

The Week Gone By

Weekly Newsletter

Parag's View

Negative expectations at their highs

What we saw last week was everyone jumping ship - a real crowd effect. The only information driving investors was downwards price action and rumors of further collapses. The more stocks dropped, the more they sold.

A positive feedback loop was created. In psychology, a positive feedback loop is created when people base their opinion of how bad a situation is on the actions of others. When everyone is doing this, we can usually call it the peak of a mania or the bottom of a panic.

Eventually, when the supply of sellers decreases, because they've run out of shares or capital to sell, positive feedback loops can't sustain their negative price momentum.

The danger is that acting on negative expectations can become a self-fulfilling prophecy.

Lets take the case of high interest rates scenerio. Essentially, the more investors avoid new bond offerings, and the higher rates go (especially for unreputed companies), the more squeezed are companies that need to raise capital. Eventually many will go bust because they can't afford the high interest rates (which are high because investors are afraid the companies will default). If the rates had been lower (because investors were more calm), then the debt would have been service-able and the company would have survived.

The crowd's pessimism really can make things worse (just as its optimism was problematic in allowing such overconfident risk taking through 2007).

At this point, it's important to ask "can it get worse?" (yes), "will it get worse?" (probably), and "has this been priced in?" (in many sectors, yes, much too much).

Many stock prices will demonstrate great values. However, in some traditional industries low debt stocks with low PEs and trading at or under their book values are much more common.

But watch out for stocks vulnerable to the self-fulfilling prophecy of higher interest rates for "risky" bonds. That's whats why I mentioned to look for "low debt" stocks.

VST Limited

Research Associate : Deepti Singh

The Company has posted a net profit of Rs 106.8 million for the quarter ended June 30, 2008 as compared to Rs 188.3 million for the quarter ended June 30, 2007 and Rs. 120.7 million for the quarter ended March 31, 2008. Total Revenues (net of excise) has decreased from Rs 775.2 million for the quarter ended June 30, 2007 to Rs 702.3 million for the quarter ended June 30, 2008.

Thus the result highlights for Q1FY09 are as follows:

- Net Revenues down 20.3% Q-Q and 9.4 % Y-Y.
- PAT down 11.5% Q-Q but substantially down 43.3 % Y-Y.
- NPM at 15.2% v/s 13.7% in Q4FY08 and 24.3% in Q1FY08.
- The EPS declined to Rs.6.9 as compared to Rs. 7.8 in Q4.

VST hereby presents a result which is not very impressive. The decline in net profits can be seen from the past two quarters. Though the gross sales depict an increasing trend, the net sales are impacted due to increased excise duty rates. It is explicitly the significant increase in excise duty on non-filter cigarettes in the Finance Act 2008, that has adversely impacted the profitability of the company for the quarter ended 30th June, 08.

The company has substantial stake in the Plains and Micros segment (non-filter segment). The volume mix between filter and non-filter is 50-50 % for the company. Filter cigarettes bring a margin of around 25-28%, whereas non-filter cigarettes have a margin of around 20-25%. Because the current years budget proposes a steep increase in taxes on non - filter cigarettes, the company has strategised to launch several brands in Charminar portfolio with filter variation.

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- Debt Market Scenario
- Be Prepared

VST Limited

Q109 Result Review | CMP Rs. 277.10 | HOLD

Research Associate : Deepti Singh

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Introduction: VST Industries (VST) is engaged in the manufacturing and marketing of cigarettes. Its products are targeted at the lower end of the market and have dominance in the small-sized (less than 60 mm) micro segment. It is also in the business of selling non-manufactured and cut tobacco. The major brands of the company include Charminar, Charminar Special Filter, Charms Mini Kings and Charms Virginia Filter, XL Filter and Shaan.

Our take: VST products are price sensitive, as the company has a major product portfolio of non-filter cigarettes segment. The impact of the hike in excise duty was expected to be higher on VST Industries as compared to other players in the industry. Companies such as ITC or Godfrey Philips would be impacted less as they control major market share and cater to the higher segment of cigarettes. The results seem to have impacted the market price of the scrip. VST Industries is currently trading at only 7.3x which is the lowest in the industry. Growing at a CAGR of only 0.38%, poor volume growth, increasing burden of indirect taxation, slightly moderate free cashflows and the poor scrip liquidity have always been areas of concern for the company and have proved heavy on the otherwise very-attractive valuations.

We feel that at the single digit valuation, VST is cheap, given the high return ratios and importantly the 7.2% dividend Yield. However, there are no near term trigger for the price to spike up. We recommend long term investors to continue to hold.

Earnings Statement					
YE March (Rs. Mn.)	Q109	Q408	Q-Q(%)	Q108	Y-Y(%)
Net Revenues	702.3	881.7	-20.35%	775.2	-9.40%
Cost of Materials	331.6	337.7	-1.81%	274.8	20.67%
Gross Profit	370.7	544.0	-31.86%	500.4	-25.92%
Staff Costs	119.6	128.2	-6.71%	113.2	5.65%
Other Expenses	147.3	212.3	-30.62%	176.5	-16.54%
Total Expenditure	266.9	340.5	-21.62%	289.7	-7.87%
Operating Profit	103.8	203.5	-48.99%	210.7	-50.74%
OPM (%)	14.78%	23.08%	-35.96%	27.18%	-45.62%
Other Income	65.9	3.2	1959.37%	79.0	-16.58%
EBITDA	169.7	206.7	-17.90%	289.7	-41.42%
Depreciation	40.5	37.2	8.87%	30.5	32.79%
EBIT	129.2	169.5	-23.78%	259.2	-50.15%
Interest	0.1	(10.5)	-100.95%	(3.3)	-103.03%
PBT	129.1	180.0	-28.28%	262.5	-50.82%
Tax	22.3	59.1	-62.27%	74.2	-69.95%
PAT	106.8	120.9	-11.66%	188.3	-43.28%
Equity Capital	154.4	154.4	0.00%	154.4	0.00%
EPS	6.9	7.8	-11.66%	12.2	-43.28%
Ratio Analysis					
Profitability					
YE March (Rs. Mn.)	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)
OPM (%)	14.78%	23.08%	240.78%	27.18%	539.51%
EBITDA (%)	24.16%	23.44%	87.98%	37.37%	440.47%
EBIT (%)	18.40%	19.22%	116.85%	33.44%	533.33%
PAT (%)	15.21%	13.71%	57.32%	24.29%	460.25%

Financials

Earnings Statement				
Particulars	FY05	FY06	FY07	FY08
Total Revenues	3,560.3	3,450.9	3,362.0	3,399.7
- Growth (%)	6.3%	-3.1%	-2.6%	1.1%
Total Expenditure	2,669.0	2,429.8	2,465.8	2,559.2
Operating Profit	891.2	1,021.1	896.1	840.5
Other Income	142.7	227.8	167.2	138.9
EBITDA	1,034.0	1,248.8	1,063.3	979.4
Depreciation	95.3	103.3	115.6	138.1
EBIT	938.7	1,145.6	947.7	841.3
Interest	0.0	0.0	0.0	(21.3)
PBT	938.7	1,145.6	947.7	862.6
Tax	391.3	410.5	299.3	277.8
PAT Before EI	547.4	735.1	648.4	584.8
- Growth (%)	88.0%	34.3%	-11.8%	-9.8%
Extra-ordinary Items	0.0	(291.1)	(92.5)	0.0
Reported PAT	547.4	444.0	555.9	584.8

Ratio Analysis				
Particulars	FY05	FY06	FY07	FY08
OPM (%)	25.0%	29.6%	26.7%	24.7%
EBITDA (%)	29.0%	36.2%	31.6%	28.8%
PBIT (%)	26.4%	33.2%	28.2%	24.7%
PAT (%)	15.4%	21.3%	19.3%	17.2%
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
EPS (Rs.)	35.4	47.6	42.0	37.9
P/E (x)	7.8	5.8	6.6	7.3
P/BV (x)	2.5	2.2	2.0	1.8
BVPS (Rs.)	111.3	125.6	137.9	152.1
Market Cap (Rs. Mn.)	4,279.0	4,279.0	4,279.0	4,278.4
M Cap/Sales (x)	1.2	1.2	1.3	1.3
EV (Rs. Mn.)	2,781.9	2,517.4	2,092.6	1,999.1
EV/EBITDA (x)	2.7	2.0	2.0	2.0
EV/Sales (x)	0.8	0.7	0.6	0.6
ROCE (%)	54.6%	59.0%	44.5%	35.8%
RONW (%)	31.9%	37.9%	30.4%	24.9%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Inventory T/o Days	55.5	52.3	63.0	81.7
Debtors T/o Days	6.9	4.3	6.2	4.6
Advances T/o Days	15.2	13.0	12.0	14.0
Creditors T/o Days	116.2	131.8	167.6	202.2
Working Cap T/o Days	(25.3)	(65.6)	(87.5)	(129.5)
Fixed Assets T/o (Gross)	2.3	1.9	1.7	1.5
DPS (Rs.)	12.5	12.5	20.0	20.0
Dividend Payout (%)	35.3%	26.3%	47.6%	52.8%
Dividend Yield (%)	4.5%	4.5%	7.2%	7.2%

Balance Sheet				
Particulars	FY05	FY06	FY07	FY08
Equity Capital	154.4	154.4	154.4	154.4
Reserves	1,563.7	1,785.6	1,975.3	2,193.5
Shareholders Funds	1,718.1	1,940.0	2,129.7	2,347.9
Borrowed Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	(20.1)	(41.4)	(107.6)	0.0
Total Liabilities	1,698.0	1,898.6	2,022.1	2,347.9
Fixed Assets	754.7	906.4	986.1	1,231.7
Investments	1,189.8	1,612.1	1,841.7	2,232.9
Deferred Tax Asset	0.0	0.0	0.0	89.6
Current Assets				
Inventory	541.8	494.7	580.0	761.0
Sundry Debtors	66.8	40.3	57.2	43.2
Loans & Advances	148.7	122.8	110.2	130.3
Cash & Bank Balance	307.2	149.5	344.7	46.4
Other Current Assets	5.5	1.8	14.2	2.1
Current Liabilities				
Sundry Creditors	1,133.1	1,246.5	1,543.9	1,883.6
Provisions	183.5	182.5	368.1	305.6
Net Current Assets	(246.6)	(619.9)	(805.7)	(1,206.3)
Total Assets	1,698.0	1,898.6	2,022.1	2,348.0

Cash Flow				
Particulars	FY05	FY06	FY07	FY08
Opening Cash & Bank	218.1	307.2	149.5	344.7
Profit After Tax	547.4	735.1	648.4	584.8
Invnt Income	(142.7)	(227.8)	(167.2)	(138.9)
Interest Paid	0.0	0.0	0.0	(21.3)
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
Depreciation	95.3	103.3	115.6	138.1
Deferred Taxation	(19.1)	(21.3)	(64.5)	18.0
Others	(27.3)	(307.3)	(116.0)	(9.6)
Change in Working Cap	219.6	215.6	381.0	102.3
CF - Operating Activities	673.2	497.5	797.4	673.4
Change in Fixed Assets	(164.8)	(240.7)	(178.4)	(379.4)
Change in Investments	(281.4)	(422.3)	(229.6)	(391.2)
Investment Income	142.7	227.8	167.2	138.9
CF - Investing Activities	(303.5)	(435.2)	(240.8)	(631.7)
Increase in Equity	0.0	0.0	0.0	0.0
Changes in Borrowings	(59.8)	0.0	0.0	0.0
Interest Paid	0.0	0.0	0.0	21.3
Dividend Paid	(220.8)	(220.1)	(361.3)	(361.3)
CF - Financing Activities	(280.6)	(220.1)	(361.3)	(340.0)
Net Change in Cash	89.1	(157.8)	195.2	(298.3)
Closing Cash & Bank Bal	307.2	149.5	344.7	46.4

Great Offshore Limited

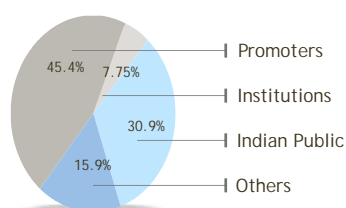
Update Note | CMP Rs. 403.15 | BUY

Stock Codes

Bloomberg	: SSOF.IN
Reuters	: SOFT.BO
BSE Code	: 532221
NSE Code	: SONATSOFTW
BSE Group	: T

Share Holdings (%)

As on 30th September, 2007.



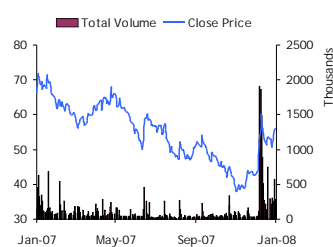
Stock Data

Sensex	: 20704.0
Nifty	: 6297.0
52 W High Rs.	: 75.05
52 W Low Rs.	: 37.50
Mkt Cap Rs. Mn.	: 5888.0
Face Value Rs.	: 10.0

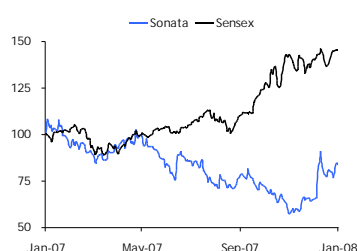
Absolute Returns

%	1M	3M	6M
Sonata	29.40	17.44	0.27
Sensex	3.56	13.75	36.43

Price/Volume



Price Comparison



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With the kind of volatility witnessed in crude oil prices & the consequential impact it has had on the global indices, the prices of all scrips related to oil have been very much in the limelight. This can also be seen on the prices of the offshore sector companies that we had covered in our initiating coverage report on the Indian Offshore Sector. Where our top pick, Aban Offshore is hovering around the Rs. 2,700 mark - a drop of 10% from the CMP in our report & Garware Offshore at Rs. 175 levels - an increase of 10%, Great Offshore has seen the steepest fall (-31%) to Rs. 400 levels from the CMP of Rs. 583 in our report. With no change on the fundamental side for the company, we believe that at these levels, the scrip provides a substantial upside of ~ 40% to our DCF based Target Price of Rs. 569.

To add to this, as covered in our report, if the probable acquisition of one high-end Jack up rig from Sea Dragon Offshore goes through for Great Offshore, this would add Rs. 30.7 to the EPS of Great Offshore for FY2012E. Taking a PE multiple of 8.5x, this adds Rs. 260.7 to our DCF Price Target of Rs. 569.

DCF Valuation Table

DCF Valuation						
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E
Free Cash Flow	1,380.7	3,633.4	4,006.1	3,772.4	3,517.4	2,738.4
Free Cash Flow Discounted	1,380.7	3,204.9	3,116.9	2,588.9	2,129.2	1,462.1

Cost of Debt	8.0%
Tax Rate	14.3%
Net Cost of Debt	6.9%
Cost of Equity	15.0%
Weight of Debt	20.0%
Weight of Equity	80.0%
WACC Rate	13.4%
Discounting Rate	13.4%
Terminal Growth Rate	3.0%
Terminal Value	26,403.7
PV of Terminal Value	14,097.8
PV of Interim Cash Flows	13,882.7
Enterprise Value	27,980.5

% OF Enterprise Value	
PV of Terminal Value	50.4%
PV of Interim Cash Flows	49.6%
Total	100.0%
Enterprise Value	27,980.5
Less : Debt	(9,321.4)
Add : Cash & Investments	3,033.1
Shareholder's Value	21,692.2
No. of Equity Shares	38.1
Fair Value (Rs.)	569.0
CMP (Rs.)	403.15
Upside	41.2%

At our target price of Rs. 569, the scrip will trade at 9.6x FY09E earnings & 8.3x FY10E earnings. We revise our call on the company to BUY from HOLD earlier.

Summary Financials

Particulars (Rs Mn)	FY08	FY09E	FY10E	FY11E	FY12E
Total Revenues	7,459.0	7,942.5	9,639.8	11,142.6	11,142.6
PAT	2,016.3	2,248.1	2,876.5	3,459.9	3,356.6
EPS (Rs.)	52.9	59.0	68.9	82.9	80.4
P/E (x)	11.0	9.9	8.5	7.0	7.3
P/BV (x)	2.5	2.2	1.8	1.5	1.3
EV/EBITDA (x)	7.9	6.7	5.3	4.3	4.0
ROCE (%)	14.5%	16.2%	19.5%	23.0%	21.9%
RONW (%)	22.7%	22.2%	21.0%	21.7%	18.5%

Financials

Earnings Statement									
Particulars (Rs Mn)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E
Total Revenues	3,884.5	5,821.9	7,459.0	7,942.5	9,639.8	11,142.6	11,142.6	11,142.6	10,585.5
- Growth (%)		49.9%	28.1%	6.5%	21.4%	15.6%	0.0%	0.0%	-5.0%
Total Expenditure	2,258.0	3,193.5	4,334.6	3,853.4	4,787.1	5,753.7	6,019.9	6,308.1	6,621.0
Operating Profit	1,626.5	2,628.4	3,124.4	4,089.1	4,852.7	5,388.9	5,122.7	4,834.5	3,964.4
Other Income	30.9	42.6	214.7	155.5	151.7	167.1	154.1	159.7	289.8
Forex Gain/(Loss)	(8.6)	36.2	285.2	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	1,648.8	2,707.2	3,624.3	4,244.6	5,004.3	5,556.0	5,276.8	4,994.3	4,254.3
Depreciation	448.9	709.0	985.5	1,098.9	1,237.5	1,278.7	1,320.0	1,361.2	1,402.5
EBIT	1,199.9	1,998.2	2,638.8	3,145.7	3,766.9	4,277.2	3,956.9	3,633.0	2,851.8
Interest	173.4	360.6	683.9	611.3	451.3	211.3	0.0	0.0	0.0
PBT	1,026.5	1,637.6	1,954.9	2,534.4	3,315.6	4,065.9	3,956.9	3,633.0	2,851.8
Tax	55.8	185.8	173.4	286.3	439.0	606.0	600.3	567.1	486.0
PAT Before EI	970.7	1,451.8	1,781.5	2,248.1	2,876.5	3,459.9	3,356.6	3,065.9	2,365.8
- Growth (%)		49.6%	22.7%	26.2%	28.0%	20.3%	-3.0%	-8.7%	-22.8%
Extra-ordinary Items	0.0	0.0	234.8	0.0	0.0	0.0	0.0	0.0	0.0
PAT	970.7	1,451.8	2,016.3	2,248.1	2,876.5	3,459.9	3,356.6	3,065.9	2,365.8

Ratio Analysis									
Particulars	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E
OPM (%)	41.9%	45.1%	41.9%	51.5%	50.3%	48.4%	46.0%	43.4%	37.5%
EBITDA (%)	42.4%	46.5%	48.6%	53.4%	51.9%	49.9%	47.4%	44.8%	40.2%
PBIT (%)	30.9%	34.3%	35.4%	39.6%	39.1%	38.4%	35.5%	32.6%	26.9%
PAT (%)	25.0%	24.9%	27.0%	28.3%	29.8%	31.1%	30.1%	27.5%	22.3%
Interest Cover (x)	6.9	5.5	3.9	5.1	8.3	20.2	-	-	-
EPS (Rs.)	25.5	38.1	52.9	59.0	68.9	82.9	80.4	73.4	56.7
P/E (x)	15.8	10.6	7.6	6.8	5.9	4.9	5.0	5.5	7.1
P/BV (x)	3.1	2.5	1.7	1.5	1.2	1.1	0.9	0.8	0.8
BVPS (Rs.)	131.1	162.0	232.9	266.2	327.6	381.2	433.5	481.2	518.0
Market Cap (Rs. Mn.)	15,368.1	15,368.1	15,368.1	15,368.1	16,833.2	16,833.2	16,833.2	16,833.2	16,833.2
M Cap/Sales (x)	4.0	2.6	2.1	1.9	1.7	1.5	1.5	1.5	1.6
EV (Rs. Mn.)	18,155.7	22,257.3	21,603.2	21,656.4	19,133.6	16,393.0	13,638.8	11,036.3	8,838.5
EV/EBITDA (x)	11.0	8.2	6.0	5.1	3.8	3.0	2.6	2.2	2.1
EV/Sales (x)	4.7	3.8	2.9	2.7	2.0	1.5	1.2	1.0	0.8
ROCE (%)	13.6%	14.6%	14.5%	16.2%	19.5%	23.0%	21.9%	18.1%	13.2%
RONW (%)	19.4%	23.5%	22.7%	22.2%	21.0%	21.7%	18.5%	15.3%	10.9%
Debt/Equity Ratio (x)	0.8	1.2	1.1	0.9	0.4	0.2	0.0	0.0	0.0
Inventory T/o Days	6.8	4.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Debtors T/o Days	71.8	77.7	74.0	72.0	72.0	72.0	72.0	72.0	72.0
Advances T/o Days	22.5	25.5	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Creditors T/o Days	98.3	96.9	90.0	90.0	90.0	90.0	90.0	90.0	90.0
Working Cap T/o Days	95.8	45.0	160.7	145.9	133.0	107.4	111.1	196.4	282.2
Fixed Assets T/o (Gross)	0.4	0.4	0.5	0.4	0.4	0.5	0.5	0.5	0.4
DPS (Rs.)	5.1	8.0	16.0	18.0	21.0	25.0	24.0	22.0	17.0
Dividend Payout (%)	20.0%	21.0%	30.2%	30.5%	30.5%	30.2%	29.9%	30.0%	30.0%
Dividend Yield (%)	1.3%	2.0%	4.0%	4.5%	5.2%	6.2%	6.0%	5.5%	4.2%

Financials

Balance Sheet									
Particulars (Rs Mn)	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E
Equity Capital	381.2	381.2	381.2	381.2	417.5	417.5	417.5	417.5	417.5
10% OCR Preference Cap			1,500.0	1,500.0	0.0	0.0	0.0	0.0	0.0
Reserves	4,618.0	5,794.6	6,998.0	8,267.9	13,262.3	15,501.0	17,685.2	19,676.5	21,211.9
Shareholders Funds	4,999.2	6,175.8	8,879.2	10,149.1	13,679.9	15,918.6	18,102.8	20,094.0	21,629.4
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed Funds	3,811.6	7,465.6	9,345.6	9,321.4	5,641.4	2,641.4	0.0	0.0	0.0
Deferred Tax Liability	28.6	(32.9)	(65.7)	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	8,839.4	13,608.5	18,159.1	19,470.5	19,321.3	18,560.0	18,102.8	20,094.0	21,629.4
Fixed Assets	7,817.1	12,889.5	14,874.0	16,295.1	15,807.7	15,278.9	14,709.0	14,097.8	13,445.3
Goodwill on Consolidation	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets									
Inventory	72.8	63.1	92.0	97.9	118.8	137.4	137.4	137.4	130.5
Sundry Debtors	763.8	1,239.6	1,512.2	1,566.7	1,901.6	2,198.0	2,198.0	2,198.0	2,088.1
Loans & Advances	239.8	406.4	449.6	478.7	581.0	671.6	671.6	671.6	638.0
Other Current Assets	0.0	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash & Bank Balance	1,024.0	576.4	3,110.5	3,033.1	3,341.0	3,081.7	3,194.4	5,796.9	7,994.7
Current Liabilities									
Sundry Creditors	1,045.8	1,545.7	1,839.2	1,958.4	2,376.9	2,747.5	2,747.5	2,747.5	2,610.1
Provisions	35.3	27.2	40.9	43.5	52.8	61.1	61.1	61.1	58.0
Net Current Assets	1,019.3	718.1	3,284.2	3,174.5	3,512.7	3,280.1	3,392.9	5,995.3	8,183.2
Misc. Expenditure	2.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total Assets	8,839.4	13,608.5	18,159.1	19,470.5	19,321.3	18,560.0	18,102.8	20,094.0	21,629.4
Cash Flow									
Particulars (Rs Mn)	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E
Opening Cash & Bank	563.1	1,024.0	576.4	3,110.5	3,033.1	3,341.0	3,081.7	3,194.4	5,796.9
Profit After Tax	970.7	1,451.8	2,016.3	2,248.1	2,876.5	3,459.9	3,356.6	3,065.9	2,365.8
Investment Income	(30.9)	(42.6)	(214.7)	(155.5)	(151.7)	(167.1)	(154.1)	(159.7)	(289.8)
Interest Paid	173.4	360.6	683.9	611.3	451.3	211.3	0.0	0.0	0.0
Miscellaneous Exp W/Off	2.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	448.9	709.0	985.5	1,098.9	1,237.5	1,278.7	1,320.0	1,361.2	1,402.5
Deferred Taxation	28.6	(61.5)	(32.8)	65.7	0.0	0.0	0.0	0.0	0.0
Others	80.5	(3.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Working Cap	89.8	(146.4)	(32.0)	32.3	(30.2)	(26.8)	0.0	0.0	9.9
CF - Operating Activities	1,763.1	2,269.8	3,406.2	3,900.7	4,383.4	4,756.1	4,522.4	4,267.4	3,488.4
Change in Fixed Assets	(2,194.9)	(5,778.2)	(2,970.0)	(2,520.0)	(750.0)	(750.0)	(750.0)	(750.0)	(750.0)
Change in Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Income	30.9	42.6	214.7	155.5	151.7	167.1	154.1	159.7	289.8
CF - Investing Activities	(2,164.0)	(5,735.6)	(2,755.3)	(2,364.5)	(598.3)	(582.9)	(595.9)	(590.3)	(460.2)
Increase in Equity	0.5	72.5	(0.0)	0.0	3,180.0	(0.0)	0.0	(0.0)	(0.0)
Changes in Preference Capital	0.0	0.0	1,500.0	0.0	(1,500.0)	0.0	0.0	0.0	0.0
Changes in Borrowings	1,256.6	3,654.0	1,880.0	(24.2)	(3,680.0)	(3,000.0)	(2,641.4)	0.0	0.0
Interest Paid	(173.4)	(360.6)	(683.9)	(611.3)	(451.3)	(211.3)	0.0	0.0	0.0
Dividend Paid - Equity	(221.9)	(347.7)	(713.5)	(802.7)	(1,025.8)	(1,221.2)	(1,172.4)	(1,074.7)	(830.4)
Dividend Paid - Preference	0.0	0.0	(99.3)	(175.5)	0.0	0.0	0.0	0.0	0.0
CF - Financing Activities	861.8	3,018.2	1,883.2	(1,613.7)	(3,477.1)	(4,432.5)	(3,813.8)	(1,074.7)	(830.4)
Net Change in Cash	460.9	(447.6)	2,534.1	(77.5)	308.0	(259.3)	112.8	2,602.5	2,197.8
Closing Cash & Bank Balance	1,024.0	576.4	3,110.5	3,033.1	3,341.0	3,081.7	3,194.4	5,796.9	7,994.7

Personal Finance

Debt Market Scenario

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The interest rate scenario in India has undergone a dramatic shift since the start of this year. Rising inflation and concerns about increased trade/fiscal deficit along with monetary tightening has pushed up yields across the curve. This week 10 year benchmark yields have touched 9.55%, which is 7 year high. Enclosed is a note covering the recent developments, our views on the global/domestic situation and outlook.

The key takeaways are -

- Central banks in developed economies (U.S) have resorted to monetary easing (rate cuts and liquidity infusion through discount window) to fight economic slowdown and credit market crisis. But countries witnessing relatively faster growth (India / China) have resorted to monetary tightening.
- Spike in commodity/energy prices is causing a shift in focus from growth to inflation risks.
- Ahead of national elections, populist measures are increasing the off-balance sheet items and are likely to push fiscal deficit up.
- Rupee has weakened due to FII outflows (aprox. \$7 Bln from Jan 2008 till date) worries about rising value of crude oil imports.
- Govt. and RBI are clearly focused on taming inflation, which is at 13 - year high and priority is to curb inflation even at the cost of growth.
- Right now the yield curve is very flat but if the inflation continue to rise then the yield curve may steepen out.
- We expect monetary policy to have a tightening bias and to be dependent on inflationary trends. We also believe that high inflation is here to stay - at least for some time.
- Sharp rise in domestic inflation due to supply/demand pressures has resulted in a series of CRR/repo rate hikes (see Table below) this year.

Month	CRR %	Month	Repo Rate %
Mar-07	6.00	Mar-04	6.00
Apr-07	6.25	Oct-05	6.25
Apr-07	6.50	Jan-06	6.50
Aug-07	7.00	Jun-06	6.75
Nov-07	7.50	Jul-06	7.00
Apr-08	7.75	Oct-06	7.25
May-08	8.00	Jan-07	7.50
May-08	8.25	Mar-07	7.75
Jul-08	8.50	Jun-08	8.00
Jul-08	8.75	Jun-08	8.50

- Sharp fall in crude / commodity prices globally, central bank's monetary action and satisfactory monsoon will help containing inflationary pressure in short to medium term. Interest rate may go up further by around 50 -100 bps before peaking out.

Be Prepared

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Not many things in life are predictable and its highs and lows often affect our careers, friends and family life. But to live life on your terms, to take risks in career /business and to fulfill your dreams you cannot be financially unprepared. Like the rock climber who will not start his task without his safety gear, you need to get a Financial Plan, so that your goals are met with ease. A Financial Plan is like a financial health checkup that will help you understand your current position and future requirement as well.

Get yourself mentally prepared

Have you ever been into a weight loss/'back to fitness' program, successful or otherwise? You would pay for the best dietitian, joined the best gym in your neighborhood, and bought the best pair of Nikes. Yet it is 'YOU' who needs to put in the effort. You sweat it out on the treadmill; you make the changes in diet etc. To draw an analogy, a Financial planning exercise requires you to be mentally prepared. You have to be committed to put in time, chart your goals and stick to the decided plan.

Objective Goal Setting

Draw up your financial goals as objectively as possible. For example " I need to set aside money for my sons education " should be " I need to set aside Rs.500000 for my sons education in the next 7 years ". This very exercise of goal setting will be an eye opener for many with regards to their financial health.

Evaluate Cash Flows

Cash Flow = Income -Expenses

Quantify you Expenses (try a formal family budget exercise). Most clients we meet are shocked by the difference in such formal budget and actual expenditure. It happens mostly because of unplanned expenses including gifts to family, entertainment expenses, binge expenses on clothes and electronic gadgets, credit card debts etc. It is important to provision for such expenses, but if most of your expenses are unplanned it should send alarm bells ringing.

Get an Investment Plan

Once you know your cash flows you need to get an optimal asset allocation plan to achieve goals. Getting a qualified Financial Planner is a good idea. Based on the time frame and your risk profile, he/she will be able to know what will be the best possible asset allocation for you. If some goals are unachievable given the cash flows, then a Financial Planner can guide you to either change asset allocation or prioritize goals and prune allocation to the least important goals.

Others Aspects

Other aspects that you will need to consider is getting an Insurance plan for family, both life as well as medical. You may require insurance for assets like a house for example. Credit/debt restructuring, tax planning and Estate planning so that your assets are distributed with least inconvenience to your near and dear ones, are other aspects.

Local Equity Market					
INDICES	19-Jul-08	Week Ago	% Chng	Month Ago	% Chng
Sensex	13,635.40	13,469.85	1.23	15,087.99	(9.63)
Nifty	4,092.25	4,049.00	1.07	4,504.25	(9.15)
CNX Nifty Junior	6,395.35	6,446.75	(0.80)	7,410.80	(13.70)
S&P CNX500	3,248.05	3,232.20	0.49	3,633.45	(10.61)
CNX Midcap 200	5,149.20	5,236.70	(1.67)	6,096.05	(15.53)
CNX IT	3,571.60	3,839.50	(6.98)	4,295.90	(16.86)

International Equity Market					
INDICES	19-Jul-08	Week Ago	% Chng	Month Ago	% Chng
DJIA	11,496.57	11,100.54	3.57	12,063.09	(4.70)
Nasdaq	2,282.78	2,239.08	1.95	2,462.06	(7.28)
S&P 500	1,260.68	1,239.49	1.71	1,342.83	(6.12)
FTSE 100	5,376.40	5,261.60	2.18	5,708.40	(5.82)
Nikkei 225	12,803.70	13,039.69	(1.81)	14,130.17	(9.39)
Hang Seng	21,874.19	22,184.55	(1.40)	22,797.61	(4.05)
HSCEI	12,123.88	12,306.99	(1.49)	12,431.44	(2.47)

MSCI Indices					
MSCI Indices	19-Jul-08	Week Ago	% Chng	Month Ago	% Chng
The World Index	1,362.52	1,345.47	1.27	1,430.44	(4.75)
Emerging Market	1,022.16	1,043.00	(2.00)	1,110.48	(7.95)
EM Asia	376.02	391.12	(3.86)	413.85	(9.14)
EM India	391.02	390.03	0.26	424.59	(7.91)

Commodities					
Commodities	19-Jul-08	Week Ago	% Chng	Month Ago	% Chng
GOLD (\$/oz)	955.00	964.20	(0.95)	898.47	6.29
SILVER (\$/oz)	18.13	18.82	(3.64)	17.35	4.50
ALUMINIUM (\$/t)	3,033.00	3,317.00	(8.56)	3,073.00	(1.30)
COPPER (\$/t)	8,085.00	8,270.00	(2.24)	8,330.00	(2.94)
CRUDE - BRENT (\$/bbl)	130.19	145.57	(10.57)	132.69	(1.88)
CRUDE - WTI (\$/bbl)	128.88	145.08	(11.17)	132.60	(2.81)

Transportation					
Transportation	19-Jul-08	Week Ago	% Chng	Month Ago	% Chng
World SCALE	240.00	232.50	3.23	215.00	11.63
BALTIC FREIGHT INDEX	9,012.00	9,230.00	(2.36)	9,474.00	(4.88)

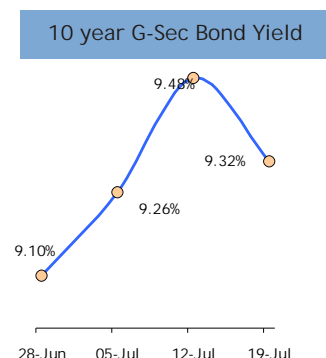
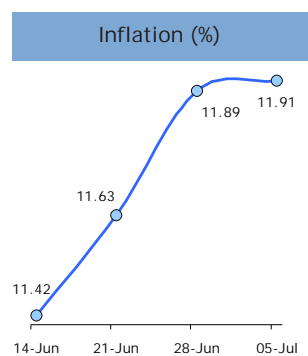
Forex					
FOREX	19-Jul-08	Week Ago	% Chng	Month Ago	% Chng
USD	42.52	42.89	(0.85)	43.00	(1.12)
GBP	84.99	85.29	(0.35)	84.81	0.21
EURO	67.38	68.35	(1.41)	66.67	1.07
YEN	39.75	40.34	(1.46)	39.81	(0.15)

Global Listings					
Scripts	17-Jul-08	Week Chng	Month Chng	Premium/D iscount	Share per ADR/GDR
Infosys ADR	38.42	0.73	(16.05)	5.57%	1
Wipro ADR	10.81	(1.99)	(15.80)	25.50%	1
ICICI Bank ADR	30.00	12.74	(26.69)	3.30%	2
Satyam ADR	22.04	(4.46)	(11.81)	22.17%	2
HDFC Bank ADR	77.00	8.19	(15.39)	5.50%	3
MTNL ADR	4.52	3.67	(2.24)	4.06%	2
Dr. Reddy ADR	15.90	2.32	(5.53)	2.00%	1
Reliance GDR	100.25	6.65	(11.32)	0.86%	2
ITC GDR	4.05	21.62	(28.08)	-2.29%	1
Ranbaxy GDR	10.15	(17.21)	(11.80)	-1.22%	1
L & T GDR	59.40	8.00	(12.97)	-0.86%	1

Top Gainers & Losers of the Week		
Top Gainers	Jul 19, 08	% Chng
ING Vysya Bank Ltd.	232.10	14.59
Patel Engineering Ltd.	402.70	13.69
Zandu Pharmaceutical Works Ltd.	20,343.50	11.90
Punjab National Bank	441.10	11.46
Bharat Petroleum Corporation Ltd.	284.40	11.20
Oil & Natural Gas Corporation Ltd.	944.00	11.12
Indian Oil Corporation Ltd.	381.85	10.76
Usha Martin Ltd.	82.35	10.17

Top Losers		
Ranbaxy Laboratories Ltd.	436.90	(17.90)
CMC Ltd.	480.30	(17.79)
Nepc Micon Ltd	10.65	(17.76)
Moser Baer India Ltd.	90.35	(17.15)
Tata Chemicals Ltd.	254.20	(16.75)
Kirloskar Brothers Ltd	167.15	(16.38)
Financial Technologies (India) Ltd.	1,435.30	(16.08)
Dabur Pharma Ltd.	58.05	(15.56)

Sectoral Performance			
Sectors	Week	Month	3 Months
Refineries	5.54	(8.02)	(20.67)
Cables - Telecom	2.60	(5.40)	(26.01)
Chemicals - Organic	1.85	(3.86)	(5.82)
Automobiles - 2 And 3 Wheelers	0.87	(18.82)	(18.18)
Abrasives	0.58	(6.57)	1.24
Sugar	0.44	(7.78)	(12.58)
Banks	0.24	(17.83)	(28.53)
Travel And Transport	0.18	(12.54)	(15.74)
Chemicals - Speciality	0.13	(5.16)	4.64
Financial Institution	0.02	(14.56)	(30.60)
Finance - Housing	(0.04)	(11.00)	(13.62)
Gas	(0.07)	(9.45)	(16.04)
Tea And Coffee	(0.11)	(11.69)	(16.48)
Personal Care	(0.26)	(11.04)	(10.61)
Engineering	(0.62)	(16.90)	(16.52)
Miscellaneous	(0.67)	(12.94)	(20.00)
Telecommunication - Services	(0.74)	(12.42)	(16.00)
Construction	(0.87)	(19.06)	(34.08)
Power	(0.88)	(13.88)	(25.63)
Bearings	(0.90)	(7.93)	(26.74)



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