

The Week Gone By

Weekly Newsletter

Parag's View

Mavericks Go Down...

Today is one of those days when I don't want to talk on the markets or how and why the sensex in the past week fell by 750 odd points. I think this is a good time to sit back and reflect on some of the more broad lining issues and to my thinking they are more basic than one can imagine.

We in India for the past some years are in the midst of a tremendous bull run. Never in the history of our capital markets has any one witnessed such a tremendously overwhelming one sided run. From the look of things it will be very difficult to replicate this kind of performance for a long time to come. Mind you by no means am I trying to imply that the rally in our stock markets is over and done with. However I am a strong believer in pausing and taking stock of the past which in turn paves the way for the future.

If anyone has been invested in our markets for the past three years he/she would have for sure seen his/her portfolio rise a fair bit on a year on year basis. It is this rise in ones net worth that at times blinds one of the fact that the increase in the portfolio is not solely due to ones intelligence alone. It is also because of one simple fact that our market in the past was not looked at by a host of foreign institutions. All that has changed over the years is that our markets have gone from being under owned by the institutions to becoming well tracked and owned by such institutions. What I am trying to imply is very simple, in the past it is safe to assume that too much money was chasing very few good stocks which in turn resulted in the meteoric rise of the markets. But things have changed and now it will be difficult to make easy money going forward.

More often than not people tend to ascribe a very high importance to easy money, much more than it truly deserves. I am not implying here that money is not important. What I am saying is that money is important but a more important fact to understand is how the money is earned. If the decisions made by one are based on sound rational reasoning and judgment then the resultant increase in the wealth makes one more confident than surprised. Like in life we tend to miss the obvious simple things waiting for something big, same is the case with a stock market where one waits for an odd stock to double in a month's time and lose sight of those really good stocks which can continuously give a steady return for a long time.

But the fact of the matter is that there have been stocks in the past which have more than doubled in less than a month's time, while the rate increase in such stocks doesn't necessarily mean the strong backing of the fundamentals and more on speculation. In my view such maverick cases which weren't maverick in the past based on the sheer number of stocks going up overnight will not be as high as in the past and the stocks with real fundamentals will move at a consistent pace like the tortoise who did eventually win the race. Who am I to preach such a theory of patience when your next door neighbor has made a killing on a stock whose only claim to fame has been some really loud promises and no existing businesses. It is very easy for one to get carried away by the lure of easy money but in my opinion the wealth created out of sound and rational judgment is one which will be sustained for generations to come.

Pyramid Saimira Theatre Limited

CMP Rs. 330.0

Research Associate : Jugal Shah

Pyramid Saimira Theatre Limited (PSTL) is the largest theatre chain company in the country with 733 screens operational across 4 countries as on Q3FY08. PSTL started its journey as a leading South based exhibitor and has successfully managed to spread its operations across the country as well as countries like USA, Malaysia & Singapore. It has been aggressively ramping up its operations by adding one screen everyday under its operation in the past 3 quarters. PSTL plans to open up 2000 screens by 2010.

Countries	No. of Multiplexes	No of Multiplex Screens	No of Single Screens	Total Screens	Total Seats
India	55	94	561	623	429,000
USA	5	23	-	23	6,528
Malaysia	3	9	42	51	12,800
Singapore	1	4	-	4	1,100
Total	64	130	603	701	449,428

Business Model

The company's business model is unique where it doesn't acquire screens outright and enters into a favorable agreement with the property owners on revenues sharing basis or long term lease rentals. This makes it easy for PSTL to bring more screens under its belt as fixed capital investment is low.

PSTL aims to create the largest "digital Chain" of screens and bring all of them under one network. This would result in a wider release of films across all its screen, fight piracy and reduce the cost of print per screen.

Business Verticals - PSTL aims to be Asia's largest entertainment conglomerate and has been diversifying operations horizontally & vertically. Starting as an exhibitor, PSTL now has ventured into Food Courts, Production, Distribution, Real Estate, Radio, Print & Gaming. PSTL manages its different ventures through its subsidiaries:

Positives

- PSTL's subsidiaries to bring in synergies
- Diversified revenues streams
- Different verticals to mitigate risks
- Backward & forward integration would lead to better scalability & exploitation of revenues.
- IPR's to build content library

Concerns

- ATP as low at Rs.40/- coupled with low occupancy rate
- Stream lining all subsidiaries would be a challenge
- Delays & cost over runs can affect roll out of screens
- High Entertainment taxes & rising infrastructure cost
- Emerging Home entertainment industry & platforms like IPTV & DTH

- Aggressive expansion plans by other players.
- High concentration in South

Financials

- PSTL delivered revenues of Rs.2314 mn, an increase of 60% q-o-q & 520% y-o-y
- EBIDTA for the quarter was Rs371 mn against Rs.59mn for the same quarter last year, higher by 532%
- On standalone basis, Net profit for Q3FY08 stood at Rs.298mn against Rs.134.3mn for the entire last year
- On 9 month basis for FY08, the revenues recorded were Rs.4983mn against Rs.985mn for the same period last year

Our View

PSTL has been able to scale up its operations rapidly and intends to foray into all verticals in the entertainment space. In spite of this phenomenal growth, at CMP of Rs.332, it is still trading at 14 times TTM earnings where as players like INOX & PVR are trading at 25 & 32 times TTM earnings respectively.

This has been the case primarily because the new format multiplexes have been earning higher margins versus PSTL (a low end & mostly a single-screen theatre chain). Their margins are high on account of the relatively higher ATP and also the tax exemptions. However, one should note that for PSTL with poor ATPs and no tax advantage, the margins can only improve with increasing ATPs and setting up of greenfield multiplexes, whereas the multiplexes with ATPs high as ~ Rs. 140/- and tax benefits withering, margins sustainability will be a critical issue going ahead. In spite of wide spread operations PSTL has been able to maintain its margins & deliver strong growth. PSTL has lined up ambitious plans like others, but has demonstrated its ability to scale up its operations in the past. We maintain a cautiously optimistic view on the company.

Subsidiary	Purpose
Pyramid Saimira Production Ltd.	Content Production of TV & Films. Currently producing 2 hours of TV content & 6 films under production.
	Serves as backward integration for PSTL's exhibition business.
	Future Plans
	Produce 50 films annually & 16 hours of original TV content per day
Pyramid Saimira Entertainment Ltd.	Content distribution & agglomeration of International Content.
Pyramid Saimira Theatre Chain (Malaysia) Sdn Bhd (PSTC)	Singapore's second largest theatre chain with 51 operational screens.
	Venturing into Food courts & Home entertainment segments
Pyramid Saimira Entertainment America Inc., USA (PSEA)	Acquired FunAsia in USA which operates 23 screens 3 banquet halls, 1 magazine, 3 radio across 3 states.
Dimples Cine Advertising Pvt. Ltd.	Synergies from On-screen & Off-screen advertisements of DCAL's clientele.
Saimira Reality Ltd.	Property trust to acquire 100 properties which would operate multiplexes & malls.
	Lease out properties to PSTL
Pyramid Saimira Production Services	Post production facilities (VFX, DI, special effects) to PSTL's production arm.
Aurana Technologies	Presence in high margin gaming & animation industry
	Exploit revenues from IPR's
	Future Plans
	Pyramid Fun Zone to develop gaming parlours across its screens.

The tidal shift in shipbuilding activities, from Europe to Asia, has opened up huge opportunities for Indian yards - and both public & private shipbuilders are capitalizing on them.

The shipbuilding industry in India is set to surpass all its historical growth rates, expected to register a growth rate of 25% - 30% over the next 5 years. As per an estimate by Mumbai-based I-Maritime Consultancy Private Limited, India's share in the global shipbuilding order book is expected to touch ~15% or US\$ 22 Bn. by 2020 from the current 1% or about US\$ 3.7 Bn.. India currently ranks 9th in the world by investment in the shipbuilding sector. Proposed capacity additions by various existing shipyards & the new ones coming up are expected to move the country up the global rankings.

Traditionally run by the Government, Indian shipbuilding sector has witnessed the emergence of private shipbuilding yards like ABG Shipyard, Bharati Shipyard & Chowgule & Co. in the recent past. These public & private sector shipyards have registered tremendous growth over the past 5 years, especially the private yards like ABG & Bharati, who have recorded a CAGR growth of more than 50% in their order book. Due to the booming global demand for additional tonnage, backed by the continued growth in world trade, aging fleet & favourable regulatory support, a number of players are muscling into this segment for the huge promise that it holds out.

According to Shipyards Association of India, shipbuilding will entail a total investment of around Rs. 370 billion by 2012 & Rs. 2.2 trillion by 2017. Here is a small compilation of the new entrants that the sector will be witnessing :

1) SKIL Infrastructure Limited, promoted by Nikhil Gandhi, has set up a shipbuilding & repair yard within the vicinity of Pipavav Port at Pipavav, Gujarat, to be known as Pipavav Shipyard Limited (PSL). The yard upon completion will be the largest in India & among the largest in Asia, with capacity to build vessels upto 3,00,000 DWT. This facility would be built at an approximate capital cost of approx. Rs. 2,900 crores & is expected to be operational by the end of 2008. PSL has already bagged export orders to build 26 Panamax size vessels of 74,500 DWT each, totaling to about Rs. 42,992 million, placing it at number two in the world for Panamax bulk carriers ahead of major yards in Japan, Korea and China. Infrastructure major Punj Lloyd has acquired a 25% strategic stake in PSL for ~ US\$ 100 million in September 2007.

2) Engineering & Construction giant Larsen & Toubro (L&T) ventured into the shipbuilding business in January 2006, by converting a part of its heavy engineering complex at Hazira, Surat into a yard that could build 3 mid-size ships with a maximum capacity of 15,000 - 20,000 DWT. L&T is also coming with a port-cum-yard facility at Kakinada, Hyderabad at an investment of US\$ 370 million, where it plans to manufacture any type of ships, including Frigates & Destroyers for the Navy & Coast Guard. It has been accepted by the Indian Government

as the second manufacturer of submarines in the country after Central Government owned Mazgoan Dock.

3) Shipping Corporation of India (SCI) plans to build the country's largest shipyard with an investment of around Rs. 3,000 crores. SCI has bid for the two government projects for building two world-class international shipbuilding yards. SCI is understood to be in final talks with Hyundai Heavy Industries for the proposed joint venture.

4) The Mukesh Ambani-owned Reliance Group is set to make a splash in shipbuilding and dredging with two separate companies with an expected investment of around US\$ 1 billion each. The shipyard will come up at Rewas, Navi Mumbai where Reliance is setting up a mega port and a special economic zone (SEZ).

5) The Ruia group proposes a mammoth shipyard at Haldia costing over Rs. 3,000 crores. It will be among the biggest in the world, building 12 ships a year of Panamax size.

6) The Adani group is setting up a Rs 1,000-crore shipyard at Mundra in Kutch, adjacent to its new deep-water port there.

7) The Tuticorin Port Trust plans to develop a Rs 1,400 crore shipbuilding yard on Build-Operate-Transfer (BOT) basis. The project will be completed in four years. Once the shipyard is complete, the port trust plans to produce up to six Panamax-size ships a year.

8) The Tata group, which has already entered into a 50:50 JV with NYK Line of Japan for setting up a shipping company, has shown interest in building a shipyard at Shivrajpur in Gujarat. This will give the group tremendous operational synergies considering that it is already present in the shipbuilding grade steel as well as transportation.

9) Mercator Lines Ltd. is likely to build up a shipyard in Palghar, Maharashtra. The company has bought 400 acres of land in Palghar to build a shipyard & is likely to invest around Rs 1,000 crores to build this shipyard.

10) Dolphin Offshore Ltd., the latest entrant in the sector, has recently announced Rs. 400 crores project for a shipyard at GMB allotted land at Jafrabad, Gujarat.

With this kind of investments lined up, the shipbuilding sector definitely seems to be in limelight for Indian business houses.

Considering that India, which is only 1% of the global order book currently, has such huge capacity additions planned, one might have to think of the rest that comprise the 99% of the global order book. Are the other 99% holders also going in for this kind of capacity additions? Will this lead to a case of a serious oversupply going forward? We still need to find some answers to this...

Will the sudden crash in a one week period (14 Jan to 22 Jan 2008) turn out to be a blessing in disguise for real assets like real estate, precious metals etc?? The turmoil of this week was good enough to wipe out investor wealth to the tune of Rs 1,60,00,00,00,00,000 ; a mind-numbing Sixteen lakh crore!!!

This may lead to investors looking to reduce their exposure to high risk equities and move on to safer havens of real estate given the steady rise over the past 3 years without a period of a major slump.

There has been rampant speculation about a slowdown in real estate prices in Metropolitan cities in India over the past 12-18 months on account of the strong resurgence seen in real estate prices in most metros and Tier I locations. Most of it fizzled out as high real estate prices in Metros only led to higher prices without the onset of the much anticipated "correction".

However, with high inflation leading to an increase in lending rates coupled with a clear scenario of supply catching up with the demand the correction did not materialize, though at the same time there has been a slowdown in the offtake in the sense of lower number of lease and/sell based real estate transactions.

All This Leads To A Single Asset Allocation Question...

Which asset class is likely to deliver a superior return in these times troubled by volatility?

A contrarian call on the same could be Commercial & residential real estate in Tier I & II locations.

Reasons:

1. The surge in real estate prices has been aided by the short supply of A grade space required for office space & commercial retail.

2. While this phenomena has been seen quite clearly in Metros like Mumbai, Delhi & Bangalore there is a vast chunk of India's population which resides in non-metro areas, whose incomes have improved and at the same time the rise in property prices has not been so sharp.

3. Also, a lot of activity has been seen in retail landscape in India. The total size of retail in India is close to US\$ 330 Billion in 2007. Of this traditional retail accounted for a lion's share of a little over 95%. Over a period of time with the increasing investments in Organised retail their share is estimated to move upto 9-10% by 2010.

4. This translates to a demand on commercial real estate by retail sector to the tune of 90Mn sq feet to be added by CY 2008 much higher than the existing capacity of appx 30Mn sq feet.

5. Also, until now nearly 90% of the total investment in Retail has been made in MUMbai, Delhi & Bangalore. With property prices going up manifold in these 3 cities and an ensuing credit crunch the next targets for organised retail are Tier II & III cities.

6. These cities also make up 4 out of the 10 fastest growing cities in India by means of GDP growth.

7. Also, lower land prices coupled with availability of vast tracts of land makes them ideal for expansion plans of retail chains who are finding high rentals and excessive competition in metros to be detrimental to their fiscal health.

8. Thus, I feel that the scope of organised retail that we read up about all over the place does not quite delve into the opportunities that Tier II & III open up.

9. In the US retailers pay anywhere between 3-6% of their revenues towards rentals whereas in India the figure is much higher at nearly 8-10%.

10. The rental income that can be derived from the commercial property can also act as a steadfast source of income to the investor!

The key concerns for real estate however would be the shelving of tax benefits offered and the slowdown and/or delay in the roll out of retail plans of the major players. A lot of large corporates have planned major forays in the burgeoning retail sector. While the growth is there for all to see what remains as a key question is whether this translates on to profits as well.

All in all Land and Real estate have traditionally been low risk investment options which have always given great returns to the discerning investor in the long run. To summarise I would like to quote Mark Twain, the famous American author and playwright, "Invest in Land, even God doesn't make it anymore."

Gateway Distriparks Ltd., is a Container logistics company with Pan-India presence providing Container Freight Station (CFS) / Inland Container Depot (ICD) services. With the addition of Punjab Conware CFS, GDL is now be operating two large CFSs at the premier gateway port of JNPT, an ICD at Garhi Harsaru, near Gurgaon and CFSs at Chennai & Vizag. GDL is the first private sector player to operate container trains. GDL also recently entered the cold chain logistics business through its subsidiary, Snowman Frozen Foods Limited, a JV with Mitsubishi Group of Japan. In FY09, GDL will have two more ICDs (Faridabad and Ludhiana) and one more CFS (Kochi) getting operational which will strengthen its Pan -India presence to cater to the fast growing Indian Logistics Sector. The logistics business is estimated at around 13% of India's GDP or US \$125bn. Investments in infrastructure, introduction of VAT, development of retail & agri processing, private participation in ports & railways, increase in 3PL / outsourced logistics are the drivers for sustained growth.

Investment Rationale:

Increase in Container Traffic

The popularity of containerization is due to the fact that it helps to ease congestion in harbors because of increased efficiency in handling cargo, leading to quicker turnaround of time for container vessels. This has resulted in an increase in container traffic from 11% in 2001 to 16% in 2007. Container traffic is expected to record 15-17% CAGR over FY07-FY09. GDL is the market leader in JNPT which is the major container port

of India where it handled an annual throughput of 188357 TEUs. In FY 08 it is expected to handle about 240000 TEUs which is an increase of 27.4%.

With the addition of Punjab Conware, GDL's total capacity at JNPT has increased to 366000TEUs per annum. There is excess capacity at the moment and the competition is also immense. But once the fourth terminal of 4.4m TEU capacity starts operation GDL can improve its capacity utilisation level as well as margins. GDL is consistently showing an increase in other CFS's like Chennai and Vizag and ICD Garhi. But the revenue realization per TEU at these places are lower compared to JNPT.

First Private Player in Rail Freight Business

Gateway through its subsidiary Gateway Rail Freight Pvt. Ltd. Was the first private player to operate container trains. GRFPL has formed a 50.1:49.9 JV with Container corporation and the ICD Garhi is been transferred to this JV. GDL is getting lease rentals from the JV. GRFPL has added four more trains taking the total to six and all the trains are deployed on the domestic cargo route. The company has ordered six more trains and two out of these will be for the Delhi-JNPT EXIM route. The EXIM route is more profitable than domestic rail haulage.

Cold Chain: Bright Outlook

About 30% of the fruits and vegetables grown in India (40 million tons amounting to US\$ 13 billion) get wasted annually

Exhibit I

Containers Handled(TEUs)						
Segment	Q3 FY07	Q4 FY07	Q1 FY08	Q2 FY08	Q3 FY08	% change
JNPT CFS	39203	43706	54134	63284	67454	72.06
CHENNAI CFS	10122	14213	17796	15100	14267	40.95
VIZAG CFS	2233	2875	3359	3820	3762	68.47
ICD/RAIL	5816	4386	5880	8613	10504	80.61
TOTAL	57374	65180	81169	90817	95987	67.3

Exhibit II

Segmental Revenue(Rs Mn)						
	Q3 FY07	Q4 FY07	Q1 FY08	Q2 FY08	Q3 FY08	% change
CFS	391.6	426.7	386	483.3	520.5	32.94
ICD/RAIL			42.2	91.3	130.4	
COLD CHAIN	24.8	57.4	64.9	71.4	81	227.34
EBIDTA						
CFS			221.3	267.8	289.8	
ICD/RAIL			4.6	10.5	17.6	
COLD CHAIN			4.3	9.2	19.9	
EBIDTA (%)						
CFS			57.34	55.41	55.67	
ICD/RAIL			10.8	11.54	13.49	
COLD CHAIN			6.6	12.83	24.58	

due to gaps in the cold chain such as poor infrastructure, insufficient cold storage capacity, unavailability of cold storages in close proximity to farms, poor transportation infrastructure. The Government is encouraging private players.

Once the retail industry gets more organized, there will be a growth in demand for cold retail chains. The process of storing, transporting and displaying food at appropriate temperatures will gain more significance. GDL's entry into this segment by acquiring Snowman Frozen Foods was at the right time.

GDL is maintaining its margins in CFS business and the rail as well as cold chain margins have improved in the current financial year. The container business has grown by 32.9% and the cold chain business by 227.3%. The real contribution from Rail and Cold Chain logistics is expected to increase significantly by FY 10. GDL's early mover advantage in these segments can put the company in a strong position.

The company could not keep up the momentum witnessed during FY05 and FY06. The operating profit has come down and PAT has increased only marginally. This is due to the increased competition in the CFS business especially in JNPT and lower realizations in new places.

Profitability in terms of EBIDTA/TEU is remaining stable compared to the previous year. The growth in this ratio witnessed during previous years is unsustainable in the long run. It is not realistic to expect a continuous abnormal growth in TEU realization in this emerging sector which is increasingly becoming competitive. So the company maintaining that is a good sign.

The company is struggling to maintain margins. But it is because of the business dynamics of the sector which is in a transformational phase. The CMP is Rs.115 and an upside is always possible. But any increase in haulage charges by railways or any price war in the CFS business can lower the company performance.

Operating Analysis

Particulars	FY04	FY05	FY06	FY07
Consolidated				
TEU Handled	151,074.0	200,606.0	210,976.0	240,491.0
Growth		32.8%	5.2%	14.0%
EBIDTA/TEU	1,850.4	2,662.7	4,486.8	4,415.1
Growth(%)		43.9%	68.5%	-1.6%
JNPT				
TEU Handled	130,345.0	169,318.0	183,638.0	188,357.0
Growth		29.9%	8.5%	2.6%
EBIDTA/TEU	2,144.6	3,127.2	5,012.5	5,291.5
Growth		45.8%	60.3%	5.6%

Quarterly Performance

Earnings Statement								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(%)	Q307	Y-Y(%)	9M08	9M07	Y-Y(%)
Net Revenues	719.9	640.3	11.06%	413.7	42.53%	1,829.1	1,140.8	37.63%
Total Expenditure	434.7	384.8		235.6		1,068.4	548.7	
Operating Profit	285.2	255.5		178.1		760.7	592.1	
OPM (%)	0.4	0.4	-0.29%	0.4	-3.43%	0.4	0.5	-10.31%
Other Income	27.5	43.4		56.5		139.2	181.3	
EBITDA	312.7	298.9		234.6		899.9	773.4	
Depreciation	(75.6)	(68.6)		(36.0)		189.4	93.4	
EBIT	237.1	230.3	2.87%	198.6	16.24%	710.5	680.0	4.29%
Interest	0.6	5.2		2.4		9.6	9.9	
PBT	236.5	225.1	5.06%	196.2	20.54%	700.9	670.1	4.60%
Tax	36.6	36.7		31.4		115.4	96.6	
PAT	199.9	188.4	5.75%	164.8	17.56%	585.5	573.5	2.05%
Minority Interest	(1.4)	(0.5)		(2.4)		7.1	2.1	
Reported Pat	201.3	188.9	6.56%	167.2	20.39%	578.4	571.4	1.22%
Equity Capital	1,159.7	1,155.6		923.5		1,159.7	923.5	
EPS	1.7	1.6		1.8		5	6.2	

Gateway Distriparks Limited - Financials

YE March (Rs. Mn)

Earnings Statement				
Particulars	FY04	FY05	FY06	FY07
Total Revenues	591.5	955.7	1,385.8	1,609.6
- Growth (%)		0.6	0.5	0.2
Total Expenditure	318.0	431.6	549.2	797.5
Operating Profit	273.5	524.1	836.6	812.1
Growth		0.9	0.6	(0.0)
Other Income	6.0	10.1	110.0	249.7
EBITDA	279.5	534.2	946.6	1,061.8
Depreciation	39.8	72.2	106.0	138.6
EBIT	239.8	462.0	840.6	923.2
Interest	17.0	45.8	25.4	13.7
PBT	222.8	416.2	815.2	909.5
Tax	31.5	70.5	93.6	138.7
PAT Before EI	191.3	345.6	721.6	770.8
- Growth (%)		0.8	1.1	0.1
Minority Interest	0.0	0.0	(1.0)	(7.4)
Reported PAT	191.3	345.6	722.6	778.2

Ratio Analysis				
Particulars	FY04	FY05	FY06	FY07
OPM (%)	46.24%	54.84%	60.37%	50.45%
EBITDA (%)	47.26%	55.89%	68.31%	65.97%
PBIT (%)	40.53%	48.34%	60.66%	57.36%
PAT (%)	32.34%	36.17%	52.14%	48.35%
Interest Cover (x)	16.1	11.4	32.9	59.3
EPS (Rs.)	3.0	4.6	7.8	8.4
P/E (x)	38.5	25.0	14.7	13.7
P/BV (x)	9.1	5.2	1.8	1.7
BVPS (Rs.)	12.7	22.1	62.4	67.0
Market Cap (Rs. Mn.)	7,360.0	8,625.0	10,603.4	10,618.9
M Cap/Sales (x)	12.4	9.0	7.7	6.6
EV (Rs. Mn.)	8,301.0	10,216.7	13,146.7	14,806.1
EV/EBITDA (x)	29.7	19.1	13.9	13.9
EV/Sales (x)	14.0	10.7	9.5	9.2
ROCE (%)	27.48%	20.40%	14.18%	13.84%
RONW (%)	23.54%	20.82%	12.56%	12.58%
Debt/Equity Ratio (x)	0.2	0.5	0.1	0.0
Inventory T/o Days	0.0	0.0	0.0	0.0
Debtors T/o Days	32.9	32.3	18.4	41.3
Advances T/o Days	31.9	35.7	139.5	18.3
Creditors T/o Days	51.4	48.7	28.4	49.8
Working Cap T/o Days	(13.6)	291.9	1,027.3	483.7
Fixed Assets T/o (Gross)	753.9	740.5	628.8	991.7
DPS (Rs.)	2.3	1.0	3.6	5.6
Dividend Payout (%)	75.50%	20.89%	45.40%	67.00%
Dividend Yield (%)	1.96%	0.84%	3.09%	4.91%

Balance Sheet				
Particulars	FY04	FY05	FY06	FY07
Equity Capital	640.0	750.0	922.0	923.7
Reserves	172.4	910.1	4,829.7	5,264.1
Shareholders Funds	812.4	1,660.1	5,751.7	6,187.8
Borrowed Funds	190.7	858.3	318.8	74.9
Minority Interest	0.0	7.6	8.3	482.9
Deferred Tax Liability	70.1	105.7	122.2	150.1
Total Liabilities	1,073.2	2,631.7	6,201.0	6,895.7
Fixed Assets	1,095.2	1,866.2	2,156.2	4,715.2
Expense pending Capital.	0.0	1.3	0.0	47.4
Investments	0.0	0.0	144.5	0.0
Current Assets	178.7	1,131.3	4,171.7	2,359.6
Inventory	0.0	0.0	0.0	0.0
Sundry Debtors	53.4	84.5	70.0	182.2
Loans & Advances	51.8	93.6	529.8	80.5
Cash & Bank Balance	62.1	926.7	3,526.2	2,068.1
Other Current Assets	11.5	26.5	45.7	28.8
Current Liabilities	200.7	367.1	271.4	226.5
Sundry Creditors	83.3	127.6	108.0	219.8
Provisions	117.4	239.5	163.4	6.7
Net Current Assets	(22.0)	764.2	3,900.3	2,133.1
Total Assets	1,073.2	2,631.7	6,201.0	6,895.7

Cash Flow				
Particulars	FY04	FY05	FY06	FY07
Opening Cash & Bank	67.4	62.1	926.5	3,526.2
Profit After Tax	191.3	345.6	722.6	778.2
Investment Income	(6.0)	(10.1)	(110.0)	(249.7)
Interest Paid	17.0	45.8	25.4	13.7
Miscellaneous Exp W/Off	0.0	0.0	0.2	0.0
Depreciation	39.8	72.2	106.0	138.6
Deferred Taxation	14.3	35.6	16.6	27.9
Others	(114.2)	(54.3)	34.4	796.6
Change in Working Cap	(0.1)	78.4	(553.2)	309.1
CF - Operating Activities	256.2	567.6	207.6	1,017.8
Change in Fixed Assets	12.4	(880.0)	(395.7)	(2,907.4)
Change in Investments	0.0	0.0	(144.5)	144.5
Investment Income	6.0	10.1	110.0	249.7
CF - Investing Activities	18.4	(869.9)	(430.2)	(2,513.2)
Increase in Equity	0.0	671.5	3,680.9	19.5
Changes in Borrowings	(4.5)	667.6	(539.5)	(243.9)
Interest Paid	(17.0)	(45.8)	(25.4)	(13.7)
Dividend Paid	(144.4)	(72.2)	(328.1)	(521.2)
CF - Financing Activities	(165.9)	1,221.1	2,787.9	(759.3)
Net Change in Cash	(5.5)	864.4	2,599.7	(1,458.1)
Closing Cash & Bank Bal.	61.9	926.5	3,526.2	2,068.1

Rice Processing Industry

Research Associate : Deepti Singh

Rice of the non-basmati variety is cultivated in many states in India and the sector is largely unorganized. West Bengal is the largest producer & consumer, followed by Andhra Pradesh. On the contrary, the basmati rice market is more or less organized and dominated by few big players. The high concentration in basmati rice is primarily on account of lower production (owing to geographical limitations). Basmati variety is grown only in some hilly regions & belts in UP, Punjab & Haryana and nowhere else in the world. Production of basmati rice accounts for less than four per cent of total rice produced in India.

The rice business is changing fundamentally from being a trading business to an industry where technology and branding is bringing in a major change. The branded rice sales have taken off in recent years and have been growing at around 15 per cent in the domestic market compared to 5 per cent for unbranded rice. The branded rice sales growth is an impressive 25 per cent in the international market as compared to stagnant sales of unbranded rice. Added to this, of the Rs 3500 crore worth of basmati rice produced, only around Rs500 crore worth is sold in branded form. On the pricing front, Basmati rice prices are expected to increase by Rs 7-8 per kg due to steady export demand supported by lower crop. REI Agro, Kohinoor Foods Ltd, KRBL Ltd, Chaman Lal Setia and LT Overseas are among the select few companies that have a wide presence and are likely to reap the benefits of growing penetration of branded rice including basmati.

In Brief About The Companies:

Chaman Lal Setia has rice milling units located at Amritsar (Punjab) and Karnal (Haryana) on the foothills of Himalayas. They have experience in rice milling since 1974 and have been exporting basmati rice since 1982. It's superior quality made it popular and demand for it grew. This gave it the premium position in the world market. The present milling capacities of the Amritsar unit and the Kamal unit are 2 tonnes per hour, each. By-products like husk, rice skins etc. are also saleable.

Kohinoor Foods Limited (formerly known as Satnam Overseas) has emerged as the dominant Indian player in the global Basmati rice market. The company is firmly established as the leader in the branded Basmati rice segment with more than 35% share of the Rs. 450 crores Indian market and is consistently moving up the value chain in the global markets, by marketing its products under its own brand. Having established its leadership in its core area of Basmati rice, the company is now making a foray to emerge as a leading foods company with a basket of products for homes across the globe.

The company seeks to achieve this by introducing premium value added food products both for the domestic and global markets through its "Kohinoor" brand and leverage its global distribution network.

KRBL (KRBL) is an exporter of basmati rice and a significant player in the branded food industry. The company's milling and packing units are located in Ghaziabad (UP), Dhuri (Punjab), Alipur (Delhi) and Gandhidam (Kandla) and Dhulia (Maharashtra). The company's integrated unit at Dhuri is one of the largest in the world with capacity of 150 MTPH. The company's total milling capacity has increased to 198 MTPH in FY07. Brand names include Royal, Zaffrani, Doon, Train, Al Wissam, Qiada, Al Bustan, Al Mithali, Indian Farm, Sun Flower, India Gate, Lion, India Gate, Nur Jahan, Aarati, Necklace, Bemisal, Shubh Mangal and Lotus.

REI Agro Limited (RAL), set up 11 years ago in Haryana, is a 600-crore basmati rice processing and marketing company. It is an integrated player and undertakes right from contract farming to procuring paddy to drying, de-husking, milling and polishing, colour sorting, grading, inspection, packing, branding, distribution and retailing. RAL has two processing units in North India, with an aggregate capacity of 302400 tonnes per annum. In addition it also operates a 7.5 MW windmill farm at Jaisalmar in Rajasthan. The company sells Basmati rice, in bulk, in the domestic wholesale market and also sells whole-grained Basmati rice under its brands, major being 'Mr. Miller' and 'Al-Tahaan', through a wide network of semi-wholesalers and distributors spread across the country. The company has witnessed a steady topline growth of 43% CAGR over the last three years and its profit margins are better than the industry's.

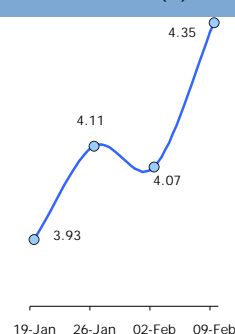
Peer Comparison:

REI Agro Ltd appears to have the best profitability margins in the industry. But LT Overseas appears to be a better as far as the return ratios are concerned. However, this is on account of the relatively higher leverage status of the company. A highly leveraged business is the first to get hit during times of economic downturn. We believe that a debt to equity ratio of greater than 1 is a high risk proposition. KRBL is the best moderate play, while Kohinoor Foods Limited seems to be the slightly unappealing on the face of it with the lowest margins & return ratios and excessive leverage status. The otherwise highly leveraged LT Overseas seems to be a better bet overall with average margins, better Return ratios (high leverage), but the lowest P/E multiple of just 5.63 on TTM basis.

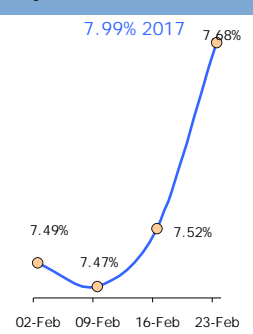
Description	P/E	CMP	PBDIT % of sales	PAT % of sales	RONW	ROCE	Working capital (Rs Crs)	Current ratio (Times)	Debt-equity ratio (Times)
Chaman Lal Setia	6.21	29.5	6.65	2.37	9.98	15.49	29.7	2.49	1.2
Kohinoor foods ltd	10.65	104.4	10.31	3.59	16.55	22.89	79.32	1.18	3.32
KRBL Ltd	9.27	132.9	13.29	5.49	18.28	28.64	190.44	1.34	1.56
LT overseas	5.63	67.6	11.12	4.4	24.82	35.05	65.07	1.22	2.44
REI agro	50.85	1388.1	18.39	8.35	23	21.42	763.69	2.02	2.79

Local Equity Market						Top Gainers & Losers of the Week			
INDICES	23-Feb-08	Week Ago	% Chng	Month Ago	% Chng	Top Gainers		Feb 23, 08	% Chng
Sensex	17,349.07	18,115.25	(4.23)	17,221.74	0.74	Hexaware Technologies Ltd.		82.60	28.86
Nifty	5,110.75	5,302.90	(3.62)	5,033.45	1.54	Gujarat NRE Coke Ltd.		161.65	27.94
CNX Nifty Junior	9,559.10	9,927.20	(3.71)	9,879.50	(3.24)	Shree Renuka Sugars Ltd.		1,076.25	19.27
S&P CNX500	4,295.35	4,432.60	(3.10)	4,267.10	0.66	Global Broadcast News Ltd.		224.05	19.04
CNX Midcap 200	7,094.75	7,216.25	(1.68)	7,128.50	(0.47)	Aksh Optifibre Ltd.		63.80	16.85
CNX IT	4,017.30	3,956.60	1.53	3,726.05	7.82	Polaris Software Lab Ltd.		95.25	15.88
						Allcargo Global Logistics Ltd.		796.45	15.85
						Gujarat State Fertilizers & Chemicals Ltd.		269.30	15.11
International Equity Market						Top Losers			
INDICES	23-Feb-08	Week Ago	% Chng	Month Ago	% Chng	Jaiprakash Associates Ltd.		247.40	(13.57)
DJIA	12,381.02	12,348.21	0.27	12,378.61	0.02	Indiabulls Real Estate Ltd.		577.05	(12.01)
Nasdaq	2,303.35	2,321.80	(0.79)	2,360.92	(2.44)	ABB Ltd.		1,190.70	(11.99)
S&P 500	1,353.11	1,349.99	0.23	1,352.07	0.08	Housing Development Finance Corporation Ltd.		2,582.00	(11.74)
FTSE 100	5,888.50	5,787.60	1.74	5,875.80	0.22	Lanco Infratech Ltd.		422.10	(11.51)
Nikkei 225	13,500.46	13,622.56	(0.90)	13,092.78	3.11	Unitech Ltd.		370.15	(11.26)
Hang Seng	23,305.04	24,148.43	(3.49)	23,539.27	(1.00)	BPL Ltd.		65.95	(11.06)
HSCEI	13,336.89	13,843.52	(3.66)	12,933.20	3.12	IndusInd Bank Ltd.		94.40	(9.92)
MSCI Indices						Sectoral Performance			
MSCI Indices	23-Feb-08	Week Ago	% Chng	Month Ago	% Chng	Sectors	Week	Month	3 Months
The World Index	1,448.93	1,439.50	0.66	1,438.96	0.69	Mining	11.70	30.93	3.85
Emerging Market	1,150.30	1,133.82	1.45	1,111.14	3.52	Aluminium	11.20	12.94	(7.38)
EM Asia	457.62	463.11	(1.19)	458.33	(0.15)	Sugar	6.53	17.14	(6.06)
EM India	549.26	580.90	(5.45)	598.02	(8.15)	Textile Products	4.26	7.35	(16.30)
Commodities						Refractories	4.04	4.19	(10.98)
Commodities	23-Feb-08	Week Ago	% Chng	Month Ago	% Chng	Transmission Towers	4.03	(6.21)	(32.73)
GOLD (\$/oz)	945.20	902.50	4.73	912.85	3.54	Cables - Telecom	3.91	(9.37)	(22.41)
SILVER (\$/oz)	18.02	17.10	5.38	16.42	9.74	Plastic And Plastic Products	3.56	6.62	(12.69)
ALUMINIUM (\$/t)	2,920.00	2,820.00	3.55	2,463.00	18.55	Airconditioners	3.46	9.94	(9.36)
COPPER (\$/t)	8,330.00	7,730.00	7.76	7,020.00	18.66	Computers - Software	2.98	10.80	(18.76)
CRUDE - BRENT (\$/bbl)	97.01	94.63	2.52	88.67	9.41	Tea And Coffee	2.90	12.62	(19.50)
CRUDE - WTI (\$/bbl)	98.81	95.45	3.52	88.99	11.03	Abrasives	2.78	15.49	(7.59)
Transportation						Castings/Forgings	2.62	(8.07)	(23.72)
Commodities	23-Feb-08	Week Ago	% Chng	Month Ago	% Chng	Fertilisers	2.35	21.70	(15.53)
World SCALE	120.00	120.00	-	92.50	29.73	Travel And Transport	1.81	1.97	(13.46)
BALTIC FREIGHT INDEX7	1,187.00	7,355.00	(2.28)	5,948.00	20.83	Personal Care	1.67	10.08	(10.96)
Forex						Consumer Durables	1.28	(22.07)	(28.93)
FOREX	23-Feb-08	Week Ago	% Chng	Month Ago	% Chng	Paper And Paper Products	1.17	7.06	(10.09)
1 USD	40.04	39.67	0.92	39.47	1.43	Hotels	1.17	14.15	(11.88)
1 GBP	78.96	77.85	1.42	78.00	1.23	Computers - Hardware	0.96	5.02	(22.74)
1 EURO	59.53	58.28	2.14	58.23	2.23				
100 YEN	37.46	36.82	1.74	36.82	1.74				
Global Listings									
Scripts	23-Feb-08	Week Chng	Month Chng	Premium/D iscount	Share per ADR/GDR				
Infosys ADR	41.50	0.83	6.16	5.15%	1				
Wipro ADR	11.75	1.91	(5.49)	11.37%	1				
ICICI Bank ADR	53.87	(9.29)	(3.26)	-1.92%	2				
Satyam ADR	25.83	(1.37)	0.77	17.83%	2				
HDFC Bank ADR	111.47	(4.82)	0.76	0.86%	3				
MTNL ADR	6.07	(3.80)	(11.13)	1.85%	2				
Dr. Reddy ADR	13.73	(0.44)	(10.51)	1.84%	1				
Reliance GDR	120.50	(6.77)	3.40	-0.73%	2				
ITC GDR	5.08	(1.36)	13.19	1.64%	1				
Ranbaxy GDR	10.40	6.12	12.13	1.54%	1				
L & T GDR	85.90	(2.39)	(5.27)	0.15%	1				

Inflation (%)



10 year G-Sec Bond Yield



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