kotak® Institutional Equities

INDIA DAILY

July 18, 2008

EQUITY MARKETS

India	17-Jul	1-day	1-mo	3-mo
		Change, %		
Sensex	13,112	4.3	(15.0)	(20.4)
Nifty	3,947	3.4	(13.9)	(20.4)
Global/Regional indices				
Dow Jones	11,447	1.8	(4.8)	(10.9)
FTSE	5,286	2.6	(8.2)	(12.7)
Nikkie	12,938	0.4	(10.5)	(4.0)
Hang Seng	21,868	0.6	(6.2)	(9.6)
KOSPI	1,528	0.2	(13.9)	(13.7)

Value traded - India

	17-Jul		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	165.0		172.0	187.7
Derivatives (NSE)	463.0		426.2	425
Deri. open interest	718.6		873	678

Forex/money market

	17-Jul	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	43.0	0	(4)	311
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	16-Jul		MTD	CYTD
FIIs	(52)		(579)	(7,073)
MFs	(7)		137	2,470

Top movers -3mo basis

Best performers	17-Jul	1-day	1-mo	3-mo
		Change, %		
Ingersoll Rand	366	(0.7)	12.5	26.3
Glaxosmithkline	1,132	1.7	1.9	12.1
Ballarpur Ind	29	2.6	(20.4)	9.3
i-Flex	1,397	5.7	5.3	7.7
Dr Reddy's	642	1.9	(6.8)	5.9
Worst performers				
Moser Baer	90	0.3	(43.9)	(49.7)
Century Tex	432	1.6	(28.8)	(46.3)
Wockhardt	173	0.9	(29.0)	(42.1)
Andhra Bank	52	3.0	(24.9)	(36.9)
Essel Propack	25	-	(16.2)	(36.5)

Contents

News Roundup

Corporate

- Mukesh Ambani-owned **Reliance Industries** (RIL) on Thursday said it has started arbitration proceedings against younger brother Anil Ambani's Reliance Communications (RCOM) to thwart the latter's merger with Africa's largest telco MTN. Sources in RCOM dismissed RIL's move and said the arbitration can only happen when 'both' parties refer the dispute to a person outside the court. (ET)
- Businessman C Sivasankaran, former owner of mobile phone services firm **Aircel Cellular Ltd**, may approach Singapore courts to block any effort by Malaysia's Maxis Communications Bhd to raise cash by paring its 74% stake in the Indian firm. (Mint)
- US-based drug maker **Abbott Laboratories** has filed a suit against Dr Reddy's Laboratories Ltd in a US court for infringing the patent of Depakote ER, an anti-seizure drug. (BS)

Economic and political

- The Indian government is planning to scrap Press Note 1, allowing foreign companies to invest in sectors where they already have a joint venture without obtaining a no objection certificate from their current partner. (ET)
- Indian inflation rose to 11.91% in early July, below forecasts and only slightly higher than the previous week, sending bond yields down on reduced risk of monetary tightening before a central bank policy review.(Reuters)
- The Cellular Operators' Association of India, the GSM operators' body, has written to Prime Minister Manmohan Singh against "alleged reports of spectrum beyond contracted limits" given away to the telecommunications industry. (BS)
- Drug regulator Drug Controller General of India is likely to extend the tenure of export license and other approvals for pharmaceutical companies to at least three years from one year now. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

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Consumer products

COLG.BO, Rs348	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	420
52W High -Low (Rs)	525 - 324
Market Cap (Rs bn)	47.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	14.6	16.5	18.3
Net Profit (Rs bn)	2.4	2.6	3.1
EPS (Rs)	17.3	19.2	22.4
EPS gth	*18.4*	*10.6*	*17.0*
P/E (x)	20.1	18.1	15.5
EV/EBITDA (x)	15.8	13.3	11.2
Div yield (%)	3.7	4.1	4.8

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.0	-	-
FIIs	7.8	0.1	(0.1)
MFs	5.2	0.2	0.1
UTI	-	-	(0.1)
LIC	6.1	0.2	0.1

Colgate-Palmolive (India): 1QFY09: Volume-led growth, retain ADD rating

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- **Strong underlying performance—11% volume growth, improvement in material costs**
- **Increasing competition limit pricing power**
- **Likely increase in sorbitol prices to hurt red toothpaste makers, Colgate largely has a white toothpaste portfolio**
- **Performance of 'Pepsodent Mahapack' continues to be a key trigger to watch out for**
- **Market share gains by Cibaca and Babool indicates mix of new consumer recruitment and likely category down-trading**
- **Retain ADD rating with a reduced target price of Rs420/share, stock offers 5% dividend yield**

Colgate reported yoy sales growth of 16.2%, adjusted EBITDA decline of 4.1% and net profit growth of 16.2% for 1QFY09. Higher employee costs and certain one-off provisions (in base) impacted EBITDA growth for the quarter. In line with our expectations, the effective tax rate increased 100 bps to 21.3% as the company has likely ramped up the production out of the Goa and Hyderabad units for logistical reasons. Market leadership in toothpaste and toothbrush were maintained with shares of ~48% and 37%, respectively—shares gains to moderate from now on as competition intensity from HUL, Dabur and Anchor increases. We believe increase in sorbitol prices will hurt red toothpaste makers; Colgate largely has a white toothpaste portfolio. We maintain our estimates for FY2009E and FY2010E. We retain ADD rating and revise target price to Rs420/share (Rs455/share earlier) as we assign a modest 5% discount to our DCF-based fair value of Rs455/share. Dividend yield of 5% provides downside support.

Strong 11% volume growth in toothpaste likely indicates improving category penetration. Colgate achieved an overall volume growth of 11.5% in 1QFY09—11% in toothpaste and 32% in toothbrush categories. Market share gains by 'Cibaca' (Colgate) and 'Babool' (Dabur) possibly indicates two scenarios—(1) higher consumer recruitment into toothpaste category as these two are entry-level brands, (2) potential down trading within toothpaste category to lower value products (these brands are positioned as value-for-money). We believe new consumer recruitment driven growth is the likely scenario as the category penetration improvement of 8% suggests (53% for 2007 compared to 45% in 2004).

Improvement in material costs, one-off items impact EBITDA. We like the relative higher insulation to crude-led cost increases for Colgate's product portfolio. Raw material costs (as a percentage of sales) for the quarter improved 50 bps to 43%. However, adjusted for one-off items, EBITDA declined 4.1% for the quarter. We highlight the significant items: (1) higher employee costs (up 48% yoy) due to likely one-off items in base and scale-up of in-house shared services unit, (2) phasing of advertisement and promotion expenses (17% of sales in current quarter and for FY08, 15% of sales in base quarter), (3) write-back of provision for Nepal subsidiary in base (Rs75 mn).

Increasing competitive intensity. Though oral care is a non-focus category for parent Unilever, it contributes significantly to HUL. We believe HUL will be uncomfortable to allow its market share to dip below 30% and is expected to look at various options to prevent market share loss. Channel sources indicate moderate success for 'Pepsodent Mahapack'—flow wrapped toothpaste of 30 gms priced at Rs6. The product was initially launched in select geographies, currently it is extended pan India. HUL gaining market shares from low cost competition (Anchor, Ajanta) and Babool (Dabur) is the best-case scenario for Colgate. Moreover, the increasing competitive intensity limits pricing power at a time when Colgate will likely face cost pressures on packaging costs. We highlight that the last leg of all-round price increases undertaken by the company in toothpaste portfolio was in July 2007 (about 4% blended price increases).

Higher effective tax rate—all incremental volumes may not come from Baddi factory. The effective tax rate (ETR) for the quarter increased 100 bps to 21.3%. We model a 200 bps increase in ETR for FY09E to 21.8%. We had highlighted in our earlier note dated June 2 that the acquisition of three contract manufacturers in Hyderabad and Goa by Colgate is to streamline its supply chain and highlight that all incremental growth may not come from Himachal. We believe Colgate is trying to improve the stock availability at point-of-sale as possibly the company have found it difficult to service the entire country from Himachal. We like the company's choice of improving the stock availability index at point of sale over fiscal benefits.

Retain ADD rating with a revised target price of Rs420/share. Colgate has maintained an average dividend payout ratio of 75% over the past five years (even after investing over Rs1 bn in the Baddi facility). We expect the payout ratio to be maintained. We retain our EPS estimates for FY2009E and FY2010E at Rs19.2 and Rs21.9, respectively. We now assign a 5% discount to our DCF-based fair value of Rs455/share and revise the target price to Rs420/share. Market share gain ambitions of key competitors, limited pricing power and potential cost inflation in packaging will likely be an overhang for the stock for the next 2-3 quarters. However, stability of earnings, good dividend yield (5%) and market leadership position makes Colgate an excellent defensive stock to own in volatile times.

The risks to our rating are (1) any unprecedented competitive activity by HUL for aggressive market share gains, (2) emergence of price-based competition and (3) higher-than-expected down trading in the category.

Colgate Palmolive (India)—quarterly summary, March year-ends (Rs mn)

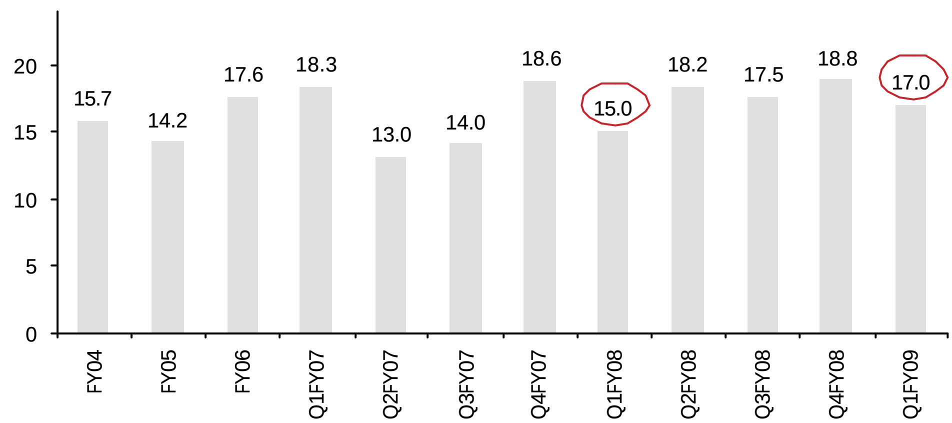
		yoy		Our est.	yoy
	1QFY09	1QFY08	% chg	1QFY09	% chg
Net sales	**4,076**	**3,507**	**16.2**	**3,987**	**13.7**
Material cost	(1,752)	(1,525)		(1,724)	
Employee cost	(330)	(223)		(256)	
Other expenditure @	(641)	(544)		(625)	
Advertising & promotions	(693)	(525)		(615)	
Total expense	(3,415)	(2,817)		(3,220)	
EBITDA @	**661**	**689**	**(4.1)**	**767**	**11.3**
Depreciation	(55)	(44)		(52)	
EBIT	606	645		715	
Other income	312	135		180	
Net interest	(4)	(3)		(3)	
PBT	**913**	**777**	**17.6**	**892**	**14.9**
Tax	(194)	(158)		(196)	
PAT	**719**	**619**	**16.2**	**696**	**12.5**
Extraordinary income (loss)	-	(10)		-	
Reported net profit	**719**	**609**	**18.1**	**696**	**14.3**
EBITDA margin (%)	16.2	19.7		19.2	
Effective tax rate (%)	21.3	20.3		22.0	
Costs as % of net sales					
Material cost	43.0	43.5		43.2	
Employee cost	8.1	6.4		6.4	
Other expenditure	15.7	15.5		15.7	
Advertising & promotions	17.0	15.0		15.4	

@ EBITDA and Other expenditure in base are adjusted for Rs75 mn one-off provisions written-back

Source: Company data, Kotak Institutional Equities.

Colgate will have to spend higher on A&P to match HUL

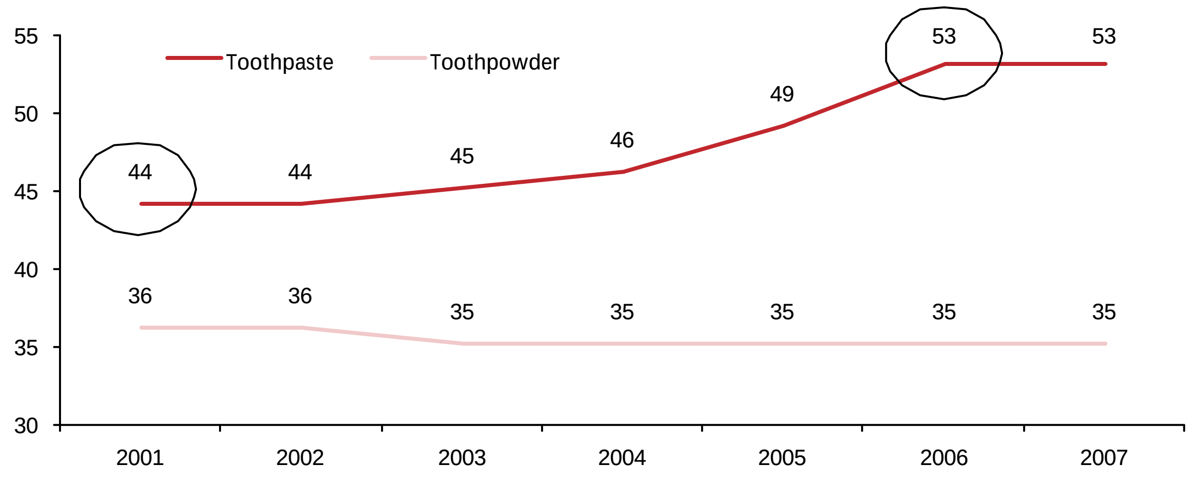
Advertising and promotion as a % of sales



Source: Company data, Kotak Institutional Equities.

Faster growth in market shares of Cibaca and Babool likely indicates improvement in category penetration

Toothpaste and toothpowder penetration (%)



Source: Company data, Kotak Institutional Equities.

Colgate: Profit model, balance sheet, cash model 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	**11,239**	**12,892**	**14,665**	**16,883**	**19,111**
EBITDA	**2,018**	**2,089**	**2,301**	**2,821**	**3,320**
Other income	196	670	773	729	735
Interest	(6)	(10)	(13)	(10)	(10)
Depreciation	(149)	(153)	(197)	(197)	(217)
Extraordinary items	(125)	(389)	(10)	0	0
Pretax profits	1,934	2,208	2,854	3,344	3,828
Tax	(558)	(606)	(538)	(729)	(853)
Net profits	**1,376**	**1,602**	**2,316**	**2,615**	**2,975**
Earnings per share (Rs)	**11.0**	**14.6**	**17.1**	**19.2**	**21.9**
Dividend per share (Rs)	**7.5**	**9.5**	**13.0**	**16.3**	**18.6**
Balance sheet (Rs mn)					
Total equity	2,711	2,805	1,832	1,851	1,873
Total borrowings	44	43	44	44	44
Currrent liabilities	3,511	4,226	4,718	5,405	5,957
Total liabilities and equity	**6,265**	**7,074**	**6,593**	**7,300**	**7,874**
Cash	880	1,117	227	230	189
Current assets	2,135	2,447	2,740	3,283	3,713
Total fixed assets	1,691	1,920	2,036	2,196	2,381
Investments	1,559	1,590	1,590	1,590	1,590
Total assets	**6,265**	**7,074**	**6,593**	**7,300**	**7,874**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	1,348	1,411	2,211	2,449	2,774
Working capital	427	71	75	19	38
Capital expenditure	(332)	(600)	(312)	(357)	(402)
Investments	124	150	0	0	0
Free cash flow	**1,567**	**1,033**	**1,974**	**2,111**	**2,410**

Source: Kotak Institutional Equities estimates.

Banking

PWFC.BO, Rs118	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	130
52W High -Low (Rs)	297 - 97
Market Cap (Rs bn)	135.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	18.6	21.6	26.6
Net Profit (Rs bn)	13.1	14.9	18.1
EPS (Rs)	11.4	13.0	15.8
EPS gth	*2.6*	*14.3*	*21.1*
P/E (x)	10.4	9.1	7.5
P/B (x)	1.3	1.2	1.0
Div yield (%)	1.3	1.5	1.8

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	89.8	-	-
FIIs	5.5	0.1	0.1
MFs	1.1	0.2	0.2
UTI	-	-	-
LIC	-	-	-

Power Finance Corporation: Tweaking estimates and raising cost of equity, retain REDUCE

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- **Post the conference call, we are tweaking our earnings estimates**
- **We are raising cost of equity by 50 bps to 13%**
- **Reduce price target to Rs130 from Rs140 earlier, retain REDUCE**

Post the conference call with management, we are tweaking our earnings estimates down by 2% for FY2009E and up by 4% in FY2010E to factor lower fees, loan growth and higher spreads. We are raising our cost of equity assumption to 13% from 12.5% earlier to factor the rising interest rates in the system. We are reducing our price target to Rs130 from Rs140 earlier. Retain REDUCE recommendation. PFC with its dominant position in the power finance industry will likely be a key beneficiary from the planned capacity addition in the sector. However, we believe the current market price provides limited upside given its range-bound RoE. The stock is current trading at 9.1X PER and 1.1X PBR FY2009E.

Key changes to our model

Raising estimate for NIMs. We are raising our NIMs estimates for PFC by 10 bps for FY2009E and 30 bps for FY2010E. PFC has recently raised interest rates by 50 bps which will enable the company it to earn higher yields on disbursements as well as assets due for re-pricing (Rs50 bn in balance nine months of FY2009).

Lower growth estimate. We are reducing our loan growth estimate to 31% for FY2009E and 27% for FY2010E versus 34% and 32% assumed earlier. The company has reported 21% loan in the 1Q09 which we expect to rise in the subsequent quarters.

Lowering estimate for fees. We are reducing our estimates for fee income to Rs800 mn for FY2008E down from Rs1,200 mn earlier given low traction in PFC's initiatives to increase non-fund based income. The company booked fees of Rs80 mn in 1Q09. The management has highlighted that it is looking forward to earn Rs150 mn from award of a UMPP by 3Q09. Other assignments in hand will earn Rs800 mn over the next 1-2 years.

PFC proposes to sponsor a private equity fund in which it will have about 30% stake. The management has highlighted that this initiative will be finalized over next 1-2 quarters.

No change in estimated provisions. In 1Q09, PFC made total provisions of Rs60 mn. Of this, Rs50 mn was on account of a loan which was classified 'standard' despite it failing to meet the extant asset recognition norms. In case, this loan was classified as 'sub-standard' the provisions would be higher by Rs206 mn. We retain our current provision estimate of Rs477 mn (0.08% of gross assets) for FY2009E. However, we believe large exposures to state utilities with poor financials are a risk to PFC though it has effectively managed collections in the past.

Power Finance Corporation

Old and new estimates, March fiscal years 2009-2010E (Rs mn)

	Old estimates		New estimates		Old vs New (%)	
	2009E	2010E	2009E	2010E	2009E	2010E
Net interest income	20,869	24,134	21,340	25,359	2	5
Loan growth (%)	34	32	31	27		
NIM (%)	3.4	3.0	3.5	3.3		
NPL provisions	755	1,004	477	963	(37)	(4)
Other operational income	1,200	1,500	800	1,200	(33)	(20)
Other income (forex etc)	100	100	(570)	-		
Operating expenses	765	1,011	756	970	(1)	(4)
Employee	422	485	422	527	0	9
Others	344	526	335	443	(3)	(16)
PBT	20,604	23,674	20,291	24,581	(2)	4
Tax	6,799	7,812	6,696	8,112	(2)	4
PAT	13,805	15,862	13,595	16,469	(2)	4

Source: Kotak Institutional Equities estimates.

Pharmaceuticals

REDY.BO, Rs642	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	790
52W High -Low (Rs)	763 - 424
Market Cap (Rs bn)	108.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	49.1	67.6	74.6
Net Profit (Rs bn)	4.4	6.2	7.2
EPS (Rs)	26.1	36.6	43.1
EPS gth	*(57.2)*	*40.4*	*17.8*
P/E (x)	24.6	18	14.9
EV/EBITDA (x)	11.5	8.9	7.7
Div yield (%)	0.6	0.6	0.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.1	-	-
FIIs	41.6	0.5	0.3
MFs	5.8	0.4	0.1
UTI	-	-	(0.3)
LIC	12.3	0.8	0.5

Dr. Reddy's Laboratories: FY2008 annual report update, price target rolled forward

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- **Sales growth driven by branded finished dosage, US generics. Betapharm and CPS Mexico sales dip due to supply side issues**
- **Capex of Rs6 bn in FY2008—highest ever in a single year**
- **Working capital position remains steady with DRL having the best working capital to net sales ratio among the large caps we cover**
- **KIE 1QFY09E revenues and PAT of Rs15.2 bn and Rs1.2 bn under Indian GAAP**
- **FY2009E and FY2010E PAT estimates down 11% and 5% due to higher interest costs and effective tax rate**
- **Maintain BUY rating with SOTP-based target price rolled forward to Rs790 (from Rs760 in April)**

Sales excluding AG sales decline 3%, however its increases 9% in dollar terms. This was mainly due to double digit sales growth in branded finished dosage and US generics. In FY2008, sales in Russia crossed US$100 mn and DRL received 13 ANDA approvals, the highest in a single year so far. Betapharm and CPS Mexico faced supply side problems which led to decline in sales. FY2009E and FY2010E PAT estimates down 11% and 5% due to higher interest and effective tax rate, respectively. The stock trades at 18X FY2009E and 15X FY2010E earnings. Maintain BUY rating with a SOTP-based target price rolled forward to Rs790 (from Rs760).

Sales growth driven by branded finished dosage, US generics. Betapharm and CPS Mexico sales dip due to supply side issues Even though sales declined by 23% yoy in rupee terms, we notice that sales decline was 3% in rupee terms excluding AG sales from both years. (2007 AG sales was 24% of total sales) With around 57% of sales invoiced in dollars, the Rupee appreciation had a significant impact of the company's revenues. In dollar terms, the sales grew 9% to US$1.2 bn for FY2008. This is quite commendable because two of its businesses—Betapharm and CPS Mexico witnessed decline in sales due to the supply side issues.

1) API sales were flat for the year due to the high base (generic sertraline sales in US were included in FY2007).

2) Betapharm revenues grew 2% yoy at Rs8.2 bn due to the raw materials supply issues at its contract manufacturer, Salutas. This led to lower finished dosage supply. The transfer of products to India continues to increase and DRL expects to totally eliminate its dependence on Salutas by August 2008.

3) CPS Mexico sales declined 44% yoy due to supply side constraints faced by DRL for raw material for naproxen, the largest product manufactured in the Mexican facility. This issue has now been resolved with DRL setting up its own plant near Hyderabad at a cost of US$14 mn for manufacturing the necessary raw material for this product.

4) US generics base business witnessed growth with DRL getting the highest number of ANDA approvals (13) and launching 10 new products during FY2008 including two OTC products which contributed Rs263 mn in sales. We expect the full effect of these launches to show up in FY2009 as many of these launches took place in the last quarter. (US$67 sales in 4QFY08, up 50% qoq).

5) Branded finished dosage segment remained the best performing segment growing 15% yoy in Rupee terms led by India (16%), Russia (20%) and Eastern Europe (33%).

Capex of Rs6 bn in FY2008—highest in a single year. During the year, DRL invested Rs6 bn in expanding manufacturing and research capacities. Details of some of these investments are in Exhibit 2. Benefits of expanded manufacturing capacity will start in FY2009E but first full year of benefit could be FY2011E.

Working capital position remains steady with DRL having the best working capital management among the large caps we cover. As seen in Exhibit 1, balance sheet quality remained steady. Net working capital (debtors +inventory - creditors) was at 15% of sales which makes DRL the best among the large cap generics we cover. Yoy comparison is not meaningful due to the exclusivities enjoyed in FY2007 which led to a low inventory position on a high sales base. We expect the NWC position to remain around current levels.

KIE 1QFY09E revenues and PAT of Rs15.2 bn and Rs1.2 bn. We expect revenues to increase 20% qoq to Rs15.2 bn and EBITDA margins before R&D to improve by 130 bps qoq to 23.6%. This margin expansion comes from favorable Rs/US$ rate and operating performance improvement in Betapharm, CPS Mexico. Our models are under Indian GAPP consolidated system.

FY2009E and FY2010E PAT estimates down 11% and 5% due to higher interest costs and effective tax rate. We revise our estimates downwards to incorporate FY2008 performance mainly (1) introducing interest costs for FY2009E (Rs850 mn) and FY2010E (Rs 400 mn) (FY2008 interest costs were Rs958 mn) and (2) increasing tax rate to 20% as seen in FY2008. The company has guided towards 25% continuing sales growth, maintaining gross margins at 50% (FY2008 gross margins at 51%) and R&D expenses at 7% of sales (FY2008 R&D costs at 7%). We estimate FY2009E sales growth at 38% (including Imitrex) and EBITDA margins before R&D at 23.8%. (FY2008 EBITDA margins before R&D at 22.5%). Excluding Imitrex and recent acquisitions, we estimate continuing sales growth at 26% in FY2009E. (see exhibit 5)

Maintain BUY rating with a SOTP-based target price rolled forward to Rs790. (from Rs760). We had upgraded the DRL stock to BUY (from ADD) with price target of Rs760 in early April on the back of improving profitability in Betapharm and CPS Mexico (see report 'Upgrading rating to Buy following earnings upgrade and positive message from management meetings'). Review of the annual report confirms that the problems at Betapharm and CPS Mexico have been resolved to a large extent. The stock is up 10% in the past three months outperforming the sensex by 25%. We maintain our BUY rating with price target rolled forward to Rs790 (from Rs760 set in April 2008). There are no material changes to our earnings estimates. The stock trades at 18X FY2009E and 15X FY2010E earnings.

Net working capital (% of net sales)

	FY2005	FY2006	FY2007	FY2008
Generics				
Sun Pharma	39	46	58	
Ranbaxy*	30	34	40	34
Dr. Reddy's*	14	14	9	15
Glenmark	63	67	65	
Cipla	50	50	49	

* Actuals for FY2008
Source: Company.

Capex details (FY2008)

Project	Amount spent (Rs mn)	Present status
Cytotoxc facility for formulations	660	To be comissioned shortly
Formulations plant at Himachal Pradesh	670	Comissioned
Generics facility expansion	630	Phases1,2 comissioned
IPDO Centre	570	Comissioned
DL acid facility	560	Comissioned
ZLD capacity expansion	490	Expected to be completed by
Five year capacity build up	400	Ongoing
MMC 2	370	Comissioned
SEZ land	400	SEZ approval received
Total	**4,750**	

Source: Company.

Forecasts and valuation, March fiscal year-ends, 2006-2010E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs)	(%)	(%)	(x)
2006	23,466	27.8	4,988	34.9	1,467	345.9	9.6	4.3	7.3	67.2
2007	64,229	173.7	18,164	264.1	9,659	558.3	60.9	21.9	31.8	10.6
2008	49,699	(22.6)	11,060	(39.1)	4,380	(54.7)	26.1	6.7	10.3	24.6
2009E	67,626	36.1	16,091	45.5	6,156	40.5	36.6	11.0	12.9	17.6
2010E	74,582	10.3	18,006	11.9	7,249	17.8	43.1	11.6	13.5	14.9

Source: Kotak Institutional Equities estimates.

Profit and loss statement (Rs mn)

	2006	2007	2008	2009E	2010E
Net sales	**23,466**	**64,229**	**49,142**	**67,626**	**74,582**
Operating expenses					
Materials	(8,165)	(27,432)	(17,847)	(29,173)	(32,474)
Selling and administration	(5,613)	(9,735)	(10,561)	(11,250)	(11,450)
Employee cost	(3,495)	(6,433)	(7,311)	(8,407)	(9,668)
R& D	(1,737)	(2,446)	(3,447)	(4,734)	(5,221)
Others	(1,403)	(2,539)	(2,363)	(2,705)	(2,983)
Total expenditure	**(20,413)**	**(48,584)**	**(41,528)**	**(56,269)**	**(61,796)**
License fees and service income	161	910	775	500	500
EBITDA	**3,214**	**16,555**	**8,389**	**11,857**	**13,286**
Depreciation and amortisation	(1,617)	(3,791)	(4,019)	(4,600)	(5,100)
EBIT	**1,597**	**12,764**	**4,370**	**7,257**	**8,186**
Net finance cost	(644)	(1,526)	(958)	(850)	(400)
Other income	1,061	1,162	2,038	1,300	1,300
Pretax profits before extra-ordinaries	**2,013**	**12,399**	**5,450**	**7,707**	**9,086**
Current tax	(173)	(2,435)	(1,058)	(1,176)	(1,392)
Deferred tax	(304)	(238)	159	(275)	(325)
Fringe benefit tax	(70)	(71)	(178)	(90)	(100)
Reported net profit	**1,467**	**9,656**	**4,373**	**6,166**	**7,269**
Minority Interests	—	(4)	(9)	10	20
Reported net profit after minority inte	**1,467**	**9,659**	**4,381**	**6,156**	**7,249**

Source: Company, Kotak Institutional Equities estimates.

Breakup of financials (Rs mn)

	FY2009E	FY2010E		FY2009E	FY2010E
Revenues			**PAT**		
Base	54,950	63,121	Base	5,573	6,760
Imitrex	2,684	—	Imitrex	273	—
Betapharm	10,701	12,285	Betapharm	319	508
Total	**68,335**	**75,406**	**Total**	**6,166**	**7,269**
EBITDA pre R&D			**EPS**		
Base	13,708	15,918	Base	33	40
Imitrex	671	—	Imitrex	2	—
Betapharm	1,712	2,088	Betapharm	2	3
Total	**16,091**	**18,006**	**Total**	**37**	**43**
EBITDA, %			**P/E**		
Base	25	25	Base	19	16
Imitrex	25	—	Base+Betapharm	19	15
Betapharm	16	17	Base+Betapharm+Imitrex	18	15
Total	**24**	**24**			

Source: Company, Kotak Institutional Equities estimates.

Transportation

CCRI.BO, Rs760	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	950
52W High -Low (Rs)	1170 - 723
Market Cap (Rs bn)	98.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	33.5	39.8	44.6
Net Profit (Rs bn)	7.5	8.8	9.7
EPS (Rs)	57.7	67.5	75.0
EPS gth	*8.1*	*17.5*	*11.4*
P/E (x)	13.2	11.3	10.1
EV/EBITDA (x)	8.8	7.4	6.2
Div yield (%)	1.6	1.9	2.1

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.1	-	-
FIIs	27.9	0.2	0.1
MFs	1.2	0.0	(0.1)
UTI	-	-	(0.1)
LIC	2.5	0.1	(0.1)

Container Corporation: Management reiterates guidance of strong growth in exim segment; domestic volume growth to be lower than expected earlier

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- **Exim segment grows in spite of disruption in activities while domestic volumes decline**
- **Concor to pass on entire traffic hike by Indian Railways to customers**
- **Pan-India network planned for cold-chain business with strategic partner; partners for shipping and air-cargo businesses to be finalized within this year**
- **Adjust estimates for lower growth in domestic segment; maintain target price of Rs950 and ADD rating**

Concor's overall volumes increased 5.2% yoy in 1QFY09 to 589,113 TEUs, with exim volume growth of 8.4% and domestic volumes decline of 6.6%. Management has reiterated its expectations of achieving 15% growth in the exim segment in FY2009, though domestic segment growth expectations have been lowered to 15% from 20% earlier. Concor will pass on the entire hike of 14-16% in haulage charges by Indian Railways to customers. Concor has invited EOIs for a strategic partner for its cold chain business as it proposes to develop a pan-India network of cold storage warehouses. It also proposes to finalize partners for its shipping and air-cargo businesses by this year. We believe such initiatives will take time before they provide meaninful upside. We adjust our estimates to factor in lower growth in the domestic segment. We maintain our target price of Rs950 and ADD rating.

Exim segment grows in spite of disruption in activities while domestic volumes decline

Concor's overall volumes increased 5.2% yoy in 1QFY09 to 589,113 TEUs, with exim volume growth of 8.4% and domestic volumes decline of 6.6%. Management highlighted that volumes could likely have been higher by about 10% had disruption in rail operations due to the Gujjar agitation not taken place. Huge pendencies occurred at JNPT as operations were affected for a month (about 10 days in May and 20 days in June), forcing Concor to explore alternative routes and reduce operations. Management has reiterated its expectations of achieving 15% growth in the exim segment in FY2009. Domestic volumes were affected due to the agitation as well as general sluggishness in the market, and growth expectations have been lowered to 15% in FY2009 versus 20% earlier. Management highlighted in the call that it did not face any significant increase in competition during the quarter (Concor's market share was about 94% during 4QFY08).

Originating traffic growth (i.e. the containers actually transported by Concor) in 1QFY09 in the exim segment has been only 3.6% (likely affected by the agitation). This is reflected in the lower freight expense ratio (lower by about 200 bps yoy, though in part also contributed by higher terminal handling charges). We highlight that originating traffic growth during FY2008 was about 12%. We also highlight that container traffic growth at major ports has been only about 6.4% (as per data from the Indian Ports Association).

Concor to pass on entire traffic hike by Indian Railways to customers

Indian Railways has proposed to hike container haulage charges by about 14%-16% (varying with various distance and tonnage slabs), effective August 1. Concor has stated that it will pass on the entire tariff hike to customers.

Pan-India network planned for cold chain business with strategic partner; partners for shipping and air-cargo businesses to be finalized this year

Cold chain business – Concor has invited EOIs for a strategic partner for its cold chain business as it proposes to develop a pan-India network of cold storage warehouses. It has received eight responses for the same so far.

Shipping services – Concor has received 15 EoIs and is currently evaluating the same. It expects to complete the process by year-end.

Air Cargo business – Detailed discussions with the three shortlisted parties is currently on and a partner is expected to be finalized within the next three months.

Port terminals – Concor's bid did not reach the final round of evaluation for the project for development of the third terminal at Ennore (it was third on technical parameters but only the top two were qualified. It has requested for a review of the decision). It is evaluating whether to bid for the third terminal at Chennai for which the RFQ is out. It has responded to the RFQ for the Marauli port in Gujarat but there is no forward movement on that post submission.

JV with Gateway – The JV has been operationalized during the quarter. Plans for further development of the Garhi at ICD are likely to be developed within the month.

We believe these initiatives will pose significant execution challenges and take time before they scale up to provide meaningful upside to investors.

In-line performance in spite of disruption in operations due to agitation in Rajasthan

Concor reported 1QFY09 revenues of Rs8.3 bn (up 6% yoy) and PAT of Rs2 bn (up 8% yoy) versus our expectation of revenues of Rs9.1 bn and PAT of Rs2 bn. Revenues missed expectations due to the Gujjar agitation in the state of Rajasthan that had disrupted train operations. PAT was in line with our expectations led by (1) higher EBITDA margins of 29% versus our expectation of 27% and (2) higher other income of Rs453 mn (up 29% yoy) versus our expectation of Rs367 mn.

Adjust estimates for lower growth in domestic segment; maintain target price of Rs950 and ADD rating

We now assume domestic segment traffic growth of 12.5% in both FY2009E and FY2010E versus 15% earlier. We adjust our EPS estimates to Rs67.5 (from Rs67.8 earlier) and Rs75 (from Rs75.5 earlier) for FY2009E and FY2010E, respectively. We also factor in the hike by Indian Railways and assume Concor to pass on the entire hike to its customers. We maintain our SOTP-based target price of Rs950 comprising (1) Rs894 per share for the core rail business (based on March-FY2010E DCF using a WACC of 13.5%), (2) Rs25 per share for the JNPT terminal JV, (3) Rs8 per share for the HAL JV and (4) Rs9 per share for all other JVs combined. We maintain our ADD rating. We highlight that our estimates factor in (1) decline in Concor's market share—we assume Concor's exim volume growth at about 10% in FY2009E and FY2010E and 7% post that and (2) steady decline in margins to factor in increasing competition.

Key risks arise from (1) increasing competition from private players, (2) slower growth in Indian containerized trade, (3) continued sluggishness in the domestic segment and (4) further haulage rate hikes by Indian Railways.

Exhibit 1: Concor - 1QFY09 - key numbers (Rs mn)

					yoy			qoq	
	FY2008	FY2009E	FY2010E	1QFY09	1QFY08	% change	1QFY09	4QFY08	%change
Net Sales	**33,473**	**39,769**	**44,592**	**8,228**	**7,784**	***5.7***	**8,228**	**9,069**	***(9.3)***
Staff cost	(550)	(659)	(754)	(151)	(110)	*37.7*	(151)	(188)	*(19.5)*
Rail freight exp	(19,259)	(22,976)	(25,393)	(4,484)	(4,393)	*2.1*	(4,484)	(4,994)	*(10.2)*
Others	(4,760)	(5,562)	(6,220)	(1,203)	(1,000)	*6.1*	(1,203)	(1,532)	*(13.0)*
Total exp	**(24,569)**	**(29,196)**	**(32,367)**	**(5,839)**	**(5,503)**	***6.7***	**(5,839)**	**(6,714)**	***(14.3)***
Operating profit	**8,904**	**10,572**	**12,225**	**2,389**	**2,281**	***4.8***	**2,389**	**2,355**	***1.5***
Other Income	1,645	2,053	2,203	453	351	*29.1*	453	553	*(18.1)*
EBIDTA	**10,549**	**12,625**	**14,428**	2,842	2,632	*8.0*	2,842	2,908	*(2.3)*
Interest	-	-	-	-	-		-	-	
Depreciation	(1,063)	(1,285)	(1,572)	(275)	(258)	*6.4*	(275)	(270)	*1.9*
PBT	**9,485**	**11,340**	**12,856**	**2,568**	**2,374**	***8.2***	**2,568**	**2,638**	***(2.7)***
Tax	(1,980)	(2,562)	(3,109)	(549)	(503)	*9.2*	(549)	(520)	*5.6*
Prior period	17	-	-	-	(0)		-	-	
PAT	**7,522**	**8,778**	**9,747**	**2,018**	**1,871**	***7.9***	**2,018**	**2,118**	***(4.7)***
Key ratios (%)									
Rail freight exps/Sales	57.5	57.8	56.9	54.5	56.4		54.5	55.1	
Other exp/Sales	14.2	14.0	13.9	14.6	12.8		14.6	16.9	
Employee exp/Sales	1.6	1.7	1.7	1.8	1.4		1.8	2.1	
Operating profit margin	26.6	26.6	27.4	29.0	29.3		29.0	26.0	
Effective tax rate	20.9	22.6	24.2	21.4	21.2		21.4	19.7	
Segmental analysis									
Volumes (TEUs)									
Exim	1,977,399	2,175,139	2,392,653	480,179	443,147	*8.4*	480,179	528,434	*(9.1)*
%	80.8	80.4	80.1	81.5	79.2		81.5	80.9	
Domestic	470,370	529,166	595,312	108,934	116,657	*(6.6)*	108,934	124,631	*(12.6)*
%	19.2	19.6	19.9	18.5	20.8		18.5	19.1	
Total	2,447,769	2,704,305	2,987,965	589,113	559,804	*5.2*	589,113	652,965	*(9.8)*
Sales (Rs mn)									
Exim	26,467.1	31,567.7	35,336.3	6,643.8	6,103.6	*8.9*	6,643.8	7,128.3	*(6.8)*
%	79.1	79.4	79.2	80.7	78.4		80.7	78.6	
Domestic	7,005.9	8,200.9	9,255.8	1,584.6	1,655.7	*(4.3)*	1,584.6	1,965.4	*(19.4)*
%	20.9	20.6	20.8	19.3	21.3		19.3	21.7	
Per TEU realisation (Rs)									
Exim	13,385	14,513	14,769	13,836	13,773	*0.5*	13,836	13,489	*2.6*
Domestic	14,894	15,498	15,548	14,546	14,193	*2.5*	14,546	15,770	*(7.8)*
Overall	13,675	14,706	14,924	13,967	13,861	*0.8*	13,967	13,927	*0.3*
PBIT margin (%)									
Exim	27.6			29.7	29.4		29.7	25.7	
Domestic	13.6			15.3	19.7		15.3	10.4	
Per TEU PBIT margin (Rs)									
Exim	3,689			4,115	4,046	*1.7*	4,115	3,471	*18.6*
Domestic	2,024			2,221	2,796	*(20.6)*	2,221	1,633	*36.0*
Overall	3,369			3,765	3,786	*(0.5)*	3,765	3,121	*20.6*

Source: Company data, Kotak Institutional Equities estimates.

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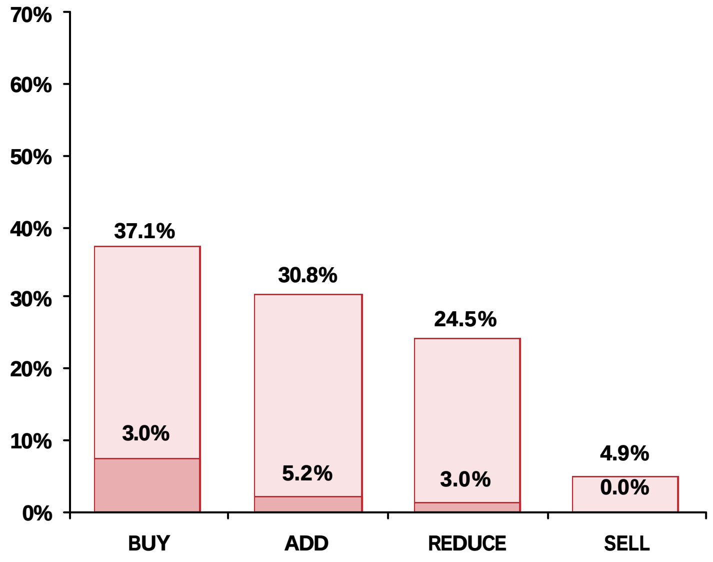

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Source: Kotak Institutional Equities. As of March 31, 2008

Ratings and other definitions/identifiers

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