



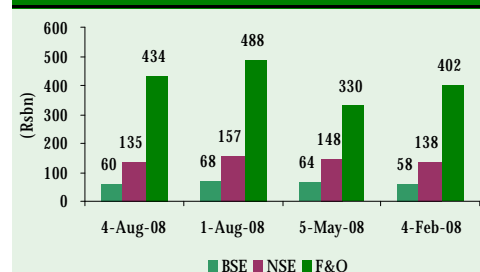
5 August 2008

Indices	%Change			
	4-Aug-08	1mth	3mth	6mth
Sensex	14,578	8	(17)	(22)
Nifty	4,395	9	(15)	(20)
CNX Midcap	5,766	12	(19)	(24)
Banking	6,768	16	(26)	(39)
Capital Goods	12,029	13	(15)	(28)
IT	3,815	(6)	(12)	(7)
Healthcare	4,254	3	(1)	15
NASDAQ	2,286	2	(7)	(4)
Dow Jones	11,284	(0)	(13)	(11)

Net Inflows

Rs bn	31-Jul-08	30-Jul-08	MTD	YTD
FII	(4)	(3)	(18)	(273)
Mutual Fund	2	7	14	122
FII - F&O	19	(15)	16	473

Turnover



Commodity & Currency % Change

	4-Aug-08	1mth	3mth	6mth
Crude (US\$/barrel)	120.3	(16.6)	0.1	33.6
Gold (US\$/Oz)	901.5	(3.6)	2.9	(0.2)
US\$	42.4	(1.9)	4.6	7.7
Euro	66.0	(2.8)	5.2	13.1

Debt

%	4-Aug-08	1mth	3mth	6mth
RBI Repo	9.0	8.5	7.8	7.8
10 yr G-Sec yld	9.2	9.1	7.9	7.5
Spread 1 & 10 yr G-Sec	(0.2)	0.2	0.2	0.1
US 10 yr treasury	4.0	4.0	3.9	3.6
Surplus liquidity (Rs bn)	238.1	(117.0)	(330.7)	(66.9)

3i Infotech (Rs113) - Results Review

BUY - Price Target: Rs147

R Ravi
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JSW Steel (Rs 871) - Results Review

Market performer - Price Target: 878

Manish Joshi
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Union bank of India (Rs140) - Results Review

Market Performer - Target Price: Rs153

Rakesh Kumar
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Varun Shipping (Rs69) - Results Review

BUY - Target Price: Rs90

Vikram Suryavanshi
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Alembic (Rs45) - Results Review

BUY - Target Price: Rs60

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Sector: IT


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3i Infotech (Rs113)

Valuations are compelling
BUY
Price Target: Rs147

After factoring the 26% stake it acquired in Locuz Enterprise Solutions, along with 51% in stake in FinEng Solutions and after acquiring 100% stake in US based Regulus, the order book (which includes the products and software and transaction services) has gone up by 6.1% sequentially in Q1FY09. Against an order book of Rs6.5bn in Q1FY08, the order book at the end of Q1FY09 is at Rs9.2bn – YoY increase of 41.5%. We believe the order book to keep improving by at least by 8% QoQ over the next 3 quarters and expect the order book to swell around Rs11.5bn by the year end. On a sequential quarter basis the revenue growth in Q1FY09 was 33.9% to Rs4.7bn, of which organic led growth was only 14.1% and the balance came from inorganic – which accounted for the balance 19.8%.

As the transaction processing business is reaching critical size, the company has started disclosing the same separately on a quarterly basis. Consequently the revenue mix has changed to some extent. Product revenues now account for 40%, the software services account for 39% and 21% comes from transaction services. At the beginning of Q1 it had an order book of Rs8.6bn, and it has managed to achieve around 55% of the order book. We believe, it would normally have 2 quarter revenues as order book, though at this point of time it is running a lower order book, than what we estimated at the beginning of the year. As a result of the acquisitions and on accounted other related costs, the cost of services was steeply up, this resulted in gross margins contracted from 46.9% in Q4FY09 to 39.6%.

Though the SGA costs were modestly up, however as a percentage of revenues it was down from 25.4% in Q4 to 20.1% in Q1, which to some extent salvaged the operating margins from major contraction. However the impact of

Rs Million	Q1FY2008	Q4FY2008	Q1FY2009	QoQ growth%	YoY growth%	Q1FY2009KE
Product revenues	1,219	1,797	1,869	4.0	53.3	1,852
Services revenues	1,384	1,703	2,816	65.4	103.5	2,823
Revenues	2,603	3,500	4,685	33.8	80.0	4,675
Op expenses	2,056	2,754	3,773	37.0	83.5	3,850
Operating profit	547.0	746.3	911.8	22.2	66.7	895.0
Operating margin	21.0	21.3	19.5			19.1
Other income	39.0	22.0	31.5	43.2	-19.2	42.0
Interest	103.0	142.0	180.4	27.0		172.0
Depreciation	48.0	80.4	118.2	47.0	146.3	105.0
Pre-Tax profit	435.0	545.9	644.7	18.1	48.2	660.0
Tax provision	32.0	43.4	63.3			65.0
Tax rate	7.4	8.0	9.8			9.8
Adjusted net profit	403.0	502.5	581.4	15.7	44.3	595.0
Add Minority Interest	(11.2)	(13.9)	5.5			5.5
Reported net profit	391.8	488.6	586.9	20.1	49.8	600.5

3i Infotech	Y/E March (Rs Mn)	FY2005	FY2006	FY2007	FY2008	FY2009E	
Reuters/Bloomberg Code		Revenues	2,892	4,178	6,553	12,053	17,388
Market Cap (Rs bn)	6,350.9	Op Profit	481	858	1,322	2,550	3,582
Market Cap (US\$ bn)	149.4	Net Profit	321	574	1,037	1,766	2,432
Shares Outstanding (mn)	180.7	Earnings/Share	2.5	4.4	8.0	14.1	18.7
52-week High/Low	328/115	EPS Growth (%)	372.2	76.5	84.7	74.9	32.7
		EPS (After FCCB Conversion)	1.8	3.1	5.8	10.1	13.5
Major Shareholders (%)		Operating margin (%)	16.6	20.5	20.2	21.2	20.6
Promoters	39.60	PER (x)	26.0	14.1	8.0	6.1	4.1
FII's	7.00	P/BV (x)	34.1	8.0	5.2	3.2	2.4
Banks//MFs	25.40	Price/Sales (x)	2.2	1.5	1.0	0.5	0.4
Public	28.00	EV/EBIDTA (x)	13.9	7.4	6.9	3.6	3.3
		Dividend Yield (%)	1.5	1.8	2.2	1.3	2.2
		Return on Equity	22.6	26.2	27.4	29.0	31.9
		Dividend payout	16.9	18.5	13.5	11.1	13.4

Source: Company and Karvy Estimates

the steep in cost of services (which includes wages and salaries and cost of outsourced services and bought out items) pulled the operating margins down by 180bps over the previous quarter. All the acquired entities are reporting profits, with the exception of Taxsmile and Citizen Services, which continues to reported losses, and is yet to contribute on the topline.

Had the company not acquired and if it was not rendering Taxsmile and Citizen Services, it would have reported a net profit of Rs602mn, however after adding the net profits of Regulus (Rs17.9mn) and Locuz (Rs5.1mn) and after factoring the losses of Taxsmile of Rs44mn, the reported net profit for Q1 prior to minority interest was up by 15.7%. This growth was basically achieved on the back of strong revenue growth aided by the slew of acquisitions it did in Q1.

We for the full year (FY09) expect its revenues to grow by 44%, as it has won reasonably large orders in almost all geographies and for FY10 expect the same trend to continue as most of its business lines are doing reasonably well. Besides it is constantly reducing its dependence on its parent ICICI Bank, as a result the portfolio of revenues are fairly derisked from services and clients stand point. After factoring all the FCCB conversion, we expect it report an earnings of Rs13.5 for FY09 and Rs20 for FY10. At the current price the stock is trading at very attractive valuations, and it would give 30% returns over the next one year. We recommend the stock a **BUY**, as we believe most of the risk factors are already priced in. The only issue, which the company management has to initiate is the writing of goodwill over a longer time frame, which would give investors the requisite confidence.

INFOTECH_QOQ FINANCIALS

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
Product order book	2,909.0	3,250.0	3,672.0	3,897.0	4,275.0
% to total order book	44.4%	44.6%	46.8%	45.1%	46.6%
Services order book	3,639.0	4,034.0	4,173.0	4,750.0	4,903.0
Total order book	6,548.0	7,284.0	7,845.0	8,647.0	9,178.0
QoQ growth	15.1%	11.2%	7.7%	10.2%	6.1%
Product revenues	1,218.7	1,298.3	1,648.0	1,797.1	1,868.7
Services revenues	1,383.9	1,480.4	1,524.0	1,702.6	1,803.9
Transaction services	0.0	0.0	0.0	0.0	1,012.1
Total revenues	2,602.6	2,778.7	3,172.0	3,499.7	4,684.7
QoQ growth	23.8%	6.8%	14.2%	10.3%	33.9%
Products/Revenues	46.8%	46.7%	52.0%	51.4%	39.9%
Services/Revenues	53.2%	53.3%	48.0%	48.6%	38.5%
Trans Serv/Revenues	0.0%	0.0%	0.0%	0.0%	21.6%
Cost of services	1,495.0	1,493.5	1,684.3	1,859.1	2,831.0
Gross Margin	42.6%	46.3%	46.9%	46.9%	39.6%
Admn & Selling expenses	560.8	696.9	819.5	894.4	941.9
Operating expenses	2,055.8	2,190.4	2,503.8	2,753.4	3,772.9
Operating profit	546.8	588.3	668.2	746.3	911.8
QoQ growth	65.1%	7.6%	13.6%	11.7%	22.2%
Operating margin	21.0%	21.2%	21.1%	21.3%	19.5%
Other income	39.0	60.7	61.7	22.0	31.5
Depreciation	47.8	51.7	64.4	80.4	118.2
Interest	102.9	130.7	129.5	142.0	180.4
Pre-tax profit	435.1	466.7	536.0	545.9	644.6
Provision for tax	32.0	36.3	39.9	43.4	63.3
- Current tax	57.4	36.3	39.9	43.4	63.3
- Deferred tax	(2.9)	0.0	0.0	0.0	0.0
- MAT Credit entitlement	(22.6)	0.0	0.0	0.0	0.0
Effective tax rate	7.4%	7.8%	7.4%	8.0%	9.8%
Adjusted net profit	403.2	430.4	496.2	502.5	581.4
QoQ growth	101.4%	6.8%	15.3%	1.3%	15.7%
Minority interest	11.2	29.6	11.6	13.9	(5.5)
Reported net profit	392.0	400.8	484.6	488.6	586.9

Revenue Mix by Geography	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09		
Domestic revenues	804.0	861.4	1,173.6	1,189.9	1,499.1		
% to total revenues	30.9%	31.0%	37.0%	34.0%	32.0%		
USA	644.0	694.7	856.4	1,259.9	1,873.9		
% to total revenues	24.7%	25.0%	27.0%	36.0%	40.0%		
EMEA	434.0	444.6	444.1	385.0	515.3		
% to total revenues	16.7%	16.0%	14.0%	11.0%	11.0%		
Western Europe	529.0	528.0	539.2	280.0	468.5		
% to total revenues	20.3%	19.0%	17.0%	8.0%	10.0%		
Asia Pacific	191.6	250.1	158.6	385.0	327.9		
% to total revenues	7.4%	9.0%	5.0%	11.0%	7.0%		
Client Concentration							
Revenues from ICICI Group	364.4	416.8	444.1	455.0	468.5		
% to total revenues	14.0%	15.0%	14.0%	13.0%	10.0%		
Revenues from Top-5 Clients	754.8	833.6	697.8	699.9	1,077.5		
% to total revenues	29.0%	30.0%	22.0%	20.0%	23.0%		
Revenues from Top-10 Clients	1,275.3	1,389.4	1,141.9	769.9	1,827.0		
% to total revenues	49.0%	50.0%	36.0%	22.0%	39.0%		
Repeat Revenues	84.0%	83.0%	82.0%	81.0%	84.0%		
Repeat Revenues	2186.2	2306.3	2601.0	2834.8	3935.1		
No of US\$1mn Clients	36	39	40	48	36		
No of US\$5mn Clients	4	5	6	6	4		
PROFIT & LOSS							
(Rs mn)	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E
Revenues from Products	725.0	1,288.0	1,950.0	3,276.2	5,961.9	8,545.9	13,022.3
Revenues from IT Services	1,322.5	1,370.3	1,871.0	2,872.2	5,352.3	7,616.6	10,757.7
Revenues from BPO Services	245.0	234.0	357.0	405.0	738.9	1,225.4	1,910.3
Total Revenues	2,292.5	2,892.3	4,178.0	6,553.4	12,053.1	17,387.9	25,690.2
YoY growth	-2.3%	26.2%	44.5%	56.9%	83.9%	44.3%	47.7%
Cost of Services	1,445.9	1,653.8	2,350.0	3,665.3	6,860.3	9,945.9	14,771.9
Admn & Selling expenses	705.7	757.6	970.0	1,566.3	2,643.1	3,860.1	5,780.3
Operating expenses	2,151.6	2,411.4	3,320.0	5,231.6	9,503.4	13,806.0	20,552.2
Operating profit	140.9	480.9	858.0	1,321.8	2,549.7	3,581.9	5,138.0
YoY growth	-47.0%	241.3%	78.4%	54.1%	92.9%	40.5%	43.4%
Operating margin	6.1%	16.6%	20.5%	20.2%	21.2%	20.6%	20.0%
Other income	28.7	28.5	62.3	154.5	183.4	190.0	212.0
Depreciation	252.6	188.4	260.5	169.0	244.3	350.0	470.0
Interest	72.9	107.7	79.8	209.0	505.0	720.0	780.0
Pre-tax profit	(155.9)	213.3	580.0	1,098.3	1,983.7	2,701.9	4,100.0
Provision for taxation	(37.8)	(108.1)	12.7	50.6	151.5	270.2	492.0
Adjusted net profit	(118.1)	321.4	567.4	1,047.7	1,832.2	2,431.7	3,608.0
YoY growth	-200.9%	-372.2%	76.5%	84.7%	74.9%	32.7%	48.4%
MAT credit entitlement	0.0	0.0	0.0	9.4	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	2.3	10.4	66.3	0.0
Reported Net profit	(118.1)	321.4	574.5	1,037.3	1,765.9	2,431.7	3,608.0
Earnings/Share	(0.9)	2.5	4.4	8.0	14.1	18.7	27.7
Dividend/Share	0.5	1.8	2.0	2.5	1.5	2.5	4.0
Dividend payout		16.9%	18.5%	13.5%	11.1%	13.4%	14.4%

BALANCE SHEET	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E
Equity Capital	309.8	310.0	530.0	563.0	1,306.0	1,306.0	1,306.0
Pref Capital	1,500.0	1,500.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Reserves & Surplus	289.6	298.1	2,148.2	3,397.4	5,134.7	7,085.9	9,996.4
Networth	589.0	599.1	2,540.9	3,960.4	6,440.8	8,391.9	11,302.5
Term loans from Banks	434.3	485.7	358.1	1,128.7	757.8	950.0	1,100.0
Rupee loans from Banks	318.4	822.4	403.7	2,309.9	4,884.1	4,500.0	4,200.0
FCCBs	0.0	0.0	2,231.3	2,645.7	7,057.0	7,057.0	7,057.0
Long term loans	752.7	1,308.1	2,993.0	6,084.3	12,698.9	12,507.0	12,357.0
Minority interest	0.0	0.0	6.9	19.0	102.1	102.1	102.1
Capital Employed	2,841.7	3,407.2	6,540.8	11,063.7	20,241.8	22,001.1	24,761.6
Gross Block	1,812.1	2,397.9	3,296.4	2,298.0	3,665.2	4,666.7	5,875.0
- Depreciation	579.5	746.5	1,110.9	927.8	1,525.3	1,875.3	2,345.3
+ Capital WIP	56.8	79.1	52.7	183.6	791.3	850.0	700.0
Net fixed assets	1,289.4	1,730.5	2,238.2	1,553.8	2,931.2	3,641.4	4,229.7
Goodwill	867.0	867.0	704.4	5,783.4	10,031.0	10,031.0	10,031.0
Investments	101.0	1.0	1.0	1.0	33.5	33.5	33.5
Deferred tax assets	9.7	0.0	135.6	373.7	405.3	373.7	373.7
Current Assets Loans/Advances	1,271.5	1,674.7	5,028.7	5,813.6	10,063.0	12,292.0	15,876.1
Inventories	8.9	0.3	3.5	0.0	0.0	0.0	0.0
Sundry debtors	543.6	575.9	1,138.6	1,896.3	2,720.0	4,105.5	5,708.9
Unbilled revenues	179.0	411.0	972.0	1,754.8	2,268.4	3,129.8	4,367.3
Cash & bank	95.3	92.3	2,466.1	973.6	2,665.9	1,897.9	2,191.1
Loans & advances	444.7	595.1	448.4	1,188.9	2,408.7	3,158.7	3,608.7
Current Liab & Provisions	696.9	866.0	1,567.1	2,461.8	3,222.3	4,370.5	5,782.5
Sundry creditors	312.7	505.2	771.6	1,296.8	1,895.7	2,500.0	3,300.0
Other liab	136.4	140.0	168.3	325.7	552.9	820.0	1,100.0
Short term loans	189.9	111.9	357.3	390.6	320.8	350.0	375.0
Prov for retirement benefits	40.5	47.8	137.2	271.3	157.9	220.0	310.0
Prov for Eq dividend	15.5	54.0	116.4	140.5	195.5	325.8	521.2
Prov for Pref dividend	0.0	0.0	0.0	0.0	64.0	97.5	97.5
Dividend tax	2.0	7.1	16.3	36.9	35.6	57.3	78.8
Net Current assets	574.6	808.7	3,461.6	3,351.8	6,840.7	7,921.4	10,093.6
Misc expenditure	10.4	9.0	137.4	0.0	0.0	0.0	0.0
Capital Deployed	2,841.7	3,407.2	6,540.8	11,063.7	20,241.8	22,001.1	24,761.6
RATIO ANALYSIS							
ROCE (%)	-2.9%	9.4%	10.1%	11.8%	12.3%	15.6%	19.7%
ROE (%)	-20.1%	53.6%	22.6%	26.2%	27.4%	29.0%	31.9%
Operating ROCE	5.0%	14.1%	13.1%	11.9%	12.6%	16.3%	20.8%
Fixed assets turnover ratio (x)	1.8	1.7	1.9	4.2	4.1	4.8	6.1
Total assets turnover ratio (x)	0.8	0.8	0.6	0.6	0.6	0.8	1.0
Avg. collection period (Days)	85	72	98	104	81	85	80
Cash & bank/share (Rs)	1.7	1.6	43.9	17.3	47.4	33.8	39.0
Cash & bank/Capital employed (%)	3.4%	2.7%	37.7%	8.8%	13.2%	8.6%	8.8%
Gross margin (%)	36.9%	42.8%	43.8%	44.1%	43.1%	42.8%	42.5%
Operating margin (%)	6.1%	16.6%	20.5%	20.2%	21.2%	20.6%	20.0%
Pre-tax margin (%)		7.3%	13.7%	16.4%	16.2%	15.4%	15.8%
Net margin (%)		11.0%	13.5%	15.5%	14.4%	13.8%	13.9%
Revenue Mix :-							
Revenues from Products	31.6%	44.5%	46.7%	50.0%	49.5%	49.1%	50.7%
Revenues from IT Services	57.7%	47.4%	44.8%	43.8%	44.4%	43.8%	41.9%
Revenues from BPO Services	10.7%	8.1%	8.5%	6.2%	6.1%	7.0%	7.4%
Cost Structure :-							
Salary & bonuses	51.2%	39.7%	39.8%	40.6%	40.4%	41.8%	42.6%
Cost of outsourced services	18.8%	22.3%	21.3%	20.4%	19.8%	19.4%	19.0%
Travelling & Communication	4.7%	3.6%	2.8%	2.9%	3.7%	3.3%	3.7%
Recruitment & training	0.8%	1.1%	1.3%	1.3%	0.6%	0.9%	0.9%
Selling & distribution expenses	2.4%	3.5%	3.7%	3.8%	4.2%	3.9%	3.3%
General & Admn expenses	15.0%	11.4%	8.7%	9.1%	8.6%	8.4%	8.6%
Prov for doubtful debts	1.1%	1.9%	1.8%	1.8%	1.5%	1.6%	2.0%

Sector: Metal

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JSW Steel (Rs 871)
Market performer
Price Target: 878

JSW Steel has reported substantial erosion in profitability during Q1FY09. EBIDTA margin has come off by almost 5 percentage points YoY to 27.1%.

The company has reported a 53.9% YoY growth in topline to Rs 36,715 mn on the back of 13% higher sales volume and 36% higher realization YoY. Though the government had asked the steel companies to hold back prices, the restriction applied only to spot sales to distributors and not to contract sales. But the increase in realization was not enough as the production cost per tonne rose at a faster rate, resulting into EBIDTA per tonne coming down to Rs 9,432 per tonne as against Rs 10,705 per tonne.

Capital expenditure for FY2009 is estimated at Rs 60 bn, half of which will be funded through borrowings.

The company has taken rapid strides for mineral security as it is the most critical input for any steel company. It has acquired coal and iron ore mines in Mozambique and Chile. This will reduce the problem of raw material availability and price fluctuation concern in the long term. It targets to be 50% self reliant on coking coal, 100% on thermal coal and 100% on iron ore by FY2010-11.

The company has given robust sales volume guidance of 5.5 mn tonnes of saleable steel volume for FY2009, implying 62% growth. Around 0.9 million tonne of the volume growth will come from the brownfield expansion of 3 million tonne expected to be completed by September 2008 while the remaining will come from higher utilization of the existing capacity of 3.8 million tonnes. Even after factoring in volume growth for FY2009, we believe that the margin pressure would restrain the growth of the company. We maintain our target price of Rs 878 for the stock and rate the stock as **Market performer**.

Rs Million	Q1FY2008	Q4FY2008	Q1FY2009	YoY Growth%	QoQ Growth%
Revenues	23,854	41,898	36,715	53.9	(12.4)
Op expenses	16,115	32,424	26,759	66.1	(17.5)
Operating profit	7,740	9,474	9,956	28.6	5.1
Operating margin (%)	32.4	22.6	27.1		
Other income	349.4	361.6	273.0	(21.9)	(24.5)
Interest	1,027	1,911	1,531	49.1	(19.9)
Depreciation	1,467	942	1,852	26.3	96.6
Pre-Tax profit	5,595	6,982	6,845	22.3	(2.0)
Tax provision	2,049	2,372	1,024	(50.0)	(56.8)
Tax rate (%)	36.6	34.0	15.0		
Adjusted net profit	3,546	4,610	5,821	64.2	26.3
Extraordinary Income	1,139	0	(3,628)		
Reported net profit	4,685	4,610	2,194	(53.2)	(52.4)

JSW Steel (Stand alone)	Y/E March (Rs. Mn)	FY2006	FY2007	FY2008	FY2009E	FY2010E	
Reuters / Bloomberg code	JNDL.BO / JDVS @ IN	Revenues	61,801	85,944	113,089	209,478	272,051
Market cap (Rs. Bn)	138.9	Operating Profit	16,843	27,078	32,435	30,417	50,359
Market cap (US\$ mn)	3,437.9	Net Profit	4,951	12,759	17,282	10,523	20,638
Shares outstanding (mn)	164.0	EPS (Rs.)	54.6	78.8	92.4	52.4	102.7
52 - week High / Low (Rs.)	1390/400	EPS growth (%)	(19.1)	44.4	17.3	(43.3)	96.1
		Operating margin (%)	27.3	31.5	28.7	14.5	18.5
Major shareholders (%)		PER (x)	26.9	10.9	9.2	16.2	8.2
Promoters	46.5	EV / EBIDTA (x)	12.3	7.6	7.3	8.8	5.6
FII's	23.4	Price / Sales (x)	2.2	1.6	1.4	0.8	0.6
Banks / MFs / Fis	10.0	Dividend yield (%)	0.9	1.5	1.7	0.9	1.8
Public	20.1	RoCE (%)	9.3	15.8	15.0	8.4	12.3
		RoE (%)	15.7	28.7	27.6	13.5	22.8

Source: Company and Karvy Estimates

Sector: Banking
Rakesh Kumar
 rakesh.kumar@karvy.com

Union bank of India (Rs140)

Market Performer
Target Price: Rs153

In 1QFY09, Union Bank reported net interest income in-line with our expectations; reported NII was Rs8.1 billion compared to our estimation of Rs8.2 billion. The bank's other income grew by 3.1% (Y-o-Y) to Rs2.2 bn higher than our estimates (of Rs1.6 bn) on the back of healthy growth in fee income. Higher provisions on account of investment depreciation played a spoilsport and reflected in a flat bottomline for the quarter. Reported bottomline was Rs22.8 bn compared to our estimates of Rs25.6 bn. After done with one-round of lending rate hike, we expect that the bank would again raise its PLR and deposits rates, but we believe another round of lending rate would not suffice to make up for the increase in the liabilities' costs and NIM would come down by 36 bps. We reduce our net profit estimates for FY2009 and FY2010 by 14.2% and 21.7% respectively and reduce our price target to Rs153 from our earlier target of Rs250. Based on our price target (Rs153), the stock would trade at 0.85x adjusted book value FY2010; we downgrade the stock to Market Performer from earlier **BUY** rating.

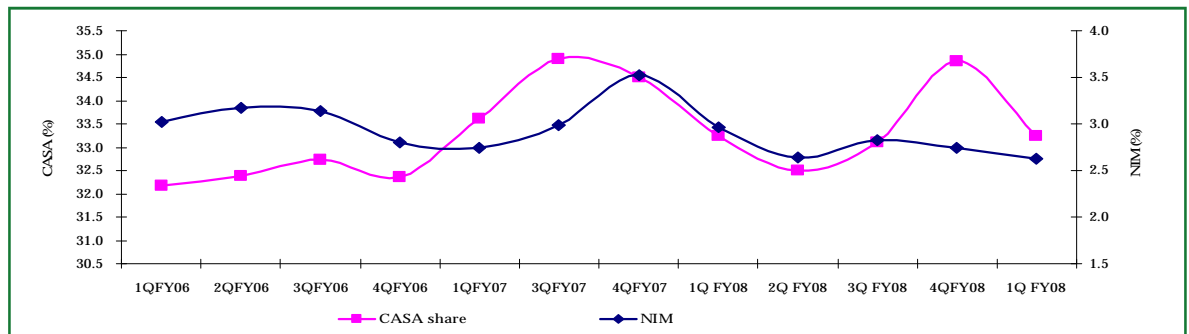
	1QFY08	4QFY08	1QFY09	YoY (%)	QoQ (%)
Interest on Advances	15,352	18,135	18,414	20	2
Interest on Investments	5,188	6,472	6,823	32	5
Interest on inter-bank funds	192	104	84	(56)	(19)
Other Interest	13	953	11	(15)	(99)
Total Interest Income	20,745	25,664	25,332	22	(1)
Total Interest Expenditure	13,399	17,685	17,232	29	(3)
Net interest income	7,346	7,979	8,100	10	2
Total other operating income	2,150	3,466	2,217	3	(36)
CXB	1,230	940	1,370	11	46
Recovery of Bad Debts	210	616	220	5	(64)
Profits on sale of investments	340	400	80	(76)	(80)
Other Operating income	370	1,510	547	48	(64)
Total Net Income	9,496	11,445	10,317	9	(10)
Overheads	4,241	2,539	4,157	(2)	64
Operating profit	5,255	8,906	6,160	17	(31)
Tax	1,450	44	920	(37)	2,005
Pro. for Bad debt & Standard Assets	1,280	2,551	(510)	(140)	(120)
Other provisions	370	-	(43)	(112)	
Investment depreciation	(96)	1,100	3,510	(3,756)	219
Provisions	1,554	3,651	2,957	90	(19)
Net profit	2,251	5,211	2,283	1	(56)
Equity Capital	5,051	5,051	5,051		
EPS (in unit INR)	4.5	10.3	4.5	1	(56)
Gross Non Performing Assets	17,690	16,566	15,755	(11)	(5)
Net Non Performing Assets	4,860	1,264	1,094	(77)	(13)
Gross Non Performing Assets (%)	2.78	2.18	2.08		
Net Non Performing Assets (%)	0.78	0.17	0.15		
RoA (Annulised)	0.91	1.72	0.74		

Union Bank		(Rs mn)	FY2006	FY2007	FY2008	FY2009E	FY2010E
Bloomberg/Reuters Code	UNBK IN/UNBK.BO	Total Net Income	28,688	34,768	41,733	42,963	48,244
Market Cap (Rs bn)	77	Profit before provisions	14,664	20,008	25,803	25,518	28,599
Market Cap (USD bn)	1.8	NIM (%)	3.1	3.0	2.8	2.5	2.4
52-week range (Rs)	250/96	Net Profit	6,752	8,454	13,870	12,203	13,193
Shares in issue (mn)	505	EPS (Rs)	14	17	27	24	26
FII limit (%)	20	EPS Growth (%)	(8)	16	64	(12)	8
		P/E (x)	10.6	9.1	5.6	6.3	5.9
		Price/Book Value (x)	1.9	1.6	1.4	1.2	1.0
Major Shareholder (%)		Price/Adjusted Book Value (x)	2.1	1.7	1.1	1.0	0.9
Promoters	55.4	Dividend Yield (%)	2.3	2.3	2.6	2.6	2.9
Banks/FIs/MFs	11.9	Cost-to-income (%)	49	42	38	41	41
Pvt. Corp. Bodies	1.5	ROA (%)	0.8	0.9	1.2	0.9	0.8
Public	11.6	ROE (%)	16.5	17.3	22.1	15.6	14.9
FIIIs/NRIIs/OCBs	19.5	Tier-1 Capital (%)	7.3	7.8	7.5	7.2	7.1

Source: Company and Karvy Estimates

Healthy credit offtake growth: The bank's gross advances grew by 19% (Y-o-Y) to Rs758 bn and sequentially it remained flat. Advances growth mainly came from high yielding advances like SMEs and retail segments resulting into increase in yield on advances to 10.13% from 10.03% in 1QFY08 and 10.06% in 4QFY08.

Increase in CASA and core deposits' share: High current deposit and saving deposits mobilization (by leveraging SME customers), 100% CBS technology, healthy growth in saving deposits and increase in retail deposits resulted into increase in CASA & core deposits' share. In 1QFY09, UBI's current and saving deposits grew by 39% and 25% (Y-o-Y) and core deposits grew by 34% (Y-o-Y) leading to increase in core deposits' share by 658 bps to 85% from 78% in 1QFY08.



Margin under pressure: During the quarter, increase in term deposit rates led to 34 bps increase in cost of deposits and 19 bps increase in cost of funds against 10 bps increase in yield on advances and 14 bps decline in yield on funds. Lower credit-deposits ratio at 69.3% compared to 71.8% in 1QFY08 also suppressed the NIM.

Treasury gain retards non-fund income: Non-interest income increased by 3.1% (Y-o-Y) to Rs2.2 bn on the back of healthy growth (11% Y/Y) in CXB income. Treasury gain slipped by 76% (Y-o-Y) to 80 mn.

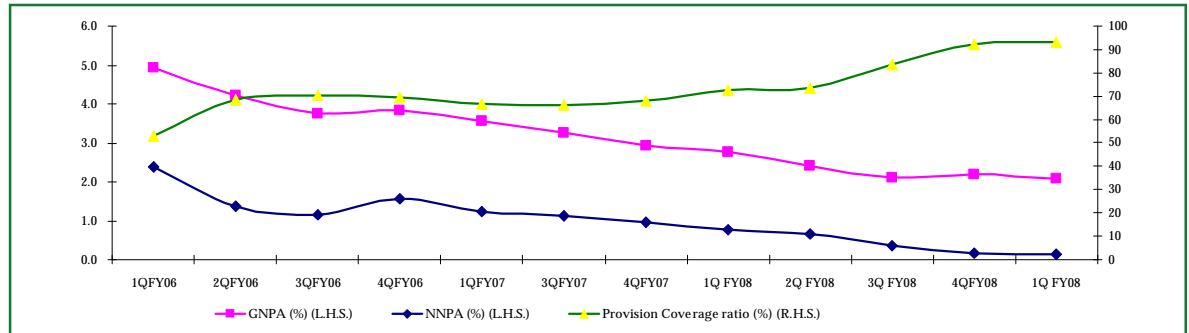
Breakup of Other income

	1QFY08	4QFY08	1QFY09	YoY (%)	QoQ (%)
CXB	1230	940	1370	11	46
Recovery of Bad Debts	210	616.4	220	5	(64)
Profits on sale of investments	340	400	80	(76)	(80)
Other Operating income	370	1509.6	547	48	(64)
Total Other Operating Income	2150	3466	2217	3	(36)

Much higher investment depreciation provisions dented bottomline: Much higher on account of investment depreciation losses of Rs3.5 bn led to flat bottomline for the quarter. Credit in loan-losses provisions was due to write-back of provisions on the agriculture loans.

	1QFY08	4QFY08	1QFY09	YoY (%)	QoQ (%)
Pro. for Bad debt & Standard Assets	1,280	2,551	(510)	(140)	(120)
Other provisions	370	-	(43)	(112)	
Investment depreciation	(96)	1,100	3,510	(3,756)	219
Tax	1,450	44	920	(37)	2,005
Total other Provisions	1,554	3,651	2,957	90	(19)

Improvement in asset quality: The bank's gross non-performing assets (GNPAs) and net non-performing assets (NNPA) decreased by 11% and 77% (Y-o-Y) respectively. In absolute terms GNPA and NNPA reduced to Rs15.7 bn and Rs1.09 bn. In percentage terms, GNPA and NNPA came down to 2.08% and 0.15% from 2.78% and 0.78% respectively.



We estimate that the bank's business would grow at 18.6% CAGR (FY2008-10), during the period NII and net profit would grow by 8.9% and (2.5)% respectively. After done with one-round of lending rate hike, we expect that the bank would again raise its PLR and deposits rates, but we believe another round of lending rate would not suffice to make up for the increase in the liabilities' costs and NIM would come down by 36 bps. We reduce our net profit estimates for FY2009 and FY2010 by 14.2% and 21.7% respectively and reduce our price target to Rs153 from our earlier target of Rs250. Based on our price target (Rs153), the stock would trade at 0.85x adjusted book value FY2010; we downgrade the stock to Market Performer from BUY rating.

Year to 31st March (Rsmn)

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net Interest Income	14,977	17,362	20,646	23,743	27,902	30,864	32,241	36,612
Fees	1,425	1,555	1,769	2,178	2,737	3,010	3,680	4,360
Profits on sale of investments	4,751	4,354	2,603	954	1,085	2,898	1,500	1,000
Profits on foreign exchange	997	1,185	1,666	1,498	1,984	2,612	2,826	3,106
Other operating income	1,072	1,221	1,623	315	1,060	2,350	2,716	3,166
Total other income	8,246	8,315	7,661	4,945	6,865	10,870	10,722	11,632
Total Income	23,222	25,677	28,306	28,688	34,768	41,733	42,963	48,244
VRS	1,820	1,100	366	-	-	-	-	-
Salaries	5,072	6,204	7,698	8,668	8,737	8,453	9,010	9,955
Other operating costs	3,291	3,542	4,511	5,356	6,022	7,477	8,435	9,690
Total Overheads	10,183	10,846	12,575	14,024	14,759	15,930	17,445	19,645
Profit before provisions	13,039	14,831	15,732	14,664	20,008	25,803	25,518	28,599
Bad Debt Provisions	4,175	6,436	2,165	1,557	3,300	5,852	6,230	7,600
Prudential Provision	100	100	258	1,010	1,360	800	905	966
Investment Provisions	(90)	(155)	5,851	3,032	1,161	300	1,650	810
Other provision	565	249	1,343	118	384	100	300	380
Total provisions	4,749	6,630	9,616	5,717	6,204	7,052	9,085	9,756
Profit before tax	8,290	8,200	6,116	8,946	13,804	18,751	16,433	18,843
Tax	2,763	1,080	(1,075)	2,195	5,350	4,881	4,230	5,650
Reported Net profit	5,527	7,120	7,190	6,752	8,454	13,870	12,203	13,193
DPS (Rs)	2.1	3.5	3.5	3.5	3.5	4.0	4.0	4.5
EPS (Rs)	14.0	15.5	15.6	14.4	16.7	27.5	24.2	26.1
EPS Growth (%)	50.1	10.9	1.0	(7.9)	16.3	64.1	(12.0)	8.1
Payout (%)	15.1	22.6	22.4	24.3	20.9	14.6	16.6	17.2
Net interest margin (%)	3.3	3.3	3.3	3.1	3.0	2.8	2.5	2.4
Cost-to-income (%)	44	42	44	49	42	38	41	41
ROA								
Net Interest Income	3.1	3.2	3.2	2.9	2.9	2.7	2.4	2.3
Other Income	1.7	1.5	1.2	0.6	0.7	1.0	0.8	0.7
Less Overheads	(2.1)	(2.0)	(1.9)	(1.7)	(1.5)	(1.4)	(1.3)	(1.2)
Less Provisions	(1.0)	(1.2)	(1.5)	(0.7)	(0.6)	(0.6)	(0.7)	(0.6)
Less Tax	(0.6)	(0.2)	0.2	(0.3)	(0.6)	(0.4)	(0.3)	(0.4)
ROA	1.2	1.3	1.1	0.8	0.9	1.2	0.9	0.8
ROE	24	25	21	17	17	22	16	15
VALUATION								
Price Earnings (x)	11.0	9.9	9.8	10.6	9.1	5.6	6.3	5.9
Price to Book Value (x)	3.4	2.7	2.2	1.9	1.6	1.4	1.2	1.0
Price to Adjusted BV (x)	5.1	4.4	3.9	2.1	1.7	1.1	1.0	0.9
Dividend Yield (%)	1.4	2.3	2.3	2.3	2.3	2.6	2.6	2.9
Asset Quality								
Gross NPLs	23,876	23,468	20,582	20,981	18,726	16,566	16,856	17,706
Restructured standard Loans	5,206	8,476	4,784	2,230	3,300	2,862	3,250	3,340
Gross Impaired Loans	29,082	31,944	25,366	23,211	22,026	19,428	20,106	21,046
Accumulated Provisions	11,342	15,017	9,978	12,641	12,714	15,290	15,560	16,341
Net impaired Loans	17,740	16,927	15,388	10,570	9,312	4,138	4,546	4,705
Provision to gross impaired loans (%)	39	47	39	54	58	79	77	78
Gross NPLs (%)	9.0	7.7	5.0	3.8	2.9	2.2	1.9	1.7
Net NPLs (%)	4.9	2.9	2.6	1.6	1.0	0.2	0.1	0.1

Balance Sheet

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E
Cash with RBI	22,472	24,000	36,472	43,873	59,176	94,547	115,728	132,983
Cash at call	16,524	14,479	29,248	20,032	25,089	6,431	7,210	8,130
Total Cash	38,996	38,479	65,720	63,905	84,264	100,978	122,938	141,113
Govt. securities	139,801	159,182	158,356	197,588	224,090	278,368	331,651	389,302
Other investments	53,907	70,281	69,572	61,589	55,728	59,858	67,929	76,928
Total Investments	193,708	229,462	227,928	259,176	279,818	338,226	399,580	466,230
Bills discounted	13,335	16,481	22,719	33,774	35,236	39,995	53,175	68,032
Cash credit	155,289	163,277	213,617	274,197	316,293	379,066	451,992	539,021
Term loans	86,525	109,459	164,714	225,828	272,335	324,422	381,091	439,590
Total Credit	255,148	289,217	401,051	533,800	623,864	743,483	886,258	1,046,642
Gross Fixed Assets	11,782	12,453	13,569	14,039	15,185	30,074	31,230	32,390
Accumulated Depreciation	4,449	4,785	5,418	6,090	6,958	8,116	8,715	9,500
Net Fixed Assets	7,333	7,668	8,151	7,949	8,227	21,958	22,515	22,890
Capital work in progress	-	39	87	156	23	46	-	-
Other Assets	15,419	18,428	21,196	26,275	30,582	36,041	39,862	49,475
Total Assets	510,605	583,294	724,132	891,260	1,026,778	1,240,733	1,471,153	1,726,350
Demand Deposits	50,362	50,039	50,101	59,785	86,227	118,358	129,865	138,572
Savings Deposits	111,717	130,843	151,971	179,969	207,629	243,682	278,281	313,610
Term Deposits	285,407	324,708	416,233	501,188	557,946	676,546	828,660	1,006,469
Total Deposits	447,486	505,589	618,306	740,943	851,802	1,038,586	1,236,806	1,458,650
Perpetual debt (Tier I capital)	-	-	-	-	3,000	5,000	6,000	7,500
Hybrid Capital (UTT II capital)	-	-	-	-	7,500	7,500	8,500	10,500
Subordinate Debt	12,700	15,200	19,700	27,700	23,700	25,000	25,000	26,500
Other Borrowings	4,421	9,342	20,210	39,744	42,155	47,605	59,901	68,850
Total Borrowings	17,121	24,542	39,910	67,444	76,355	85,105	99,401	113,350
Other liabilities	20,330	22,291	29,773	37,292	46,723	43,564	51,630	60,500
Equity	4,601	4,601	4,601	5,051	5,051	5,051	5,051	5,051
Reserves	21,067	26,270	31,543	40,530	46,847	68,426	78,265	88,799
Total Equity	25,668	30,871	36,144	45,581	51,898	73,477	83,316	93,850
Total Liab & Equity	510,605	583,294	724,132	891,260	1,026,778	1,240,733	1,471,153	1,726,350
CAPITAL ADEQUACY								
Tier I Capital	17,580	20,570	25,660	40,800	50,280	61,041	71,817	83,883
Tier II Capital	14,210	18,580	25,440	22,830	32,337	41,610	41,739	44,460
Total Capital	31,790	39,150	51,100	63,630	82,617	102,651	113,556	128,344
Risk-Weighted Assets	256,200	317,760	422,660	557,800	645,443	821,450	1,002,844	1,179,735
Tier I Capital (%)	6.9	6.5	6.1	7.3	7.8	7.5	7.2	7.1
Tier II Capital (%)	5.6	5.9	6.0	4.1	5.0	5.1	4.2	3.8
Capital Adequacy	12.4	12.3	12.1	11.4	12.8	12.5	11.3	10.9
ADJUSTED BV								
Book Value (Rs)	45	57	68	81	94	111	131	152
Equity	25,668	30,871	36,144	45,581	51,898	73,477	83,316	93,850
Net Impaired Loans	17,740	16,927	15,388	10,570	9,312	4,138	4,546	4,705
Adjusted Equity	13,841	16,173	18,052	37,604	46,195	70,416	79,940	90,555
Adjusted Equity to RWAs	5.4	5.1	4.3	6.7	7.2	8.6	8.0	7.7
Adjusted BV (Rs)	30	35	39	74	91	139	158	179

Sector: Shipping**Varun Shipping (Rs69)****BUY****Target Price: Rs90**

For Q1FY09, Varun Shipping Ltd (VSL) reported revenue growth of 6.2%YoY (QoQ decline of 9%) to Rs 2 bn, which was lower by 16% than our estimates of Rs 2.3 bn. The lower capacity utilization in gas segment (three vessels remained idle in Q1FY09 as against one in Q1FY08) and dry docking in offshore segment resulted in lower revenue growth for the company. The new offshore vessel "MV Suvarna" earned significantly lower charter rates (~ USD 12,000 /day) due to its acceptance stage in North Sea, which has now increased to ~ \$45,000 / day in Q2FY09.

The operating margin declined from 56.6% in Q1Y08 to 54.4% in Q1FY09 due to decline in utilization in gas segment and lower freight earnings in the offshore segment. Operating profit increased marginally by 2.1% to Rs 1.11 bn. The interest and depreciation cost increased by 9.8% to Rs 352 mn and by 17.4% to Rs 582 mn respectively due to capacity addition. Overall, net profit declined by 34.5% YoY to Rs 182 mn, translating into EPS of Rs 1.2 during the quarter as against expectations of Rs 3.3. VSL had gain of Rs 30.8 mn on sale of one gas carrier during the quarter.

Considering the lower than expected results for Q1FY09, we have revised our estimates downwards and now expect consolidated net profit to increase by 15.6% to Rs 1.64 bn (previous Rs 1.8bn) in FY09 and by 38.5% to Rs 2.27 bn (previous Rs 2.59 bn) in FY10. At current price of Rs 69, the stock is trading at 6.3x FY2009E and 4.6x FY10 earnings and EV/EBIDTA it is trading at 6.4x FY09E and 4.6x FY10E. We maintain our valuation at 6x FY10 consolidated earnings. We have revised our target price from Rs 105 to Rs 90 and maintain **Buy** rating.

Rs Million	Q1FY2007	Q4FY2008	Q1FY2009	YoY Growth	QoQ Growth
Revenues	1,935	2,259	2,055	6.20	(9.00)
Op expenses	840.5	973.9	937.7	11.60	(3.70)
Operating profit	1,095	1,285	1,117	2.10	(13.10)
Operating margin (%)	56.60	56.90	54.40		
Other income	6.4	7	6	(5.30)	(14.00)
Interest	321.5	332.5	352.9	9.80	6.20
Depreciation	496.1	541.7	582.3	17.40	7.50
Pre-Tax profit	283.6	418.1	188.1	(33.70)	(55.00)
Tax provision	5	4.9	5.6		
Tax rate (%)	1.80	1.20	3.00		
Adjusted net profit	278.6	413.2	182.5	(34.50)	(55.80)
Extraordinary Income	990	(737.4)	30.8		
Reported net profit	1,269	(324.2)	213.3	(83.20)	(165.80)

Varun Shipping		Y/E March (Rs Mn)	FY2006	FY2007	FY2008	FY2009E	FY2010E
Reuters/Bloomberg Code	VRNS.BO / VRNS.IN	Revenues	6,619	6,831	8,508	9,152	10,787
Market Cap (Rs mn)	10346.6	Op Profit	3,863	3,810	4,912	5,392	6,330
Market Cap (US\$ mn)	246.3	Net Profit	1,839	919	1,420	1,641	2,273
Shares Outstanding (mn)	150.0	EPS (Rs)	15.7	6.1	9.5	10.9	15.2
52-week High/Low (Rs)	110 / 55	EPS Growth (%)	69.5	(60.9)	54.4	15.6	38.5
		Operating Margin (%)	58.4	55.8	57.7	58.9	58.7
Major Shareholders (%)		PER (x)	4.4	11.3	7.3	6.3	4.6
Promoters	43.6%	EV/EBITDA (x)	6.3	7.8	6.8	6.4	5.8
FII's	7.2%	Dividend Payout (%)	28.7	34.9	33.2	45.7	36.3
Banks//MFs	6.2%	Dividend yield (%)	6.5	6.5	7.2	7.2	8.0
Others	5.2%	Dividend Per Share (Rs)	4.5	4.5	5.0	5.0	5.5
Public	37.7%	ROE (%)	38.3	11.1	14.6	15.6	18.9

Source: Company and Karvy Estimates

Change in treatment to Exchange gain: The Company has with effect from 1st April 2008 adopted the principles of Accounting Standard (AS) 30 financial instrument - Recognition and Measurement in respect of accounting for derivatives. In view of this, during the current quarter, in respect of financial instruments that qualify for hedge accounting, an amount aggregating to Rs 1356.93 million has been accounted for as a Hedging Reserve as at the end of the period, to be ultimately recognized in the profit and loss account when the underlying hedged transaction occurs, as against the earlier practice of recognizing the same in the profit and loss account on valuation at the end of each period. As a result of adoption of AS 30, the profit after tax for the Q1FY09 stands at Rs 213.3 mn, which would otherwise have been a loss of Rs 1.14 bn on account of unrealized exchange variation loss under AS 11.

Capacity Expansion: In January 2008, the company had announced a capital expansion plan of USD 400 mn (~ Rs 16,000 mn), out of which the company has already acquired one offshore vessel (AHTS) for ~USD 100 mn. The company is planning to implement this programme by end of year subject to availability of suitable tonnage.

We have revised our assumption of further addition of vessels with one (previous two) crude carrier with total capital expenditure of ~ USD 75 mn in FY09 and one (previous two) more crude carrier and one offshore vessel in FY10 with capital expenditure of ~ USD 175 mn. Our fleet assumptions are shown in table 1.

Table 1: Fleet details

	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
LPG Carriers	5	7	11	12	12	11	11
Crude Carriers	0	1	2	3	3	4	5
Product Carriers	5	3	3	2	1	1*	0
Bulk Carriers	1	1	1	0	0	0	0
Offshore Vessels	2	2	1	2	5	5	6
Total fleet	13	14	18	19	21	20	22

Note: * assumed sale of vessel during the year.

Sector: Pharma



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Alembic (Rs45)

BUY**Target Price: Rs60**

Revenues for the quarter have moved up by 33 % to Rs 2293 mn. Domestic formulations have degrown by 20 % on account of extensive restructuring in the domestic formulations space. Exports formulations as a segment has grown by 92 % to Rs 238 mn while API exports to non regulated markets has grown by 100 % to Rs 165 mn while exports to regulated markets has grown from Rs 87 mn to Rs 708 mn. Scale up in domestic as well as Export API in non regulated markets can be attributed to increasing Penicillin G sales which has culminated in higher revenues. Operating margins for the quarter have moved fallen from 16.8 % to 9.7 %. This has been on back of lower domestic formulations revenues which have the highest gross margins. Profits have declined from Rs 155 mn to Rs 58 mn. The company had Forex loss to the tune of Rs 105 mn for the quarter.

We have reduced our formulations exports business to a growth of 7 % and 20 % in FY 2009 and FY2010 and domestic formulations to a growth of 12 % for FY 2009E and FY2010E. We however upgrade our export API revenues from 15 % growth to 23 % growth in FY 2009. We have assumed that the company would be able recover lost ground in the domestic formulations space in the ensuing quarters. In our revenue model, we have written off amortization charges of Rs 159 mn for FY 2009 and FY 2010 for the company. We believe the higher R & D impact on margins would get evened out in Q3 FY 2009 as the impact came in the Q3 FY 2008. We maintain our earnings forecasts and maintain our **BUY** on the stock with a price target of Rs 60 based on 8x FY 2010E (EPS Rs 7.5).

Year end March (Rs Mn)	Q1FY08	Q4FY08	Q1FY09	QoQ%	YoY%
Net Sales	1,727.3	2,628.0	2,293.4	(12.7)	33
Cost	1,436.8	2,296.0	2,070.7	(9.8)	44
EBITDA	290.5	332.0	222.7	(32.9)	(23)
EBITDA Margin (%)	16.8	12.6	9.7		
Other Income	16.9	2.9	14.3	393.1	(15)
Interest	75.5	92.2	96.3	4.4	28
Depreciation	74.7	87.5	89.0	1.7	19
Profit before Tax	157.2	155.2	51.7	(66.7)	(67)
Tax	3.6	7.2	3.5	(51.4)	(3)
Tax rate (%)	2.3	4.6	6.8		
Net Profit	153.6	148.0	48.2	(67.4)	(69)
EOI	16.8	5.40	(95.20)	(1863)	
Reported Net Profit	170.4	153.4	(47.0)	(130.6)	(128)

Alembic		Rs Mn	FY'2006	FY'2007	FY'2008	FY'2009E	FY'2010E
Reuters/Bloomberg Code	ALMC.BO/ ALBC IN	Net Revenues	6,389	7,007	10,033	11,969	13,722
Market Cap(Rs bn)	6	EBITDA	1,083	1,158	1,451	1,795	2,085
Market Cap(US\$ mn)	147	Net Profit	655	762	732	837	1,032
Shares Outstanding(mn)	138	EPS(Rs)	4.7	5.5	5.3	6.0	7.5
52-week High/Low (Rs)	108/ 38	EPS growth (%)	22.1	16.3	(3.9)	14.4	23.3
		EBITDA margin(%)	17.0	16.5	14.5	15.0	15.2
Major Shareholders (%)		PER(x)	9.5	8.2	8.5	7.4	6.0
Promoters	61.21	EV/EBITDA (x)	7.2	6.8	6.6	5.5	4.8
FII's	7.02	P/S (x)	0.9	0.9	0.6	0.5	0.4
Banks/Fis/MFs	8.02	RoCE(x)	16.2	15.1	13.1	14.3	15.3
Public	23.76	RoE(%)	21.9	21.3	17.2	17.0	18.3

Source: Company and Karvy Estimates

Key Highlights :

Domestic formulations business is in a restructuring mode. The company has also reduced the inventory in the trade from 2 mths to 15-20 days. The company has increased the company's marketing divisions from eight to twelve and increased the field force strength from 1950 to 2700. This has been done to enhance sales force productivity and increase penetration. This would entail lesser brands being marketed by each MR and not allowing an MR to leverage existing brands in his product sales. The aim has been to create a homogenous product mix for chosen specialties so that multiple prescription zones are catered to while targeting the specialist hence offering a wider choice for the prescription response. The objective of domestic restructuring included increasing sales force productivity, multiple brand building and anchoring specialty franchises.

The company's growth has been driven by APIs which would contribute 35 % of revenues for FY 2009E as against 30 % previously. New molecules such as supply of Venlafaxine to regulated markets would be the fulcrum of growth. Alembic is supplying Venlafaxine launch quantities in the European generic space after patent expiry. The company's revenues have also been driven by Contract manufacturing of an intermediate for an innovator company. The company has 21 active DMFs. The company is also exploring options with a couple of innovator companies for contract manufacturing deals.

On Penicillin G, the company has upgraded technology and is cost competitive even compared to China. Besides the company is also focusing on downstream products such as 6APA. The Penicillin G full year revenues would be reflected in the current year.

On Formulations exports, the company's revenue traction has been slow. The three revenue engines for formulations exports to regulated markets have been 1) Site transfer 2) Formulations development and supply on a cost plus model 3) Profit sharing via own ANDAs. Currently the company is mainly active on Site transfer while profit sharing based on own ANDAs should click in from last quarter of the current year.

On the UCB deal, couple of positive events have unfolded which include office action on Alembic patents and UCB has filed an NDA for Levitracetam XR. The product is expected to be launched sometime in January -February 2009. We believe UCB should garner 15-25 % market share even if it is post generic launch of the regular version. We believe this would be a positive as it would trigger milestone payments and royalty on sales. We have not factored any upside from this model in our estimates.

The company does not have any significant capex and would be incurring Rs 400 mn capex in FY 2009 and Rs 500 mn in FY 2010.

Alembic had entered into derivative contracts. Losses to the tune of Rs 70 mn has been on account of derivative losses. The other 30 mn odd losses has been due to reinstatement of Debtors. Losses on account of derivative contracts should minimize over the ensuing quarters.

Valuation:

We have reduced our formulations exports business to a growth of 7 % and 20 % in FY 2009 and FY2010 and domestic formulations to a growth of 12 % for FY 2009E and FY2010E. We however upgrade our export API revenues from 15 % growth to 23 % growth. We have assumed that the company would be able recover lost ground in the domestic formulations space in the ensuing quarters. In our revenue model, we have written of amortization charges of Rs 159 mn for FY 2009 and FY 2010 for the company.

We believe the higher R & D impact on margins would get evened out in Q3 FY 2009 as the impact came in the Q3 FY 2008. We maintain our earnings forecasts and maintain our **BUY** on the stock with a price target of Rs 60.

BULK DEALS ON NSE - 4 August 2008

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
FIRSTWIN	First Winner Industries L	SCB CORPORATION PROP SUNIL BAMCHA	BUY	85,118	145.6
FIRSTWIN	First Winner Industries L	V AND U CAPLEASE PVT LTD	BUY	175,000	145.4
IFCI	IFCI Ltd.	AMBIT SECURITIES BROKING PVT. LTD.	BUY	4,116,590	51.0
ISPATIND	Ispat Industries Limited	JAYPEE CAPITAL SERVICES LTD.	BUY	12,101,686	28.5
LOTUSEYE	Lotus Eye Care Hospital L	AARAV FINANCIAL SERVICES PVT.LTD	BUY	124,026	44.2
LOTUSEYE	Lotus Eye Care Hospital L	MAHENDRA KUMAR JAIN	BUY	136,000	46.5
PUNJABCHEM	Punj Chem & Crop Prot Ltd	V AND U CAPLEASE PVT LTD	BUY	4,330	273.8
SAKHTISUG	Sakthi Sugars Ltd.	TRANSGLOBAL SECURITIES LTD.	BUY	158,677	106.9
SHREEASHTA	Shree Ashtavinayak CineV	SARANG RAKESH WADHAWAN	BUY	65,000	546.9
SPICETELE	Spice Communications Limi	MACQUARIE BANK LIMITED	BUY	9,393,012	73.0
SUJANAUNI	Sujana Universal Industri	PARSHURAM SHIVAJI CHAUDHARI	BUY	620,380	12.0
TULSI	Tulsi Extrusions Limited	ANKITAVISHAL SHAH	BUY	82,830	37.7
TULSI	Tulsi Extrusions Limited	YUVAK SHARE TRADING PVT LTD	BUY	103,746	39.2
BROADCAST	Broadcast Initiatives Lim	MERRILL LYNCH CAPITAL MARKET ESPANA S.A. SVB	SELL	100,000	34.0
CREWBOS	Crew B.O.S. Products Limi	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A. SVB	SELL	76,662	35.0
FIRSTWIN	First Winner Industries L	SCB CORPORATION PROP SUNIL BAMCHA	SELL	169,260	145.4
IFBIND	IFB Industries Ltd.	KORGAONKAR KAMLESH M	SELL	88,358	42.0
IFCI	IFCI Ltd.	AMBIT SECURITIES BROKING PVT. LTD.	SELL	4,116,590	51.0
ISPATIND	Ispat Industries Limited	JAYPEE CAPITAL SERVICES LTD.	SELL	11,844,386	28.6
LOTUSEYE	Lotus Eye Care Hospital L	AARAV FINANCIAL SERVICES PVT.LTD	SELL	124,026	47.8
LOTUSEYE	Lotus Eye Care Hospital L	MAHENDRA KUMAR JAIN	SELL	136,000	43.6
PIONEEREMB	Pioneer Embroideries Limi	AJAS COMPONENTS PVT LTD	SELL	59,000	37.4
PIONEEREMB	Pioneer Embroideries Limi	ASSOCIATED CAPSULES PVT LTD	SELL	107,000	38.6
PIONEEREMB	Pioneer Embroideries Limi	BIRLA GLOBAL FINANCE COMPANY LTD	SELL	87,139	38.9
PUNJABCHEM	Punj Chem & Crop Prot Ltd	V AND U CAPLEASE PVT LTD	SELL	51,974	275.9
SAKHTISUG	Sakthi Sugars Ltd.	TRANSGLOBAL SECURITIES LTD.	SELL	169,266	106.9
SPICETELE	Spice Communications Limi	SPINNAKER GLOBAL EMERGING MARKETS FUND LIMITED	SELL	4,049,470	73.0
STEELTUBES	Steel Tubes of India Ltd	RAMESH CHAND GUPTA	SELL	65,000	3.2
SUJANAUNI	Sujana Universal Industri	PARSHURAM SHIVAJI CHAUDHARI	SELL	643,162	11.9
TULSI	Tulsi Extrusions Limited	ANKITAVISHAL SHAH	SELL	65,686	38.0
TULSI	Tulsi Extrusions Limited	YUVAK SHARE TRADING PVT LTD	SELL	69,110	39.3
WWIL	Wire and Wireless (India)	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A. SVB	SELL	1,125,000	24.4

Source: NSE

BULK DEALS ON BSE - 4 August 2008

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
531223	ANJANI SYNTH	AYODHYAPATI INVESTMENT PVT LTD	B	67,667	30.7
531223	ANJANI SYNTH	NARENDRA VALLABHJI BAHUVA	B	134,071	33.4
531223	ANJANI SYNTH	AYODHYAPATI INVESTMENT PVT LTD	S	67,667	32.8
531223	ANJANI SYNTH	NARENDRA VALLABHJI BAHUVA	S	216,210	29.8
531223	ANJANI SYNTH	RAKESH NIRANJAN LAL AGARWAL	S	68,600	33.1
502352	AURANG PAM	N.B.T. EXPORTS PVT. LTD.	S	43,001	5.1
532816	BROADCAST	MERRILL LYNCH CAPITAL MARKET ESPANA S A SVB	S	141,163	34.0
532542	CREW BOS	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A. S.V.	S	123,338	35.0
526027	CUBEXTUBING	ELOQUENT SYSCON PVT LTD	S	90,000	55.8
532271	CYBERMAT INF	SV ENTERPRISES	B	391,134	4.5
532271	CYBERMAT INF	BASMATI SECURITIES PVT LTD	S	1,030,905	4.5
532271	CYBERMAT INF	SV ENTERPRISES	S	391,134	4.5
531137	GEMSTONE INV	FAZAL MEHMOOD SHAIKH	B	25,000	30.3
531137	GEMSTONE INV	BHAVESH P PABARI	B	18,847	30.8
531137	GEMSTONE INV	JAAVED JAGDEEP JAAFARI	S	25,000	30.3
531137	GEMSTONE INV	SAMIR SEHGAL HUF	S	16,000	30.4
532100	INDOCITY INF	ANIL JAIN HUF	B	64,525	6.1
532326	INTENSTECH	CITIGROUP GLOBAL MARKETS MAURITIUS PVT LTD	S	716,257	18.9
530885	JAISAL SECUR	VENUGOPAL REDDYS	B	25,000	38.0
530885	JAISAL SECUR	CANOSTRADING PVT LTD.	S	24,000	38.0
532283	KASHYAPTEC	AYODHYAPATI INVESTMENT PVT LTD	B	2,931,676	1.4
532283	KASHYAPTEC	AYODHYAPATI INVESTMENT PVT LTD	S	2,931,676	1.4
505283	KIRLOSAR PN	RELIANCE CAPITAL ASSET MANAGEMENT LIMITED PMS	S	150,400	400.0
524084	MONSANTO IND	MONSANTO HOLDINGS PRIVATE LIMITED	B	432,000	1489.0
524084	MONSANTO IND	BRETCO HOLDINGS MAURITIUS LIMITED	S	432,000	1489.0
533008	OCL IRON&ST	RAGHU HARI DALMIA	B	2,855,868	22.4
533008	OCL IRON&ST	PADMA DALMIA	S	1,955,868	22.3
533008	OCL IRON&ST	SHREE NIRMAN LIMITED	S	900,000	22.5
514300	PIONER EMBRO	ASSOCIATED CAPSULES PVT LTD	S	101,000	38.6
532886	SEL MANUF	B K SHAH CO	B	76,659	643.5
532886	SEL MANUF	B K SHAH CO	S	76,773	643.0
532338	VALUEMART IN	PARSHURAM SHIVAJI CHOUDHARI	B	223,529	4.6
532795	WIRE & WIRLES	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A. S.V.	S	1,125,000	24.5
531404	ZICOMELE SE	CITIGROUP GLOBAL MARKETS MAURITIUS PVT LTD	S	64,012	116.7

Source: BSE

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Stock Ratings		Absolute Returns		Stock Ratings		Absolute Returns
Buy	:	> 25%		Market Performer	:	0 - 15%
Out Performer	:	16 - 25%		Under Performer	:	< 0%

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