	1.5	2.5
Dividend Payout (%)	0.0%	16.9%	5.6%	8.5%	3.0%	3.7%	3.9%	5.3%
Dividend Yield (%)	0.0%	0.3%	0.2%	0.4%	0.2%	0.5%	0.7%	1.2%

Lakshmi Energy & Foods Limited - Financials

Balance Sheet								
Particulars (Rs Mn)	FY04	FY05	FY06	FY07	Fy08	FY09E	FY10E	FY11E
Equity Capital	98.9	103.9	108.9	114.3	120.1	126.4	126.4	126.4
Share Application Money			70.1	96.4	59.0	0.0	0.0	0.0
Reserves	722.8	894.7	1,452.5	2,283.5	3,624.7	5,833.9	8,141.7	10,952.0
Shareholders Funds	821.7	998.6	1,631.5	2,494.2	3,803.8	5,960.3	8,268.1	11,078.4
Borrowed Funds	446.4	681.9	1,082.3	2,233.4	5,398.4	7,398.4	7,698.4	7,448.4
Deferred Tax Liability			94.1	358.4	643.7	857.3	1,000.3	1,177.2
Total Liabilities	1,268.1	1,680.4	2,807.9	5,086.0	9,845.8	14,215.9	16,966.7	19,704.0
Fixed Assets	483.7	516.0	832.3	2,363.3	3,410.3	5,712.1	7,795.8	9,860.9
Investments	1.1	1.7	4.7	11.4	500.9	500.9	500.9	500.9
Current Assets								
Inventory	671.5	973.0	1,983.3	2,803.6	5,656.3	7,356.7	7,721.7	8,493.8
Sundry Debtors	87.1	118.5	19.9	38.8	144.4	183.5	245.2	257.4
Loans & Advances	145.9	399.5	539.7	919.0	1,009.9	1,468.2	1,961.8	2,059.1
Cash & Bank Balance	8.0	71.3	88.2	586.5	163.5	204.3	357.8	228.6
Current Liabilities								
Sundry Creditors	129.2	399.6	417.2	1,241.4	553.5	917.6	1,226.1	1,286.9
Provisions			242.9	395.2	486.0	292.2	390.4	409.8
Net Current Assets	783.4	1,162.8	1,971.0	2,711.3	5,934.6	8,003.0	8,669.9	9,342.2
Miscellaneous Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	1,268.1	1,680.4	2,807.9	5,086.0	9,845.8	14,215.9	16,966.7	19,704.0
Cash Flow								
Particulars (Rs Mn)	FY04	FY05	FY06	FY07	Fy08	FY09E	FY10E	FY11E
Opening Cash & Bank	6.7	8.0	71.3	88.2	586.5	163.5	204.3	357.8
Profit After Tax	90.2	180.5	420.0	603.3	1,008.7	1,698.5	2,415.9	2,990.4
Invnt Income	(66.0)	(42.3)	(7.8)	(21.0)	(24.0)	(8.2)	(10.2)	(17.9)
Interest Paid	28.9	54.0	65.1	45.0	308.5	591.9	615.9	595.9
Miscellaneous Exp W/Off	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	20.3	27.2	49.2	121.9	194.3	297.5	416.2	535.0
Deferred Taxation	2.1	2.1	69.9	264.3	285.3	213.6	143.0	176.9
Others	(43.1)	64.6	296.3	353.2	35.8	0.0	0.0	0.0
Change in Working Cap	59.8	(316.0)	(791.3)	(242.1)	(3,646.4)	(2,027.5)	(513.5)	(801.5)
CF - Operating Activities	93.2	(29.9)	101.3	1,124.7	(1,837.7)	765.8	3,067.2	3,478.9
Change in Fixed Assets	(38.1)	(95.3)	(400.9)	(1,688.2)	(1,277.0)	(2,599.3)	(2,500.0)	(2,600.0)
Change in Investments	0.0	(0.6)	(3.0)	(6.7)	(489.5)	0.0	0.0	0.0
Investment Income	66.0	42.3	7.8	21.0	24.0	8.2	10.2	17.9
CF - Investing Activities	27.9	(53.6)	(396.1)	(1,673.9)	(1,742.6)	(2,591.1)	(2,489.8)	(2,582.1)
Increase in Equity	15.0	0.0	0.0	0.0	336.7	530.1	0.0	0.0
Changes in Borrowings	(105.8)	235.5	400.5	1,151.1	3,164.9	2,000.0	300.0	(250.0)
Interest Paid	(28.9)	(54.0)	(65.1)	(45.0)	(308.5)	(591.9)	(615.9)	(595.9)
Dividend Paid	0.0	(34.5)	(23.7)	(58.7)	(35.8)	(72.0)	(108.1)	(180.1)
CF - Financing Activities	(119.7)	146.9	311.7	1,047.4	3,157.3	1,866.1	(423.9)	(1,026.0)
Net Change in Cash	1.3	63.4	16.9	498.3	(423.0)	40.9	153.4	(129.2)
Closing Cash & Bank Bal	8.0	71.3	88.2	586.5	163.5	204.3	357.8	228.6

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Sonata Software Limited

CMP Rs. 38.50

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Sonata Software Limited has apparently delivered an encouraging business performance for Q408. Infact the company ended the fiscal with an EPS of Rs. 5.6, better than our expectation of Rs. 5.4, driven by the benefits of depreciating INR towards the end of the quarter.

On a standalone basis, the topline & bottomline grew at 7.5% and 8.4% respectively for the fourth quarter, led by higher other income. For the full year, the standalone business reported a 7% topline growth and a 4.4% PAT growth.

On the consolidated front, the overall performance has been slightly muted on the TUI front. While the topline growth at 6.4% and PAT growth at 7.8% on Q-Q basis appear to be good, it is driven by tax credits in Q4 v/s normal taxation in Q3. There is a 16.5% drop at the EBITDA level. On a full year basis, the consolidated Revenues grew at 59% driven by the impact of TUI consolidation of % months in FY07 v/s full 12 months in FY08. The PAT before minority interest grew at 41%, reflecting marginal dip in margins. The PAT after minority interest grew at 22% for the full year on consolidated basis.

The overall progress on account of migration of IT operations & services from TUI Infotech to Sonata has been on track, the benefits of this should reflect in the coming quarters in terms of better margins although the overall revenues on Tui front may come down very marginally.

While the last year has seen a satisfactory result, the growth outlook over the coming times seem to getting a tad difficult. The low margin SITL business is going fine. But the growth on the standalone software service business and also TUI Infotech is likely to moderate. The willingness of inorganic growth route also seems to have taken a backseat.

However, Sonata is trading very cheap at < 7x FY08 and 5.6x FY09E. The scrip is attractive even after factoring some de-rating for the sector and the company. We recommend BUY on this otherwise stable company with a price target of Rs. 48 per share (7x FY09E), giving a 25% upside from the current levels.

Standalone	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)		Growth in Q408		
Q408	552.6	137.2	105.7	24.8%	19.1%		Sales	EBITDA	PAT
Q308	506.1	128.9	97.5	25.5%	19.3%	Q-Q	9.2%	6.4%	8.4%
Q407	499.0	102.8	72.5	20.6%	14.5%	Y-Y	10.7%	33.5%	45.7%
							Growth in FY08		
FY08	1,988.2	491.5	366.9	24.7%	18.5%		Sales	EBITDA	PAT
FY07	1,858.3	443.5	351.3	23.9%	18.9%	Y-Y	7.0%	10.8%	4.4%

Consolidated	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)		Growth in Q408		
Q408	3,890.8	343.9	169.0	8.8%	4.3%		Sales	EBITDA	PAT
Q308	3,654.7	411.8	156.8	11.3%	4.3%	Q-Q	6.5%	-16.5%	7.8%
Q407	3,594.1	360.9	128.2	10.0%	3.6%	Y-Y	8.3%	-4.7%	31.8%
							Growth in FY08		
FY08	14,283.7	1,425.3	585.2	10.0%	4.1%		Sales	EBITDA	PAT
FY07	8,977.2	986.6	480.3	11.0%	5.3%	Y-Y	59.1%	44.5%	21.8%

Sonata Software Limited - Standalone Financials

(Rs. Mn)	Mar 08	Dec 07	Q-Q Chng	Mar 07	Y-Y Chng
Sales & Service	538.3	500.6	7.5%	498.7	7.9%
Other Income	14.3	5.5	161.3%	0.3	4804.1%
Total Revenues	552.6	506.1	9.2%	499.0	10.7%
Total Expenditure	415.4	377.3	10.1%	396.2	4.8%
Operating Profit	137.2	128.9	6.4%	102.8	33.5%
EBITDA	137.2	128.9	6.4%	102.8	33.5%
Depreciation	23.0	23.3	-1.4%	24.1	-4.5%
PBIT	114.1	105.5	8.2%	78.7	45.1%
Interest	0.0	0.0		1.2	
PBT	114.1	105.5	8.2%	77.4	47.4%
Tax	8.5	8.0	5.4%	4.9	73.0%
PAT	105.7	97.5	8.4%	72.5	45.7%
Reported PAT	105.7	97.5	8.4%	72.5	45.7%
Equity Capital	105.2	105.2		105.2	
EPS (in Rs.)	1.0	0.9	8.4%	0.7	45.7%
Profitability					
OPM %	24.8%	25.5%	(63.9)	20.6%	422.8
EBITDA %	24.8%	25.5%	(63.9)	20.6%	422.8
PBIT %	20.7%	20.9%	(19.5)	15.8%	489.1
PAT %	19.1%	19.3%	(14.0)	14.5%	458.6
Operational Parameters					
RM Consumed	0.7%	0.8%	(6.5)	1.8%	(112.9)
Other Expenditure	74.5%	73.8%	70.4	77.6%	(310.0)
Effective Tax Rate	7.4%	7.6%	(19.3)	6.3%	109.7

Sonata Software Limited - Consolidated Financials

(Rs. Mn)	Mar 08	Dec 07	Q-Q Chng	Mar 07	Y-Y Chng
Sales & Service	3,842.7	3,611.0	6.4%	3,516.4	9.3%
Other Income	48.1	43.7	10.1%	77.7	-38.1%
Total Revenues	3,890.8	3,654.7	6.5%	3,594.1	8.3%
Total Expenditure	3,546.9	3,242.8	9.4%	3,233.2	9.7%
Operating Profit	343.9	411.8	-16.5%	360.9	-4.7%
EBITDA	343.9	411.8	-16.5%	360.9	-4.7%
Depreciation	103.1	111.8	-7.8%	127.3	-19.1%
PBIT	240.8	300.1	-19.7%	233.6	3.1%
Interest	16.8	7.3	131.2%	15.4	9.1%
PBT	224.0	292.8	-23.5%	218.2	2.7%
Tax	-23.8	61.3	-138.8%	47.4	-150.1%
PAT before MI	247.8	231.5	7.1%	170.8	45.1%
Share in Earnings of Affiliates	6.0	0.0		9.6	
Minority Interest	-84.8	(74.7)	13.6%	(52.1)	
PAT	169.0	156.8	7.8%	128.2	31.8%
Extra-ordinary Income	0.0	0.0		0.0	
Reported PAT	169.0	156.8	7.8%	128.2	31.8%
Equity Capital	105.2	105.2		105.2	0.0%
EPS (in Rs.)	1.6	1.5		1.2	22.3%
Profitability					
OPM %	8.8%	11.3%	(243.0)	10.0%	(120.4)
EBITDA %	8.8%	11.3%	(243.0)	10.0%	(120.4)
PBIT %	6.2%	8.2%	(202.1)	6.5%	(31.0)
PAT %	4.3%	4.3%	5.2	3.6%	77.5
Operational Parameters					
RM Consumed	37.3%	36.0%	131.2	35.3%	204.8
Other Expenditure	53.9%	52.7%	111.8	54.7%	(84.5)
Effective Tax Rate	-10.6%	20.9%	(3,156.1)	21.7%	(3,234.9)

Segmental Summary

Q408 (Rs Mn)	Revenue	Business Mix	PAT	Profit Mix	PAT Margin
International	2,185.30	56.87%	148.40	87.81%	6.79%
Domestic	1,657.30	43.13%	20.60	12.19%	1.24%
Consolidated	3,842.60	100.00%	169.00	100.00%	4.40%
Sonata Software Limited	538.30	13.49%	105.70	41.73%	19.64%
ODSi	115.30	2.89%	5.90	2.33%	5.12%
Sonata Software GmbH	15.30	0.38%	0.20	0.08%	1.31%
Sonata Europe Limited	6.20	0.16%	47.30	18.67%	
TUI InfoTec GmbH	1,657.10	41.54%	73.60	29.06%	4.44%
International	2,332.20	58.46%	232.70	91.87%	9.98%
SITL	1,657.30	41.54%	20.60	8.13%	1.24%
Domestic	1,657.30	41.54%	20.60	8.13%	1.24%
Revenues (Rs Mn)	Q408	Q308	Q208	Q108	Q407
International	2,185.30	2,173.28	2,078.18	1,936.40	2,137.41
Domestic	1,657.30	1,437.71	1,262.40	1,582.22	1,378.99
Consolidated	3,842.60	3,610.99	3,340.58	3,518.62	3,516.40
Sonata Software Limited	538.30	500.64	487.34	461.95	498.69
ODSi	115.30	106.09	116.33	106.73	111.57
Sonata Software GmbH	15.30	15.85	17.63	13.70	10.99
Sonata Europe Limited	6.20	6.56	5.33	-	-
TUI InfoTec GmbH	1,657.10	1,692.27	1,610.70	1,493.99	1,660.12
International	2,332.20	2,321.41	2,237.33	2,076.37	2,281.37
SITL	1,657.30	1,437.71	1,262.40	1,582.22	1,378.99
Domestic	1,657.30	1,437.71	1,262.40	1,582.22	1,378.99
PAT (Rs Mn)	Q408	Q308	Q208	Q108	Q407
International	148.40	141.32	107.07	130.03	120.38
Domestic	20.60	15.50	12.27	10.01	7.86
Consolidated	169.00	156.82	119.34	140.04	128.24
Sonata Software Limited	105.70	97.50	86.35	77.37	72.54
ODSi	5.90	5.68	6.12	5.97	8.18
Sonata Software GmbH	0.20	0.40	0.36	0.36	(1.06)
Sonata Europe Limited	47.30	(41.27)	36.97	(11.20)	(11.42)
TUI InfoTec GmbH	73.60	71.04	49.48	53.62	103.51
International	232.70	133.35	179.28	126.12	171.75
SITL	20.60	15.50	12.27	10.01	7.86
Domestic	20.60	15.50	12.27	10.01	7.86

Data Points

Mix	FY04	FY05	FY06	H1 07	9M 07	FY07	Q1 08	Q2 08	Q3 08	Q4 08
Onsite	38	26	26	31	32	30	30	30	26	22
Offshore	62	74	74	69	68	70	70	70	74	78
Geography	FY04	FY05	FY06	H1 07	9M 07	FY07	Q1 08	Q2 08	Q3 08	Q4 08
US	41	50	45	49	46	45	45	45	35	35
Europe	59	50	55	51	54	55	55	55	65	65
Client Concentration	FY04	FY05	FY06	H1 07	9M 07	FY07	Q1 08	Q2 08	Q3 08	Q4 08
Top 5	53	54	60	62	61	60	60	60	60	65
Next 5	13	15	16	15	15	15	15	15	15	10
Top 10	66	69	76	77	76	75	75	75	75	75
Balance	34	31	24	23	24	25	25	25	25	25
Manpower Strength	FY04	FY05	FY06	H1 07	9M 07	FY07	Q1 08	Q2 08	Q3 08	Q4 08
Number of Employees	932	1,251	1,606	1,761	2,181	2,242	2,287	2,410	2,432	2,546

Financials

Earnings Statement					Balance Sheet				
YE March (Rs. Mn.)	FY06	FY07	FY08	FY09E	YE March (Rs. Mn.)	FY06	FY07	FY08	FY09E
Sales & Services	5,070.3	8,977.2	14,283.7	17,260.2	Equity Capital	105.2	105.2	105.2	105.2
Total Expenditure	4,668.2	8,189.2	13,169.0	15,821.0	Reserves	1,416.4	1,762.4	2,183.4	2,768.7
- Purchase of traded goods	2,960.9	3,764.0	5,422.2	10,620.5	Shareholders Funds	1,521.6	1,867.6	2,288.5	2,873.9
- Operating expenses	1,707.3	4,425.2	7,746.8	5,200.5	Minority Interest	-	184.9	269.1	511.7
Operating Profit	402.1	788.0	1,114.7	1,439.2	Borrowed Funds	-	581.2	283.4	283.4
Other Income	38.7	198.6	310.6	126.9	Deferred Tax Liabilities	0.9	0.6	1.1	1.1
EBITDA	440.8	986.6	1,425.3	1,566.2	Total Liabilities	1,522.5	2,634.2	2,842.2	3,670.1
Depreciation	107.7	297.4	433.5	223.4	Fixed Assets				
EBIT	333.1	689.2	991.8	1,342.8	Gross Block	736.7	6,922.4	7,173.7	7,416.9
Interest	6.6	27.7	49.6	63.2	Accumulated Depn.	418.6	5,074.8	5,410.5	5,634.2
PBT	326.5	661.5	942.2	1,279.6	Net Block	318.2	1,847.7	1,763.2	1,782.7
Tax	51.1	83.5	125.2	324.4	Capital WIP	15.9	49.5	74.1	80.9
PAT before MI	275.4	578.0	817.0	955.2	Investments	75.7	143.1	238.7	238.4
Minority Interest	-	107.3	237.8	242.6	Current Assets				
Profit from Affiliates	-	9.6	6.0	8.1	Inventory	75.5	56.1	144.7	182.7
PAT before EI	275.4	480.3	585.2	720.7	Sundry Debtors	1,307.4	1,941.9	2,386.9	2,754.1
Extraordinary Items	(161.8)	-	-	-	Loans & Advances	414.2	432.1	424.5	620.7
Reported PAT	113.6	480.3	585.2	720.7	Cash & Bank Balance	571.1	1,212.5	764.4	1,149.7
					Current Liabilities				
					Sundry Creditors	1,298.8	3,141.7	3,096.2	2,222.5
					Provisions	71.9	77.9	85.4	1,143.8
					Net Current Assets	997.5	423.0	539.0	1,340.9
					Deferred Tax Assets	115.3	171.0	227.2	227.2
					Total Assets	1,522.5	2,634.2	2,842.2	3,670.1
					Cash Flow				
					Particulars	FY06	FY07	FY08	FY09E
					Opening Cash & Bank	166.9	571.1	1212.5	764.4
					Profit After Tax	113.6	480.3	585.2	720.7
					Investment Income	(38.7)	(198.6)	(310.6)	(126.9)
					Depreciation	107.7	297.4	335.8	223.7
					Others	192.5	175.6	(55.6)	0.0
					Change in Working Cap	239.8	1081.5	(564.1)	(416.7)
					CF - Operating Activities	614.9	1836.1	(9.3)	400.8
					Change in Fixed Assets	(140.1)	(1860.6)	(275.9)	(250.0)
					Change in Investments	61.7	(67.3)	(95.6)	0.3
					Investment Income	38.7	198.6	310.6	126.9
					CF - Investing Activities	(39.7)	(1729.3)	(60.9)	(122.8)
					Increase in Equity	0.0	0.0	(28.9)	(0.0)
					Changes in Borrowings	(51.1)	581.2	(297.8)	0.0
					Changes in Minority Hldg	0.0	87.1	84.2	242.6
					Dividend Paid	(119.9)	(133.8)	(135.3)	(135.3)
					CF - Financing Activities	(171.0)	534.6	(377.8)	107.3
					Net Change in Cash	404.2	641.4	(448.1)	385.3
					Closing Cash & Bank Bal	571.1	1212.5	764.4	1149.7

Ratio Analysis				
YE March (Rs. Mn.)	FY06	FY07	FY08	FY09E
OPM (%)	7.9%	8.8%	7.8%	8.3%
EBITDA (%)	8.7%	11.0%	10.0%	9.1%
PBIT (%)	6.6%	7.7%	6.9%	7.8%
PAT (%)	5.4%	5.3%	4.1%	4.2%
EPS (Rs.)	2.6	4.6	5.6	6.9
P/E (x)	14.7	8.4	6.9	5.6
P/BV (x)	2.7	2.2	1.8	1.4
BVPS (Rs.)	14.5	17.8	21.8	27.3
Market Cap (Rs. Mn.)	4,048.6	4,048.6	4,048.6	4,048.6
M Cap/Sales (x)	0.8	0.5	0.3	0.2
EV (Rs. Mn.)	4,048.6	4,629.9	4,332.1	4,332.1
EV/EBITDA (x)	9.2	4.7	3.0	2.8
EV/Sales (x)	0.8	0.5	0.3	0.3
ROCE (%)	21.9%	26.2%	34.9%	36.6%
RONW (%)	18.1%	25.7%	25.6%	25.1%
Inventory T/o Days	5.4	2.3	3.7	3.9
Debtors T/o Days	94.1	79.0	61.0	58.2
Advances T/o Days	29.8	17.6	10.8	13.1
Creditors T/o Days	93.5	127.7	79.1	47.0
Working Cap T/o Days	71.8	17.2	13.8	28.4
Fixed Assets T/o (Gross)	6.9	1.3	2.0	2.3
DPS (Rs.)	1.0	1.1	1.1	1.1
Dividend Payout (%)	38.2%	24.1%	19.8%	16.1%
Dividend Yield (%)	2.6%	2.9%	2.9%	2.9%

Bharati Shipyard Limited

CMP Rs. 528.0

Research Analyst : Jigar Valia | jigar@ppfas.com

Bharati Shipyard has delivered a decent performance for the quarter & the entire FY08 fiscal. The actual full year revenues at Rs. 6998 Mn. and PAT at Rs. 1073.3 Mn. have been as per our expectations of Rs. 6775 Mn. and Rs. 1050 Mn. respectively. There are no new developments since our earlier report and we maintain our positive call on the company.

We highlight some key takeaways from the post-results conference call held recently.

- Gross Orderbook stands at Rs. 46,350 Mn. out of which Rs. 35,730 Mn. is the un-executed portion.
- New Orderbook for Dabhol will be opened upon close completion of installation of Swan Hunter machinery. 75% of the total machinery has now reached Dabhol.
- While there has been a few cancellation of speculative orders in China, there are no indications of global oversupply. However, Mitsubishi has recently released its study indicating a possible oversupply in capacity post 2011.
- Bharati delivered 3 vessels in FY08. Presently 22 vessels are under construction at different stages, out of which, 6 vessels will be delivered in the current fiscal FY09.
- Bharati has denied any plans for raising money through equity. It would however raise an additional debt to the tune of Rs. 2 bn. towards the later half of the year.
- Subsidy issue is expected to be resolved over the coming 3 months.

We maintain our positive call. We expect the profits to grow by 60% over the coming two years. Even beyond this period, BSL has already initiated its efforts for an aggressive growth through new greenfield expansions. BUY.

Earnings Statement								
YE March (Rs. Mn.)	Q408	Q308	Q-Q(%)	Q407	Y-Y(%)	9M08	9M07	Y-Y(%)
Net Revenues	2,064.1	1,762.2	17.13%	1,583.6	30.34%	4,934.0	2,633.0	87.39%
Revenues from Operations	1,842.6	1,606.4	14.70%	1,274.1	44.62%	4,558.3	2,325.1	96.05%
Subsidy	221.5	155.8	42.13%	309.6	-28.45%	375.6	307.9	21.98%
Cost of Materials	1,045.3	916.6	14.05%	711.4	46.95%	2,567.9	1,333.9	92.52%
Gross Profit	1,018.7	845.6	20.47%	872.3	16.79%	2,366.0	1,299.1	82.12%
Staff Costs	219.6	160.8	36.59%	174.3	26.02%	477.0	244.4	95.15%
Other Expenses	235.0	202.9	15.81%	173.8	35.26%	577.2	299.7	92.58%
Total Expenditure	454.7	363.7	25.00%	348.0	30.63%	1,054.2	544.1	93.73%
Operating Profit	564.1	481.9	17.05%	524.2	7.60%	1,311.9	755.0	73.75%
OPM (%)	27.33%	27.35%		33.10%		26.59%	28.68%	
Other Income	4.8	12.1	-60.13%	4.7	3.02%	33.8	26.7	26.60%
EBITDA	568.9	494.0	15.15%	528.9	7.56%	1,345.7	781.7	72.14%
EBITDA (Excl. Subsidy)	347.4	338.2	2.72%	219.4	58.37%	970.1	473.8	104.75%
Depreciation	21.2	20.8	1.97%	13.8	53.55%	59.3	36.0	64.48%
EBIT	547.7	473.2	15.73%	515.1	6.32%	1,286.4	745.7	72.51%
Interest	50.9	66.2	-23.20%	49.2	3.27%	164.6	101.6	61.96%
PBT	496.8	407.0	22.07%	465.9	6.65%	1,121.8	644.1	74.18%
Tax	170.3	140.1	21.59%	158.4	7.55%	375.0	220.1	70.41%
PAT	326.5	266.9	22.32%	307.5	6.18%	746.8	424.0	76.13%
Equity Capital	275.7	264.9		225.0		264.9	225.0	
EPS	11.84	10.08	17.51%	13.67	-13.34%	28.20	18.85	49.63%

[Click here for our latest report on Bharati Shipyard Limited & Indian Shipbuilding Sector](#)

VST Industries Limited

CMP Rs. 350.0

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VST Industries Ltd has reported an increase in net profit to Rs 584.8 million in FY08 compared to Rs 555.9 million in the previous financial year. VST should attribute the marginal increase of 5.2 percent gain in net profits to increase in sales volumes.

Highlights for FY07-08:

- From 1st April 2007 , VAT @ 12.5% was introduced in all the states.
- The date for compulsory implementation of graphical Health Warnings has been postponed to June 2008.
- Current Years budget proposes a steep increase in taxes on non - filter cigarettes. The company has therefore strategized to launch several brands in Charminar portfolio with filter variation.
- They have launched plains and Micros with filter format. The volume mix between filter & non-filter is now 50-50%. Filter cigarettes bring a margin of around 25-28%, whereas non-filter cigarettes have a margin of around 20-25%.
- Sales volumes have grown by 2% in FY08. In the coming 2-3 years it expects a volume growth of 5% to 6%.
- The profitability margins have reduced on account of raw material price increases and the percentage share of raw tobacco export increasing. The contribution of raw tobacco export is around 15-16 % in total sales.

Q4FY08 results (consolidation basis):

- Revenues down 4.7% Q-Q and 7.1 % Y-Y.
- PAT down by ~ 28% Q-Q and 20 % Y-Y.
- EBITDA margins at 23.4 % v/s 30.8% in Q3FY08
- EPS has decreased to Rs. 7.8 as compared to Rs. 10.9 in the previous quarter.

About VST Industries:

VST is engaged in the manufacturing and marketing of cigarettes since its incorporation in 1930. The company is an affiliate of BritishAmerican Tobacco (BAT), UK, which holds a 32.16% stake in the company. The major brands of the company include Charminar, Charminar Special Filter, Charms Mini Kings and Charms Virginia Filter, XL Filter and Shaan. Though the major chunk of revenue comes from sale of cigarettes, it is also in the business of selling non-manufactured and cut tobacco. Their main markets are basically East, West, Northeast and Andhra Pradesh.

Our take :

VST Industries is currently trading at 9.2X which is still the lowest in the industry. However, the current challenge to maintain volume growth through a shift from nonfilters to filters and limiting a possible shift from micros to beedis would be challenging for VST. Also, slightly moderate free cashflows and the poor scrip liquidity may continue to weigh heavy on the otherwise attractive valuations.

Consolidation basis:						Rs. Million			
VST Ltd	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)	Growth in Q408			
Q408	881.7	206.7	120.7	23.4%	13.7%		Sales	EBITDA	PAT
Q308	924.7	285.0	168.1	30.8%	18.2%	Q-Q	-4.7%	-27.5%	-28.2%
Q407	948.7	280.3	150.5	29.5%	15.9%	Y-Y	-7.1%	-26.3%	-19.8%
						Growth in FY08			
FY08	3,399.7	979.4	584.8	28.8%	17.2%		Sales	EBITDA	PAT
FY07	3,362.0	1,063.3	555.9	31.6%	16.5%	Y-Y	1.1%	-7.9%	5.2%

The Company has posted a net profit of Rs 1690.7 million during the FY08 where as the same was at Rs 1128.9 million for the FY07. Marico turned in a revenue of Rs 1907 crore during FY08. At a growth of 22%, it was another year of healthy growth over the previous year.

Highlights FY07-08:

- The company has demonstrated steady growth on both the topline and bottom line. Over the last 5 years, they grew at a CAGR of 21% and 30% respectively.
- At its meeting held on April 24, 2008, the Board of Marico Limited, declared a third interim dividend of 37% on its equity share capital of Rs. 60.9 Crore.

Marico Ltd has announced the following Unaudited Results for the quarter ended March 31, 2008:

Q4FY08 (Standalone basis)

- Revenues down 10.66% Q-Q and up 13.77 % Y-Y.
- PAT down by ~ 40% Q-Q but remarkably up at 21 % Y-Y.
- EBITDA margins at 9.81% lower by 28 bps Q-Q.
- NPM at 6.54% v/s 9.68% in Q3FY08.
- RM costs increase by ~ 8%.
- Staff Costs decrease by ~10%.

On a consolidated basis:

- Revenues are down 7.65%. (Q-Q)
 - Raw material costs have increased by 3.6% (Q-Q)
 - Staff costs have increased by 18.29%.
 - This has resulted in a fall in PAT by 11.11%.
-
- The employee cost has increased on account of provisions made for incentives to be paid in FY09. There has been a hike in remuneration by around 15-20%. Also the company has increased head count for new Kaya Skin Clinics and Kaya Life centres.
 - Raw material price increases have happened. But the company does not find its impact to be high. For hike in RM costs leads to price increases. Strong brands like Parachute and Saffola can either pass on or absorb price increases. The company is also not bothered about the consumption pattern to be affected for it deals in daily consumption goods.
 - The distribution policy of the company has so far been liberal, with a payout of 40-50 %. But in future it wants to reduce it to 20-25%.
 - Crude price lead inflation would impact the packaging cost. But the company does not expect disproportionate increase in inflation.
 - During the current year, the Company changed its method of accounting depreciation on factory building from Straight Line basis to Written Down Value basis. As a result of this change, additional depreciation of Rs. 4.06 cr. in respect of earlier years is charged to the profit and loss account for the year ended March 31, 2008.

About Marico:

Marico is a leading Indian Group in Consumer Products & Services in the Global Beauty and Wellness space. Marico markets well-known brands such as Parachute, Saffola, Sweekar, Hair & Care, Nihar, Shanti, Mediker, Revive,

Manjal, Kaya, Sundari, Aromatic, Camelia, Fiancee and HairCode. Marico's brands and their extensions occupy leadership positions with significant market shares in most categories- Coconut Oil, Hair Oils, Post wash hair care, Anti-lice Treatment, Premium Refined Edible Oils, niche Fabric Care etc. Marico is present in the Skin Care Solutions segment through Kaya Skin Clinics (65 in India and The Middle East), the Sundari range of Spa skin care products (in the USA & other countries) and its soap franchise (in India and Bangladesh). Marico's branded products are present in Bangladesh, other SAARC countries, the Middle East, Egypt and South Africa. The Overseas Sales franchise of Marico's Consumer Products (whether as exports from India or as local operations in a foreign country) is one of the largest amongst Indian Companies and is entirely in branded products and services.

Given below is an overview of Marico's market standing.

Brands	Category	Indicative Market Share range %	Rank
Parachute, Oil Of Malabar, Nihar	Coconut Oil	57-58	1
Hair Oil (Hair & Care, Parachute Jasmine, Parachute Advansed, Shanti Badam Amla, Nihar)	Hair Oils	22-24	2
Mediker	Anti Lice Treatment	~ 90	1
Revive	Fabric Starch	~ 80	1

Source: A.C.Nielsen Urban Retail Market Research and Company Sources

Marico's frontline brands have shown remarkable resilience against competition - refer the market share statistics given below:

Brands	Category	1992 (%)	Now (%)
Parachute, Oil Of Malabar, Nihar	Coconut Oil	48-49	57-58
Hair Oil (Hair & Care, Parachute Jasmine, Parachute Advanced, Shanti Badam Amla, Nihar)	Hair Oils	-	22-24

Source: A.C.Nielsen Urban Retail Market Research and Company Sources

The company has identified its growth to be coming from the 3 strong pillars of Parachute/ Coconut oil, Food - Saffola and Hair Oil.

During the year, Parachute coconut oil recorded a volume growth of 11% over the previous financial year. Over the last few years, Marico has focused on a consistent strategy of growing the coconut oil market by encouraging conversions from loose oil to branded oil. Parachute's market share for the 12 months to February '08 was at 48% in volume terms. The company is introducing a pricing strategy to maintain unit margins. There would be a price increase of 3% in July 07.

Saffola continues to leverage the growing awareness about heart health in India. Saffola has been actively promoting health consciousness and positioning itself on the "preventive" platform. The Saffola refined edible oil franchise grew by 22% in volume over FY07, led by higher growths in Saffola Gold.

Marico's portfolio of hair oils comprising Hair & Care, Parachute Advansed, Nihar perfumed oil, Parachute Jasmine and Shanti Amla rode the market to show healthy growth. Innovative pack introductions such as the Parachute Advansed Hot Champi pack and the Easy Champi pack and on-ground promotional activity such as "Style Icon" for Hair & Care helped drive volumes.

Kaya:

Kaya's skin care solutions achieved revenue of Rs 100 crore during FY08. During the year it added 18 clinics, making the chain 65 clinic strong (56 in India and 9 in the Middle East). The product share of Kaya is around 15%. The brand

Kaya also includes Kaya Life which is a holistic weight management centre. Kaya Skin business is at breakeven but both Kaya Skin and Kaya Life put together are below break even. Marico plans to open about 15 clinics each year.

	8-Mar	5-Mar
Clinics (Total)	65	33
Cities (India)	19	11
Customer base	>350,000	40,000

Kaya derives 12% of its sales from product and 88 % sales from services. The ratio is 80: 20 for its sales in India : Abroad. Kaya Life has 4 centres only and the company wants to focus on them.

Marico Industries Limited - Summary Financials

On Standalone Basis

Marico Ltd	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)	Growth in Q408			
Q408	3,712.9	364.3	242.7	9.8%	6.5%				
Q308	4,155.9	569.3	402.3	13.7%	9.7%	Q-Q	-10.7%	-36.0%	-39.7%
Q407	3,357.4	398.7	274.7	11.9%	8.2%	Y-Y	10.6%	-8.6%	-11.6%
							Growth in FY08		
FY08	15,687.8	2,062.5	1,434.2	13.1%	9.1%		Sales	EBITDA	PAT
FY07	13,716.7	1,975.7	1,161.6	14.4%	8.5%	Y-Y	14.4%	4.4%	23.5%

On Consolidated Basis

Marico Ltd	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)	Growth in Q408			
Q408	4,675.3	492.7	407.8	10.5%	8.7%				
Q308	5,062.4	717.8	458.7	14.2%	9.1%	Q-Q	-7.6%	-31.4%	-11.1%
Q407	3,969.6	488.0	282.4	12.3%	7.1%	Y-Y	17.8%	1.0%	44.4%
							Growth in FY08		
FY08	19,066.9	2,530.3	1,690.7	13.3%	8.9%		Sales	EBITDA	PAT
FY07	15,569.2	2,227.5	1,128.9	14.3%	7.3%	Y-Y	22.5%	13.6%	49.8%

Earnings Statement					
YE March (Rs. Mn.)	Q408	Q308	Q-Q(%)	Q407	Y-Y(%)
Net Revenues	4,675.3	5,062.4	-7.65%	3,969.6	17.78%
Total Expenditure	2,009.4	2,286.1	-12.10%	1,790.5	12.23%
Operating Profit	455.7	642.5	-29.07%	401.0	13.64%
OPM (%)	9.75%	12.69%	-23.20%	10.10%	-3.51%
Other Income	37.0	75.3	-50.86%	87.0	-57.47%
EBITDA	492.7	717.8	-31.36%	488.0	0.96%
Depreciation	79.1	106.9	-26.01%	113.9	-30.55%
EBIT	413.6	610.9	-32.30%	374.1	10.56%
Interest	72.6	68.3	6.30%	46.8	55.13%
PBT	341.0	542.6	-37.15%	327.3	4.19%
Tax	39.0	83.2	-53.13%	44.9	-13.14%
PAT	302.0	459.4	-34.26%	282.4	6.94%
Extra-ordinary Income	106.1	0.0		0.0	
Reported PAT before MI	408.1	459.4	-11.17%	282.4	44.51%
Minority Interest	0.1	0.4	-75.00%	0.0	
Reported PAT	408.0	459.0	-11.11%	282.4	44.48%
Equity Capital	609.0	609.0	0.00%	609.0	0.00%
EPS	0.5	0.8	-34.26%	0.5	6.94%

Local Equity Market

INDICES	05-May-08	Week Ago	% Chng	Month Ago	% Chng
Sensex	17,600.12	17,015.96	3.43	15,343.12	14.71
Nifty	5,228.20	5,089.65	2.72	4,647.00	12.51
CNX Nifty Junior	9,363.80	8,996.55	4.08	7,774.30	20.45
S&P CNX500	4,280.40	4,156.90	2.97	3,747.95	14.21
CNX Midcap 200	7,089.95	6,888.25	2.93	6,110.30	16.03
CNX IT	4,458.50	4,129.20	7.97	3,801.60	17.28

International Equity Market

INDICES	05-May-08	Week Ago	% Chng	Month Ago	% Chng
DJIA	13,058.20	12,871.75	1.45	12,609.42	3.56
Nasdaq	2,476.99	2,424.40	2.17	2,370.98	4.47
S&P 500	1,413.90	1,396.37	1.26	1,370.40	3.17
FTSE 100	6,215.50	6,090.40	2.05	5,947.10	4.51
Nikkei 225	14,049.26	13,894.37	1.11	13,293.22	5.69
Hang Seng	26,189.81	25,666.29	2.04	24,264.63	7.93
HSCEI	14,619.34	14,196.66	2.98	13,137.57	11.28

MSCI Indices

MSCI Indices	05-May-08	Week Ago	% Chng	Month Ago	% Chng
The World Index	1,530.19	1,518.06	0.80	1,498.54	2.11
Emerging Market	1,207.46	1,194.38	1.10	1,160.63	4.03
EM Asia	480.33	477.34	0.63	458.75	4.70
EM India	549.15	536.38	2.38	493.68	11.24

Commodities

Commodities	05-May-08	Week Ago	% Chng	Month Ago	% Chng
GOLD (\$/oz)	863.60	893.26	(3.32)	913.79	(5.49)
SILVER (\$/oz)	16.64	17.03	(2.29)	17.76	(6.28)
ALUMINIUM (\$/t)	2,920.00	3,011.00	(3.02)	2,953.00	(1.12)
COPPER (\$/t)	8,410.00	8,650.00	(2.77)	8,670.00	(3.00)
CRUDE - BRENT (\$/bbl)	114.50	116.74	(1.92)	104.76	9.30
CRUDE - WTI (\$/bbl)	116.33	118.75	(2.04)	105.76	9.99

Transportation

Commodities	05-May-08	Week Ago	% Chng	Month Ago	% Chng
World SCALE	182.50	175.00	4.29	115.00	58.70
BALTIC FREIGHT INDEX	9,581.00	9,344.00	2.54	7,737.00	23.83

Forex

FOREX	05-May-08	Week Ago	% Chng	Month Ago	% Chng
USD	40.15	39.85	0.74	40.10	0.12
GBP	79.71	79.61	0.13	80.44	(0.91)
EURO	62.74	63.03	(0.45)	63.23	(0.78)
YEN	38.44	38.44	-	40.22	(4.43)

Global Listings

Scripts	03-May-08	Week Chng	Month Chng	Premium/D iscount	Share per ADR/GDR
Infosys ADR	44.94	6.27	14.76	2.20%	1
Wipro ADR	13.57	6.93	5.93	9.82%	1
ICICI Bank ADR	46.90	3.35	16.57	1.71%	2
Satyam ADR	27.18	11.62	3.35	11.78%	2
HDFC Bank ADR	117.69	5.47	16.97	3.52%	3
MTNL ADR	5.76	1.95	10.78	4.71%	2
Dr. Reddy ADR	15.67	1.49	2.59	0.13%	1
Reliance GDR	134.50	4.26	8.86	2.20%	2
ITC GDR	5.55	7.77	4.04	2.10%	1
Ranbaxy GDR	11.75	(1.43)	3.83	-0.91%	1
L & T GDR	78.50	5.65	7.84	1.78%	1

Top Gainers & Losers of the Week

Top Gainers	May 5, 08	% Chng
Geojit Financial Services Ltd.	63.15	29.67
Sesa Goa Ltd.	4,344.20	24.12
Bombay Dyeing & Manufacturing Co. Ltd.	1,040.75	23.66
BPL Ltd.	61.75	21.56
Reliance Industrial Infrastructure Ltd.	1,625.05	21.55
Praj Industries Ltd.	206.45	21.48
Mahindra Lifespace Developers Ltd.	550.95	21.02
Graphite India Ltd.	68.75	19.25

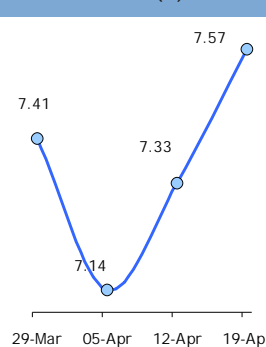
Top Losers

Kohinoor Foods Ltd.	89.75	(16.82)
KPIT Cummins Infosystem Ltd.	90.80	(15.02)
Alstom Projects India Ltd.	619.95	(12.29)
E.I.D. Parry (India) Ltd.	226.20	(11.66)
Welspun Gujarat Stahl Rohren Ltd.	403.10	(10.64)
Elgitread (India) Ltd.	20.35	(10.55)
Kirloskar Brothers Ltd	273.50	(10.37)
Grasim Industries Ltd.	2,375.00	(10.36)

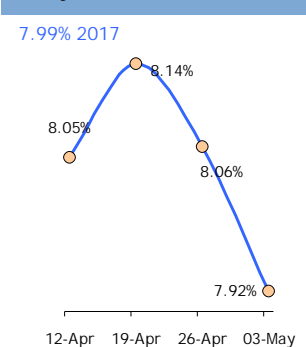
Sectoral Performance

Sectors	Week	Month	3 Months
Gems Jewellery And Watches	9.54	23.06	(13.13)
Engineering	8.71	28.69	(6.39)
Automobiles - 2 And 3 Wheelers	8.60	14.79	6.71
Mining	8.17	25.62	11.48
Electrodes	6.63	16.18	(3.38)
Telecommunication - Equipment	6.53	9.12	(12.33)
Construction	6.35	11.57	(10.49)
Shipping	5.60	18.91	5.18
Finance - Housing	5.41	14.53	4.67
Fasteners	5.32	9.36	(13.89)
Petrochemicals	4.89	14.80	(10.40)
Consumer Durables	4.59	19.46	(11.24)
Refineries	4.34	15.74	10.09
Paints	4.30	6.76	3.01
Detergents	4.29	17.32	(8.96)
Finance	4.22	16.68	(14.99)
Abrasives	4.14	8.49	(19.12)
Computers - Software	3.93	22.72	8.38
Leather And Leather Products	3.91	19.30	(3.36)
Printing And Publishing	3.60	10.69	(14.35)

Inflation (%)



10 year G-Sec Bond Yield



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