

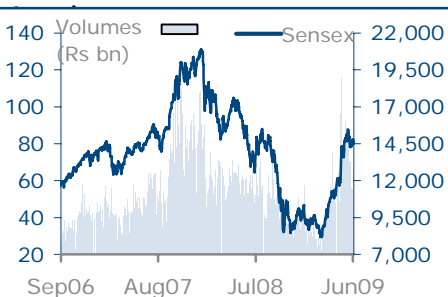
What's Inside: ITC (BUY); Autos: June 2009 sales update; Biocon (REDUCE); B L Kashyap (REDUCE); Events calendar

## Market Front Page

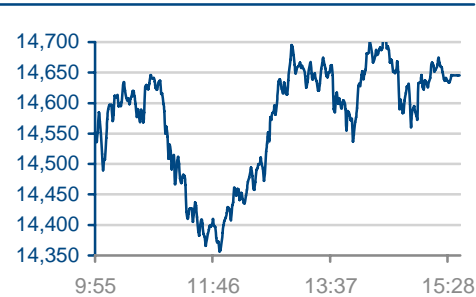
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	14,645	1.0	51.8	HDFC Bank	104.1	1.0	10.6
Nifty	4,341	1.2	46.7	Reliance	86.1	3.7	0.1
BSE Smallcap	5,757	0.3	56.3	Infosys	37.3	1.5	(0.4)
CNX Midcap	5,475	0.9	46.6	Satyam	3.3	4.5	6.3
Nasdaq	1,846	0.6	17.0	Wipro	11.7	(0.8)	47.7
DJIA	8,504	0.7	(3.1)	ICICI Bank	30.7	4.2	0.8
IBOV	51,544	0.2	37.3	SBI	73.7	3.8	(0.8)
FTSE	4,341	2.2	(2.1)	Sterlite	12.7	1.8	(0.7)
CAC	3,217	2.4	(0.0)	Tata Motors	8.9	3.9	41.5
Turnover	US\$m	% Chg	Commodities	Latest	%Chg	%YTD	
BSE	1,186	(14.9)	Gold (US\$/ounce)	940	(0.1)	6.6	
NSE	3,478	(13.9)	Crude (US\$/bl)	69	(0.8)	55.4	
Derivatives (NSE)	11,564	5.7	Aluminium (US\$/MT)	1,663	2.0	8.0	
FII F&O (US\$m)	Index	Stocks	Copper (US\$/MT)	5,088	2.4	65.7	
Net buying	6	5	Forex Rates	Closing	% Chg	%YTD	
Open interest	5,342	3,909	Rs/US\$	48.1	0.2	(0.7)	
Chg in open int.	217	94	Rs/EUR	67.5	(0.2)	(1.0)	
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/GBP	78.9	(1.1)	12.8
FII (30/6)	48	695	4,970	Bond Markets	Closing	bps Chg	
DII (1/7)	(16)	(16)	2,425	10 yr bond		7.0	(2.0)
MF (30/6)	(58)	168	464	Interbank call		3.3	(5.0)

## Charts Front Page

Sensex price volume



Sensex intraday



## Corporate Front Page

- **RIL** plans to move to Supreme Court against KG gas ruling (ET)
- **Hindalco** and its subsidiary, Novelis, are planning to relocate some of its European plants to India (ET)
- The **Hero Group** will decide on the future of its 25-year old JV with Japan's Honda Motors well before expiry in 2014 (ET)
- **L&T** has received orders worth Rs6.5bn from HPCL-Mittal Energy and MRPL (BS)
- **Tata Motors** and **Ashok Leyland** may hike truck prices by 2% on high input costs (ET)
- **IOC** plans to invest over Rs600bn to scale-up its refining capacity to 80mtpa by FY12 (BL)
- **Tech Mahindra** to raise stake in **Satyam** through preferential allotment (ET)
- **Unitech** plans to raise Rs28bn through private placement of shares to institutional investors at Rs81/share (FE)
- Government has deferred decision on **Unitech Wireless'** FDI proposal (BL)
- Government has deferred its decision on **UB Group's** proposal for raising Rs7bn by issuing convertible warrants to FirStart (BS)
- **JSW Steel** has decided to postpone its investments in iron ore mines in Chile (FE)
- **HCC** raises Rs4.8bn through QIP (BS)
- **Gammon Infrastructure** in consortium with two other firms has bagged orders of Rs5bn from Paradeep Port Trust (FE)
- **Punj LLOYD** subsidiary, Sembawang Engineers, has bagged an order worth Rs12.6bn to construct two key stations in Singapore (ET)
- **Bajaj Hindustan** raises Rs7.2bn via QIP route (ET)
- **IFCI** mulls holding company for banking foray (ET)

## Market Front Page

### Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
NIIT Ltd	70	14.5	164.8	Television Eightee	113	-6.0	26.6
Educomp Solutions	4195	10.7	74.6	Indiabulls Securiti	40	-5.0	87.0
Bajaj Holdings and	402	9.7	65.8	Indiabulls Financi	190	-5.0	43.0
India Infoline Ltd	132	8.4	159.4	Bajaj Finserv Ltd	376	-5.0	151.2
Areva T&D India Ltr	362	7.7	75.9	Gujarat NRE Coke	43	-4.5	65.0

### Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Colgate Palmolive India Lt	620	1,754	1,194	281	325
Areva T&D India Ltd	362	1,800	4,932	1,187	316
NIIT Ltd	70	242	46,936	11,858	296
Shipping Corp Of India Ltc	134	1,178	4,612	1,583	191
Edelweiss Capital Ltd	376	585	203	81	150
Educomp Solutions Ltd	4195	1,510	3,104	1,391	123
Apollo Hospitals Enterprise	584	751	434	195	122
Indiabulls Securities Ltd	40	209	5,365	2,709	98
Idea Cellular Ltd	74	4,783	25,601	12,990	97
Container Corp Of India	971	2,624	79	42	88

### Fill - Fill trades

Scrip	30/6/2009			1/7/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Grasim	7	2,354	0.8	27	2,334	0.8
Pnb	190	716	4.0	-	-	-
Bank of baroda	19	456	1.4	316	451	0.8

## Corporate Front Page

- **Nagarjuna Constructions** has bagged orders worth Rs8bn (BS)
- **Jubilant Organosys** subsidiary has been asked by UK Medicine and Health Regulatory Authority to recall various batches of its product, Amlodipine Besilate, from the UK market (FE)
- **Yes Bank** plans to double its branches next year (BS)
- **Lupin** has acquired global rights for intra-nasal steroid product, Aller-Naize (BL)
- Ms.Roshni Nadar, daughter of Mr.Shiv Nadar, has been appointed as the CEO of **HCL Group** (ET)

## Economy Front Page

- Government hikes price of petrol by Rs4/litre and diesel by Rs2/litre (ET)
- Steel companies may hike prices by 5% this month (ET)
- Exports decline by 29% to US\$11bn while imports fell by 39.2% to US\$16.2bn in May 2009 (ET)
- India's external debt increased by 2.4% to US\$230bn in FY09 (ET)
- IRDA bars insurance companies from investing in IDRs (ET)
- Companies violating ECB norms will not be able to raise fresh overseas loans through the automatic route (ET)
- Developers of SEZ will be allowed to raise foreign debt for creating specified infrastructure facility in the zones (ET)
- Libya has become third African country to ban import of Indian drugs (BS)

## Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
IRB Infrastructure Developers Ltd	Anuya J Mhaiskar	25/06/2009	Sell	625,575	151.0	94	19.0	6.0
IRB Infrastructure Developers Ltd	Anuya J Mhaiskar	26/06/2009	Sell	1,750,000	155.0	271	53.0	7.0
IRB Infrastructure Developers Ltd	Anuya J Mhaiskar	29/06/2009	Sell	256,025	154.0	39	7.0	-
Jaiprakash Associates Ltd	Manoj Gaur	16/06/2009	Buy	24,600	219.0	5	0.0	0.0
Lupin Ltd	Andhrew Macaulay	26/06/2009	Buy	7,230	844.0	6	0.0	0.0
Reliance Communications Ltd	AAA Communication Pvt Ltd	26/06/2009	Sell	95,112,672	312.4	29,713	4.6	54.2
Reliance Power Ltd	AAA Project Ventures Pvt Ltd	26/06/2009	Sell	81,932,773	174.0	14,256	3.4	36.4
SAAG RR Infra Ltd	R Sriram	27/06/2009	Buy	421,911	224.0	95	4.0	4.0

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

## BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Delta Corp	New Vernon Asset Mgmt Ltd New Vernon India Ltd	1/7/2009	Buy	900,000	41.5	37
Delta Corp Ltd	New Vernon Asset Management Ltd - New Vernon India Ltd	1/7/2009	Buy	1,100,000	41.5	46
Greycells En	India Max Investment Fund Ltd	1/7/2009	Buy	26,000	166.5	4
Greycells En	Kiritkumar Muchhala Hemang	1/7/2009	Sell	25,990	166.5	4
Hindustan Construc Co.	Emerging India Focus Funds	1/7/2009	Sell	1,391,270	104.0	145
Unitd Spr	T. Rowe Price Intl Inc A/C T. Rowe Price International Stock Fund	30/06/2009	Buy	558,362	880.0	491

## Money and cigarettes

The resilience of ITC's cigarette business's profitability came to the fore in FY09, despite a tough tax environment. Details in the year's annual report point to a 17% increase in net realisations on cigarettes, despite a 3% drop in cigarette volume sales. Capex was lower in hotels in FY09 and we expect it to pick up in the current fiscal. Working capital has been expanding over the last four years. Lower capex, coupled with higher non-cash items, led to doubling of FCF in FY09. Cash and equivalents went up to Rs12.4bn (from Rs7.2bn in FY08). Return ratios were depressed this year on account of new capacities, where utilisation levels were low, adversely affecting asset turns.

**Paper, cigarette and hotels led capex spend in FY09:** ITC spent Rs5.8bn and Rs3.7bn respectively in the paper and hotels businesses in FY09, while total capex in FY09 was 18% lower. A large part of the cigarette capex in FY09 (Rs5bn) was spent on modernisation of the existing production lines. We expect upcoming capex over the next two years to be targeted at the hotels business, as the new properties in Bangalore and Chennai get completed over FY10-11. Post the commissioning of the paperboard and pulp machinery in FY09, capex in paper would be minimal, in our view.

**Working capital cycle has expanded over the last four years:** ITC's working capital cycle has steadily expanded over the last four years, from 67 days in FY05 to 92 days in FY08, and further to 94 days in FY09 as: 1) days' sales of inventory have risen from 96 days in FY05 to 109 days in FY09 as the company stocked wheat supplies in March (the harvest month); FY09 was a departure from this norm, with no wheat stocking, though cigarette stocks were piled up, ahead of the implementation of pictorial warnings (from 1 June); 2) creditor days have declined from 92 days in FY05 to 69 in FY09, partly on account of write-back of some liabilities no longer required.

**Capital efficiency declines:** RoE declined by 240bps in FY09, on account of lower EBIT margin and lower asset efficiency. EBIT margins fell from 33% in FY08 to 31% in FY09, owing to a 25% increase in depreciation costs. Asset turns declined on account of a significant capacity build-up in paperboards, etc, where capacity utilisation has not yet reached optimum levels, depressing asset turns.

**FCF doubles:** FCF clocked Rs20.5bn during FY09, twice as much as that generated in FY08. This was mainly on account of lower capex and lower taxes paid during the year. Deferred tax liability went up 3.5x to Rs3.2bn.



Report  
and  
Accounts  
2009

### Financial summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	139,475	153,881	177,748	205,295	235,196
EBITDA Margins (%)	31.6	31.6	31.6	32.2	32.2
Pre-Exceptional PAT (Rs m)	31,201	32,636	38,450	45,311	52,451
Reported PAT (Rs m)	31,201	32,636	38,450	45,311	52,451
EPS (Rs)	8.3	8.7	10.2	12.0	13.9
Growth (%)	15.6%	4.6%	17.8%	17.8%	15.8%
<b>PER (x)</b>	<b>23.7</b>	<b>22.7</b>	<b>19.2</b>	<b>16.3</b>	<b>14.1</b>
ROE (%)	27.7	25.3	26.3	27.5	28.1
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
<b>EV/EBITDA (x)</b>	<b>16.7</b>	<b>15.0</b>	<b>12.9</b>	<b>10.9</b>	<b>9.3</b>
Price/Book (x)	6.1	5.3	4.7	4.2	3.7

Price as at close of business on 26 June 2009

12-mth Target price (Rs) 222 (16%)

Market cap (US\$ m)	15,075
52Wk High/Low (Rs)	223/132
Diluted o/s shares (m)	3774
Daily volume (US\$ m)	33.7
Dividend yield FY09ii (%)	2.6
Free float (%)	68.0

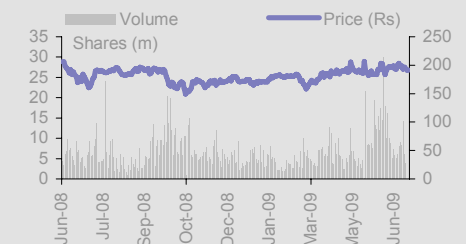
### Shareholding pattern (%)

Promoters	32.0
FII	13.9
Domestic MF/Insurance	37.8
Others	16.3

### Price performance (%)

	1M	3M	1Y
ITC	-0.6	3.8	4.5
Rel. to Sensex	0.7	-44.1	-8.5
Godfrey Phillips	18.0	67.9	-1.8
VST	15.0	75.5	31.6
HUL	17.3	15.4	38.0

### Stock movement



### Pragati Khadse

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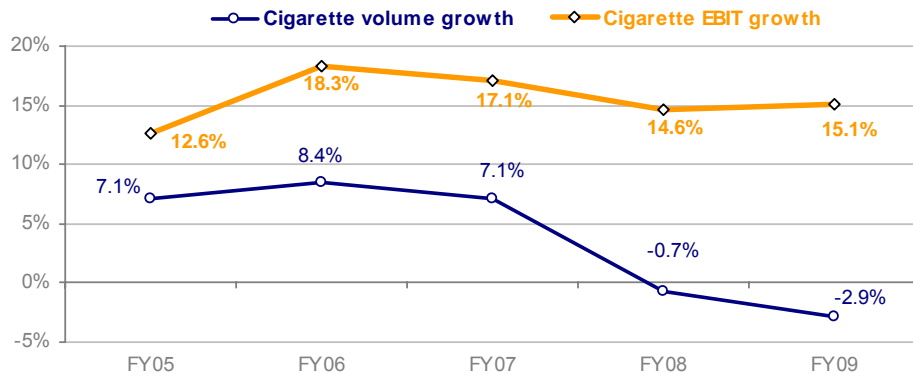
### Arnab Mitra

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### Cigarette business: resilience demonstrated again

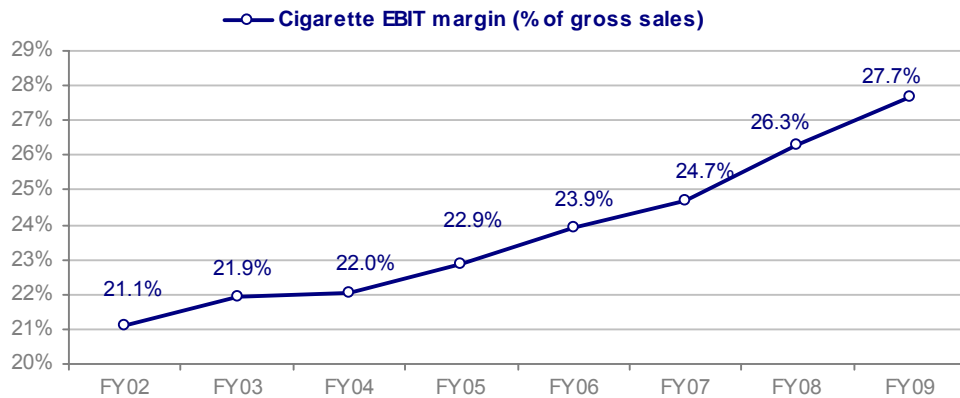
ITC's cigarette EBIT has consistently grown at 12-18% pa over the last five years, notwithstanding declining volumes. The cigarette business's EBIT grew 15% in FY09, even as cigarettes' volume sales dropped 2.9% during the year. EBIT margin reached an all-time high of 27.7% (on gross sales).

**Figure 1: Cigarette EBIT growth has remained strong despite dip in volumes**



Source: Company, IIFL Research

**Figure 2: ITC's cigarette EBIT margin has consistently improved**



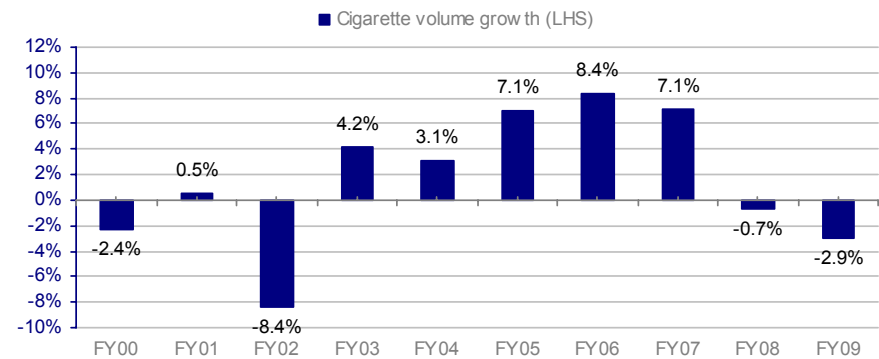
Source: Company, IIFL Research

This owes to ITC's pricing power, which hinges on the inelasticity of cigarettes as a consumption category, and absence of strong competition. ITC's strategy in cigarettes has been profitability-driven. Over the last 10 years, the company has always chosen to pass on excise and tax hikes through price increases, often at the cost of volume growth. Only in FY06 was the price hike insufficient to cover the excise increase (and drive an increase in realisations), though the company still managed to grow its EBIT by 18% and EBIT margins by 100bps on account of lower costs.

### Cigarette volumes declined due to discontinuation of non-filters

ITC's cigarette volume declined in FY09 as the company had to stop production of non-filter cigarettes, which formed c20% of volumes in FY08. However, a major erosion of non-filter cigarettes consumer base was prevented as the company could convert over 70% of those non-filter users into consumers of filter cigarettes.

**Figure 3: Cigarette volumes declined 2.9% as non-filter cigarettes were discontinued**

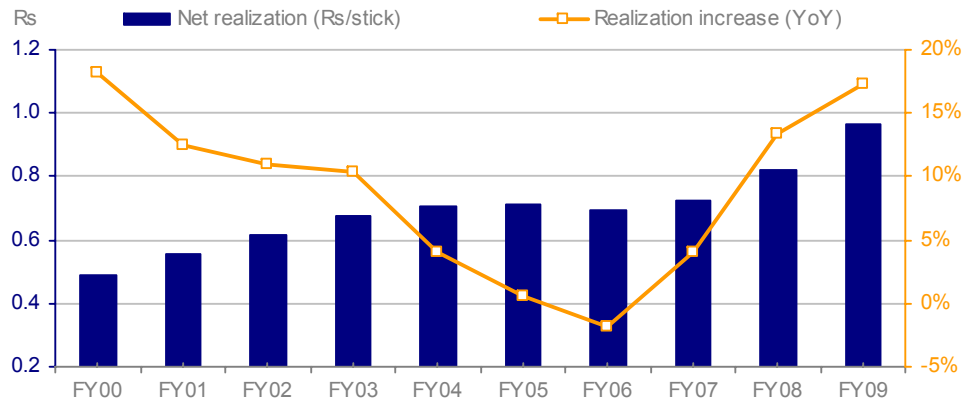


Source: Company, IIFL Research

### Realisation/stick up 17%

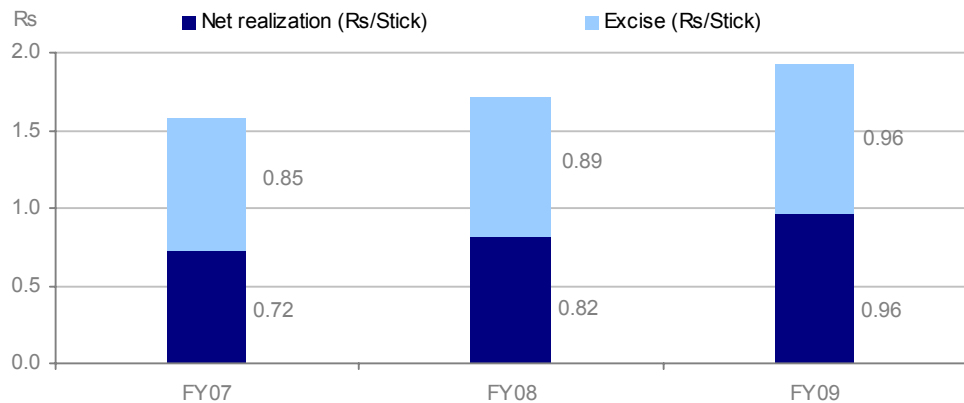
During FY09, the resilience of ITC's cigarettes business came to the fore once more—ITC's net realisation (Rs/stick) in cigarettes went up by 17%. Though part of this could be attributed to an improvement in mix due to the filterisation of the portfolio, c5% of the net realisation increase was due to price hikes taken during FY09.

**Figure 4: Net realisation/stick increased 17% on price hike and mix change**



Source: Company, IIFL Research

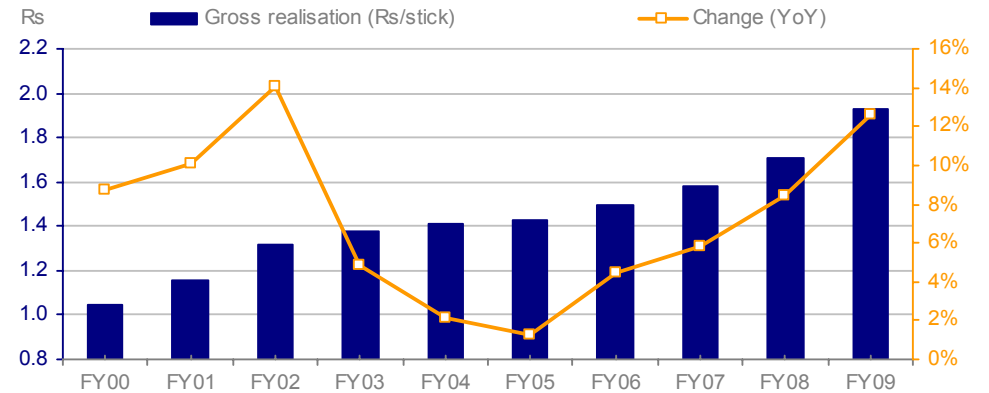
**Figure 5: Net realisation grew despite the increase in excise**



Source: Company, IIFL Research

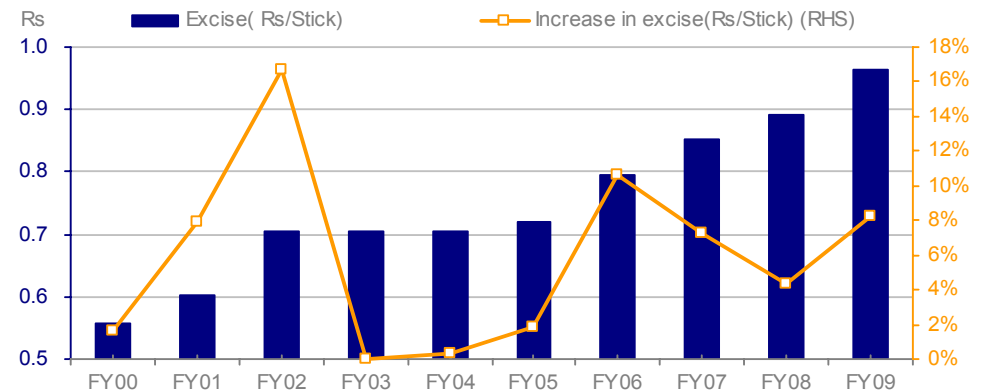
An improving sales mix and 4-5% price hike taken by the company contributed to an increase in average sales price/stick by 13%. This helped the company increase net realisation per stick (after excise deduction) by 17%, despite an 8.3% rise in average excise per stick.

**Figure 6: Average price/stick increased 13% on price hikes and mix improvement**



Source: Company, IIFL Research

**Figure 7: Average excise/stick went up by 8.3% in FY09**



Source: Company, IIFL Research

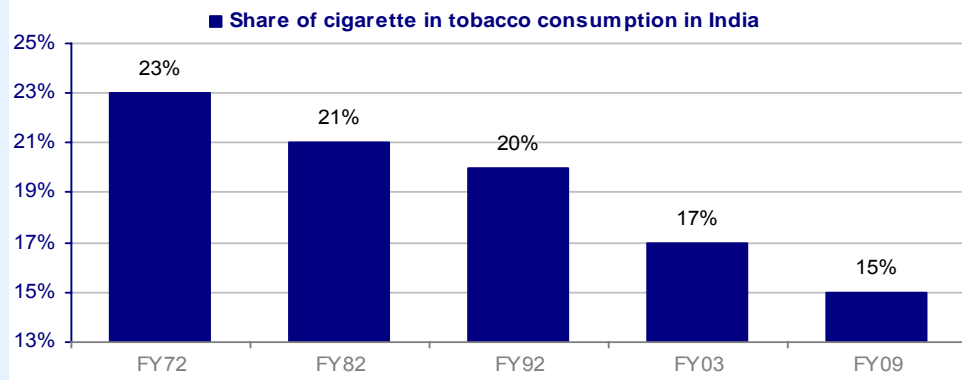
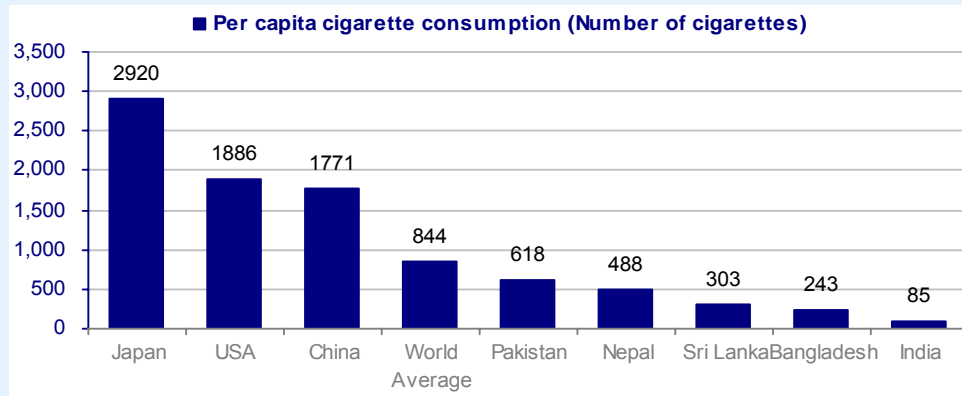
**Strategic initiatives during the year**

After vacating the non-filter cigarette space after the excise increase, ITC launched *Classic Verve* in the Kingsize filter segment and *Navy Cut* in the regular size filter segment. The company has coped well in dealing with the logistical complexities arising out of the sudden stoppage of the manufacture of non-filter cigarettes, coupled with the need to significantly ramp up filter volumes. Productivity improvement was achieved through induction of high-speed makers and packers across factories.

### High taxation has impeded growth of cigarettes in India

Differential taxation of cigarette as compared to other forms of tobacco remains the key impediment to growth. The heavy increase in taxation on cigarettes over the past couple of decades has greatly increased the gap between prices of cigarette and other forms of tobacco consumption, such as *bidis* and chewing tobacco. As a result, per-capita consumption of cigarettes in India is amongst the lowest the world (1/10th of world average), even lower than less-economically-developed nations like Bangladesh. Also, cigarettes' share in tobacco consumption in India has come down steadily, from 23% to 15% over 1972-2009.

**Figure 8: India has very low per-capita cigarette**



### Other FMCG: growing in size but far from breakeven

#### Management reiterates commitment to growing in FMCG space

Given the positive fundamentals in the Indian economy, the 2009 annual report MD & A reiterates ITC's commitment to significantly ramping up its new FMCG businesses comprising branded packaged foods, lifestyle retailing, personal care products, etc.

A snapshot of the various businesses reveals that the company is doing well in many of them, maintaining market leadership in categories such as branded staples, and increasing share in biscuits. Lifestyle retailing performed well despite the economic downturn, while in personal care categories of soaps and shampoos, the company has a share of 2-3% each.

**Figure 9: Snapshot of ITC's other FMCG business segments**

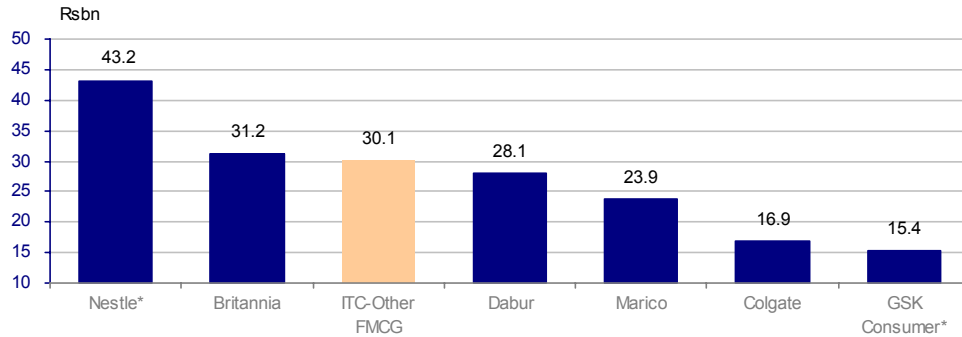
Other FMCG segments	Remarks
Branded packaged foods	<ul style="list-style-type: none"> <li>Value growth moderated to 13% in FY09, with volumes declining 5%, with the business being adversely affected by severe price increases across all input commodities—forcing the company to focus on profitability.</li> <li>The biscuits business grew 14%, with market share increasing to 10%. The company reduced price-led competition in glucose biscuits to improve profitability.</li> <li>Maintained market leadership in branded staples with 54% market share</li> <li>Branded spices grew by 40%, while confectionery, ready-to-eat and salted snacks all continued to consolidate market position.</li> <li>The business overall has still not broken even in FY09.</li> </ul>
Lifestyle retailing	<ul style="list-style-type: none"> <li>Sales grew 19%, despite the economic slowdown affecting discretionary spending on apparel. Exports grew 31% thanks to the improved mix.</li> <li>In the popular segment, <i>John Players</i> is now available at 200 flagship stores and 1,300 multi-brand outlets.</li> </ul>
Personal care	<ul style="list-style-type: none"> <li>The company has taken 2-3% market share in both soaps and detergents.</li> <li>Added capacity at the tax-exempt Haridwar manufacturing facility.</li> <li>The business will remain in investment mode for a while as the company targets 10% market share in the categories in which it operates.</li> </ul>
Education & stationery products	<ul style="list-style-type: none"> <li>Robust growth of 60% with <i>Classmate</i> brand consolidating its leadership position in student notebooks. Market coverage went up from 2,000 to 2,600.</li> <li>Extended <i>Classmate</i> to complimentary categories like geometry boxes, books, pens, etc. Entered the office supplies segment with '<i>Paperkraft</i>' brand</li> </ul>
Safety matches	<ul style="list-style-type: none"> <li>High raw-material price increases forced product price hikes, which led to a decline in volumes.</li> </ul>
Incense sticks	<ul style="list-style-type: none"> <li><i>Mangaldeep</i> brand grew 20% with the launch of hand-rolled products.</li> </ul>

Source: Company, IIFL Research

**Business size compares to peers such as Dabur, Marico, etc...**

ITC's 'other FMCG' business revenues reached Rs30bn in FY09, implying a CAGR of 74% in the last seven years. ITC's revenue from the 'other FMCG' business exceed those of peers such as Dabur, Marico, and Colgate.

**Figure 10: ITC's other-FMCG business revenues surpassed many peers in FY09**

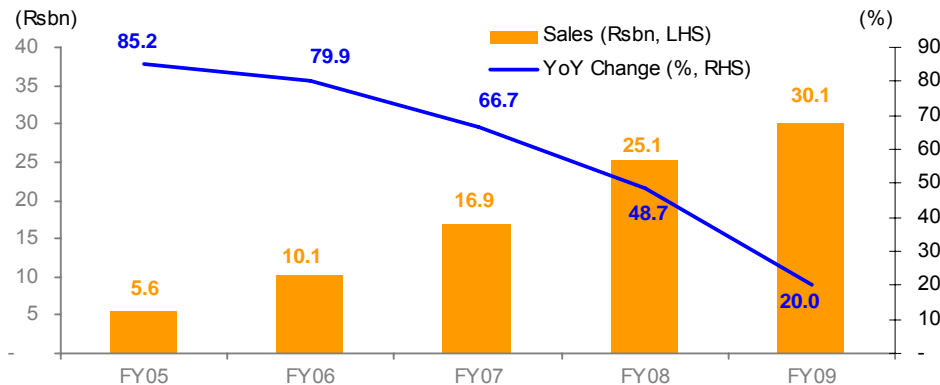


Source: Company, IIFL Research. \*CY08 figures.

**... despite growth tapering off, led primarily by slowdown in packaged foods business**

Growth in the other FMCG business has slowed down somewhat, however, as the base has become heavy and also because of the slower growth in the foods business.

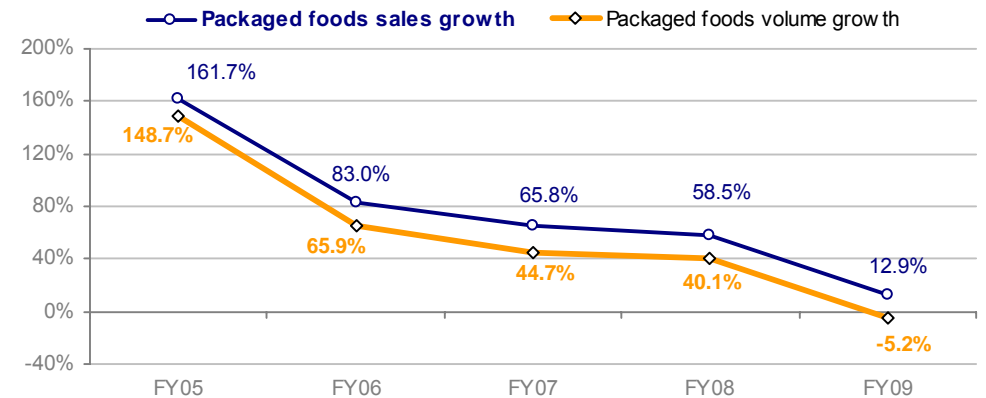
**Figure 11x: High base and slower foods rollout led to sharp fall in sales**



Source: Company, IIFL Research

Sales growth in the packaged foods business (biscuits, branded staples, salted snacks and confectionery) has moderated considerably, to 12.9% in FY09, with volumes declining 5%. The key reason was the focus on profitability in foods, which led to a scale-back in consumer offers and price-led competition on glucose biscuits and branded staples.

**Figure 12: Packaged foods volume growth was negative in FY09**

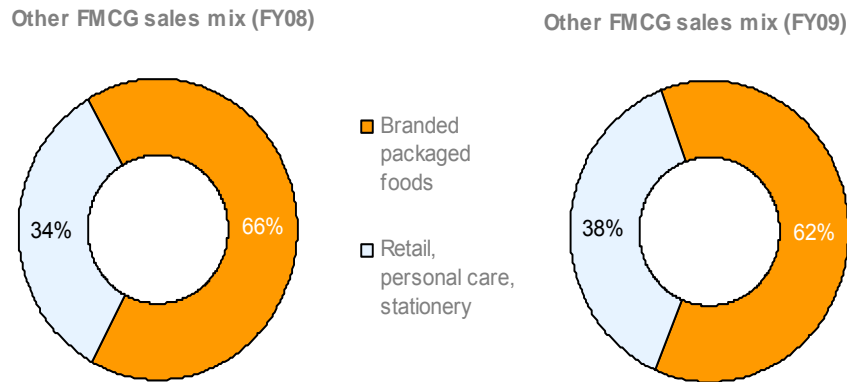


Source: Company, IIFL Research

**As a result, revenue contribution of foods has come down**

Due to the foods business slowdown, its revenue contribution to other FMCG business is down to 62% from 66% a year ago. However, the break-up of the non-branded part of the FMCG business is not disclosed by the company, making any assessment difficult.

**Figure 13: Foods contribution is down to 62% in FY09 from 66% in FY08**

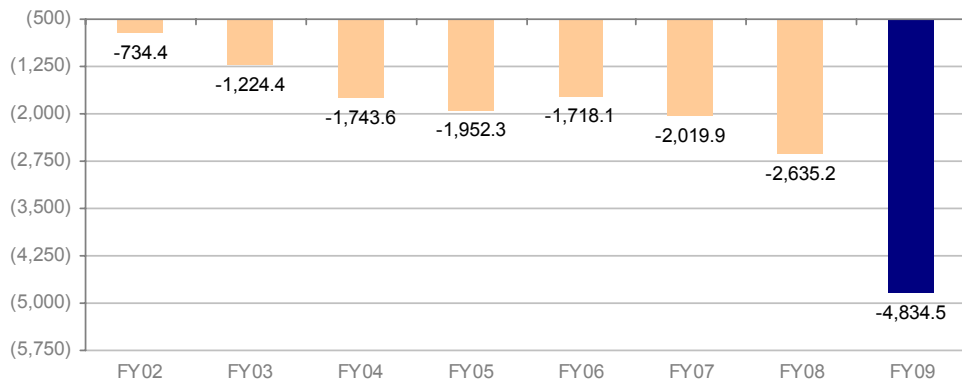


Source: Company, IIFL Research

**Losses continue, breakeven still some time away...**

The 'other FMCG' business registered a loss of Rs4.8bn in FY09, the highest so far for the company. Management has stated in the MD&A that margins were adversely affected by the sharp rise in commodity prices during the year and steep store rentals in the retail business.

**Figure 14: Losses have reached the highest level in FY09**

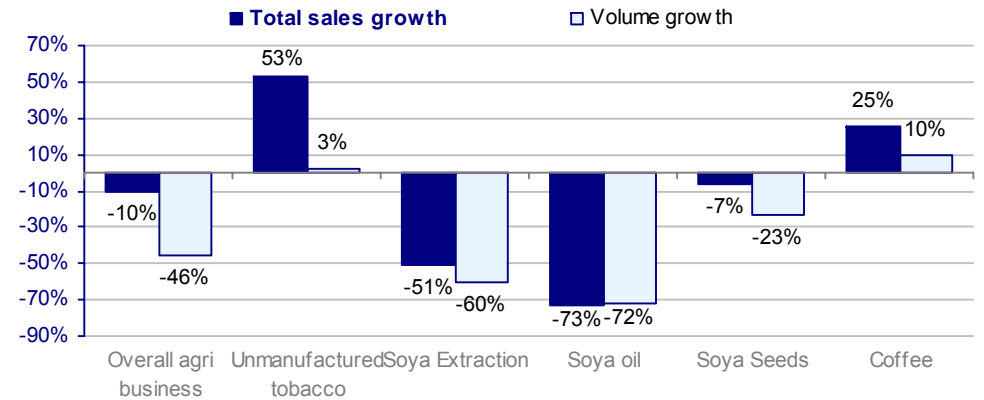


Source: Company, IIFL Research

**Agri business: improved profitability**

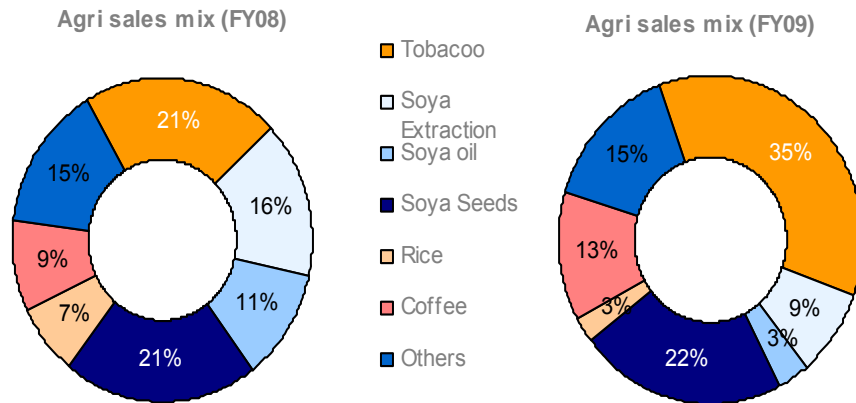
Revenue from the agri business dropped 10% in FY09, on a 46% decline in volumes. On the other hand, profitability improved significantly, with EBIT doubling from Rs1.29bn in FY08 to Rs2.56bn in FY09, thanks to a decline in the contribution from low-margin products. ITC's tobacco exports rose 53%, of which 50% was contributed by price increases for tobacco in the international markets. Soya export volumes declined by 20-70%, as the company chose to reduce trading because of unfavourable price equations in the market. As a result, contribution of tobacco in the agri-business increased from 21% in FY08 to 35% in FY09, while the contribution of soya in the agri business decreased from 48% in FY08 to 34% in FY09.

**Figure 15: Tobacco sales increased sharply, while soya sales declined (FY09)**



Source: Company, IIFL Research

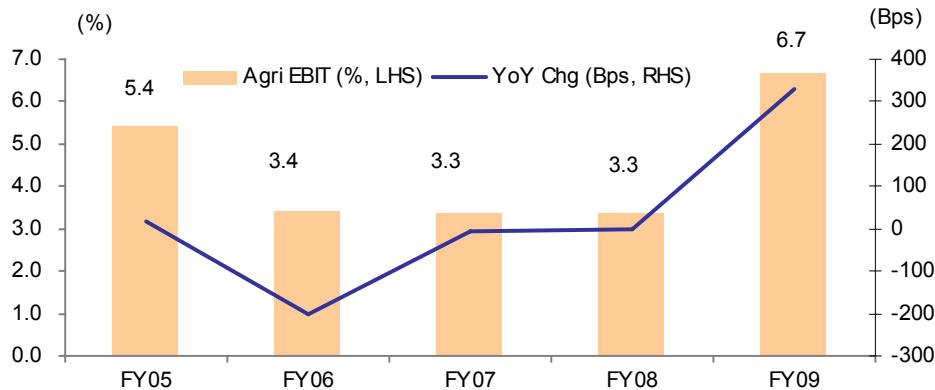
**Figure 16: Tobacco's contribution in agri-business increased in FY09**



Source: Company, IIFL Research

The company exited many low-margin businesses such as sesame, rice and pulses during the year, leading to a sharp improvement in EBIT margin from 3.3% to 6.7%. The company is likely to continue with the soya business if market conditions are favourable in FY10. It would not, however, re-enter low-margin products like rice and pulses, given the high level of government intervention.

**Figure 17: Agri EBIT improved, led by an improving product mix**



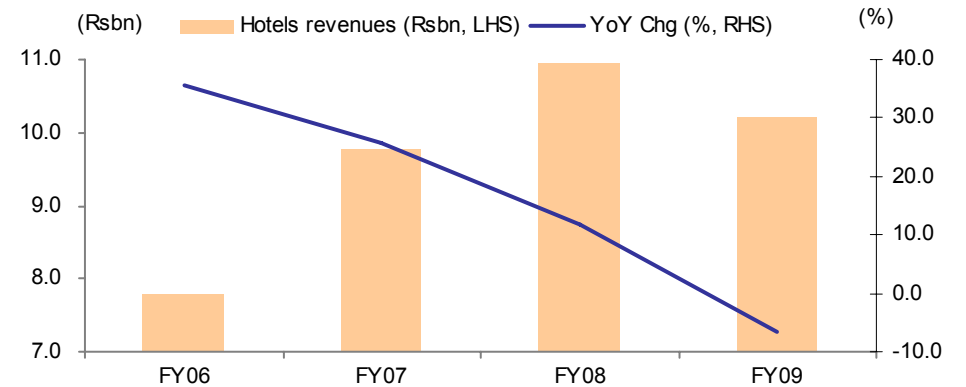
Source: Company, IIFL Research

## Hotels: hit by the slowdown

### Revenues down 6.7% in FY09, hit by lower travel

Hotel revenues grew 14% during 1HFY09. However, 2H was badly hit by the clampdown on domestic travel and steep reduction in international travel as fallout of the global financial crisis, aggravated further by the terror attacks in Mumbai. As a result, revenues from the business declined 6.7% in FY09.

**Figure 18: Hotel revenues\* were impacted by the economic slowdown**

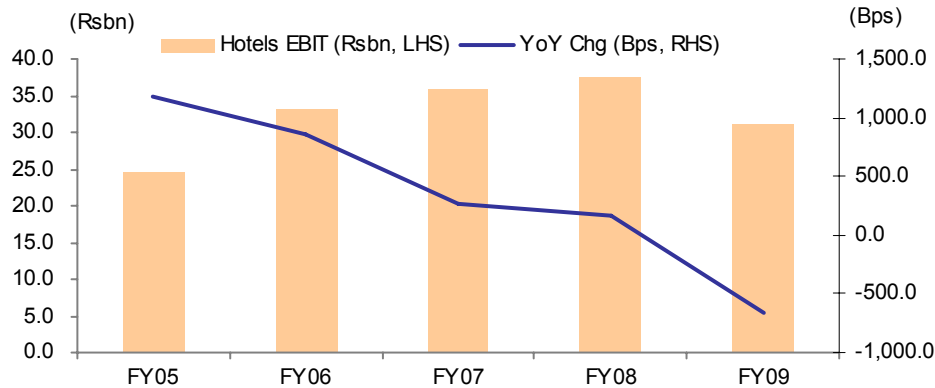


Source: Company, IIFL Research. \* Gross revenues

### Profitability was hit too

Hotels EBIT margin was hit as well, dropping 660bps to 31%, the lowest level since FY06, as occupancies fell and ARR declined. ARR declined 5-6% and occupancy levels were down 6-8% during the year. The company expects occupancy rates to rise with the economic revival by the end of FY10.

**Figure 19: Hotels EBIT margins\* reached the lowest level in last three years**



Source: Company, IIFL Research. \*On gross revenues

### Long-term potential of the hotels industry intact

Given India's inadequate room capacity, the long-term potential of India's hotel industry remains intact. The premium segment in the hotels industry, which comprises 60% of the industry's revenues, has registered a CAGR of 27% over the last five years, and this has benefited ITC's premium range of hotels.

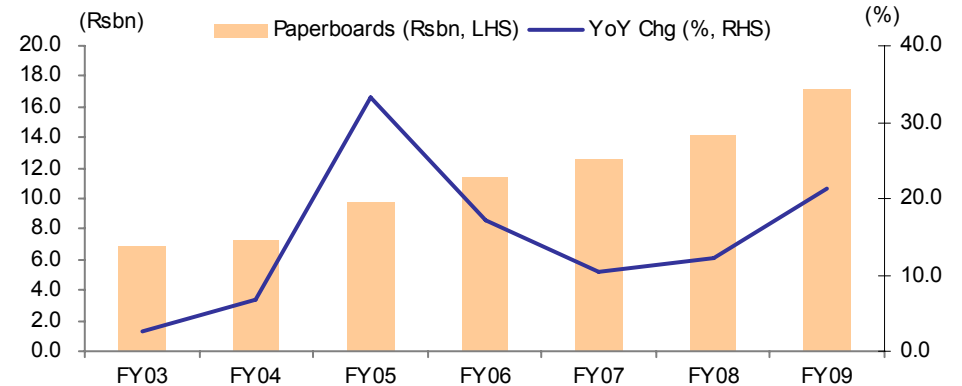
### ITC now operates 100 properties in India

ITC now operates 100 hotels in India; the *Fortune* brand, which covers the mid- and upscale segment, experienced substantial growth during the year. It has 27 properties, with 27 others in different stages of completion. *Welcom-Heritage*, the heritage leisure segment chain, grew to 64 properties in FY09.

### Paperboard, paper & packaging: holding well

Paperboard revenues grew 21% during FY09, despite the economic slowdown driven by a strong performance by the packaging and printing business.

**Figure 20: Paperboards revenue\* growth has been growing well, thanks to commissioning of two new machines during FY09**



Source: Company, IIFL Research. \* Gross revenues

### Market leader in the paperboard segment

ITC is the market leader in the 1.32mtpa paperboard market in India. In a fragmented market with more than 100 participants, the company has a volume and value share of 22% and 27% respectively. In the premium paperboard market, the company has a share of 77%, facilitated by its integrated pulping operations. Given the huge consumption gaps between the Indian market and other markets (India has per capita consumption of 7kg, compared to world average of 55kg), the long-term potential for this segment is high. This being a cyclical industry, we expect the market to revive towards the second half of FY10; we expect the market to register a CAGR of 7% over the next five years.

During the year, the company commissioned a 100,000tpa paper line at Bhadrachalam, at an investment of Rs4.65bn.

### Packaging and printing business: well-positioned to meet cigarette and other FMCG businesses' requirements

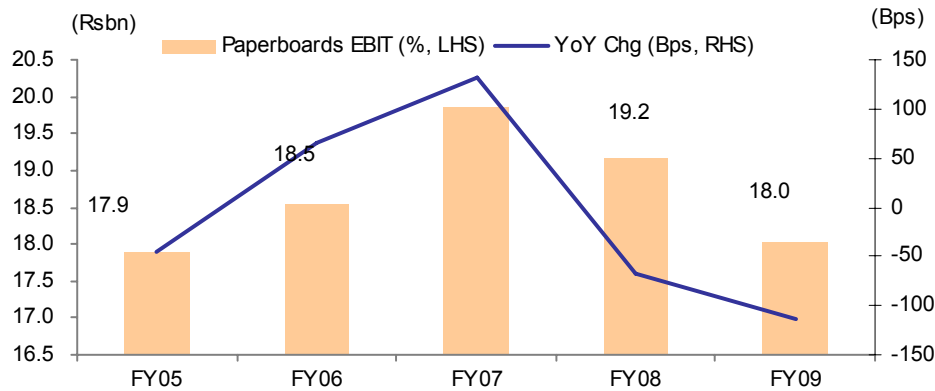
This division is engaged in providing packaging solutions to a wide range of businesses, including ITC's own cigarette and other FMCG

business. This business added capacity during the year by scaling up its flexible manufacturing facility at Haridwar. The company also invested Rs900m in wind energy generation to meet the power requirement at the Chennai unit.

**Profitability took a hit because of higher depreciation charges**

Paperboard EBIT margins declined 94bps in FY09 as a slow ramp-up and higher depreciation charges on account of the commissioning of two new machines took their toll. Soaring prices of inputs such as pulp also exacerbated the pressure, though having an in-house pulp facility cushioned the impact to a large extent. We expect the paper division's production to accelerate in FY10. Also, EBIT margins are likely to improve by 100-150bps as efficiencies accrue.

**Figure 21: Paperboard EBIT margins\* declined by 94bps YoY**

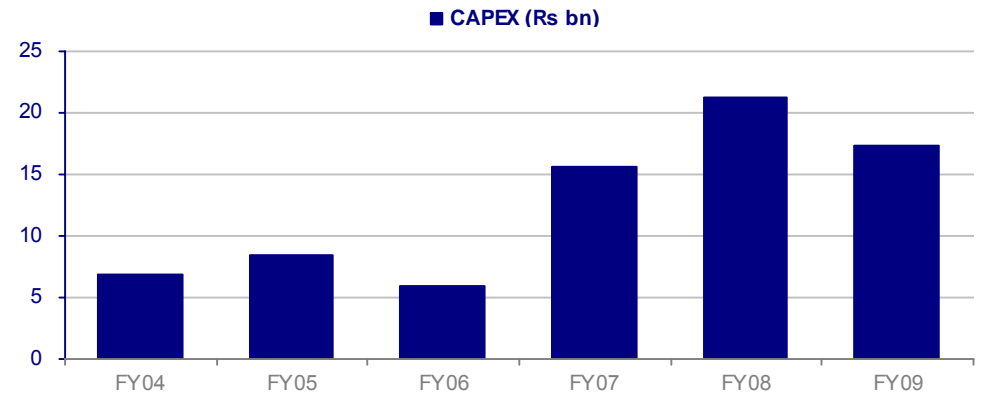


Source: Company, IIFL Research. \* On gross revenues

**Capex: led by paper, cigarette and hotels business**

ITC has significantly ramped up capex over the last three years, from Rs7bn-8bn pa during FY04-06 to Rs15bn-21bn pa during FY07-09. The increase in capex has been led by the paper, cigarette and hotels businesses.

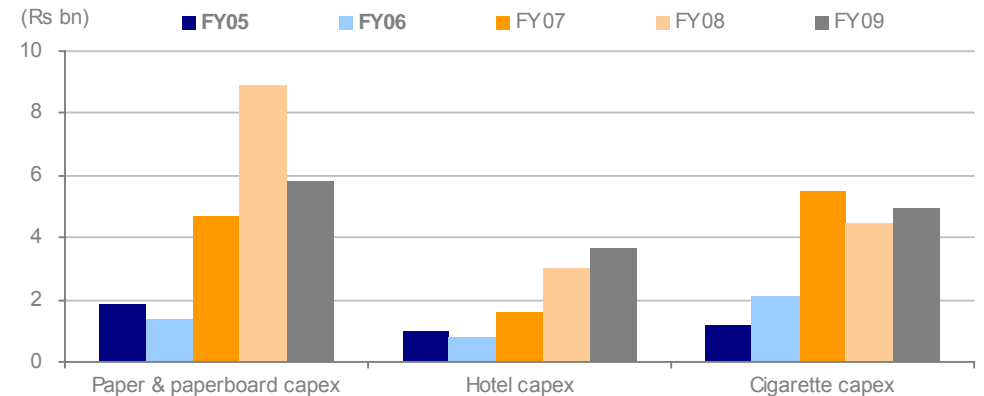
**Figure 22: Capex been ramped up over the last three years**



Source: Company, IIFL Research

Over FY07-09, ITC incurred a capex of Rs19.4bn in the paper business and Rs8.3bn in hotels. The cigarette business has also seen a jump in annual capex, from Rs1bn to Rs2bn during FY05-06, to cRs5bn during FY07-09.

**Figure 23: Paper, cigarettes and hotel businesses have led capex increase**



Source: Company, IIFL Research

**Figure 24: Capex increase was led by paper, cigarettes and hotels**

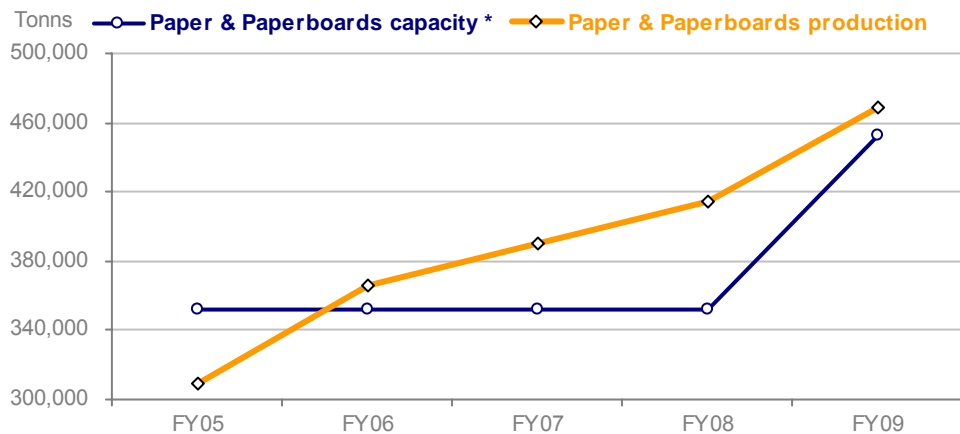
CAPEX (Rs bn)	FY07	FY08	FY09	Remarks
Paper & Paperboards	4.7	8.9	5.8	<ul style="list-style-type: none"> <li>Capacity ramped up by 28% in FY09 after 3 years of no increase.</li> <li>The company would not need any major CAPEX over the next two years.</li> </ul>
Cigarette	5.5	4.5	5.0	<ul style="list-style-type: none"> <li>Upgradation of manufacturing facilities with technologies to manufacture value-added products and new packaging formats.</li> </ul>
Hotels	1.6	3.0	3.7	<ul style="list-style-type: none"> <li>Capex was lower than anticipated, as the company seems to have gone slow on the Bangalore property.</li> <li>Spurt in capex expected over the next two years, as properties in Bangalore and Chennai near completion.</li> </ul>

Source: Company, IIFL Research

**Paper business production capacity up 28% in FY09**

Capex in the paper business over the past two years resulted in capacity ramping up by 28% in FY09 to 452,500 tonnes. With this, we believe the paper business would not need any major investment over the next two years. Production grew 13% in FY09. The ramp-up is likely to be gradual as the machines take time to stabilise.

**Figure 25: Paper business has seen a 28% increase in capacity in FY09**



Source: Company, IIFL Research. \*Capacity rated by manufacturer

**Cigarette capex has been higher on upgradation of technology**

Capex in the cigarette business remained high at Rs5bn for FY09, in line with the capex seen during FY07 and FY08. Although ITC does not need new capacity as volumes have been flat in the past two years, the company is upgrading machinery to incorporate new technologies to be able to provide higher-value-added products and new packaging formats.

**Hotel capex will see significant increase for FY10-11**

ITC has invested Rs8.3bn in capex in the hotels business over the past three years, with Rs3.7bn being invested in FY09. This would significantly increase in FY10 and FY11 as the company would invest in its new hotels in Bangalore and Chennai. ITC’s Bangalore property will have 300 rooms and is likely to be completed in 2HFY10, while Chennai will have 600 rooms and would be completed in FY11. We believe the bulk of the estimated Rs20bn annual capex for FY10 and FY11 will be spent on the hotels business.

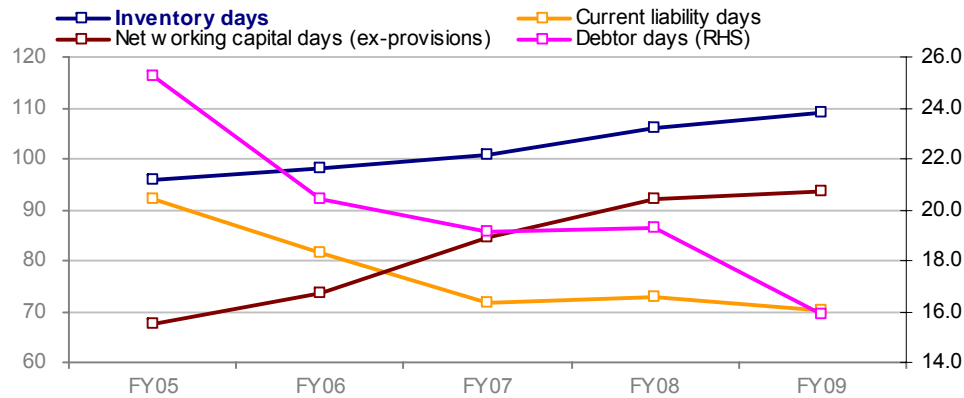
**Working capital cycle has expanded...**

ITC’s working capital cycle has steadily expanded over the last four years, increasing from 67 days in FY05 to 94 days in FY09. Creditor days declined, but there was a steady rise in inventory days. Inventory days have climbed as the company has started piling up wheat stocks since FY07 (barring FY09) during the March quarter for its branded staples business, it being the harvest season for wheat. In FY09, however, there was no wheat stocking done, a reflection of the company’s strategy of going slow on the biscuits rollout.

During FY09, working capital days rose to 94 days (from 92 days in FY08). Inventory increased from 106 days to 109 days on account of a 60% increase in finished goods inventory. This was primarily on account of a 140% increase in finished goods inventory of cigarettes as the company stocked cigarettes ahead of the implementation of the pictorial warnings, which were to come into force from 1 June.

Current liabilities (mainly creditors) went down from 73 days to 70 days in FY09. However, debtor days came down in FY09 from 19 days to 16 days, which limited the increase in net working capital by 2 days to 94 days.

**Figure 26: Expanding working capital days cycle for ITC in the last five years**



Source: Company, IIFL Research

**Figure 27: Net working capital days for ITC have continuously increased**

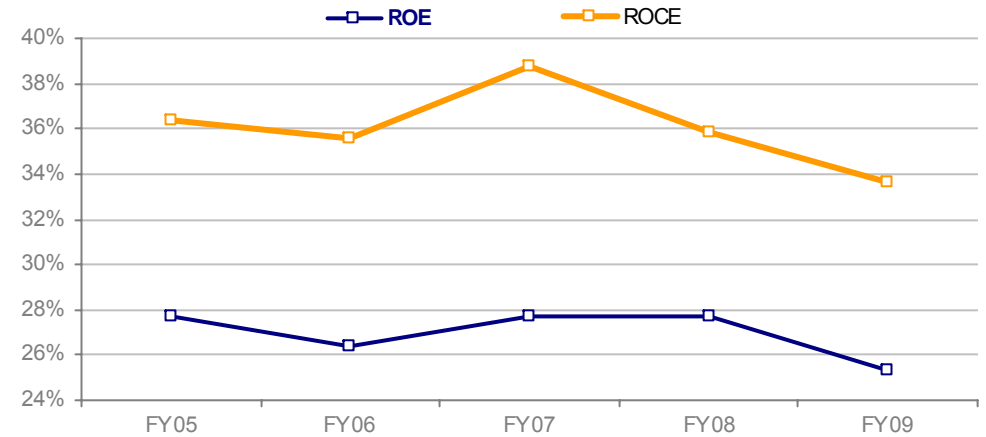
Working capital	FY06	FY07	FY08	FY09
Inventory days	98.3	100.6	106.0	109.1
Debtor days	20.4	19.1	19.3	15.9
Loans and advances days	36.4	36.5	39.7	39.0
Current liability days	81.6	71.6	72.9	70.3
Net working capital days (ex-prov)	73.5	84.7	92.0	93.7

Source: Company, IIFL Research

## Capital efficiency declined during FY09

ITC's capital efficiency ratios declined in FY09—RoE dropped 240bps, while RoCE declined by 220bps.

**Figure 28: Capital efficiency has been on a decline over the last three years**



Source: Company, IIFL Research

A DuPont analysis reveals that the decline in FY09 was caused by higher depreciation charges that adversely affected the EBIT, and lower asset efficiency. EBIT margins fell from 33% in FY08 to 31% in FY09, owing to a 25% increase in depreciation costs. Asset turns have declined on account of a significant capacity build-up in businesses such as paperboards, where capacity utilisation has not yet reached optimum levels, depressing assets turns.

**Figure 29: DuPont analysis – declining RoE due to lower EBIT and asset turns**

DuPont analysis	FY05	FY06	FY07	FY08	FY09
Tax burden (x)	0.82	0.68	0.69	0.68	0.68
Interest burden (x)	0.98	1.00	1.00	1.00	1.00
EBIT Margin (x)	0.36	0.34	0.32	0.33	0.31
Asset Turnover (x)	0.66	0.79	0.87	0.87	0.84
Financial Leverage (x)	1.46	1.45	1.44	1.43	1.42
<b>Return on Equity</b>	<b>27.8%</b>	<b>26.4%</b>	<b>27.7%</b>	<b>27.7%</b>	<b>25.3%</b>

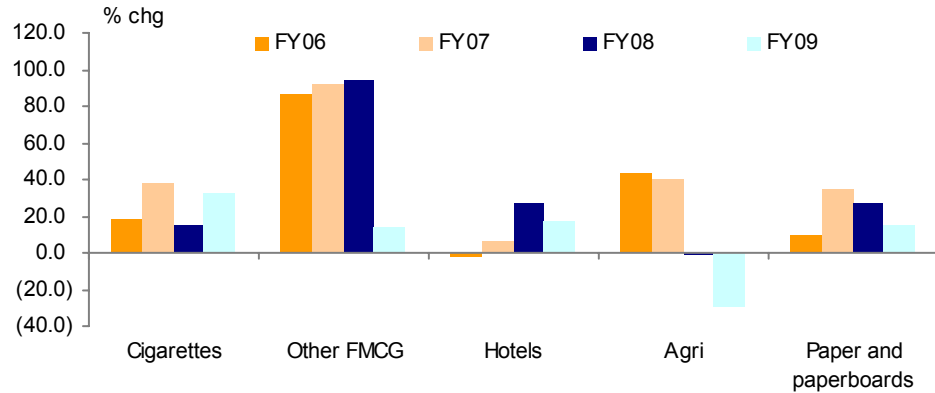
Source: Company, IIFL Research

**Figure 30: Capital employed for different segments**

Segments (Rs bn)	FY06	FY07	FY08	FY09
Cigarettes	14.6	20.2	23.1	30.8
Other FMCG	4.9	9.4	18.3	20.9
Hotels	13.7	14.7	18.7	21.9
Agri	10.6	14.8	14.7	10.4
Paper and paperboards	19.1	25.6	32.6	37.7
<b>Total</b>	<b>62.95</b>	<b>84.65</b>	<b>107.40</b>	<b>121.62</b>

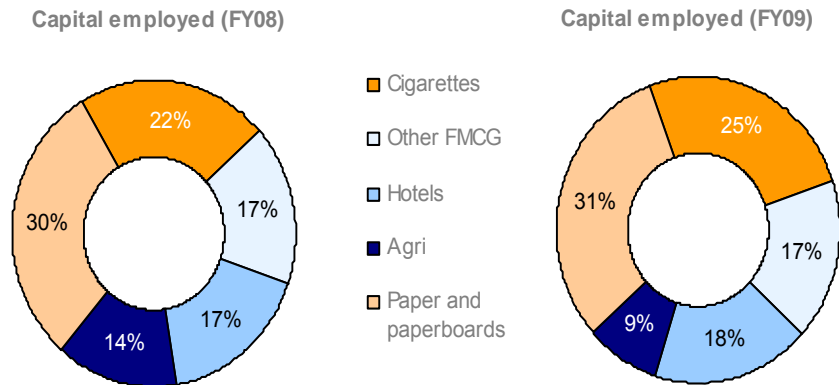
Source: Company, IIFL Research

**Figure 31: Capital employed has increased YoY in paperboards, cigarettes etc..**



Source: Company, IIFL Research

**Figure 32: Capital employed has increased YoY in paperboards, cigarettes etc..**



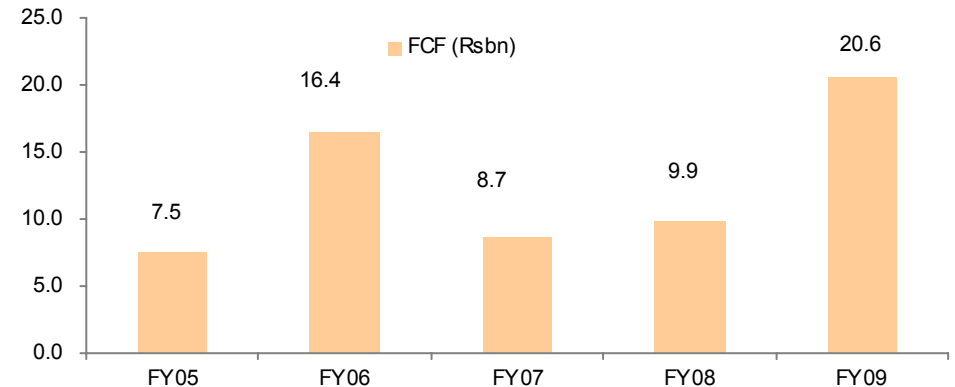
Source: Company, IIFL Research

## FCF doubled over FY09

FCF doubled in FY09 to Rs20.6bn owing to:

1. Lower capex during the year (18% lower).
2. Lower taxes paid out during the year. Deferred tax liability went up 3.5x to Rs3.2bn
3. Tight working capital management during the year, as there was no stocking of wheat stocks during the year as has been the case over the last three years. Working capital was lower despite a significant build-up of cigarettes inventory as the company stocked up ahead of the mandatory introduction of pictorial warnings.

**Figure 33: FCF has doubled in FY09**



Source: Company, IIFL Research

**Figure 34: FCF jump led by lower capex & taxes and leaner working capital in FY09**

(Rs m)	FY08	FY09	YoY Chg (Rs m)	% Contribution to incremental FCF
Profit before tax	45,718	48,257	2,540	23.7
Depr. & amortization	4,385	5,494	1,110	10.4
Tax paid	-13,795	-12,400	1,394	13.0
Working capital Δ	-5,217	-3,377	1,840	17.2
<b>Operating cash flow</b>	<b>31,091</b>	<b>37,974</b>	<b>6,883</b>	<b>64.2</b>
Capital expenditure	-21,232	-17,397	3,835	35.8
<b>Free cash flow</b>	<b>9,859</b>	<b>20,577</b>	<b>10,718</b>	<b>100.0</b>

Source: Company, IIFL Research

## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue	139,475	153,881	177,748	205,295	235,196
EBITDA	44,039	48,585	56,244	66,092	75,688
<b>EBIT</b>	<b>39,655</b>	<b>43,091</b>	<b>49,737</b>	<b>58,459</b>	<b>67,323</b>
Net Interest expense	-46	-183	-44	-44	-44
Other Income	6,109	5,349	6,687	8,024	9,629
<b>Profit before tax</b>	<b>45,718</b>	<b>48,257</b>	<b>56,379</b>	<b>66,438</b>	<b>76,907</b>
Taxes	-14,517	-15,622	-17,928	-21,127	-24,457
<b>Net profit</b>	<b>31,201</b>	<b>32,636</b>	<b>38,450</b>	<b>45,311</b>	<b>52,451</b>

Revenue growth will likely be driven by the cigarette business, which should see a return to volume growth in FY10ii

### Cashflow summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Profit before tax	45,718	48,257	56,379	66,438	76,907
Depr. & amortisation	4,385	5,494	6,507	7,633	8,365
Tax paid	-13,795	-12,400	-17,928	-21,127	-24,457
Working capital Δ	-5,217	-3,377	-3,038	-3,312	-4,124
Other operating items	0	0	0	0	0
Operating cashflow	31,091	37,974	41,919	49,631	56,692
Capital expenditure	-21,232	-17,397	-18,859	-20,000	-6,000
<b>Free cash flow</b>	<b>9,859</b>	<b>20,577</b>	<b>23,060</b>	<b>29,631</b>	<b>50,692</b>
Equity raised	6	6	0	0	0
Investments	1,332	968	3,000	-2,000	-2,000
Debt financing/disposal	136	-369	0	0	0
Dividends paid	-15,432	-16,299	-21,262	-25,055	-29,004
Other items	430	431	0	0	0
<b>Net change in cash</b>	<b>-3,669</b>	<b>5,314</b>	<b>4,798</b>	<b>2,576</b>	<b>19,688</b>

Management has earmarked Rs40bn of capex to be split between the hotels and cigarette business over FY10-11

Source: Company data, IIFL Research

**Balance sheet summary (Rs m)**

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Cash & equivalents	7,163	12,477	17,275	19,852	39,540
Sundry debtors	7,369	6,687	11,201	12,374	14,176
Inventories - trade	40,505	45,997	50,362	58,167	66,639
Other current assets	15,155	16,450	19,552	22,582	25,872
<b>Fixed assets</b>	<b>72,957</b>	<b>84,860</b>	<b>97,212</b>	<b>109,579</b>	<b>107,214</b>
Intangible assets	0	0	0	0	0
Other term assets	29,346	28,378	25,378	27,378	29,378
<b>Total assets</b>	<b>172,495</b>	<b>194,848</b>	<b>220,980</b>	<b>249,931</b>	<b>282,818</b>
Short-term debt	2,089	1,659	1,659	1,659	1,659
Sundry creditors	27,870	29,645	35,552	41,080	47,080
Other current liabs	16,453	17,405	20,441	23,609	27,047
Long-term debt/CBs	56	116	116	116	116
Other long-term liabs	5,451	8,672	8,672	8,672	8,672
Minorities/other equity	0	0	0	0	0
<b>Net worth</b>	<b>120,577</b>	<b>137,351</b>	<b>154,539</b>	<b>174,795</b>	<b>198,242</b>
<b>Total liabs &amp; equity</b>	<b>172,495</b>	<b>194,848</b>	<b>220,980</b>	<b>249,931</b>	<b>282,818</b>

Fixed-assets increase due to capex in the hotel and paper business

**Ratio analysis**

Y/e 31 Mar	FY08A	FY09ii	FY10ii	FY11ii	FY12ii
Revenue growth (%)	14.7	10.3	15.5	15.5	14.6
Op Ebitda growth (%)	11.3	10.3	15.8	17.5	14.5
Op Ebit growth (%)	10.4	8.7	15.4	17.5	15.2
Op Ebitda margin (%)	31.6	31.6	31.6	32.2	32.2
Op Ebit margin (%)	28.4	28.0	28.0	28.5	28.6
Net profit margin (%)	22.4	21.2	21.6	22.1	22.3
Dividend payout (%)	49.5	49.9	55.3	55.3	55.3
Tax rate (%)	31.8	32.4	31.8	31.8	31.8
Net debt/equity (%)	-4.2	-7.8	-10.0	-10.3	-19.0
Net debt/op Ebitda (x)	-0.1	-0.2	-0.3	-0.3	-0.5
Return on equity (%)	27.7	25.3	26.3	27.5	28.1

Source: Company data, IIFL Research

## What slowdown?

- Strong volume growth in all segments, save M&HCV
- Market leaders led the way: M&M's UV volumes were up 56% YoY, Hero Honda's volumes rise 22.5% YoY and Maruti's domestic volumes rise 10% YoY
- Rural consumption continues to be strong; further aided by improved financing—reflected in Mahindra & Mahindra's and Hero Honda's volume numbers
- Strong tractor numbers—standalone M&M volumes up 19% YoY and PTL volumes up 39% YoY; monsoon the key to sustaining this trend

## Maruti Suzuki

### Gaining market share with new launches

Maruti's domestic volumes grew 10% YoY as the company continued to build on the momentum generated by new launches. Domestic volumes were boosted by the launch of the *Ritz*. The key A2 segment's volumes grew by a strong 22% YoY. The 13% MoM decline was on account of the one-week closure of the plant for maintenance. Management also said the financing situation has improved considerably, with private sector banks too now coming back to the segment, though not as aggressively as before. We reckon industry volumes grew by ~7.5% YoY in June.

Figure 1: Domestic volumes for key car manufacturers

Manufacturer	Unit sales in June 2009	% MoM	% YoY
Honda Siel Cars India	5,039	23.7%	6.5%
Hyundai Motor India	23,016	-2.1%	5.2%
Mahindra Renault	501	17.3%	-62.9%
Maruti Suzuki India *	54,693	-13.0%	11.8%
Tata Motors	13,732	4.5%	3.2%

Source: Companies, IIFL Research

\*For Maruti's domestic volumes, we have not included Omni and Versa sales

Exports grew 176% YoY and 47% MoM on account of an increase in exports of the *A-star* (~12,000 vehicles). *A-star* exports increased as the company increased its presence from six countries to 18 in the last two months. Management expects *A-star* exports to continue at the current rate for the next few months as the model is launched in more countries in Europe.

Figure 2: With improved financing, domestic volumes continue their positive trend

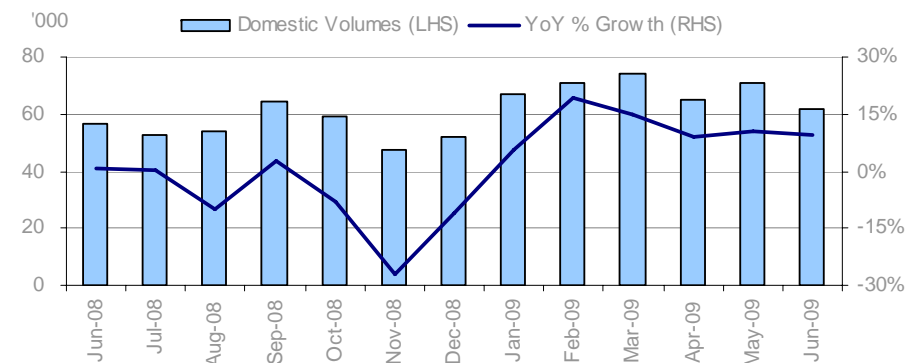
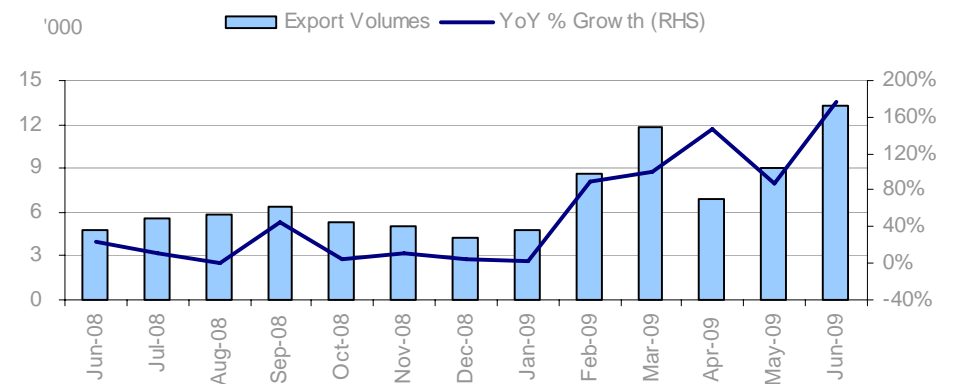


Figure 3: A-star continues to do very well in Europe



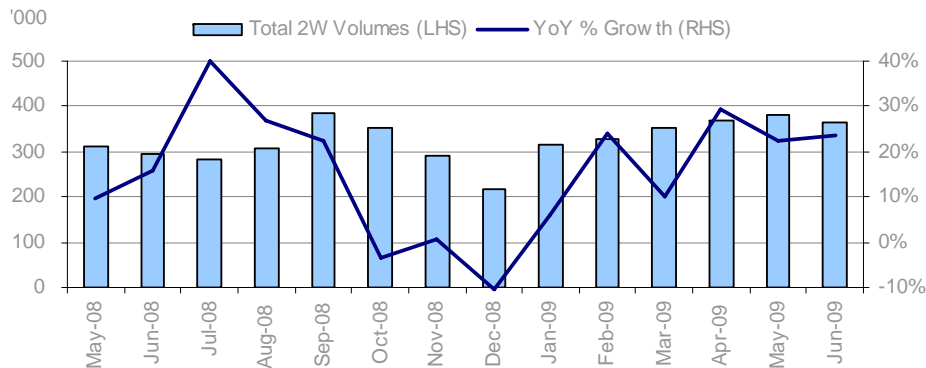
Source: Company, IIFL Research

## Two-wheelers

### Hero Honda: another month of industry-beating growth

Hero Honda continued to outperform the industry's growth rate, as it has done for more than a year now, with volumes growing 24% YoY to 365,734 vehicles. The company's volumes crossed the 1m mark with volumes growing 25% YoY during the quarter to 1,118,996 vehicles. Management is confident of growth in 1HFY10, but is not certain beyond that. We expect volume growth to taper off in 2HFY10 and hence build in 12% growth in FY10. Given the performance in the first quarter, the residual growth required by the company to achieve our numbers is only 7.8%.

Figure 4: Hero Honda reached a quarterly run-rate of 1m vehicles for the first time

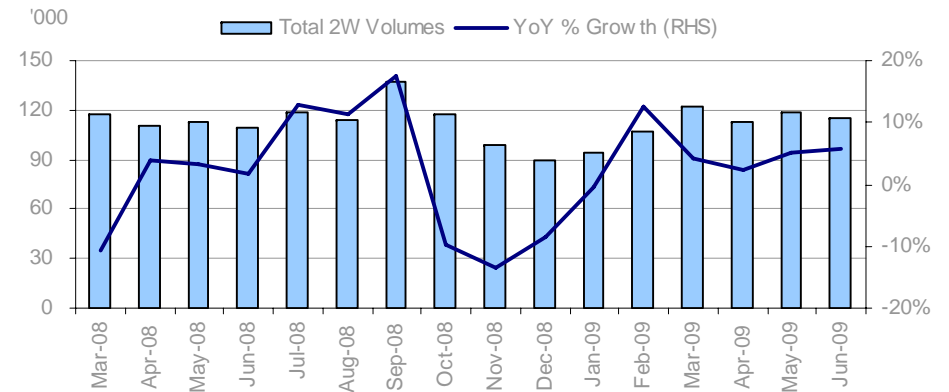


Source: Company, IIFL Research

### TVS Motors: scooter volumes grow by 21% YoY

TVS Motors reported 6% YoY growth in June 2009 to 15,448 units, driven by 21% YoY growth in scooters to 25,945 vehicles on the launch of a new version of the *Scooty*. Motorcycle volumes declined 10% YoY to 46,048 vehicles; moped volumes continued their steady growth, increasing by 20% to 43,455 vehicles. On account of the global slowdown, exports declined 33% YoY.

Figure 5: Exports have now started to slow down for TVS also



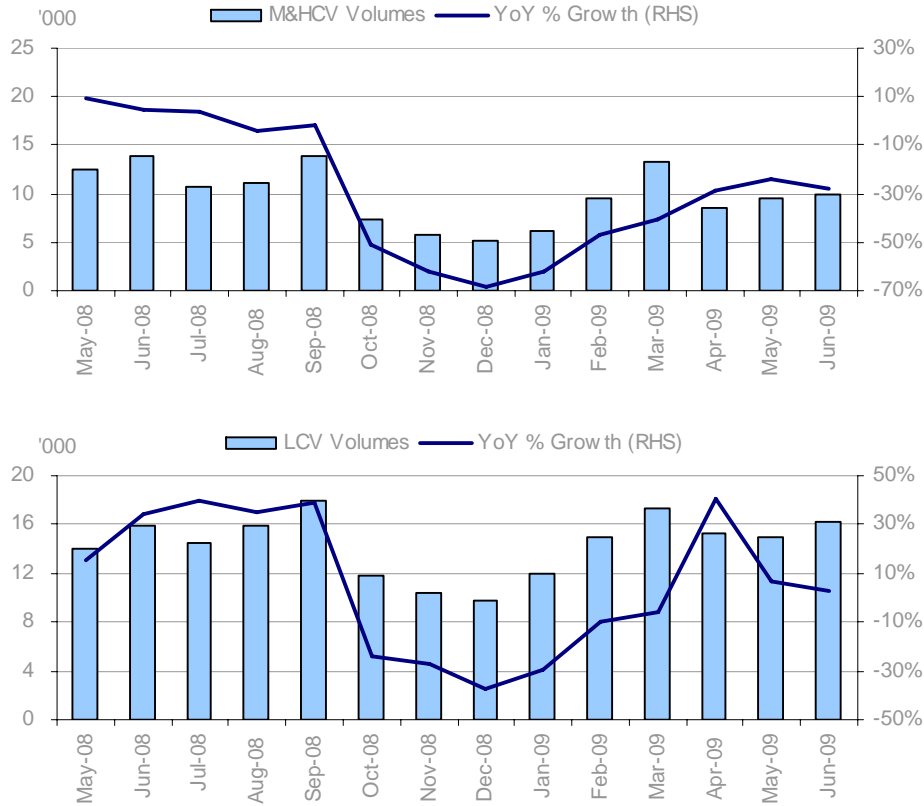
Source: Company, IIFL Research

## Tata Motors

### All segments register declines, except for LCVs

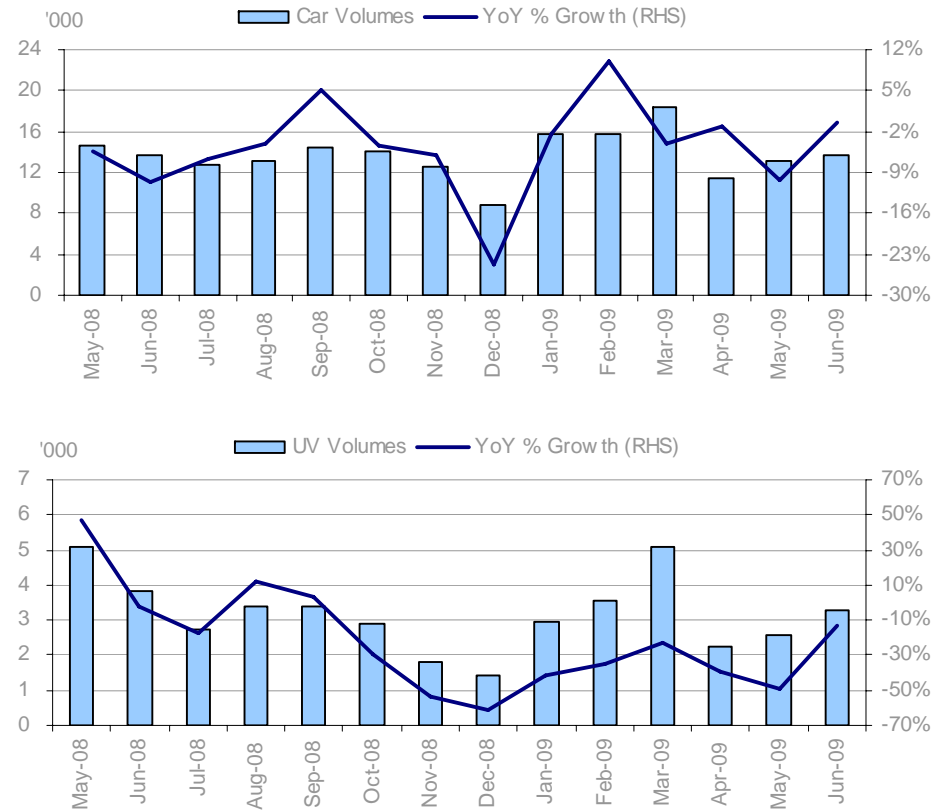
Whilst all other automotive segments have recovered, M&HCV volumes still continue to decline. TAMO's M&HCV volumes declined by 21% YoY during the month. We believe the worst is over, but any sustainable recovery would hinge on an improvement in the overall economy. LCV volumes continue to do well, growing by 8% YoY, largely on account of the *Ace* and its passenger version *Magic*. Car volumes too were reasonably good, with 2% growth, but still lagged industry growth rates. *Indica* volumes grew 20% YoY. With the base effect now catching up *Indigo*, which was doing well so far, the car's volume sales dropped 26% YoY in June. UV volumes continue to slide, declining 11% YoY to 3,307 vehicles—particularly disappointing, given the volume growth in the last couple of months for its main competitor, Mahindra & Mahindra. However, there is some improvement on a MoM basis, with volumes growing 30% MoM. Like other manufacturers, Tata Motors also saw exports declining by a sharp 37% YoY, as markets around the world are reeling from the economic slowdown.

**Figure 6: M&HCV volumes continue to decline, but the worst is likely over; LCV volumes grow steadily**



Source: Company, IIFL Research

**Figure 7: Performance in the passenger car segment improved in the month, but still volumes continue to lag industry growth; UV volume growth is particularly disappointing, given competitors' strong growth**



Source: Company, IIFL Research

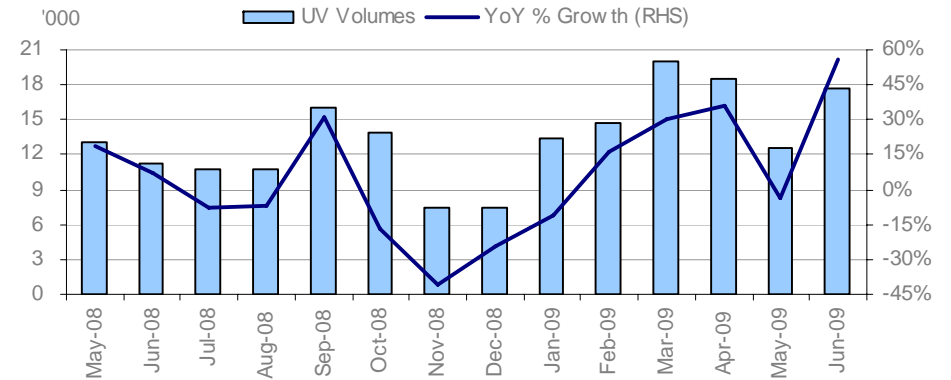
## Mahindra & Mahindra

### Improved rural financing aids volume growth

M&M's automotive segment volumes rose 19% YoY, led by 56% YoY growth in the key UV segment. UV segment volumes were aided by replenishing inventories, which had dropped last month on account of the tools-down strike by workers at the company's Nashik plant. Volume growth was led by *Bolero* and pick-ups. *Bolero* volumes were up more than 40% YoY. The *Xylo* continues to do well, with despatch volumes of 2,580 vehicles during the month. The refurbishment of the *Scorpio* has revived that brand too; volumes during the month stood at 3,500 vehicles, up 14% YoY. Sales of three-wheelers and the *Logan* continued to decline, with volume declines of 22% YoY and 63% YoY respectively. Export volumes too continue to be weak, declining 55% YoY to 435 units. However, exports did show some signs of bottoming out, with 66% MoM growth during the month.

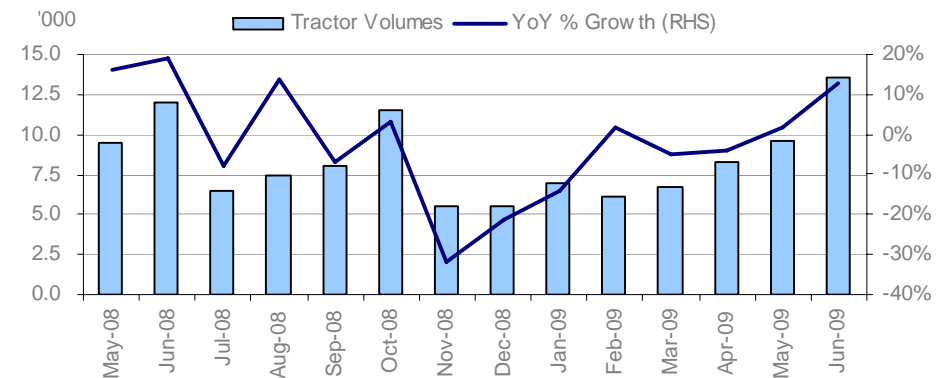
The company reported 52% YoY growth in tractor volumes, as the year-ago numbers did not include Punjab Tractor (PTL) volumes. Adjusted for PTL's volumes, M&M's standalone domestic volume growth was still healthy at 19% YoY. PTL's volumes grew 39% YoY on a low base as the company restricted despatches last year to correct dealer-level inventories. Combined PTL and M&M volumes grew by 24% YoY. Management expects 5-8% growth in the industry in FY10.

**Figure 8: UV despatches improved significantly – partly on account of replenishing inventory and partly on account of improved financing in rural areas**



Source: Company, IIFL Research

**Figure 9: Tractor volumes continue their steady improvement**



Source: Company, IIFL Research

\*Volumes shown in the chart have been adjusted for PTL's volumes

## Appendix

**Figure 10: Maruti's unit sales**

	Jun-08	May-09	Jun-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
A1 - M800	5,361	2,336	2,438	(54.5)	4.4	16,649	7,119	(57.2)
C - Omni, Versa	6,964	7,619	6,890	(1.1)	(9.6)	20,761	22,233	7.1
A2 - Alto, Zen, Wagon R, Swift	37,767	53,760	46,156	22.2	(14.1)	125,427	146,733	17.0
A3 -Esteem, SX4, Dzire	5,807	6,782	6,099	5.0	(10.1)	15,940	19,947	25.1
<b>Cars</b>	<b>55,899</b>	<b>70,497</b>	<b>61,583</b>	<b>10.2</b>	<b>(12.6)</b>	<b>178,777</b>	<b>196,032</b>	<b>9.7</b>
MUV - Gypsy, Grand Vitara	512	288	190	(62.9)	(34.0)	1,316	1,383	5.1
<b>Domestic</b>	<b>56,411</b>	<b>70,785</b>	<b>61,773</b>	<b>9.5</b>	<b>(12.7)</b>	<b>180,093</b>	<b>197,415</b>	<b>9.6</b>
Exports	4,836	9,087	13,336	175.8	46.8	12,491	29,314	134.7
<b>Total</b>	<b>61,247</b>	<b>79,872</b>	<b>75,109</b>	<b>22.6</b>	<b>(6.0)</b>	<b>192,584</b>	<b>226,729</b>	<b>17.7</b>

Source: Company, IIFL Research

**Figure 11: Hero Honda unit sales**

	Jun-08	May-09	Jun-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
<b>Total</b>	<b>295,675</b>	<b>382,687</b>	<b>365,734</b>	<b>23.7</b>	<b>(4.4)</b>	<b>894,244</b>	<b>1,118,996</b>	<b>25.1</b>

Source: Company, IIFL Research

**Figure 12: Mahindra & Mahindra unit sales**

	Jun-08	May-09	Jun-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
<b>UV</b>	<b>11,311</b>	<b>12,620</b>	<b>17,653</b>	<b>56.1</b>	<b>39.9</b>	<b>37,919</b>	<b>48,720</b>	<b>28.5</b>
<b>LCV</b>	<b>1,172</b>	<b>831</b>	<b>1,014</b>	<b>(13.5)</b>	<b>22.0</b>	<b>2,957</b>	<b>2,493</b>	<b>(15.7)</b>
<b>3w</b>	<b>4,345</b>	<b>2,703</b>	<b>3,357</b>	<b>(22.7)</b>	<b>24.2</b>	<b>11,396</b>	<b>9,032</b>	<b>(20.7)</b>
<b>Logan</b>	<b>1,351</b>	<b>427</b>	<b>501</b>	<b>(62.9)</b>	<b>17.3</b>	<b>4,595</b>	<b>1,478</b>	<b>(67.8)</b>
<b>Autos (dom)</b>	<b>18,179</b>	<b>16,581</b>	<b>22,525</b>	<b>23.9</b>	<b>35.8</b>	<b>56,867</b>	<b>61,723</b>	<b>8.5</b>
<b>Exports</b>	<b>1,192</b>	<b>285</b>	<b>473</b>	<b>(60.3)</b>	<b>66.0</b>	<b>3,187</b>	<b>1,145</b>	<b>(64.1)</b>
<b>Total Autos</b>	<b>19,371</b>	<b>16,866</b>	<b>22,998</b>	<b>18.7</b>	<b>36.4</b>	<b>60,054</b>	<b>62,868</b>	<b>4.7</b>
<b>Tractors</b>	<b>12,008</b>	<b>9,667</b>	<b>13,567</b>	<b>13.0</b>	<b>40.3</b>	<b>30,123</b>	<b>32,203</b>	<b>6.9</b>
<b>- dom</b>	<b>11,054</b>	<b>9,022</b>	<b>13,135</b>	<b>18.8</b>	<b>45.6</b>	<b>28,004</b>	<b>30,084</b>	<b>7.4</b>
<b>- exports</b>	<b>954</b>	<b>645</b>	<b>432</b>	<b>(54.7)</b>	<b>(33.0)</b>	<b>1,420</b>	<b>2,119</b>	<b>49.2</b>

Source: Company, IIFL Research

Note – Tractor numbers have been adjusted for PTL volumes

Figure 13: Tata Motors unit sales

	Jun-08	May-09	Jun-09	%YoY	%MoM	YTD-08	YTD-09	%YoY
<b>MHCV</b>	12,519	8,567	9,471	(24.3)	10.6	148,815	109,746	(26.3)
<b>LCV</b>	14,087	15,318	15,003	6.5	(2.1)	153,367	151,161	(1.4)
<b>Total CV</b>	26,606	23,885	24,474	(8.0)	2.5	302,182	260,907	(13.7)
<b>Cars</b>	14,662	11,418	13,162	(10.2)	15.3	161,542	148,277	(8.2)
<b>UV</b>	5,071	2,215	2,560	(49.5)	15.6	41,812	34,887	(16.6)
<b>Total</b>	<b>46,339</b>	<b>37,518</b>	<b>40,196</b>	<b>(13.3)</b>	<b>7.1</b>	<b>505,536</b>	<b>444,071</b>	<b>(12.2)</b>

Source: IIFL Research

## B L Kashyap - REDUCE

Construction

02 July 2009

## Order book pangs

- 4QFY09 revenue declined 38.5% YoY, higher than our expectation of 12% decline, as execution on existing projects slowed down. EBITDA margins contracted 978bps YoY due to negative operating leverage. Net profit declined 94%, further hit by a 62% YoY increase in interest expense.
- Order book remains weak at Rs20bn and translates into book-to-bill ratio of just 1.4x. While company has put bids for Rs10bn worth of new projects, any order inflow would have a marginal impact on FY10 revenues. We accordingly expect a 2% decline in FY10 revenues.
- Company is focusing on infrastructure/PSU building projects and the affordable housing segment to drive order inflows with a EBITDA margin expectation of 7-9%. This puts our FY11 EBITDA margin estimate of 8.5% at risk. We maintain REDUCE.
- 4QFY09 revenue declined 39% YoY to Rs2.8bn, much worse than our expectation of 12% decline. Management indicated that progress is slow on existing projects. Apart from instructions from clients to slow down execution, company also stopped construction on projects with possible payment issues.
- Decline in revenues translated into 978bps contraction in EBITDA margins as employee expenses as proportion of sales increased sharply (32.5% in 4QFY08 to 41.3% in 4QFY09). Management said that the company has reduced its employee strength by ~400 over the last five months. The savings from this should start reflecting from 2QFY10 onwards. 1QFY10 earnings would show the adverse near-term effect of one-time severance pay for former employees.
- While a 62% YoY increase in interest expense hurt profitability, the 151% increase in other income helped profits. Had other income been at the usual quarterly level, the company would have reported a loss in 4Q. Tax rate during the quarter was higher at 51.5%. Full-year tax rate was in-line, at 32.6%.

CMP	Rs347
12-mth Target price (Rs)	319 (-8%)
Market cap (US\$ m)	149
Bloomberg	KASH IN

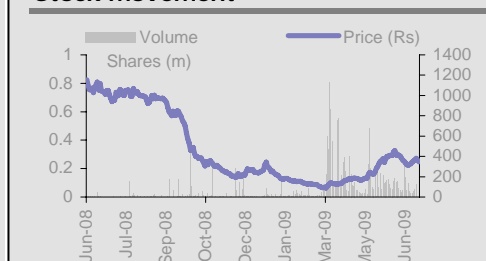
52Wk High/Low (Rs)	1160/86
Diluted o/s shares (m)	21
Daily volume (US\$ m)	0.6
Dividend yield FY09ii (%)	1.3
Free float (%)	29.0

<b>Shareholding pattern (%)</b>	
Promoters	71.0
FII's	12.0
Domestic MFs/Insurance cos	6.4
Others	10.7

## Price performance (%)

	1M	3M	1Y
B L Kashyap	-15.3	154.4	-67.1
Rel. to Sensex	-14.0	106.5	-80.1
CCCL	4.2	126.2	-48.4
Simplex Infra	-2.4	139.6	-7.7

## Stock movement



## Financial summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	15,427	14,572	14,294	14,294	15,009
EBITDA Margins (%)	11.9	8.9	8.5	8.5	8.5
Reported PAT (Rs m)	1,154	788	680	655	695
EPS (Rs)	56.2	38.4	33.1	31.9	33.8
Growth (%)	107.0	-31.7	-13.8	-3.7	6.1
<b>PER (x)</b>	<b>6.2</b>	<b>9.0</b>	<b>10.5</b>	<b>10.9</b>	<b>10.3</b>
ROE (%)	28.8	16.9	13.0	11.5	11.1
Net debt/Equity (x)	0.3	0.6	0.5	0.5	0.4
EV/EBITDA (x)	4.2	7.4	5.9	7.3	5.0
<b>Price/Book (x)</b>	<b>1.8</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>

Source: Company, IIFL Research. Priced as at close of business on 1 July 2009.

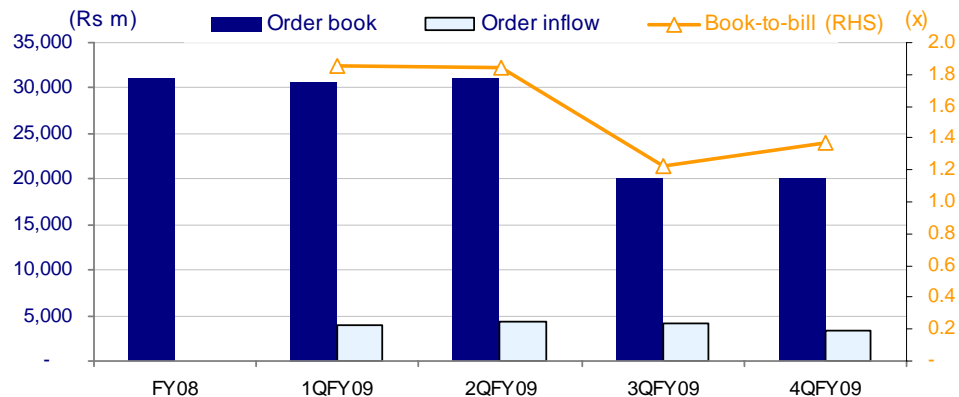
**Figure 1: Standalone 4QFY09 results**

Rs m	4QFY08	3QFY09	4QFY09	%YoY
<b>Net Sales</b>	<b>4,621</b>	<b>3,565</b>	<b>2,840</b>	<b>(38.5)</b>
Expenses	4,044	3,254	2,763	(31.7)
<b>EBITDA</b>	<b>577</b>	<b>311</b>	<b>77</b>	<b>(86.7)</b>
<i>EBITDA margin (%)</i>	12.5	8.7	2.7	-978 bps
Depreciation	45	48	48	6.2
Interest	50	54	81	61.8
Other Income	39	40	98	151.4
<b>PBT</b>	<b>521</b>	<b>249</b>	<b>46</b>	<b>(91.2)</b>
Tax	168	87	24	(86.0)
<i>Tax rate (%)</i>	32.2	34.9	51.5	
<b>PAT</b>	<b>353</b>	<b>162</b>	<b>22</b>	<b>(93.7)</b>
<i>PAT margin (%)</i>	7.6	4.5	0.8	-686 bps
<b>EPS (Rs)</b>	<b>17.2</b>	<b>7.9</b>	<b>1.1</b>	<b>(93.7)</b>

Source: Company, IIFL Research

- The company's order book currently stands at ~Rs20bn, the same as at end-3QFY09. With the current order book, we expect the YoY decline in quarterly revenues seen in 2HFY09 to continue during 1HFY10. Management expects flat revenues in FY10 with an outside chance of 7-8% growth.

**Figure 2: Weak order book would support flat revenue growth at best**

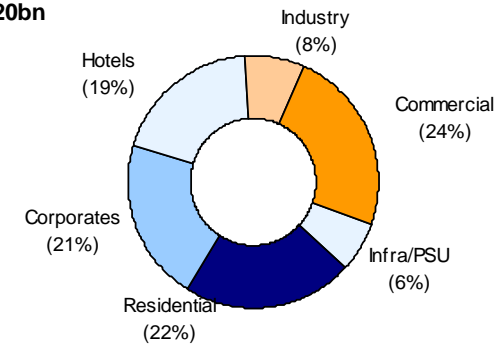


Source: Company, IIFL Research

- Quality of order book has improved marginally, as the company diversified into infrastructure/PSU building work. These contribute Rs1.25bn to the current order book and the company expects the number to increase going forward. The company has placed bids for Rs10bn worth of projects in this segment. Management indicated that higher proportion of infrastructure projects would lead to deterioration in cash flow and margin profile of the company.

**Figure 3: Order book composition**

FY09 order book Rs20bn



Source: Company, IIFL Research

- The company is also banking on the affordable housing segment to drive order inflow. It is bidding for projects with an expectation of 7-9% EBITDA margin, hoping to win large (more than one million sq ft) size projects in order to break even at project level. While large project wins would help revenue visibility, low margins would put our FY11-12ii EBITDA margin estimate of 8.5% at risk.
- During the year, the company borrowed an additional Rs1.46bn, taking the total debt to Rs2.64bn. Rs2.2bn of the total borrowing is lent to its real estate subsidiary Soul Space Ltd. Soul Space plans to reduce its real estate exposure by pulling out from three undeveloped properties in Pune and also selling off land pieces. Management expect to receive Rs1.2bn through the sales and would use the proceeds to reduce debt (external and from parent B L Kashyap).

## Valuation ahead of drivers

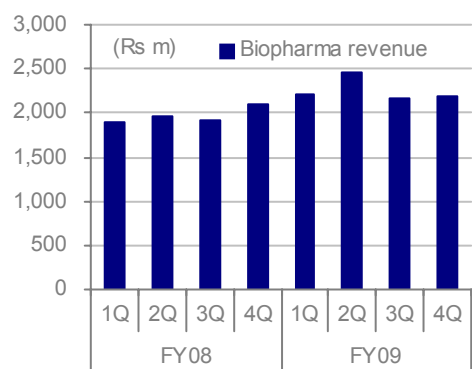
Biocon's stock is up 100% since our upgrade to BUY in January 2009 and we see limited upside from current levels. While the company is well on its way to establishing itself as a global biosimilars major (a business that we believe has high long-term potential), lack of near-term earnings growth is a cause for concern. Despite near-20% depreciation in the rupee, the company's biopharmaceuticals revenues have remained almost flat over the last four quarters, indicating price erosion. We see no major topline growth driver for the next 1-2 years and core margins are likely to come under pressure in the near term. Even after assigning Rs23 per share present value for the global glargine insulin opportunity, the stock is richly valued at 18.5x FY10ii core earnings. We revise our price target to Rs233 and downgrade Biocon to REDUCE from BUY.

**Turning biosimilar specialist; Mylan deal could drive long-term value:** Biocon's recombinant insulin is already selling in emerging markets and is undergoing clinical trials in Europe. Glargine insulin has been launched in India and is being registered across emerging markets. Recombinant insulin and GCSF have been partnered out in the US and Erythropoetin and Glargine could be next in line. Recently, the company partnered with Mylan Labs to develop complex biosimilars including antibodies. We believe in the large potential of biosimilars, but the opportunity will likely take 5-6 years to play out.

**Near-term risk to margins:** Increasing pricing pressure and the appreciation of the INR against US\$ may put some pressure on Biocon's margins in the near term. Further, depreciation and interest costs will also go up as the new facilities for Syngene come online and hit net margins. Hence, we expect FY10 core earnings to be flat.

**Richly valued:** We are adding a DCF-based present value of US\$96m or Rs23 per share for the global glargine insulin opportunity to our valuation of Biocon. Even after adjusting for that and cash on hand, Biocon is trading at about 18.5x FY10ii core earnings. We believe the near-term weakness in topline growth and margin pressures will likely impact further performance of the stock, and downgrade it to REDUCE. Our price target of Rs233 is 15x FY11ii core earnings plus the value of glargine opportunity and cash per share.

### Lacklustre growth



Source: Company reports, IIFL Research

### Financial summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	10,538	16,087	19,578	21,646	23,719
EBITDA Margins (%)	28	21	20	21	22
Pre-Exceptional PAT (Rs m)	2,245	931	2,639	3,214	3,893
Reported PAT (Rs m)	4,639	931	2,639	3,214	3,893
Reported EPS (Rs)	23.2	4.7	13.2	16.1	19.5
Growth (%)		-79.9	183.5	21.8	21.1
<b>PER (x)</b>	<b>9.8</b>	<b>48.8</b>	<b>17.2</b>	<b>14.1</b>	<b>11.7</b>
ROE (%)	31.3	6.1	15.1	15.8	16.3
Debt/Equity (x)	0.2	0.3	0.3	0.1	0.0
<b>EV/EBITDA (x)</b>	<b>14.4</b>	<b>14.0</b>	<b>11.7</b>	<b>9.6</b>	<b>7.9</b>
Price/Book (x)	3.1	3.0	2.6	2.2	1.9

Price as at close of business on 1 July 2009

12-mth Target price (Rs) 233 (2%)

Market cap (US\$ m)	950
52Wk High/Low (Rs)	237/85
Diluted o/s shares (m)	200
Daily volume (US\$ m)	5.1
Dividend yield FY09ii (%)	0.7
Free float (%)	39.1

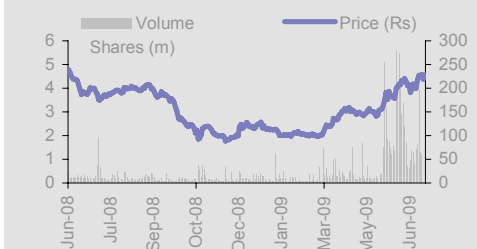
### Shareholding pattern (%)

Promoters	60.9
FII's	6.0
Domestic MFs/Insurance cos	11.0
Others	22.1

### Price performance (%)

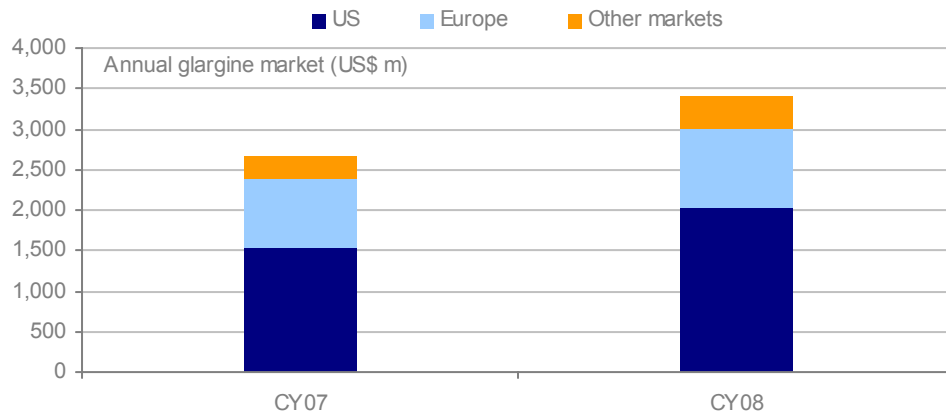
	1M	3M	1Y
Biocon	23.3	55.9	21.9
Rel. to Sensex	24.6	8.0	8.9
Jubilant	-5.3	66.2	-47.2
Organosys			
Dishman Pharma	-3.1	91.1	-34.3
Orchid Chemicals	-29.4	24.9	-60.2

### Stock movement



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**Figure 1: Lantus (glargine insulin) is a US\$3.4bn product and still growing**



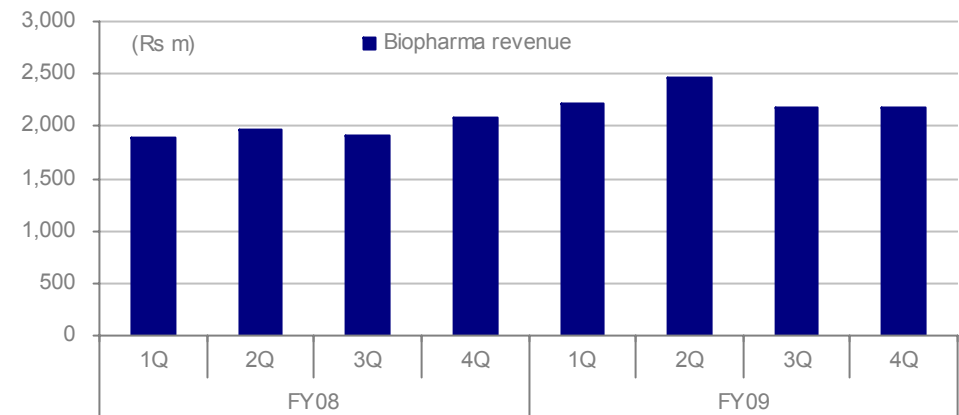
Source: Company, IIFL Research

**Figure 2: Innovator biologic products that could be targeted by Mylan partnership**

Brand	Compound	Company	2007 global sales (US\$ m)
Mabthera / Rituxan	rituximab	Roche / Genentech	4753
Neupogen / Neulasta	filgastrim	Amgen	4277
Herceptin	trastuzumab	Roche	4181
Aranesp	darbepoietin alfa	Amgen	3614
Avastin	bevacizumab	Roche / Genentech	3538
Remicade	infliximab	J&J	3300
Enbrel	etanercept	Amgen	3230
Procrit / Eprex	epoietin alfa	J&J	2900
Epogen	epoietin alfa	Amgen	2489
Avonex	epoietin alfa	Biogen Idec	1900
Neorecormon/Epogin	epoietin beta	Roche	1804
Erbix	cetuximab	Imclone/BMS/Merck Serono	1300

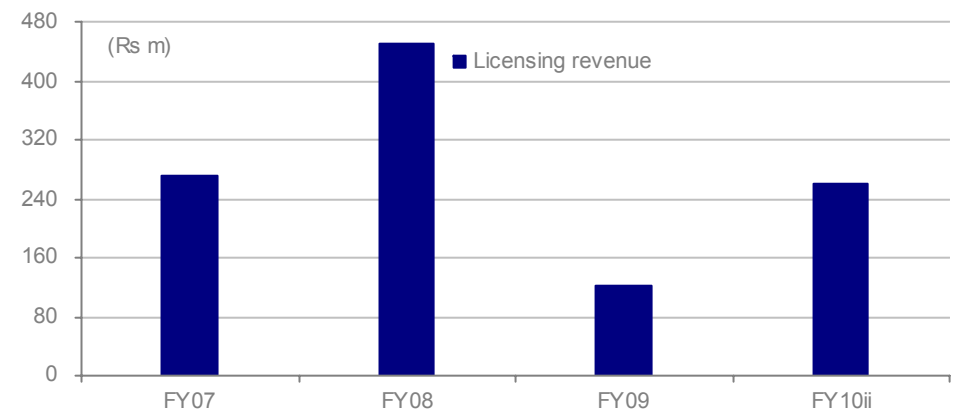
Source: Company reports, IIFL research

**Figure 3: Near-term growth prospects are lacklustre**



Source: Company, IIFL Research

**Figure 4: Licensing revenue declined in FY09, but may pick up in FY10**



Source: Company, IIFL Research

## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue	10,538	16,087	19,578	21,646	23,719
EBITDA	2,986	3,346	3,955	4,549	5,164
<b>EBIT</b>	<b>2,047</b>	<b>2,243</b>	<b>2,630</b>	<b>3,194</b>	<b>3,795</b>
Treasury income	364	-938	738	742	739
Interest expense	102	177	368	324	160
Exceptional items	2,394	0	0	0	0
<b>Profit before tax</b>	<b>4,703</b>	<b>1,128</b>	<b>2,999</b>	<b>3,611</b>	<b>4,374</b>
Taxes	129	118	270	325	394
Minorities and other	-65	79	90	72	87
<b>Net profit</b>	<b>4,639</b>	<b>931</b>	<b>2,639</b>	<b>3,214</b>	<b>3,893</b>

Net profit in FY09 hit by M-T-M forex losses

### Cashflow summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Profit before tax	5,387	1,119	2,999	3,611	4,374
Depr. & amortization	939	1,121	1,325	1,356	1,369
Tax paid	243	138	270	325	394
Working capital Δ	172	-1,372	-1,506	-485	-459
Other operating items	-3,077	1,029	-370	-418	-580
Operating cashflow	3,178	1,759	2,178	3,739	4,312
Capital expenditure	343	-3,333	-1,500	-1,500	-1,500
<b>Free cash flow</b>	<b>3,521</b>	<b>-1,574</b>	<b>678</b>	<b>2,239</b>	<b>2,812</b>
Equity raised	0	0	0	0	0
Investments	164	202	0	0	0
Debt financing/disposal	687	816	-630	-2,347	-2,281
Dividends paid	-351	0	-351	-351	-351
Other items	-54	-493	370	418	580
<b>Net change in cash</b>	<b>3,966</b>	<b>-1,049</b>	<b>67</b>	<b>-41</b>	<b>760</b>

Free cash flow negative in FY09, owing to cash used in acquisition

Source: Company data, IIFL Research

**Balance sheet summary (Rs m)**

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Cash & equivalents	4,844	3,795	3,862	3,821	4,580
Sundry debtors	2,591	3,671	4,503	4,979	5,455
Inventories - trade	1,790	3,192	3,916	4,329	4,744
Other current assets	869	1,015	1,175	1,299	1,423
<b>Fixed assets</b>	<b>10,419</b>	<b>13,345</b>	<b>13,520</b>	<b>13,664</b>	<b>13,795</b>
Intangible assets	276	499	499	499	499
<b>Total assets</b>	<b>20,789</b>	<b>25,517</b>	<b>27,474</b>	<b>28,591</b>	<b>30,497</b>
Sundry creditors	3,005	4,372	4,581	5,109	5,666
Long-term debt/CBs	2,551	5,258	4,628	2,281	0
Other long-term liabs	465	466	466	466	466
Minorities/other equity	-73	227	317	389	477
<b>Net worth</b>	<b>14,841</b>	<b>15,194</b>	<b>17,482</b>	<b>20,346</b>	<b>23,888</b>
<b>Total liabs &amp; equity</b>	<b>20,789</b>	<b>25,517</b>	<b>27,474</b>	<b>28,591</b>	<b>30,497</b>

Strong balance sheet with low debt and more than US\$60m cash



Higher revenue growth in FY09 and FY10 due to effect of acquisition in Germany



**Ratio analysis**

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue growth (%)	6.9	52.7	21.7	10.6	9.6
Op Ebitda growth (%)	5.6	12.1	18.2	15.0	13.5
Op Ebit growth (%)	-5.1	9.6	17.2	21.4	18.8
Op Ebitda margin (%)	28.3	20.8	20.2	21.0	21.8
Op Ebit margin (%)	19.4	13.9	13.4	14.8	16.0
Net profit margin (%)	21.3	5.8	13.5	14.8	16.4
Dividend payout (%)	10.8	32.2	11.4	9.3	7.7
Tax rate (%)	2.7	10.5	9.0	9.0	9.0
Net debt/equity (%)	-15.5	9.6	26.5	11.2	0.0
Net debt/op Ebitda (x)	-0.8	0.4	1.2	0.5	0.0
Return on equity (%)	31.3	6.1	15.1	15.8	16.3

ROE should start looking up in FY10



Source: Company data, IIFL Research

## Events calendar – July 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
		May Exports May Imports	WPI for 20 Jun	Educomp Rail Budget	
<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>
Union Budget		Moser Baer	Praj Inda WPI for 27 Jun	Infosys IIP for May	
<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>
Axis Bank	HDFC Bank	Bajaj FinServ	Bajaj Auto, Bajaj Holdings WPI for 4 Jul	Colgate, Dabur India	
<b>20</b>	<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>
		HDFC	WPI for 11 Jul	Mah Lifespace	
<b>27</b>	<b>28</b>	<b>29</b>	<b>30</b>	<b>31</b>	
	Monetary Policy		Mahindra & Mah WPI for 18 Jul		

Black: Quarterly results, Blue: Economic data

## Events

	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10	Jul-Sep 10
<b>Economics / Politics</b>	<ul style="list-style-type: none"> <li>Revised Budget for 2009-10 (July)</li> <li>RBI's Monetary policy meeting (end July)</li> </ul>	<ul style="list-style-type: none"> <li>RBI's Monetary policy meeting (end October)</li> <li>State elections in Maharashtra and Arunachal Pradesh</li> </ul>	<ul style="list-style-type: none"> <li>State Elections in Bihar, Haryana and Jharkhand</li> </ul>		
<b>Auto</b>	<ul style="list-style-type: none"> <li>18 Jul – launch of <b>Bajaj</b> new fuel efficient commuted bike</li> </ul>	<ul style="list-style-type: none"> <li><b>Tata Motor's</b> Nano plant at Sanand to start operations</li> </ul>	<ul style="list-style-type: none"> <li><b>M&amp;M's</b> Chakan plant with a capacity of 320,000 vehicles to start operations.</li> </ul>		
<b>Cement</b>	<ul style="list-style-type: none"> <li><b>Ambuja Cement's</b> 1.5 mtpa Dadri plant to start</li> <li><b>ACC's</b> 1.2 mtpa Bargarh plant to start</li> <li><b>Grasim's</b> 4.4 mtpa Kotputli expansion to commence prod.</li> <li><b>Orient Cement</b> 1.6 mtpa Devapur, AP plant to start</li> <li><b>JP Associates</b> 1.2 mtpa Gujarat plant to start</li> <li><b>JK Cement</b> 3.5 mtpa Karnataka plant to start</li> </ul>	<ul style="list-style-type: none"> <li><b>NCL Industries</b> 1.5 mtpa AP plant to start</li> <li><b>Andhra Cement</b> 1 mtpa AP plant to start</li> <li><b>Ambuja Cement</b> 1.5 mtpa Panipat plant to start</li> <li><b>ACC</b> 3 mtpa Wadi, Kar plant to start</li> <li><b>Zuari Cements</b> 2.4 AP mtpa plant to start</li> <li><b>Raghuram Cement</b> AP 2 mtpa plant to start</li> <li><b>Dalmia Cements</b> 2.3 mtpa Ariyalur plant to start</li> </ul>	<ul style="list-style-type: none"> <li><b>JP Associates</b> 3.0 mtpa HP plant to start</li> </ul>		

## Events

	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10	Jul-Sep 10
<b>Infrastructure</b>		<ul style="list-style-type: none"> <li>• <b>BHEL</b> Capacity goes up from 10 GW to 15 GW</li> </ul>			
<b>Metals</b>		<ul style="list-style-type: none"> <li>• <b>Sterlite</b>: First phase of 2,400MW power plant will commence operation</li> </ul>	<ul style="list-style-type: none"> <li>• <b>JSW Steel</b>: Commissioning of 3.5mntpa hot strip mill</li> </ul>		
<b>Pharma</b>	<ul style="list-style-type: none"> <li>• <b>Lupin</b>: Clarity on FDA issue resolution at Mandideep facility.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Max Healthcare</b>: Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi</li> <li>• <b>Sun Pharma</b>: Clarity on FDA issue resolution at Caraco facility in Detroit</li> <li>• <b>Biocon</b>: Initiation of insulin studies for US market</li> <li>• <b>Glenmark</b>: Initiation of phase III trial for melogliptin</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Dr Reddy's</b>: Potential USFDA approval for fondaparinux</li> <li>• <b>Biocon</b>: data from oral insulin study in India.</li> </ul>		
<b>Real Estate</b>	<ul style="list-style-type: none"> <li>• <b>DLF</b> to acquire stake in DAL.</li> <li>• <b>DLF</b> to sell wind energy business</li> <li>• <b>DLF</b> to sell multiplex business, DT Cinemas</li> <li>• <b>Puravankara</b> Projects – Capital raising by its subsidiary Provident Housing &amp; Infrastructure Ltd to fund its mass housing project</li> <li>• <b>Anant Raj</b> - QIP fund raising</li> </ul>				

## Events

	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10	Jul-Sep 10
<b>Telecom</b>	<ul style="list-style-type: none"> <li>• <b>Indus Towers</b> expected to receive towers from Bharti, Vodafone and Idea and thus merger of tower subsidiaries into Indus completed</li> <li>• 3G auctions announcement expected, followed by clarifications</li> <li>• MNP in metros expected to be implemented as per DoT order</li> <li>• <b>Idea Spice</b> merger expected to receive court approval, and get completed</li> <li>• <b>RCOM</b> may raise capital through QIP placement</li> <li>• <b>TRAI</b> may come out with revised recommendations on enhancement of transparency in VAS offerings</li> </ul>	<ul style="list-style-type: none"> <li>• 3G auctions expected to be held</li> <li>• <b>Idea cellular</b> expected to become pan-India operator</li> <li>• <b>Bharti MTN Deal</b> expected to be concluded.</li> </ul>			
<b>Utilities</b>	<ul style="list-style-type: none"> <li>• <b>CESC Budge Budge</b> (250MW) unit operational</li> <li>• <b>Suzlon</b> to start production from new facilities</li> <li>• <b>Lanco's Amarkantak Unit-1</b> (300MW) to commission</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Lanco's Kondapalli-II</b> to commission (366MW)</li> <li>• <b>GIPCL's SLPP-II unit 3</b> (250MW to commission)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>NTPC's Dadri unit</b> (980MW) to commission</li> </ul>	<ul style="list-style-type: none"> <li>• <b>NTPC's Sipat-I Unit 1</b> (660MW), <b>Korba-III</b> (500MW) to commission</li> <li>• <b>GIPCL's SLPP-II unit 4</b> (250MW to commission)</li> </ul>	
<b>Others</b>		<ul style="list-style-type: none"> <li>• <b>EKC's Kandla SEZ plant</b> to manufacture 300,000 steel plate cylinders for exports to Europe to start operations.</li> </ul>			



## Key to our recommendation structure

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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