

June 12, 2007

FOR PRIVATE CIRCULATION

**Equity**

	11 June 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	14,083	0.1	2.1	9.2
Nifty	4,146	0.0	1.7	11.0
Banking	7,428	(0.2)	7.6	14.8
IT	3,736	(0.1)	1.9	4.8
Healthcare	3,752	0.3	1.9	7.5
FMCG	1,790	0.6	(0.5)	7.5
PSU	6,462	0.3	1.1	15.4
CNX Midcap	5,568	(0.4)	5.2	18.7
<b>World indices</b>				
Nasdaq	2,572.2	(0.1)	0.4	7.1
Nikkei	17,834	0.3	1.2	2.8
Hangseng	20,615	0.5	0.2	5.5

**Value traded (Rs cr)**

	11 June 07	% Chg - 1 Day
Cash BSE	3,407	(23.6)
Cash NSE	7,671	(27.5)
Derivatives	28,940.0	(30.8)

**Net inflows (Rs cr)**

	8 June 07	% Chg	MTD	YTD
FII	(936)	320	(562)	16,705
Mutual Fund	227	(361)	47	(429)

**FII open interest (Rs cr)**

	8 June 07	% chg
FII Index Futures	14,933	(1.1)
FII Index Options	6,325	(1.4)
FII Stock Futures	19,039	0.7
FII Stock Options	37	4.8

**Advances/Declines (BSE)**

	11 June 07	A	B1	B2	Total	% Total
Advances	90	291	456	837	44	
Declines	118	424	486	1,028	53	
Unchanged	1	23	35	59	3	

**Commodity**

	11 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	66.0	1.9	5.8	9.9
Gold (US\$/OZ)	653.7	0.7	(2.5)	0.6
Silver (US\$/OZ)	13.2	1.1	(0.0)	1.6

**Debt/forex market**

	11 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.34	8.19	8.17	7.97
Re/US\$	40.8	41.2	41.1	44.2

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- Telecom companies, collectively facing a Rs.4-bn fine for not rolling out services in rural areas, may soon get some relief. Trai is likely to propose scrapping the norm that makes extension of mobile phone services to rural areas mandatory. (ET)
- The Government has asked the Asian Development Bank to increase non-recourse lending to public and private sector companies. The Finance Ministry has indicated to ADB that it should increase lending without insisting on sovereign guarantees. (ET)
- A poor show by coal, cement and finished steel led to low overall growth in the infrastructure index. The index, which comprises six core industries, grew 7.4% in the first month of the current fiscal, down from 10% in March this year. (ET)
- The Government is likely to take a decision on a hike in petrol and diesel prices in mid-July, a Government official has said. The review has been necessitated by the increase in global and domestic crude oil prices. (BS)
- Bilateral trade between India and China rose 53.7% to \$14.2 bn during the first five months of the year. This was the fastest growth rate among China's top 10 trading partners. (ET)

**CORPORATE NEWS**

- **Reliance Industries'** move to finalize a benchmark market price for gas to be produced at its Krishna Godavari basin may soon get the official stamp of approval by the Petroleum Ministry. (ET)
- **Hero Motors** is looking to supply auto components to carmakers in the domestic and overseas market. This follows its JV agreement signed with Kiriu Corporation, a subsidiary of Japan-based Sumitomo Corporation to manufacture disc brakes and drum knuckles. (BL)
- **Reliance Communications** will raise \$1 bn in foreign loans (or external commercial borrowings) - its second such fund raising this year. The company will tap Singapore, Hong Kong, Japan and Taipei markets for the money to fund its expansion. (ET)
- The attempt by **Life Insurance Corporation of India** to acquire a controlling interest in **UTI Bank** seems set to be thwarted. The Government has indicated that it is not in favor of the state-owned insurance company controlling two banks. (ET)
- L&T Infotech, the IT subsidiary of **L&T**, will report a turnover of \$1 bn (over Rs.40 bn at current exchange rates) within a period of three or four years, the L&T CMD said. In FY07, it reported revenues of \$287 mn. Its CAGR for the last four years was 50%. (BL)
- **Essar Oil** plans to supply motor spirit and HSD to states in western and northern India from its Vadinar refinery in Gujarat, which will be fully commissioned by September. (BS)
- **JSW Steel** plans to extend its shares-for-land offer to all its forthcoming projects in Jharkhand, Rajasthan, Maharashtra and Andhra Pradesh. (ET)
- Hyderabad-based construction company **Gayatri Projects** has bagged two contracts amounting to Rs.1.4 bn. (BL)
- This week, **Spice Communications**, part owned by Telekom Malaysia, will announce the amount it plans to raise from an initial share sale, to expand beyond Punjab and Karnataka. (BS)
- The Vinod- and Pramod Mittal-controlled **Ispat Group** is all set to invest around \$3 bn (Rs.120 bn) in Bangladesh in a gamut of sectors, including gas exploration and production, power, petrochemicals and coal mining. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### RESULT UPDATE

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## RIDDHI SIDDHI GLUCO BIOLS (RSGB)

PRICE : Rs.271

RECOMMENDATION : BUY

TARGET PRICE : Rs.410

FY08E PE : 7.3x

**Riddhi Siddhi Gluco Biols (RSGB) reported excellent Q4FY07 results, which were in line with our expectations. We continue to recommend BUY with a price target of Rs.410 (51% upside).**

#### Summary table

(Rs mn)	FY06	FY07	FY08E
Sales	2,431	3,559	5,261
Growth (%)	32.2	46.4	47.8
EBITDA	331	543	838
EBITDA margin (%)	13.6	15.3	15.9
Net profit	113	268	411
Net debt	1,303	2,235	2,782
EPS (Rs)	13.4	24.0	36.9
Growth (%)	187.1	135.9	53.6
DPS (Rs)	2.0	3.0	3.5
ROE (%)	12.9	19.3	23.7
ROCE (%)	10.9	13.3	16.4
EV/Sales (x)	1.8	1.5	1.1
EV/EBITDA (x)	13.1	9.7	6.9
P/E (x)	20.2	11.3	7.3
P/BV (x)	2.5	1.9	1.6

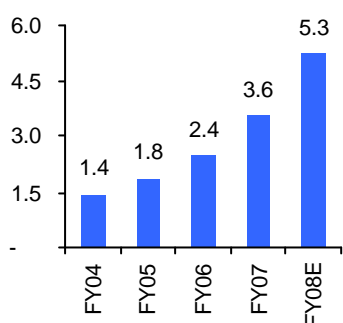
Source: Company & Kotak Securities - Private Client Research

- Net sales for Q4FY07 were Rs.1.06 bn, as against Rs.685 mn in Q4FY06, thereby registering a YoY growth of 55.2%. More importantly, it recorded sequential growth of 2.8%. The growth in sales is primarily due to strong demand for maize-based starch products, thereby leading to higher average price realizations and higher capacity utilization for the plant.
- For FY07, the company reported net sales of Rs.3.5 bn, as against Rs.2.4 bn thereby reporting 46.4% YoY growth.
- The company recorded an EBIDTA margin of 15.0% for Q4FY07, which is 130 bps lower on YoY and 60 bps lower on a sequential basis. The lower EBIDTA margin was on account of higher corn prices, which the company was able to pass on to its customer only with a lag, thus impacting the margins.
- However, the company reported 43% higher EBIDTA of Rs.160 mn in Q4FY07, as against Rs.112 mn in Q4FY06.
- Depreciation during Q4FY07 was higher by 65.9% YoY to Rs.30 mn. This was due to the increase in the provisioning of depreciation due to the expansion and debottlenecking programme at Gokak and at the Viramgam plant.
- The company recorded net interest income of Rs.0.5 mn, as it includes approximately Rs.35 mn income on account of positive effect of foreign currency fluctuation on outstanding foreign currency loans.
- PBT for Q4FY07 was at Rs.130 mn, up 128.7% YoY. This was higher by 39.0% on a sequential basis.

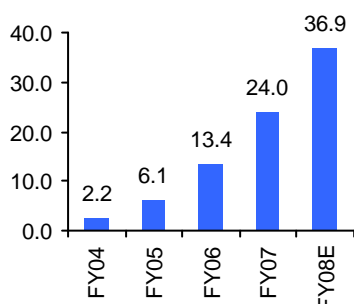
#### Quarterly results table

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	FY07	FY06	YoY (%)
<b>Net Sales</b>	<b>1,063</b>	<b>685</b>	<b>55.2</b>	<b>1,035</b>	<b>2.8</b>	<b>3,559</b>	<b>2,431</b>	<b>46.4</b>
Expenditure	903	573	57.5	874	3.4	3,015	2,100	43.6
<b>EBIDTA</b>	<b>160</b>	<b>112</b>	<b>43.0</b>	<b>161</b>	<b>(0.7)</b>	<b>543</b>	<b>331</b>	<b>64.2</b>
Depreciation	30	18	65.9	31	(3.1)	109	82	32.3
<b>EBIT</b>	<b>130</b>	<b>94</b>	<b>38.5</b>	<b>130</b>	<b>(0.1)</b>	<b>435</b>	<b>249</b>	<b>74.7</b>
Interest	(0)	37	(101.3)	36	(101.3)	109	119	(8.3)
<b>PBT</b>	<b>130</b>	<b>57</b>	<b>128.7</b>	<b>94</b>	<b>39.0</b>	<b>326</b>	<b>130</b>	<b>150.7</b>
Tax & deferred tax	36	16	119.5	11	242.4	58	16	253.2
<b>NPAT</b>	<b>94</b>	<b>40</b>	<b>132.5</b>	<b>83</b>	<b>13.3</b>	<b>268</b>	<b>113</b>	<b>135.9</b>
Equity sh o/s (mn)	10.6	6.4		10.6		10.6	8.4	
Equity sh o/s (mn) diluted*	11.1	11.1		11.1		11.1	11.1	
<b>Ratios</b>								
Operating profit margin (%)	15.0	16.3	-130 bps	15.6	-60 bps	15.3	13.6	+170 bps
Tax / PBT (%)	27.6	28.8		11.2		17.8	12.6	
EPS Reported (Rs)	8.9	6.3		7.9		25.4	13.4	
EPS (Rs) - Fully Diluted	8.4	3.6		7.5		24.0	10.2	
CEPS (Rs) - Fully Diluted	11.2	5.3		10.3		33.8	17.6	

Source: Company, \* Source: Kotak Securities - Private Client Research

**Net sales (Rs bn)**

Source: Company, Kotak Securities - Private Client Research

**EPS (Rs)**

Source: Company, Kotak Securities - Private Client Research

**We recommend a BUY on RSGB with a price target of Rs.410 (51% upside)**

- PAT for Q4FY07 is up 132.5% YoY and up 13.3% on a sequential basis to Rs.94 mn. This translated into a quarterly EPS of Rs.8.4 and quarterly CEPS of Rs.11.2, on a fully diluted basis.
- For FY07, the company reported PAT of Rs.268 mn, which is up 135.9% on a YoY basis, translating into full year FY07 EPS of Rs.24.0 and CEPS of Rs.33.8, on fully diluted basis.

### Higher operating margins going forward due to high quality innovative products

Going forward, the focus of the company would be on value added starches, which typically offer superior margins. RSGB plans to enter into high value products for nutrition, health, construction, biotech and fermentation categories and dextrose for the manufacture of sugar-free products. Along with one of the leading players of starch in the world, that is Roquette Ferres of France, the company is in advanced stages of development of new grades of dextrose and sugar free starches, which should again help to improve the margins going forward.

### Fire at Gokak plant not to have any significant negative impact

RSGB's Gokak unit had caught fire in the starch drier packing section on May 4 2007. Overall, there was loss of production for 23 days, which would have some negative impact on the Q1FY08 results of the company. Post fire, the company has been operating the plant at 55-60% capacity utilization levels and is expected to ramp it up to 90% in Q3FY08. We feel that on an overall basis there would not be any major change to our FY08 earnings estimates as we had already assumed lower capacity utilization for FY08E. We feel that 23 days loss of production would be adequately compensated by higher capacity utilization in the following period.

### Uttarakhand plant to commence commercial production by the end of the current month

The company's state of the art 500 TPD plant at Pantnagar (Uttarakhand) is coming up according to schedule and has already commenced trial runs. The plant is expected to commence commercial production by the end of the current month. This plant is built according to strict quality standards of Roquette Ferres of France. Hence, it has huge potential to make higher value-added derivatives of starch for the food and pharma industry. With this expansion, the total maize crushing capacity of the company would increase to 0.5 mn TPA. This is expected to lead to higher revenues and profitability for the company, going forward.

### Recommendation and valuation

- We maintain our earnings estimates and expect Riddhi Siddhi to report EPS of Rs.36.9 in FY08, on a fully diluted basis.
- We will also introduce our FY09 estimates shortly once the Uttarakhand plant commences commercial production and we get more clarity on the scale and scope of the new plant and its synergies with Roquette.
- At Rs.271, the stock trades at 1.6x FY08E to book value, discounts FY08E earnings at 7.3x and cash earnings at 5.5x.
- We remain positive and reiterate our BUY on RSGB with a price target of Rs.410, which provides upside potential of 51% from the current level. We recommend **BUY**.

## COMPANY UPDATE

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**STRIDES ARCOLAB LTD.**

**PRICE : Rs.327**  
**TARGET PRICE : Rs.476**

**RECOMMENDATION : BUY**  
**CY08E PE : 12.6x**

**Strides acquires Grandix Pharmaceuticals for Rs.1.0 bn**

Strides Arcolab has signed an agreement to acquire 100% of Grandix Pharmaceuticals Ltd and its subsidiary Grandix Laboratories Ltd on a cash and debt free basis, valuing the company at Rs.1 bn. The transaction is accretive to Strides EPS and offers a platform to grow its domestic business by infusing a robust Strides pipeline.

Grandix is a branded pharmaceutical company mainly focused on south India and has an established distribution network. It has around 45-50 active brands in antibiotic, anti diabetic, anti-hypertensive/cardiac, neurology, pulmocare and vitamins segment. For FY07, Grandix posted sales of Rs.485 mn and EBITDA of Rs.109 mn. The company expects sales to grow at over 30% in FY08. Net profit margin of the company is around 10%.

## Summary table

(Rs mn)	CY06	CY07E	CY08E
Revenues	7,430	10,104	12,362
Growth (%)	41.9	36.0	22.3
EBITDA	1,237	1,768	2,472
EBITDA margin (%)	17.5	18.7	21.1
Net profit	492	764	1,303
Net Margin (%)	7.0	8.1	11.1
EPS diluted (Rs)	14.1	18.6	26.0
Growth (%)	(11.9)	32.3	39.6
DPS (Rs)	0.0	3.0	4.0
RoE (%)	14.3	15.4	14.9
RoCE (%)	11.9	11.1	13.1
EV/Sales (x)	2.3	1.8	1.4
EV/EBITDA (x)	14.0	10.1	6.8
P/E (x)	23.2	17.6	12.6
P/BV (x)	3.7	2.4	1.5

Source: Company & Kotak Securities - Private Client Research

**Strategic rationale for the acquisition**

India is a major pharmaceutical market and among the fastest growing markets in the world. Strides has no domestic presence and Grandix will be the springboard to launch a national presence by leveraging distribution network and existing Grandix products with the company's strong R&D pipeline. The company will increase Medical representative's strength to 400 by end July 2007 and will expand gradually to cover the entire country.

**Strides raises \$100 mn through zero coupon convertible debt; dilute equity 26%**

Like other pharma companies, Strides is also on the prowl for inorganic growth, which makes good sense for the company if it provides a synergistic advantage, or helps in leapfrogging its growth. The company has recently raised US\$100 mn (vs. our assumption of US\$50 mn) through zero coupon convertible debt (due 2012), for the purpose of financing future acquisition and part capital expenditures.

The company has issued five-year zero coupon convertible debt, priced at Rs.461.6, or 32.5% premium over volume weighted average price of Rs.348, with 7.57% YTM. After the full conversion, share capital will increase by Rs.91 mn, thus diluting equity by 26%.

**Key Investment Rationale**

- **Global Disease Initiatives (AIDS, TB & Malaria) to drive the growth.** Strides is a significant global player in the international market for quality generics to fight AIDS/HIV, TB and malaria (ATM). It has tied up with the Clinton Foundation to make available a range of affordable anti-retroviral drugs for the treatment of HIV/AIDS in countries that are under the aegis of the Clinton Foundation HIV/AIDS initiative. In CY06, the ATM segment has registered sales of US\$25 mn and we expect revenues of US\$45-50 mn in CY07.
- **Ambitious future plans: Domain play - Steriles.** The company is an emerging global player in steriles with a wide range of capabilities in freeze drying (FDV), pre-fill syringes (PFS), ampoules and vials, and specialized therapeutic formats, namely, Penicillin, Cephalosporins, Penems and Oncology. About 40 sterile generic products are currently under development for the US and EU markets. The company also plans to position itself as a full-service provider by entering into contract manufacturing and supply agreements. Currently, four facilities in India and Poland are producing wide range of products for the global markets.

- **Leadership position: Domain play - Soft-gels.** Strides has a strong manufacturing foothold in soft-gel capsules with an annual capacity of about 3 bn capsules at peak level. The company is among the top-5 Rx and OTC manufacturers in the world. This is a technology intensive operation with very few players - most focus on nutritional. Strides uses this platform for:
  - Dose conversion from tablet to soft gelatins, 505(b)(2) opportunities
  - Non-extraction technology for controlled substances
  - Future medium for in-house nano suspension technology.
- **Capacity expansion to meet growing demand.** The company proposes to construct a greenfield facility in Bangalore for oncology and hormone products and capacity expansion in R&D. It is also commissioning the construction of a new plant in Brazil and upgrading and expanding capacity in Poland, Italy and Bangalore in the domains for steriles, soft-gels and APIs. The company plans to make a capital expenditure of US\$60 mn (approximate US\$30 mn each in CY07 and CY08), to be funded through an FCCB issue and promoters contribution through warrants issue. We expect these capacity expansions to yield results from CY08.

### Valuation and recommendation

We have raised our revenue and earning estimates to reflect the impact of the Grandix acquisition and adjusted the EPS due to the US\$100 mn FCCB issue. We now expect net profits of Rs.764 mn in CY07 and Rs.1.3 bn in CY08, which implies a fully diluted EPS of Rs.18.6 and Rs.26, respectively. We are also reducing our target price from Rs.500 to Rs.476 mainly due to US\$50 mn excess FCCB issue (we had assumed US\$50 mn FCCB in our estimates). To arrive at our target price of Rs.476, we have assumed the full conversion of US\$100 mn FCCB in CY08 only. In case the conversion does not happen in CY08, the EPS will be more than our estimates.

**We maintain BUY on Strides  
Arcolab with a price target of  
Rs.476**

At the current market price of Rs.327, the stock is trading at 17.6x CY07E and 12.6x CY08E fully diluted earnings and 6.8x CY08E EV/EBITDA. We maintain **BUY** with a revised DCF-based target price of Rs.476.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
11-Jun	Anik Inds	Jayati Finance Inv. Pvt. Ltd.	B	300,000	28.73
11-Jun	Anik Inds	Anand Mangal Inv	S	300,000	28.73
11-Jun	DMC Inter	Srecko Indhan Ltd.	B	10,000	72.80
11-Jun	Empower Inds	K Sankaranarayan	B	30,000	26.20
11-Jun	Empower Inds	Amit S Luharuka	S	25,000	26.20
11-Jun	Gemstone Inv	Hemant Madhusudan Sheth	B	95,350	22.03
11-Jun	Gemstone Inv	Premchand Keshavji Shah	S	100,000	22.02
11-Jun	Jayaswa Neco	Bafna Earthmovers Ltd.	B	505,000	19.50
11-Jun	Kailash Fico	Mangilal Hiralal Jain	S	100,000	10.13
11-Jun	Kalptaru	Chauhan Paresh R	B	58,308	86.79
11-Jun	Koff Br Pict	Jignesh Chinubhai Shah	S	25,000	27.00
11-Jun	Koff Br Pict	Vasant Meghji Chheda	S	91,715	26.85
11-Jun	N R Agarw In	Rajiv Arora	B	58,057	30.24
11-Jun	Sandur Man	IDBI Ltd	S	30,000	71.60
11-Jun	Shri Bajrang	Vasant M Chheda HUF	B	83,974	33.86
11-Jun	Shri Bajrang	Diamant Investment and Fin Ltd	S	57,772	33.69

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Infosys Tech	1,979.8	1.5	3.2	2.3
GAIL India	310.8	6.2	3.0	2.5
Reliance Ind	1,666.2	0.6	2.5	2.2
<b>Losers</b>				
ONGC	853	(1.4)	(4.9)	1.3
Reliance Com	505	(1.8)	(3.6)	4.2
SBI	1,340	(1.2)	(1.7)	0.8

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
12-19 Jun	Initial Public Offer of Roman Tarmat opens; Celestial Labs holds press conference to announce IPO
13-Jun	Wyeth to announce earnings and dividend; Birla Sun Life Insurance holds press conference
15-Jun	Shipping Corporation of India to announce earnings; EIH Ltd to announce earnings and dividend; Yes Bank and Reuters jointly holds press conference
18-11 Jun	Initial Public Offer of DLF Ltd opens
18-Jun	Tata Motors holds press conference in Pune to launch vehicles
22-Jun	Amara Raja Batteries to announce earnings and dividend; Infosys Technologies holds share holders meeting in Bangalore
25-Jun	Annual General Meeting of SBI
26-Jun	Apollo Hospitals enterprise to announce earnings and dividend
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol earnings expected

Source: Bloomberg

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