

Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	12,962	(3.7)	(36.1)
Nifty	3,897	(3.6)	(36.5)
BSE Smallcap	6,385	(4.7)	(52.2)
CNX Midcap	4,993	(4.7)	(45.7)
Nasdaq	2,305	0.5	(13.1)
DJIA	11,382	0.3	(14.2)
IBOV	63,396	(2.5)	(0.8)
FTSE	5,480	(2.6)	(15.1)
CAC	4,341	(2.1)	(22.7)
Turnover	US\$m	% Chg	
BSE	1,127	5.3	
NSE	2,785	5.4	
Derivatives (NSE)	11,086	17.3	
FII F&O (US\$m)	Index	Stocks	
Net buying	(38)	54	
Open interest	7,736	3,505	
Chg in open int.	(275)	(74)	
Equity Flows (US\$m)	Latest	MTD	YTD
FII (30/6)	(56)	(2,622)	(6,495)
MF (30/6)	67	741	2,278

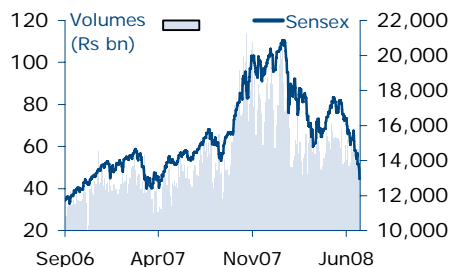
ADR/GDR (US\$)	Latest	% Chg	% Prem
HDFC Bank	69.2	(3.5)	3.5
Reliance	95.9	(2.5)	1.7
Infosys	43.5	0.0	9.8
Satyam	24.6	0.2	23.2
Wipro	11.8	(3.2)	23.2
ICICI Bank	27.4	(4.6)	0.9
SBI	50.5	(6.1)	6.8
ITC	4.1	(6.0)	(3.4)
Commodities	Latest	%Chg	%YTD
Gold (US\$/ounce)	940	(0.0)	12.7
Crude (US\$/bl)	141	0.7	46.8
Aluminium (US\$/MT)	3,086	0.4	31.3
Copper (US\$/MT)	8,711	(0.7)	30.5
Forex Rates	Closing	% Chg	%YTD
Rs/US\$	43.3	0.3	9.8
Rs/EUR	68.2	0.4	17.4
Rs/GBP	86.3	0.7	9.6
Bond Markets	Closing	bps Chg	
10 yr bond	8.8	11.0	
Interbank call	8.6	5.0	

Corporate Front Page

- CERC may give transmission licence to **Reliance Infrastructure's** subsidiary **(FE)**
- **ONGC** arm OVL shortlisted by the Iraq government to develop its oil fields **(BS)**
- **Tata Motors** hikes CV prices by 3% **(BL)**
- **Tata Motors** expects to start manufacturing *Nano* at its Singur facility in the fourth quarter **(ET)**
- Taro Pharma to consider **Sun Pharma's** offer by 14 July **(FE)**
- **RNRL**, Essar Minerals, Rio Tinto are among the 17 companies to submit EOI to Coal India Ltd, for developing and operating underground coal mines **(BL)**
- **HDFC Bank** increases PLR by 75bps to 16% **(BS)**
- **SBI** likely to increase home loan rate **(FE)**
- **Amtek Auto** is in the race to acquire Frankfurt-based KSM Castings in a deal worth Rs17bn **(ET)**
- **DLF** to develop eight shopping malls under leasing format in the metros this fiscal **(BL)**
- **BHEL** wins Rs20.8bn contract in Syria **(BL)**
- Two manufacturing units of **Ranbaxy** under US FDA scanner for selling medicines in the US **(ET)**
- Supreme Court stays reclamation of sea by **Adanis** for SEZ **(DNA)**
- **Tata Realty and Infrastructure** to spend Rs30bn to build properties for TCS over the next 3-4 years **(BL)**
- **BGR Energy** get Rs31bn contract from Tamil Nadu Electricity Board **(BL)**
- **GTL Infra** is in talks with **Essar Telecom Infra** for a possible merger **(DNA)**
- **ABB** bags order worth Rs3.1bn from IGIA, Delhi **(DNA)**
- **HCC** wins order of Rs3.4bn from NHAI **(FE)**

Charts Front Page

Sensex price volume



Sensex intraday



Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Orchid Chemicals	237	5.2	-17.3	JSW Steel	776	-13.8	-41.2
GTL	210	3.0	-24.4	IFCI	32	-13.6	-65.5
HCL Tech	260	2.8	-21.2	India Cements	121	-11.7	-60.9
Marico	55	2.2	-20.6	Ansal Properties	61	-11.4	-85.6
United Phosphorus	287	1.8	-17.7	Matrix Labs	131	-11.3	-46.3

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Castrol India	253	723	211	34	515
India Infoline	512	677	1,772	457	288
CESC	380	1,098	571	157	264
Cairn India	259	11,335	17,457	8,354	109
Hexaware Technology	50	166	2,013	973	107
Aban Offshore	2575	2,245	677	333	104
Indiabulls Real	250	1,488	8,759	4,651	88
Yes Bank	111	760	2,713	1,521	78
Reliance Energy	701	3,834	5,684	3,226	76
EIH	114	1,031	220	125	76

FII - FII trades

Scrip	6/30/2008			7/1/2008		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Tata steel	652	758	4.0	983	755	4.5
Sbi	441	1,175	2.5	3.8	1,103	4.0
Allahabad bank	4.9	57	1.5	36	55	2.0
Andhra bank	6	57	1.0	104	55	1.0
Union bank	1070	116	5.0	1618	108	6.7
Obc	12	142	9.0	4.8	140	9.5
Iob	10	85	4.0	5	81	5.0
Pantaloon	150	447	22.0	100	413	25.0

Corporate Front Page

- **Bank of Baroda** plans to expand overseas operations by opening ten new branches and offices abroad **(FE)**
- **Onmobile** buys French firm, Telisma, for €11m **(ET)**
- **Subhash Projects** is entering urban infrastructure space through airports, metro rail and freight corridor projects **(DNA)**
- **Karuturi Global** may sell part of its stake in its Ethiopian subsidiary **(ET)**

Economy Front Page

- FM says fiscal deficit to not cross 2.5% of GDP in FY09 **(ET)**
- Export growth falls to 13% yoy in May as compared to 31.5% yoy in April **(ET)**
- Rupee closed at 15-month low to the US dollar, at Rs43.33 per dollar **(BS)**
- Steel companies to hold prices in July **(BL)**
- Cement prices likely to increase by Rs3/bag in Mumbai, Gujarat and southern markets from next week **(ET)**
- Communications and IT Ministry has fixed a reserve price for Rs22.6bn for the upcoming auction of 3G spectrum **(ET)**

Play on global demand for agri-inputs

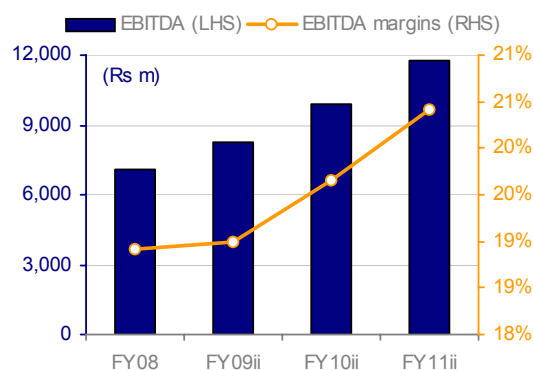
United Phosphorus Ltd (UPL), the only Indian agrochemical generics player with a global presence, is an ideal play on the strong demand for agri-inputs. The company has an extensive distribution network in more than 85 countries and a wide product portfolio thanks to a series of acquisitions, and is thus well-poised to benefit from rising demand for agro-chemicals. In addition, the company's manufacturing facilities in India offer cost advantages over its global competitors, although some of the margin expansion is likely to be offset by rising costs of raw materials. We estimate revenue CAGR of 16% and earnings CAGR of 27% during FY08ii-11ii. The stock is trading at a one-year-forward PE of 13.8x. We value UPL at Rs330, imputing a 12-month-forward PE of 12.9x, which translates to a 10% discount to global peers' multiples. Buy.

Margin expansion from acquisition synergies drives near-term growth: The company's recent acquisition of Cerexagri (FY08 revenue: ~US\$300m) in November 2006 is its largest in the past four years. Margin improvement in Cerexagri (from ~8% to ~20%) is expected to play out from FY10. Despite recent delays in the restructuring exercise, we believe the integration should be completed over the next 5-7 months. UPL's operating margins should start recovering from the current 19% to the historical average of 25% over the next 3-4 years.

Market penetration in existing markets offers scope for organic growth: Following a series of acquisitions, UPL is now armed with a wide product suite in fast-growing markets, including South America and Asia. Management's focus on integrating recent acquisitions and increasing investments in product registrations should support market penetration and robust earnings growth over the next few years.

Rising raw-material costs and tight supply represent a risk: Prices of key raw materials (sulphur, phosphorus and petro-chemical derivatives) have risen 2-10x during the past year. Although UPL might pass on the absolute cost increases fully, margins might be lower, given the higher revenue base. Furthermore, maintaining stable procurement in the face of recent global supply shortages would be a challenge, as the company is only partly backward-integrated.

Earnings growth expectations



Source: IIFL Research

Financial summary

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenues (Rs m)	17,954	24,498	37,306	43,407	50,214
EBITDA Margins (%)	26.9	23.1	18.9	19.0	19.7
Adjusted PAT (Rs m)	2,163	2,897	3,954	4,883	6,527
Reported PAT (Rs m)	2,163	2,821	2,811	4,883	6,527
EPS (Rs)	11.5	13.8	15.5	19.1	25.6
Growth (%)	10	20	12	23	34
PER (x)	25.0	20.8	18.5	15.0	11.2
ROE (%)	16.9	18.9	10.1	15.1	14.1
Debt/Equity (x)	0.9	1.3	0.7	0.6	0.4
EV/EBITDA (x)	14.7	13.7	9.5	8.0	5.8
Price/Book (x)	4.2	3.9	2.6	2.3	1.6

Price as at close of business on 01 July 2008

12-mth Target price (Rs) 330 (+15%)

Market cap (US\$ m) 1,453

52Wk High/Low (Rs) 425/227

Diluted o/s shares (m) 218

Daily volume (US\$ m) 2.8

Dividend yield FY08ii (%) 0.5

Free float (%) 72.0

Shareholding pattern (%)

Promoters 28.0

FII's 43.1

Domestic MFs 14.9

Others 14.0

Price performance (%)

	1M	3M	1Y
United Phosphorus	-14.0	10.2	-8.4
Rel. to Sensex	5.3	27.9	3.2
Tata chemicals	-30.5	-5.0	8.2
Chambal fertilizers	-30.8	17.6	61.1

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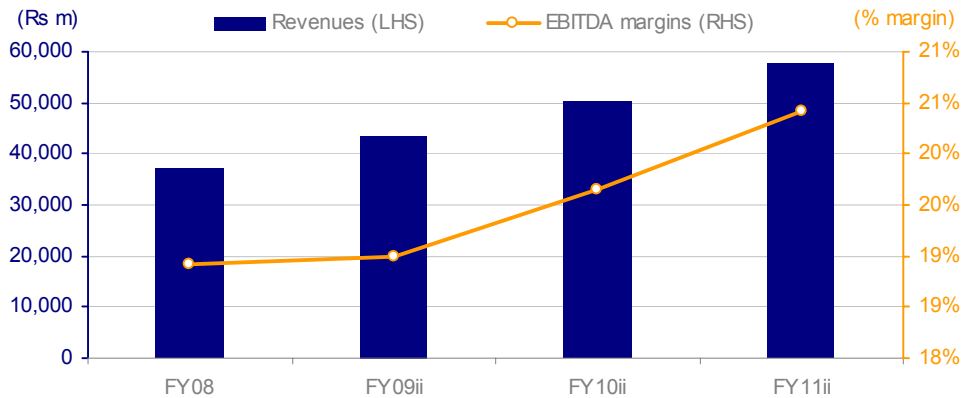
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United Phosphorus (UPL) is the world’s fifth-largest maker of agrochemical generics. It has registered a PAT CAGR of 25% over 2004-08, driven largely by acquisitions. UPL derives just 20% of its revenue from the domestic market, and has seen a steady increase in its presence in the US and European over the past five years, driven by acquisitions in these markets. Management has established a track record of successfully integrating acquired companies, which continue to deliver healthy growth.

Acquisition integration offers significant margin leverage

Key earnings growth drivers for the next three years include: a) cost and revenue synergies derived from integrating recent acquisitions; and(b) organic growth driven by investments in new product registrations and manufacturing capacities. We estimate that these measures will drive revenue CAGR of 16% over FY08-11ii, while integration of acquisitions expands EBITDA margin by 150bps, translating to 27% earnings CAGR over this period. While our estimates factor in only organic growth expectations, opportunities for inorganic growth continue to appear favourable, and may translate to an upside to our estimates.

Figure 1: Revenues and margins to improve following integration of acquisitions

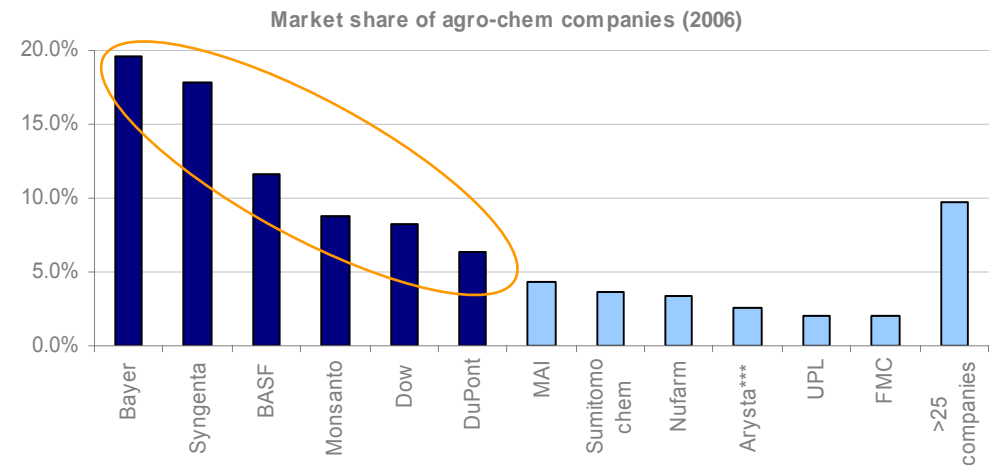


Source: UPL, IIFL Research

Inorganic growth: Opportunities remain high

The global agro-chemicals market’s size is estimated at US\$36bn, of which ~73% is controlled by six large R&D players: Syngenta, Monsanto, Bayer, BASF, Dow Agrosiences and DuPont. This concentration is the result of a decade-long consolidation (*see annexure I*).

Figure 2: Consolidation at the top-end complete; tail-end presents opportunities



*** Arysta was acquired in 2007 by IEIL – an investment company
Source: IIFL Research

That leaves ~28% of the market in the hands of generics companies. The top six generics players together have a market share of ~18%, leaving the remaining ~10% with more than 25 smaller companies.

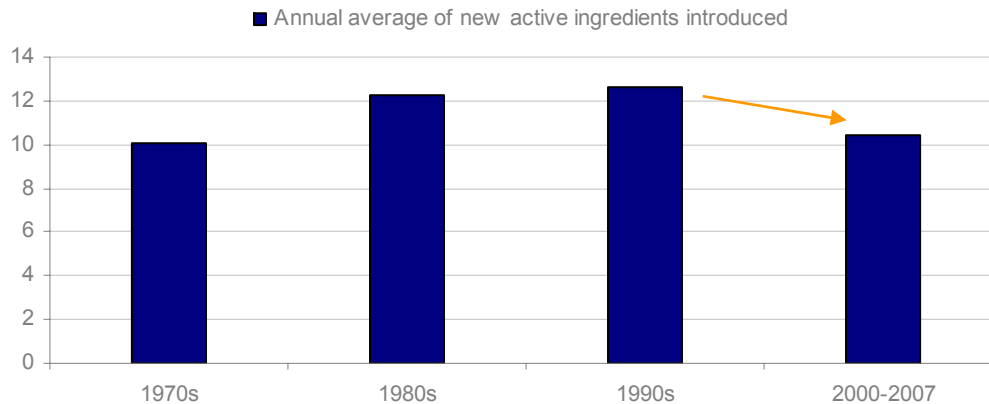
Inorganic growth opportunities in the generic agro-chemical market will be driven by two factors:

- (a) More than 70% of all agro-chemical products have gone generic, yet more than half of this generics market remains in the hands of the proprietary holders. These large companies continue to divest small products from their portfolios.
- (b) Consolidation opportunities at the bottom end of the market should also help drive growth, given the high level of fragmentation.

Growth driver I: R&D players target portfolio rationalisation

The six large R&D companies in this market are also large players in the seeds industry. In recent years, these companies' patenting efforts have been focussed on seeds rather than agrochemicals, as the former offer faster growth and higher returns (see figure 3). As a result, new-product launches in agrochemicals have declined from 12.6/year during the 1990s to 10.4/year during 2000-07. Also, many of the large R&D companies are looking to rationalise their agrochemical portfolios and divest smaller products or exit non-core markets. This offers inorganic growth opportunities for generics companies.

Figure 3: Pace of new introductions has declined in recent years



Source: Philips McDougall, IIFL Research

Figure 4: Agrochemical majors have steep portfolio rationalisation targets

Company	Comments
Bayer Cropscience	Rationalise portfolio from 114 active ingredients in 2000 to 87 by 2010
Syngenta	Focus on 15-20 key active ingredients having annual sales of >\$100m
BASF	Has already reduced portfolio from 300 to <170 active ingredients

Source: Agrow, IIFL Research

Growth driver II: Acquisitions at tail end accelerate growth

The primary cause for low penetration of generic agro-chemical players is that the regulatory environment presents high barriers to entry. Given the high costs incurred to register new products in each market (even after going off-patent) and time-intensiveness of the process, inorganic growth via acquisition of small companies in the low end of the market (with more than 25 players) presents a high-growth opportunity to large generics companies such as UPL.

Unlike pharma companies, which only need to prove bio-equivalence of generic products before product registrations, makers of generic agrochemicals are required to undergo the entire process of re-registration and supplying data (on field trials and environmental data), for each off-patent product in every market. Since this is a time-consuming and capital-intensive process, a large proportion of agrochemicals remains in the hands of the original innovators even after patent expiry.

Figure 5: Generic agrochemical companies have higher barriers to entry

	Agrochem	Pharma
Capital investment	High	Low
Cost as a driver	Low	High
Price erosion- after off-patent	Low	High
India as a cost advantage	High	High

Source: IIFL Research

Furthermore, prices of agrochemicals do not erode significantly even after their patents have expired, as the costly registration process makes marketing knock-offs challenging for generics companies.

Figure 6: Margins of generic players lower than R&D companies, though still >25%

Company	Company type	Gross margins
Syngenta	R&D	49%
United Phosphorus	Generic	37%
Makhteshim Agan	Generic	33%
Sumitomo Chemicals	Generic	25%

Source: IIFL Research

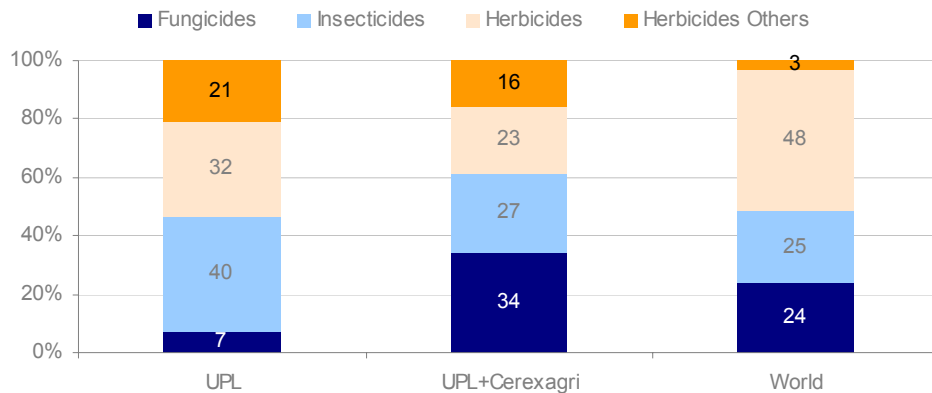
Organic growth: Acquisition integration, in-house investments

Management projects organic revenue growth of 15% pa, driven by contribution from recently-acquired companies as well as increased in-house investments in product registrations and manufacturing capacities.

Acquisition integration on track, despite recent delays

The company's recent acquisition of Cerexagri in November 2006 is its largest in the past four years. Cerexagri had revenue of €195m during CY05 (65% of UPL's FY06 revenue). The acquisition helped UPL align its product portfolio with the world market's segmentation, increasing the share of fungicides to 34% from 7% previously. The acquisition also gave the company access to: a) products with high market share in the fruit and vegetable crops segment; and b) sales and distribution network catering to European, North African and US markets.

Figure 7: UPL portfolio in-line with that of world market, post Cerexagri acquisition



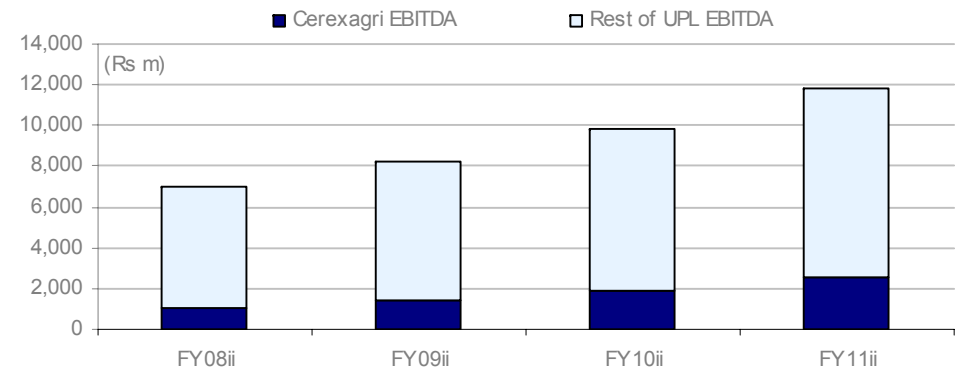
Source: UPL, IIFL Research

Cerexagri recorded an EBITDA margin of 8-9% during FY08. UPL's management aims to improve Cerexagri's operating margin through: a) a US\$20m reduction in manufacturing costs by shifting some of its manufacturing operations to India; and b) a US\$10m saving through

rationalising of its sales force, as UPL is already present in Europe, in addition to US\$10m in incremental sales by cross-selling UPL's existing products. These initiatives, we estimate, will expand Cerexagri's EBITDA margin to 20% over the next 3 -4 years.

The company completed restructuring this business in the US in 3QFY08, but restructuring of plants in Europe (which involves shifting part of the manufacturing process to India) has been delayed. The company expected to complete part of this transition by early FY09 but now reckons it would be done by 4QFY09 and that full benefits of the acquisition integration would be evident from FY10. We understand that the process of shifting manufacturing to India has begun and the company has issued notices to employees in France. Given management's strong track record of managing and successfully integrating acquisitions (see annexure I for details), we think the Cerexagri integration will be completed in line with management's expectations.

Figure 8: Operating earnings growth to accelerate as Cerexagri EBITDA improves



Source: IIFL Research

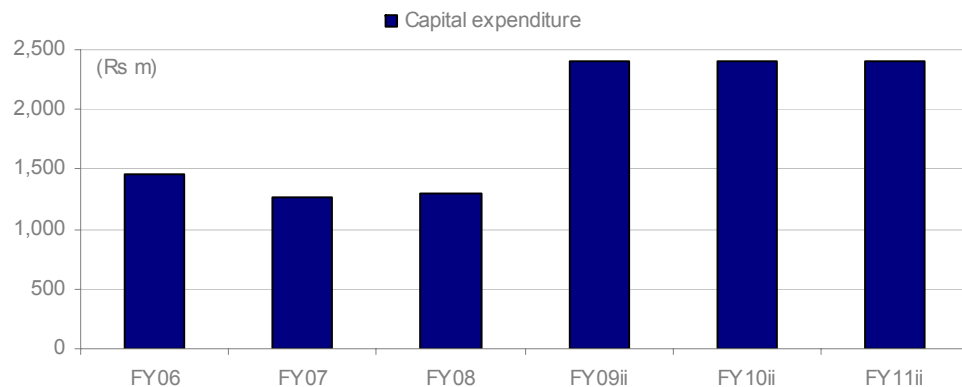
Increase in market penetration to drive future growth

In addition to integrating its recent acquisitions, management is looking to raise in-house investments to drive organic growth. After a number of acquisitions worldwide, UPL is looking to increase market penetration

by offering a broad suite of products in each market and by leveraging the many relationships it has secured with dealers via acquisitions.

To expand its product portfolio, the company plans to increase its capex for next year well above the ~US\$25m pa maintenance capex incurred during the past few years. Incremental capex would be primarily on product registrations and manufacturing facilities in key markets.

Figure 9: Capacity expansion will be a key driver of organic growth



Source: UPL, IIFL Research

Organic growth to be funded by internal cash accruals

Management expects to fund the increase in capex over the next 2-3 years using internal cash accruals. We estimate the company's debt-equity ratio as at end-FY08 at 70%. Additional infusion of equity from promoters after their exercise of warrants by FY10 (31.7m warrants exercisable at Rs340/share), would bring the debt-equity ratio down to 39% by FY10.

Income from Advanta offers potential upside

United Phosphorus owns a 51% stake in a seeds company – Advanta India. UPL acquired the 100% stake in Advanta India in Feb-2006 for €100m and subsequently took Advanta public during 2007 (current mkt cap of Advanta being US\$327m), after which UPL's stake in the company got diluted to 51%.

Income from this subsidiary accounted for 6-8% of UPL's income during FY06-08. Advanta India has a broad product portfolio, comprising seeds for rice, cotton, canola, sorghum and mustard. Advanta also has a strong presence in growing markets such as Latin America, Thailand and Australia, through its subsidiaries. Key drivers of income growth for this subsidiary will include: a) increasing market penetration in existing markets; b) continued pursuit of acquisitions; and c) launch of products under the Sunsat project.

Under the Sunsat project, the company is working on a project to launch a developed form of sunflower oil to be positioned as a healthy edible oil that helps lower bad cholesterol. The company is aiming for a commercial launch in 2009 and expects the full revenue contribution to come through after FY10. For the next two years, we estimate 12% growth in income contribution from Advanta's earnings.

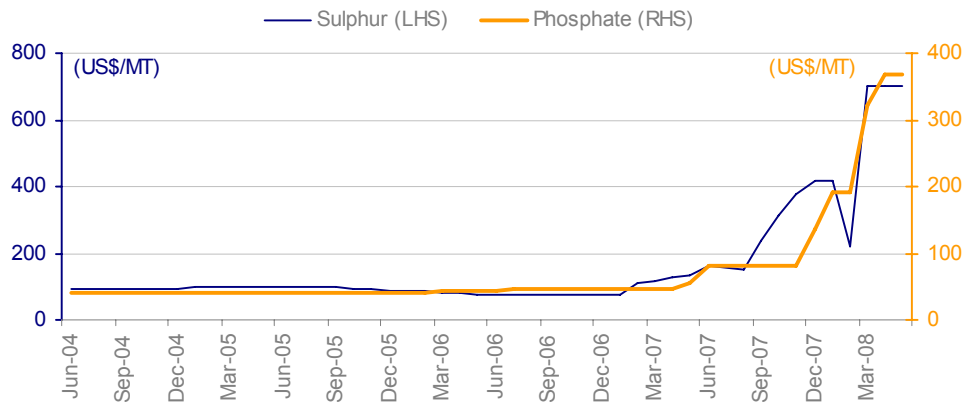
Figure 10: Advanta has shown high growth during the past year driven by acquisitions

	CY06	CY07
Revenues (Rs m)	2,916	4,242
EBITDA (Rs m)	560	819
EBITDA margins	19.2%	19.3%
Adjusted PAT (Rs m)	251	446

Source: IIFL Research

Rising prices of raw materials pose a risk to our estimates

Primary raw materials for UPL include phosphorus and sulphur (and their derivatives), and petrochemical derivatives. Prices of these raw materials have surged by 400-600% during the past 15 months. We understand that the company successfully passed on these cost increases, and that demand growth has remained robust despite price increases. Accordingly, we estimate revenue growth of 17% in FY09 vs management guidance of 15% (to account for the higher prices), and EBITDA margin of 19% (vs guidance of 21-22%). Our lower margin estimate implies that while the company passes on absolute cost increases, operating margins will be lower.

Figure 11: Sulphur and rock-phosphate prices up 400-600% in the past year


Source: Bloomberg, ICIS-LOR, IIFL Research

Supply of raw materials also under strain

Another key risk to our earnings estimates is the ability of UPL to secure supplies of raw materials, given the shortage of supplies for many chemicals.

Primary sources of supply for raw materials include China, USA and Europe. Some chemical processing plants in China have been shut down in the recent past owing to the run-up to the Olympic Games 2008. Demand for chemicals, on the other hand has been rising, driven by a rise in fertiliser and pesticide use following the boom in agricultural commodities' prices. Although most chemicals' supply is expected to increase by 2011, industry reports indicate that these increases are unlikely to be enough to meet demand growth over the next year or two. This will not only keep raw-material prices high, but also pose a risk to UPL's ability to procure adequate supplies.

Figure 12: Supplies of raw materials to improve, though not much in the near-term

Chemical (m tonnes)	2007	2011E	Details on additional capacity
Elemental sulphur			
Supply	50	64	West Asia to account for more than a third of the increase in supply
Demand	49.5	59.2	
Balance	0.5	4.8	
Phosphoric acid			
Supply	36.8	43.3	Primary sources of supply growth: China and Saudi Arabia
Demand	36	41.5	
Balance	0.8	1.8	
Potash			
Supply	38.3	43.2	Main sources of additional supply: North America, Russia, China, West Asia, Argentina
Demand	32.3	36.4	
Balance	6	6.8	
Phosphate rock capacity	182	215.7	Main sources of supply growth: West Asia, China, Brazil, Peru and Venezuela

Source: International Fertiliser Association, IIFL Research

Rupee appreciation poses additional downside risk

Since the company derives ~80% of its revenue from overseas markets, any appreciation in the rupee would represent a downside risk to our revenue estimates. This impact is partly offset by operating and financing costs, as: a) the company's overseas manufacturing facilities and raw material procurement from international markets account for ~60% of its costs; and b) the company has long-term liabilities (~75% of long-term debt) denominated in US\$ and €, and financing costs will gain from rupee appreciation. As such, rupee appreciation has implications for only about ~30% of UPL's earnings.

Figure 13: Rupee appreciation has implications for ~30% of UPL's earnings

	As % of revenues	% in foreign currency	Net impact as % of revenues
Negatively affected by rupee appreciation			
Revenues		80%	80%
Positively affected by rupee appreciation			
Operating costs	80%	60%	48%
Financing costs	4%	68%	2.7%
Net impact on earnings			29.3%

Source: IIFL Research

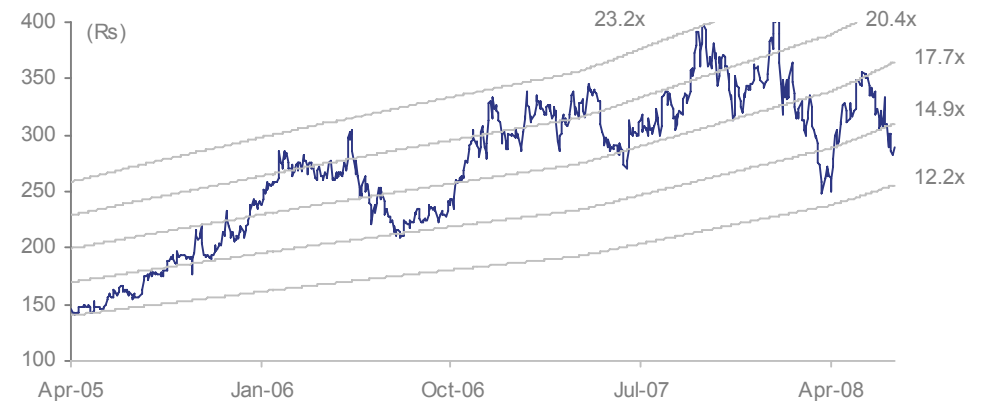
UPL earnings growth to drive 15% upside to stock

UPL's stock is trading at a 12-month-forward PE of 13.8x, which represents a 3.5% discount to global agrochemical generics companies' average of 14.3x. As UPL is a smaller company compared to its global generics peers (about 0.25-0.5x the size of large generic peers), we attribute a 10% discount to the risks associated with small companies' growth profile. This gives a 12-month-forward PE of 12.9x. Accordingly, we set a one-year target price of Rs330 on FY10ii EPS. This offers a 15% upside potential from the current market price.

Figure 14: Comparative valuations

Company	Bloomberg	Mcap (US\$ m)	12-month forward P/E	Operating margins (FY09E)
FMC	FMC US	5640	15.1x	18.5%
Makhteshim-Agan	MAIN IT	4106	13.8x	15.9%
Nufarm	NUF AU	2940	14.3x	14.0%
Average			14.3x	
United Phosphorus	UNTP IN Equity	1504	13.7x	20.5%

Source: Bloomberg, IIFL Research

Figure 15: UPL is at 13.7x 12-mth-forward PE, well below its 5-yr trading avg of 17.7x


Source: IIFL Research

Annexure I

United Phosphorus is a global agro-chemical generics company with a presence in fast-growing markets. The company derives 80% of its revenues from international markets, primarily USA, Europe and South America. The company has focussed on inorganic growth during the past 4-5 years, given the opportunities afforded by the high level of fragmentation amongst generic players and a number of products coming into the market as large agrochemical companies continued to rationalise their portfolios.

Figure 16: UPL has had a strong history of acquisition-driven growth

Company	Year	Country	Size	Comments
AG Value	Nov-04	USA	Acquired 100% for US\$35.75m FY04 Revenues:~\$18.5m	Presence in the US markets Agri and specialty chemical segment
Cequisa	Jun-05	Spain	Acquired 100% for Euro 11.5m FY04 revenues €19.3m	Presence in the Southern European and North African markets Broad product portfolio (400 registrations worldwide)
SWAL	Jun-05	India	Acquired 100% for Rs234m (EV Rs280m) FY05 Revenues: Rs700m	Manufacturing and marketing set-ups in India
Reposo	Nov-205	Argentina	Acquired 100% for US\$11m FY05 Revenues:US\$12.5m	Presence in Latin America
Advanta	Feb-06	Netherlands	Acquired 100% for Euro 100m CY05 Revenues: Euro 61m EBITDA: Euro 10.5-11m	Presence in Australia, India, Thailand and Argentina Main crops – canola, sorghum, corn and rice
Propanil	Nov-06		Acquisition cost: US\$25m 2005 revenues: US\$18.9m	Propanil purchased from Dow Agrosciences Product with over 100 registrations in 30 countries

Company	Year	Country	Size	Comments
Cerexagri	Nov-06	Worldwide	Acquired 100% for €111m 2005 Revenues: €200m	Strong presence in fungicide market, fruits and veg. products
Supertin Vendex	Jun-07		Consideration details unavailable	Acquired from DuPont Products cater to fruit, nut, vegetable and row crops Cerexagri had earlier had a long-standing marketing alliance for this product
Icona	Seo-2007	Argentina	Acquired 100% stake for US\$10m Year ended Sep-06 revenues: US\$13m	35 registrations in Argentina
Evo farms	Feb-08	Argentina	Consideration details unavailable	Distribution network covering more than 100 customers

Source: IIFL Research

UPL's products cater to agricultural and industrial purposes

UPL is in the business of manufacturing and selling agrochemicals and industrial chemicals. Agrochemicals fall into three main categories: a) insecticides; b) fungicides; and c) herbicides. Agrochemicals are sold as intermediates, active ingredients and formulations. Industrial chemicals accounted for 21% of the company's revenue during FY07.

The company's products include chlorine, phosphorous-based chemicals such as phosphorus pentachloride, phosphorus trichloride, phosphorus oxychloride, HEDP and tri phenyl phosphate.

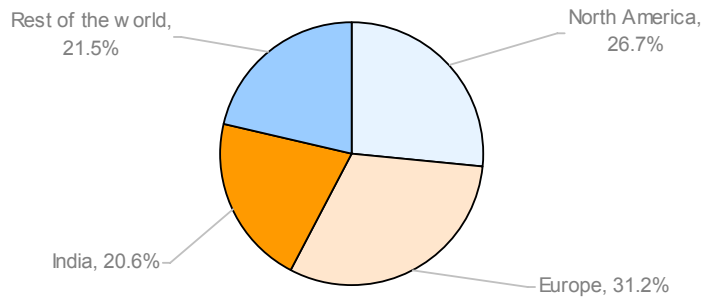
UPL has manufacturing facilities in 9 countries

UPL's plants are located in 23 manufacturing sites spread across 9 countries – 8 in India and the rest in France, Spain, UK, Vietnam, Argentina, Netherlands, Italy, Thailand and China. Some of these facilities are backward integrated, thus ensuring constant source of supply of raw materials. For e.g some of the company's phosphorus based plants have secured sources of rock phosphate ore. The predominance of manufacturing facilities in India offers the company low-cost manufacturing advantage.

UPL operates through subsidiaries in 86 countries

The company operates in over 86 countries through ~60 subsidiaries, whose financials are consolidated for the purpose of financial reporting. These subsidiaries are primarily present in USA, Argentina, Brazil, Spain, Netherlands, UK, France, Denmark, Zambia, Australia, New Zealand, China and Indonesia.

Figure 17: UPL derives 80% of revenues from global markets

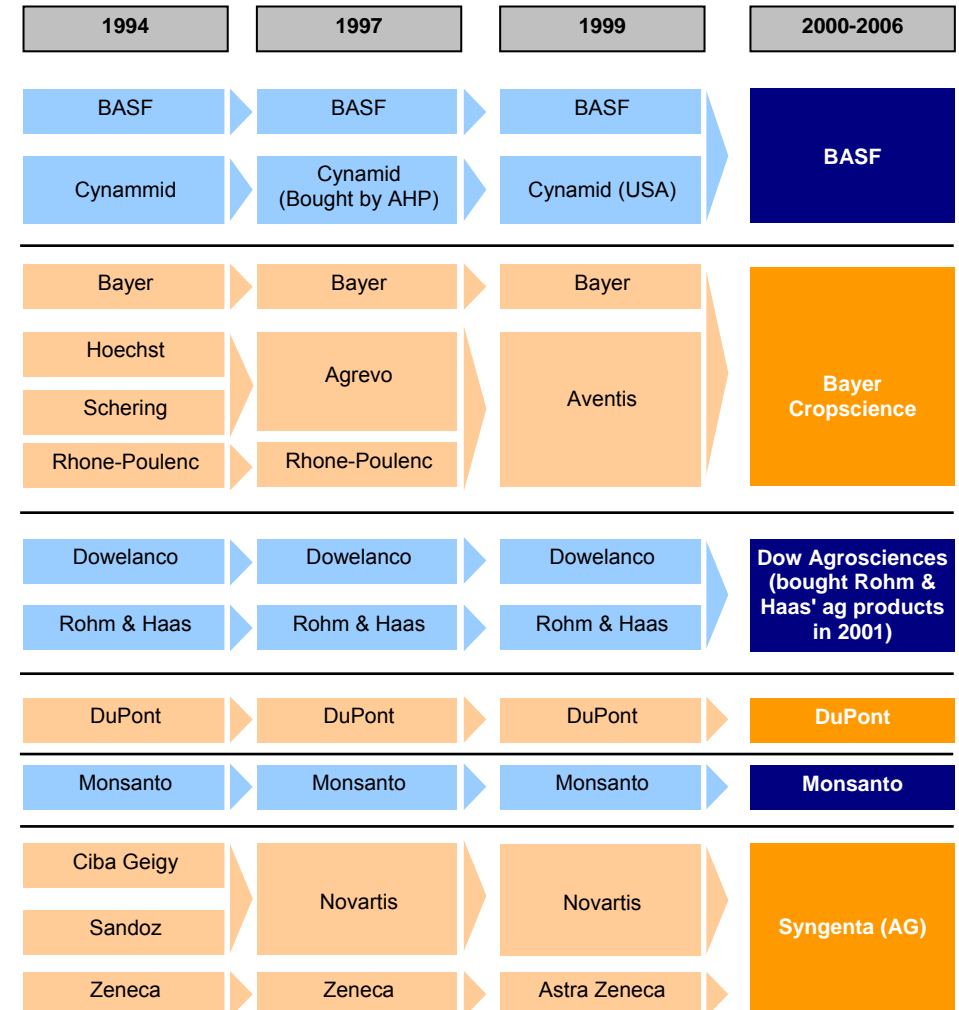


Source: IIFL Research

Annexure II

Top end of ag-chem market – follows decade-long consolidation

Figure 18: Consolidation in the top-end of the market share almost over



Source: Agrow, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenue	17,954	24,498	37,306	43,407	50,214
EBITDA	4,831	5,671	7,055	8,247	9,870
EBIT	3,429	4,015	5,533	6,569	8,170
Interest expense	988	1,046	1,688	1,533	1,470
Exceptional items	0	76	-1,144	0	0
Others	66	212	311	548	829
Profit before tax	2,507	3,181	4,156	5,584	7,529
Taxes	328	525	424	949	1,280
Minorities and other	17	0	0	0	0
Net profit	2,163	2,821	2,811	4,883	6,527

Interest expense should decline as internal cash flows are used to pay off debt, assuming no new acquisitions

Cashflow summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Profit before tax	2,507	3,181	4,156	5,584	7,529
Depr. & amortization	1,402	1,656	1,522	1,677	1,700
Tax paid	-219	-476	-424	-949	-1,280
Working capital Δ	-1,969	4,424	-2,594	-1,309	-2,205
Other operating items	742	-292	1,688	1,533	1,470
Operating cashflow	1,513	7,174	2,660	5,003	5,744
Capital expenditure	1,452	1,270	1,300	2,400	2,400
Free cash flow	62	5,904	1,360	2,603	3,344
Equity raised	0	0	10,313	151	7,681
Investments	-710	-579	0	0	0
Debt financing/disposal	9,981	7,247	-750	-1,948	-2,526
Dividends paid	-141	-396	-337	-342	-457
Other items	0	0	0	0	0
Net change in cash	9,191	12,176	10,586	465	8,042

Capex should increase from FY09 onwards as the company focuses on organic growth

Equity raised during FY08 through fresh equity placement to QIBs; infusion in FY10 expected from exercise of promoter warrants

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Cash & equivalents	4,158	4,604	15,191	15,655	23,697
Sundry debtors	4,298	5,697	8,675	10,094	11,677
Inventories - trade	5,386	10,435	14,404	15,981	16,994
Loans and advances	6,007	4,073	6,203	7,217	8,349
Other current assets	449	360	360	2,118	5,972
Fixed assets	6,166	10,168	10,699	11,421	12,121
Intangible assets	0	0	0	0	0
Other term assets	6,939	12,478	11,725	11,725	11,725
Total assets	33,403	47,815	67,257	74,213	90,536
Short-term debt	1,814	1,820	2,093	2,406	2,767
Sundry creditors	7,716	12,504	18,987	21,689	23,212
Other current liabs	279	0	294	467	2,419
Long-term debt/CBs	10,314	17,773	17,398	16,424	15,161
Other long-term liabs	928	744	744	744	744
Minorities/other equity	0	49	49	49	49
Net worth	12,775	14,954	27,692	32,433	46,184
Total liabs & equity	33,826	47,843	67,257	74,213	90,536

Long-term debt should decline as excess cash after capex is used to pay off debt

Ratio analysis

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenue growth (%)	92.2	36.4	52.3	16.4	15.7
Op Ebitda growth (%)	117.8	17.4	24.4	16.9	19.7
Op Ebit growth (%)	88.9	17.1	37.8	18.7	24.4
Op Ebitda margin (%)	26.9	23.1	18.9	19.0	19.7
Op Ebit margin (%)	19.1	16.4	14.8	15.1	16.3
Net profit margin (%)	12.0	11.5	7.5	11.2	13.0
Dividend payout (%)	7.5	16.1	12.0	7.0	7.0
Tax rate (%)	13.1	16.5	10.2	17.0	17.0
Net debt/equity (%)	62.4	100.2	15.5	9.8	-12.5
Return on equity (%)	16.9	18.9	10.1	15.1	14.1
Return on assets (%)	6.5	5.9	4.2	6.6	7.2

Efficiencies derived from Cerexagri to drive margin expansion

Source: Company data, IIFL Research

No boost in sight

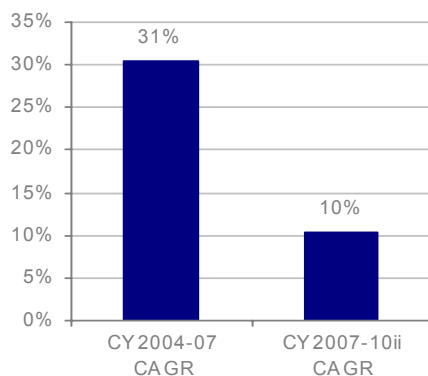
GSK Consumer is the market leader in the malted-beverages category, with brands such as *Horlicks*, *Boost*, *Maltova* and *Viva*. We expect a significant deceleration in the company's earnings growth as EBITDA margin drops on high raw-material cost and rising ad expenses on new product launches. The stock is trading at a one-year-forward PE of 14.3x, in line with its five-year PE average. Initiate with a SELL and a 12-month target price of Rs587, based on a target PE of 12x on one-year forward earnings.

In for a slowdown in earnings growth: Huge brand investments behind new product launches, we reckon, will raise GSK Consumer's ad spends to 14% of sales by CY10ii, compared to 12.8% in CY07. This, coupled with the prevailing high raw-material costs, would lead to a compression in EBITDA margin by 170bps over CY07-CY10ii. Hence, earnings CAGR would slow down from 30.4% during CY04-07 to 10.4% during CY07-10ii.

Multiples de-rating likely: Since GSK's planned new product launches over the next 2-3 years are primarily in nascent categories, we expect the key risks of single-product dependence and geographical concentration to remain high. These risks have been the primary reason for the stock's PE discount to peers historically. With an earnings slowdown imminent, we expect the stock to trade closer to the low end of its trading band of 12-16x one-year-forward PE. We initiate coverage with a Sell and a one-year target price of Rs587, based on 12x June 2010ii earnings.

Use of cash would be crucial: GSK had cash and equivalents equalling Rs93/share on its books as of December 2007 set aside for acquisitions. While an acquisition at reasonable valuations would indeed be positive for the stock, possibilities of an increase in the dividend payout or a buyback remain strong. Dividend payout has come down from 49% in CY04 to 30% in CY07. GSK had conducted a buyback in 2005, which increases the possibility of a buyback in future. The use of cash is crucial and would provide downside support to the stock, in our view.

Earnings CAGR to slow down



Source: IIFL Research

Financial summary

Y/e 31 Dec	CY06A	CY07A	CY08ii	CY09ii	CY10ii
Revenues (Rs m)	11,079	12,778	14,917	17,220	19,836
EBITDA Margins (%)	16.7	17.6	16.1	15.3	15.0
Pre-Exceptional PAT (Rs m)	1,269	1,627	1,768	1,938	2,188
Reported PAT (Rs m)	1,269	1,627	1,768	1,938	2,188
EPS (Rs)	30.2	38.6	42.0	46.0	52.0
Growth (%)	18.5	28.2	8.6	9.6	12.9
PER (x)	20.9	16.3	15.0	13.7	12.1
ROE (%)	23.4	25.2	23.0	21.6	21.3
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	12.9	10.1	9.1	7.9	6.7
Price/Book (x)	4.9	4.1	3.5	3.0	2.6

Price as at close of business on 1 July 2008

12-mth Target price (Rs) 587 (-7%)

Market cap (US\$ m) 613

52Wk High/Low (Rs) 799/489
 Diluted o/s shares (m) 42
 Daily volume (US\$ m) 0.3
 Dividend yield FY08ii (%) 1.7
 Free float (%) 56.8

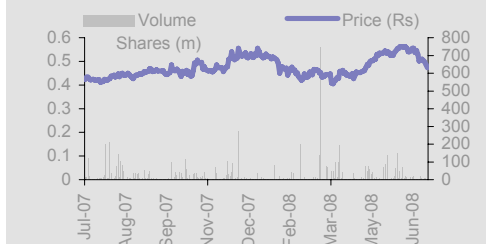
Shareholding pattern (%)

Promoters 43.2
 FIIs 1.3
 Domestic MFs/Insurance cos 28.6
 Others 26.9

Price performance (%)

	1M	3M	1Y
Glaxo	-14.6	5.6	9.2
Smithkline Consumer			
Rel. to Sensex	6.4	22.7	20.7
Hindustan	-16.6	-17.1	4.8
Unilever			
Nestle India	-12.9	3.4	32.7
Dabur India	-18.7	-26.0	-23.2

Stock movement



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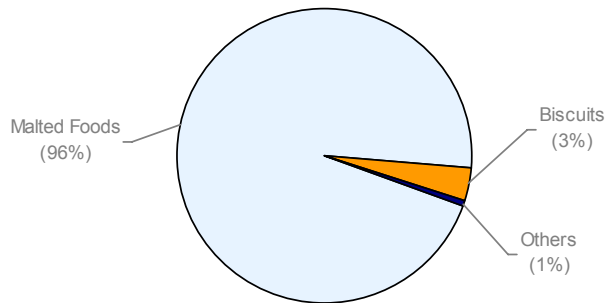
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Malted foods is the mainstay

GSK Consumer is an associate of the global healthcare major, GlaxoSmithkline plc UK, which holds 43.1% stake in GSK. Malted foods accounted for 96% of GSK's revenue in CY07. GSK's flagship brand is *Horlicks* and the company also sells other brands such as *Viva*, *Boost* and *Maltova*. GSK also sells biscuits under the *Horlicks* brand. In addition, it sells *Eno* digestive power, *Crocin* analgesic, and *Iodex* pain-relief ointment; these products are made by an associate company and GSK earns commissions on these sales. Exports, mainly to Bangladesh, Myanmar, Sri Lanka, Middle East and Nepal, account for 5-6% of GSK's revenue.

Figure 1: CY07 Sales mix: High dependence on malted foods



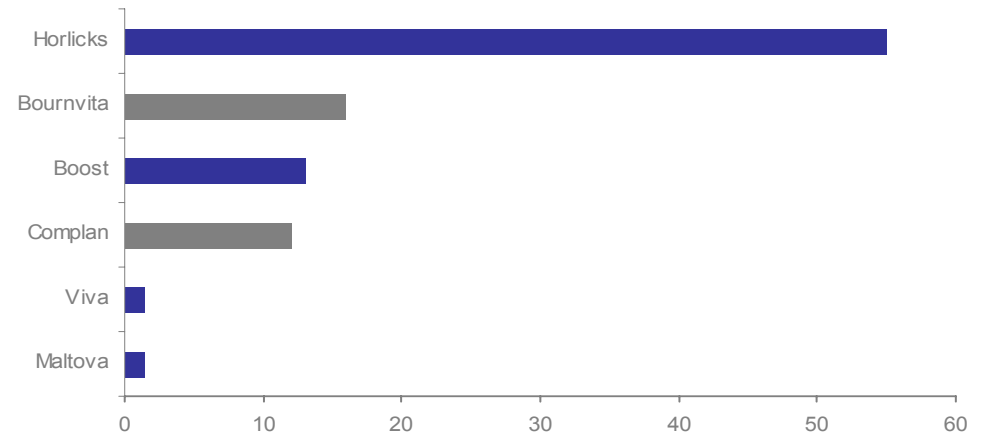
Source: IIFL Research

Market leader, with well-entrenched brands

GSK is the market leader in India's Rs18bn health beverages market, with its flagship brand, *Horlicks*, commanding 55% share by value. Along with other brands such as *Boost*, *Maltova* and *Viva*, GSK commands a combined share of 72%. GSK's products enjoy strong positioning and its association with pharma major lends credibility to its brands. With increasing awareness of health and nutrition, we expect the health-beverage segment's sales to continue to grow at 10% pa, and *Horlicks*, being the market leader, would be the key beneficiary.

Nutritional white malted beverages account for 70% of malted beverages' sales in India. White beverages are used as milk substitutes in the milk-deficient southern and eastern regions. *Horlicks*, which is primarily used as a substitute for milk, has a strong geographical skew, with 85% of its revenue coming from eastern and southern India. *Viva* is another white beverage from GSK. Brown beverages, on the other hand, are regarded more as energy boosters. GSK's brands *Boost* and *Maltova* have market share of 13% and 2%, respectively. Leading competitors are Heinz's *Complan*, Cadbury's *Bournvita*, and Nestle's *Milo*

Figure 2: GSK commands a share of 72% in malted foods category



Source: IIFL Research



Despite softening, raw-material prices to remain higher than historical levels

GSK's key inputs are agricultural commodities such as milk and milk fluids, wheat and sugar. All these commodities' prices have risen sharply in the past two years. Prices of milk fluids and milk powder increased by 15-28% in 2007, while wheat and malt prices rose by 10-13%. Though wheat prices are showing some signs of cooling off, they are likely to remain higher than historical levels. Management projects input cost inflation of 13-14% in CY08 and 8-10% in CY09. GSK has taken price hikes of 6.5% this year and though we expect the company to raise prices further to mitigate cost pressures, gross margins would still contract from 65% in CY07 to 63.5% in CY10ii.

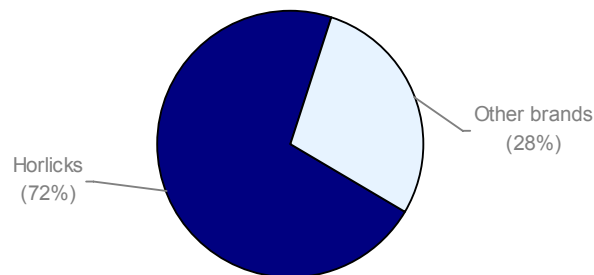
Figure 3: Input prices have structurally moved to higher levels

Key Inputs	% of Sales	% Increase in CY07
Milk fluids	6.0	15.7
Milk powder	6.7	27.6
Malt	6.6	10.9
Wheat	2.8	13.0

Source: Company, IIFL Research

New product launches to reduce single product concentration

Figure 4: Horlicks is the single largest brand, posing risk to revenues



Source: IIFL Research

GSK has been trying to reduce its dependence on *Horlicks*, which accounts for 72% of its revenues. To that end, it has lined up a series of new product launches for the next 2-3 years. Management has a three-point strategy to drive growth:

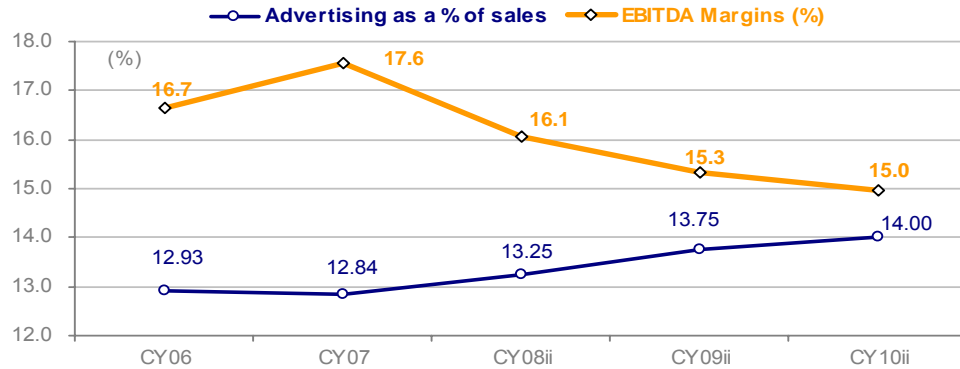
1. **Building *Horlicks* into a mega brand:** Under this, *Horlicks* variants would continue to be launched like in the past. Alongside, the franchise would be extended to other categories such as nutritional foods and tasty snacks (GSK already sells biscuits under the *Horlicks* brand).
2. **Launching new products from global portfolio:** GSK has identified a number of new products to launch in India over the next 2-3 years. These include *Breathe Right* (nasal strip for snore relief), *Lucozade* (energy drink) and *Sensodyne* (toothpaste for sensitive teeth). Although it is difficult to estimate the market opportunity for these products, we expect them to reduce GSK's dependence on malted foods, particularly *Horlicks*. Management estimates that by CY10, c15% of its annual revenue will come from new products
3. **Leveraging R&D in India:** With rising incomes, growing awareness and increasing literacy in India, health awareness in India should continue to increase. GSK plans to capitalise on this trend by introducing new products on the health platform by leveraging its R&D strength in India. The company has recently entered the specialty nutrition category with the launch of indigenously-developed protein supplement brand *Actibase*. Addressable market opportunity for *Actibase* in India is Rs6bn and it would be eventually sold in export markets as well.

Higher ad spends to back new product launches

GSK has historically relied heavily on *Horlicks*, its flagship product, to drive revenue growth. New product launches are lined up to reduce dependence on *Horlicks*. Two such products launched earlier this year were backed with heavy advertising. Management has indicated spends on similar lines for other product launches as well. Management has indicated it will increase ad expenses to 14.5% of sales over CY08-10ii. We are building in a 50bps YoY increase in ad spends over CY08ii, CY09ii and 20bps YoY increase in CY10ii. This would translate to a

significant decline in EBITDA margin, from 17.6% in CY07 to 15% in CY10ii.

Figure 5: EBITDA margins drop as ad spends rise

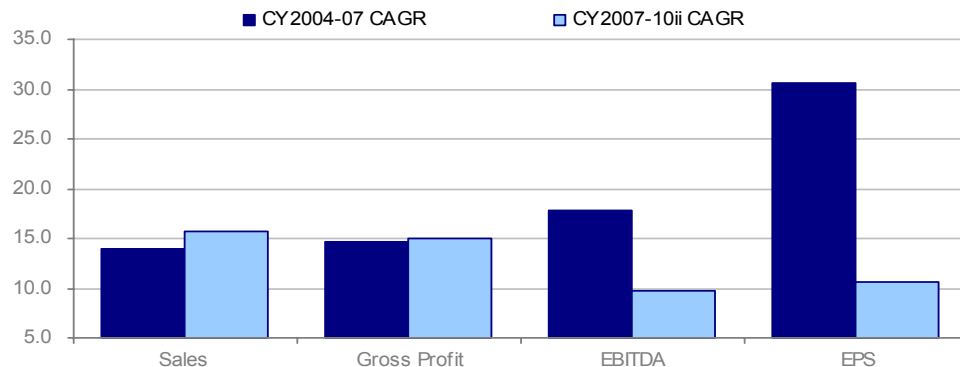


Source: IIFL Research

Earnings growth will trail sales growth over CY07-10ii

Over CY07-10ii, we forecast GSK's earnings growth will significantly trail its sales growth. Although we estimate sales CAGR will accelerate from 14% during CY04-07 to 16% over CY07-10ii, a faster rise in advertising expenses and raw-material costs would drag operating margins down.

Figure 6: Strong sales growth not flowing through to earnings growth

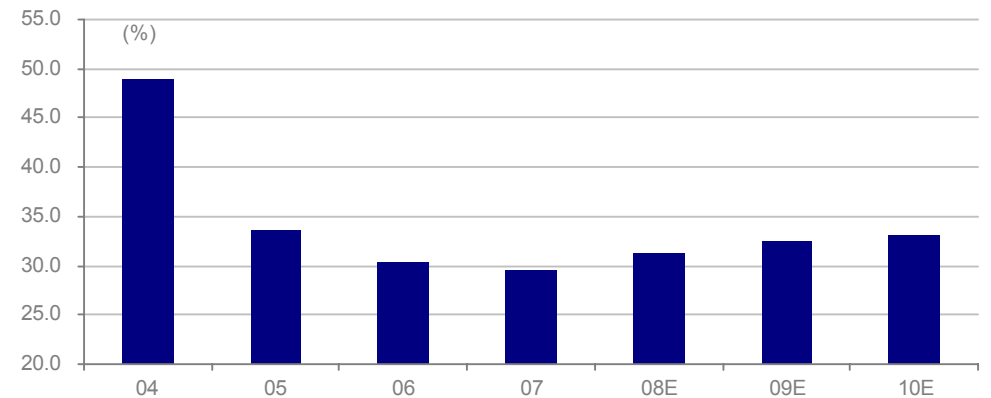


Source: IIFL Research

Another buyback could be in the offing

GSK generates strong cash flows. It had Rs3.9bn of cash and cash equivalents on its books as of December 2007. The company has built up this strong cash position mainly to fund acquisitions in the medical, healthcare and OTC space. We believe there is a case for a buyback or an increase in the dividend payout in the event management is unable to identify a suitable acquisition target.

Figure 7: Dividend payout has come down from 48% in CY04 to 30% in CY07



Source: IIFL Research

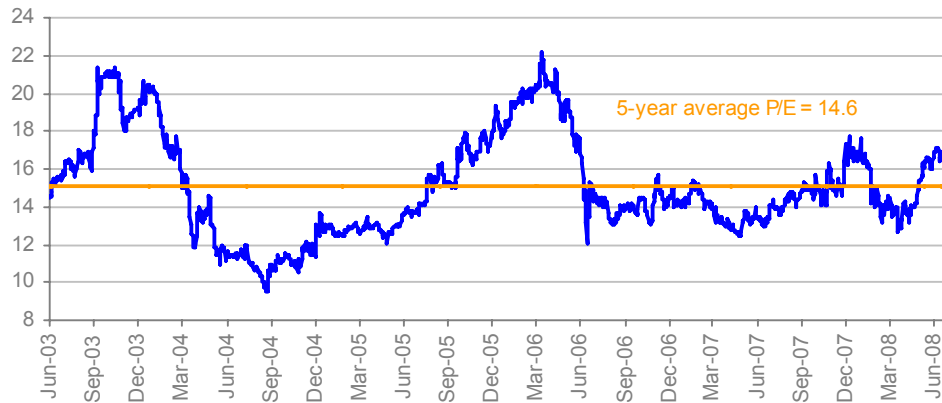
In 2005, GSK bought back 7.3% of its equity for Rs1.23bn. A buyback would not only increase EPS but would also improve the company's capital efficiency ratios. The company's dividend payout declined from 49% in CY04 to 30% in CY07, so we believe its cash on books could also be used to increase the payout to historical levels. Either of these options, or an acquisition at reasonable valuations, could provide downside support to stock prices.

Valuations to start reflecting growth slowdown

In the past five years, GSK Consumer's one-year-forward PE has ranged from 12x to 16x, averaging 14.6x. GSK has traded at a discount to other HPC peers and other food companies such as Nestle, primarily

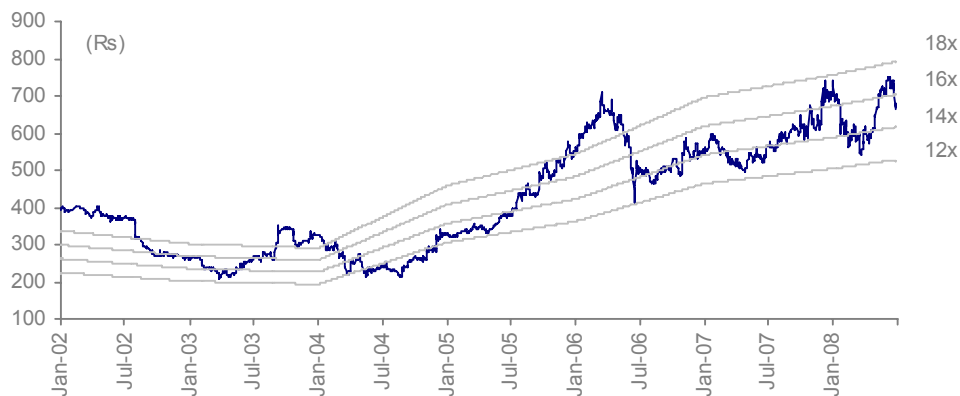
owing to lower capital efficiencies. We expect GSK to continue to trade at a discount to these stocks. With earnings CAGR likely to decline from 30% during CY04-07 to 10% during CY07-10ii, we expect GSK to trade at the low end of its trading band. We value GSK at 12x one-year forward earnings, which gives a one-year target price of Rs587.

Figure 8: GSK Consumer is trading close to its five year average P/E multiple



Source: IIFL Research

Figure 9: GSK has traded at one-year-forward PE of 12x-16x in last two years



Source: Bloomberg, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Dec	CY06A	CY07A	CY08ii	CY09ii	CY10ii
Revenue	11,079	12,778	14,917	17,220	19,836
EBITDA	1,846	2,244	2,394	2,641	2,966
EBIT	1,419	1,809	1,940	2,131	2,420
Net Interest expense	35	46	53	61	70
Others	522	688	775	848	945
Profit before tax	1,906	2,451	2,662	2,918	3,295
Taxes	636	824	894	980	1,107
Net profit	1,269	1,627	1,768	1,938	2,188

GSK is a zero-debt company. Interest paid is mostly for servicing working capital loans.

Unlike some of its FMCG peers, GSK enjoys no tax holiday; it pays tax at 33.6%

Cashflow summary (Rs m)

Y/e 31 Dec	CY06A	CY07A	CY08ii	CY09ii	CY10ii
Profit before tax	1,906	2,451	2,662	2,918	3,295
Depr. & amortization	427	435	455	511	546
Tax paid	-571	-798	-894	-980	-1,107
Working capital Δ	-82	125	-119	-128	-146
Other operating items	-92	-75	0	0	0
Operating cashflow	1,588	2,139	2,103	2,320	2,588
Capital expenditure	-168	-289	-472	-849	-536
Free cash flow	1,420	1,849	1,631	1,471	2,052
Investments	-2,197	-782	-222	-700	-1,000
Dividends paid	-480	-552	-634	-729	-875
Other items	-114	-39	-95	90	0
Net change in cash	-1,370	477	680	131	177

Increase in capex in CY09ii for expansion and modernisation of facilities

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Dec	CY06A	CY07A	CY08ii	CY09ii	CY10ii
Cash & equivalents	2,676	3,915	4,817	5,648	6,825
Sundry debtors	281	274	319	368	424
Inventories - trade	1,456	1,948	2,207	2,548	2,935
Other current assets	762	561	736	849	978
Fixed assets	2,579	2,433	2,451	2,789	2,779
Intangible assets	0	0	0	0	0
Other term assets	0	0	0	0	0
Total assets	7,753	9,131	10,529	12,202	13,941
Short-term debt	0	0	0	0	0
Sundry creditors	281	274	319	368	424
Other current liabs	1,805	2,221	2,535	2,861	3,232
Long-term debt/CBs	0	0	0	0	0
Other long-term liabs	241	173	0	0	0
Net worth	5,427	6,464	7,675	8,973	10,285
Total liabs & equity	7,753	9,131	10,529	12,202	13,941

Strong cash generation, as dividend payout remains low at 30%

EBITDA margin to be under pressure, as ad spends are scaled up and raw-material costs remain high

Dividend payout declined from 49% in CY04 to 30% in CY07. We expect it to increase, given the significant cash generation

GSK's capital efficiency is low, owing to low margins and high reserves

Ratio analysis

Y/e 31 Dec	CY06A	CY07A	CY08ii	CY09ii	CY10ii
Revenue growth (%)	14.6	15.3	16.7	15.4	15.2
Op Ebitda growth (%)	0.2	21.6	6.7	10.3	12.3
Op Ebit growth (%)	-0.3	27.5	7.2	9.8	13.6
Op Ebitda margin (%)	16.7	17.6	16.1	15.3	15.0
Op Ebit margin (%)	12.8	14.2	13.0	12.4	12.2
Net profit margin (%)	11.5	12.7	11.8	11.3	11.0
Dividend payout (%)	29.5	31.2	32.7	33.3	40.0
Tax rate (%)	33.4	33.6	33.6	33.6	33.6
Net debt/equity (%)	-49.3	-60.6	-62.8	-62.9	-66.4
Return on equity (%)	23.4	25.2	23.0	21.6	21.3

Source: Company data, IIFL Research

Mahindra & Mahindra - BUY

Auto

02 July 2008

Robust volume growth

Mahindra & Mahindra's automotive volumes rose 9% YoY in June 2008, in line with our expectation, whereas tractor volumes surpassed our expectation with 19% YoY growth. Imputing a holding-company discount of 30% to listed subsidiaries and 40% to unlisted ones, M&M's subsidiaries are valued at Rs312 per share. This implies that subsidiaries account for 70% of its current market cap.

- **Domestic auto volumes up 8% YoY:** M&M's UV volumes rose by a robust 7% YoY in June, despite some customers having advanced their purchases to April and May (when volumes rose 41% and 19%, respectively). Also, the government raised excise duty on UVs in May. The *Alfa* is also doing very well in the <1-tonne three-wheeler goods segment. Three-wheeler volumes rose more than 50% YoY in June.
- **Tractor volumes showing signs of revival:** Domestic tractor volumes continue to beat our expectation. The company has projected flat volumes in FY09—but after strong May, growth continued in June, and volumes rose 10% YoY in the quarter ended June. Punjab Tractors' volume sales rose 74% YoY during the month.

Figure 1: Volume growth stays robust

	Jun-07	Jun-08	% YoY	1QFY08	1QFY09	%YoY
UV	10,597	11,311	6.7	31,171	37,919	21.6
LCV	1,033	1,172	13.5	2,681	2,957	10.3
3w	2,795	4,345	55.5	7,336	11,396	55.3
Logan	2,380	1,351	(43.2)	5,166	4,595	(11.1)
Autos (Domestic)	16,805	18,179	8.2	46,354	56,867	22.7
Exports	1,002	1,192	19.0	2,436	3,187	30.8
Total Autos	17,807	19,371	8.8	48,790	60,054	23.1
Tractors	10,089	12,008	19.0	27,291	30,106	10.3
- Domestic	9,525	11,054	16.1	25,232	28,004	11.0
- exports	564	954	69.1	2,059	2,102	2.1
Total Vehicle Sales	27,896	31,379	12.5	76,081	90,160	18.5

Source: Company

CMP	Rs448
12-mth Target price (Rs)	596 (33%)
Market cap (US\$ m)	2,537
Bloomberg	MM IN
52Wk High/Low (Rs)	874/427
Diluted o/s shares (m)	246
Daily volume (US\$ m)	9.1
Dividend yield FY08ii (%)	2.2
Free float (%)	77.4
Shareholding pattern (%)	
Promoters	22.6
FII's	33.3
Domestic MFs/Insurance cos	26.5
Others	17.6

	Price performance (%)		
	1M	3M	1Y
Mahindra & Mahindra	-24.4	-32.9	-38.8
Rel. to Sensex	-3.4	-15.8	-27.3
Tata Motors	-27.6	-35.7	-40.1
Maruti Suzuki	-27.4	-29.5	-25.8
Ashok Leyland	-23.0	-21.9	-28.1

Stock movement

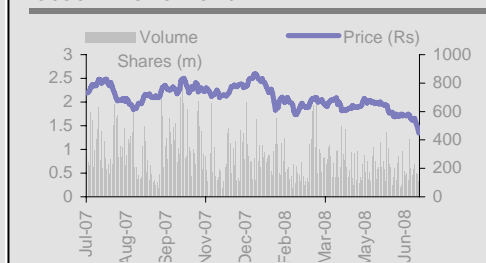


Figure 2: Subsidiaries' valuation accounts for ~70% of M&M's current market cap

	Valuation at	Equity value (Rs m)	M&M's stake	M&M's share (Rs m)	Value per share (Rs)
Tech Mahindra	CMP	85,992	44.4%	38,180	101
M&M Financial Services	CMP	25,194	67.7%	17,056	45
Punjab Tractors	CMP	11,489	64.6%	7,422	20
Mahindra Lifespace Developers	CMP	17,127	50.0%	8,564	23
Mahindra Holiday Resorts	30% discount to Pre-IPO placement valn	28,000	84.0%	23,520	53
Mahindra - Renault	7x FY10ii EV/EBITDA	8,817	51.0%	4,497	10
Mahindra International	7x FY10ii EV/EBITDA	4,932	51.0%	2,515	6
Systech - Auto components	10x FY09ii	20,000	60.0%	12,000	27
Other subsidiaries	Book value				28
Total value*					312
Core auto business	7x FY09ii EV/EBITDA				284
Target price					596

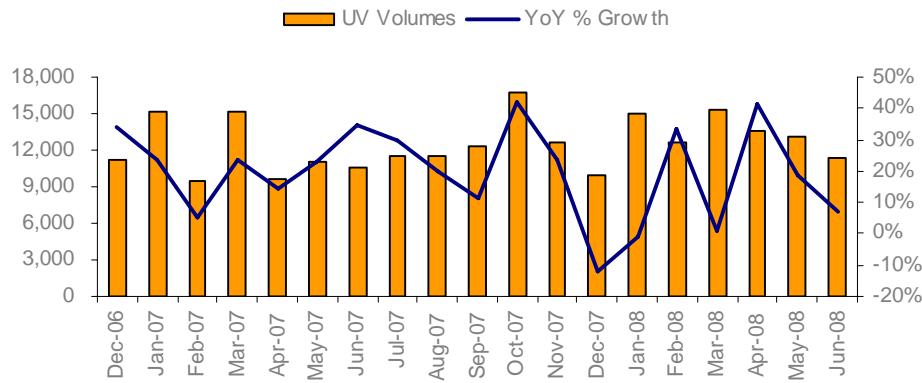
Mahindra Forgings, Mahindra Composites and MUSCO are part of Systech

*Listed subsidiaries and unlisted subsidiaries valued at 30% and 40% discount, respectively

Source: IIFL Research

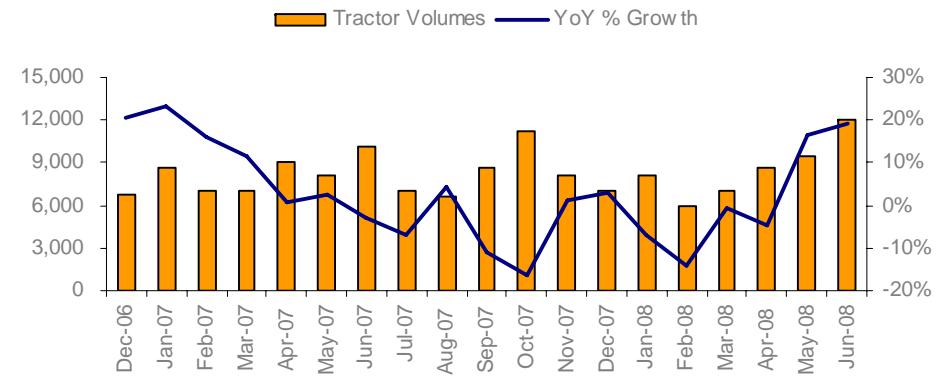
- Current valuations look attractive:** Imputing a holding-company discount of 30% to listed subsidiaries and 40% to unlisted ones, M&M's subsidiaries are valued at Rs312 per share. This implies that subsidiaries account for 70% of its current market cap. Current valuations imply an EV/EBITDA of 4x and PE of 5x on FY09ii for the core auto business. We reiterate BUY with a target price of Rs596.

Figure 3: Monthly UV volumes have been volatile, but growing



Source: Company, IIFL Research

Figure 4: Tractor volumes up strongly



Source: Company, IIFL Research

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Key to IIFL recommendations:

BUY: Absolute return of > +10%

SELL: Absolute return of < -10%

Market Performer: Absolute return of -10% to +10%

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