



## Company

United Phosphorus  
MTNL

## Country calls

### United Phosphorus - Buy – Larger and Stronger

UPL's proposed acquisition of Cerexagri takes it into a new orbit – making it the 3<sup>rd</sup> largest generic company in global crop protection. Besides scale, we believe the deal provides scope for synergies on the product, distribution and manufacturing fronts. We raise our earnings estimates for FY08-09 by 16-20% and maintain buy with a 12% higher price target of Rs383. **Prashant Nair +91 22 6631 9855**

### MTNL - Sell: Tax Refund On Its Way?

The Income Tax Department's appeal to the Committee of Disputes (CoD) to drag the tax refund case to the High Court has been denied. This raises hope of ultimate recovery of Rs17-18bn of refunds (Rs14b principal and Rs3bn-4bn interest) i.e. Rs28/share. Eventual refund is likely higher than Rs15bn due to interest. However IT has also raised a penalty of Rs8.5bn in a 80IA case and as such the timing of the cash inflows is uncertain. With pressure on core business evident in 1HFY07, cash + potential refunds (Rs60/share) only act as support at best. **Rahul Singh +91 22 6631 9863**

## Key Market Data

### Markets & Currency

15-Nov	Close	1 Day	YTD
BSE Sensex	13,469	0.33	43.3
BSE 100	6,843	0.39	38.2
S&P CNX Nifty	3,876	0.27	36.7
BSE 500	5,153	0.33	35.7
Rs/US\$	45.35	-0.38	-0.7

### Institutional Activity

(US\$ Mils.)	14-Nov	MTD	YTD
<b>FIIs</b>			
Purchase	685.5	4,673.8	87,894.7
Sale	348.2	3,606.6	80,058.2
Net	337.3	1,067.1	7,836.5
<b>Local MFs</b>			
Purchase	105.0	1,174.9	25,336.9
Sale	113.7	1,060.6	22,117.9
Net	(8.7)	114.3	3,219.0
<b>Total - Net</b>	<b>328.6</b>	<b>1,181.5</b>	<b>11,055.5</b>

Source: Bloomberg

## Major Gainers & Losers\*

Gainers	%	Losers	%
BOMBAY DYEI	8.8	BALAJI TELE	3.6
HIND.ZINC	7.6	IGATE GLOBAL	3.4
BANK OF INDIA	7.5	GTL LIMITED	3.3
MAHANAG TELE	6.7	RASHTRIYA	3.3
PUNJAB NATBK	5.9	THERMAX LMTD	3.0
KOTAK BANK	5.2	INGERSOL RND	2.7
TATA ELXSI	5.0	ASAHI INDIA	2.6
STATE BANK OF	4.6	POLARIS LAB	2.6
INDIAN OVERS	4.6	ZEE TELEF LT	2.2
BANK OF	4.5	JSW SL	2.2

Source: BSE. \*BSE-Group 'A'

See page Appendix A-1 for Analyst Certification and important disclosures.

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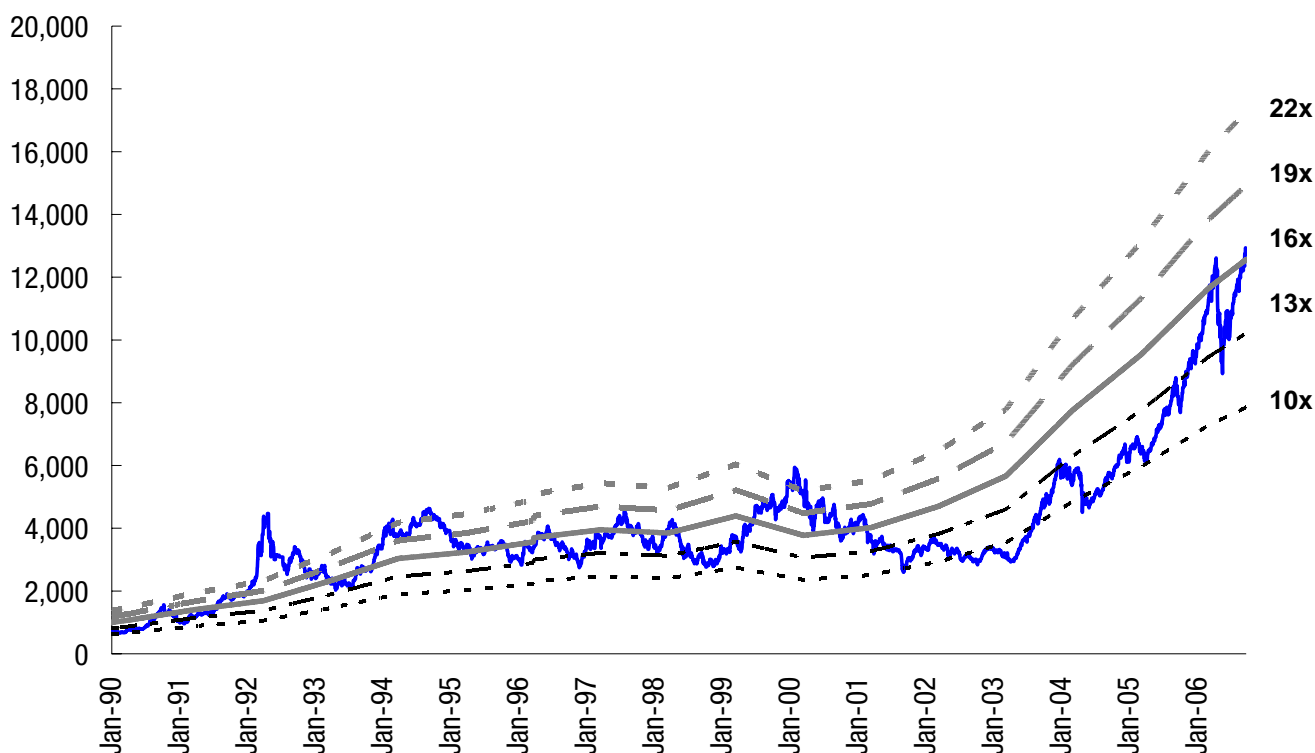
<sup>1</sup>Citigroup Global Markets Asia Ltd. \*US investors please do not contact this analyst.

## India Team

	Sector Coverage	Telephone	E-Mail Address
Ratnesh Kumar <sup>1</sup>	Country Head/Strategy	9122-6631-9888	ratnesh.kumar@citigroup.com
Aditya Narain, CFA <sup>1</sup>	Banking & Financial Services	9122-6631-9879	aditya.narain@citigroup.com
Ashish Jagnani <sup>1</sup>	Textiles, Hotels	9122-6631-9861	ashish.jagnani@citigroup.com
Hitesh Shah <sup>1 **</sup>	IT Services, Technology	9122-6631-9872	hitesh.b.shah@citigroup.com
Jamshed Dadabhoy <sup>1</sup>	Autos & Auto Parts, Transportation	9122-6631-9883	jamshed.dadabhoy@citigroup.com
Pradeep Mahtani <sup>1 **</sup>	Metals & Cement	9122-6631-9882	pradeep.mahtani@citigroup.com
Pradeep Mirchandani, CFA <sup>1</sup>	Oil & Gas, Chemicals	9122-6631-9877	pradeep.mirchandani@citigroup.com
Prashant Nair, CFA <sup>1</sup>	Healthcare, Pharmaceuticals	9122-6631-9855	prashant.nair@citigroup.com
Princy Singh <sup>1</sup>	Consumer, Retailing, Media, Sugar	9122-6631-9871	princy.singh@citigroup.com
Rahul Singh <sup>1</sup>	Oil & Gas, Chemicals, Telecom	9122-6631-9863	rahul.r.singh@citigroup.com
Rohini Malkani <sup>2</sup>	Economics	9122-6631-9876	rohini.malkani@citigroup.com
Surendra Goyal, CFA <sup>1 **</sup>	IT Services, Technology	9122-6631-9870	surendra.goyal@citigroup.com
Venkatesh Balasubramaniam <sup>1</sup>	Power, Capital Goods, Construction	9122-6631-9864	venkatesh.balasubramaniam@citigroup.com

<sup>1</sup> Citigroup Global Markets India Private Limited; <sup>2</sup>CGM India Ltd; <sup>\*\*</sup>US investors please contact Ratnesh Kumar

## BSE- Sensex 12-Month Forward PE Band Chart



Source: Bloomberg, Citigroup Investment Research estimates

## Industry

- **Hotels** – Tourism Ministry to lease 100 plots of govt land to develop budget hotels (ET)

## Company News

- **Indian hotels** – plans a 5-star property in Gurgaon (ET)
- **Tata Motors** – is reportedly planning for a new *Indica* variant to compete with the Hyundai *Getz* and Maruti *Swift* (ET)
- **Ranbaxy** – The US court of appeals has upheld the 180 day exclusivity granted to Ranbaxy and Teva for *Simvastatin* (BL)
- **Reliance Communication** – Plans to double the numbers of the internet users via mobile phones (ET)
- **Satyam Computers** – opens a 3<sup>rd</sup> development centre in China with capacity to scale up to 1000 employees (BL)

## Fresh Money Ideas

Fresh Money Ideas is an actively managed list of high-conviction Buy and Sell calls by our Asia equity research analysts. The list is highly focused, with a maximum of 10 stocks, and changes are considerably more frequent than for a model portfolio.

	Bloomberg Code	Rating	Price 15-Nov	Target Price	ETR (%)	Prospective		
						P/E	P/BV	EPS Growth (%)
<b>BUYS</b>								
<b>Castrol India</b>	CSTRL IN	1M	Rs229.65	Rs310.00	40.2	14.1	6.5	26.1
<i>Expect margins to improve</i>						Pradeep Mirchandani, CFA / +91-22-6631-9877		
<b>Sina corp</b>	SINA US	1M	US\$29.35	US\$34.00	15.8	27.2	3.8	21.8
<i>Strong advertising and less weak MVAS obviate need for restructuring</i>						Jason Brueschke / +852-2501-2482		
<b>Telkom Indonesia</b>	TLKM IJ	1L	Rp9,550.00	Rp10,500.00	13.7	15.4	5.4	7.3
<i>Main attraction is its investment in dominant operator Telkomsel</i>						Karen Ang / +66-2-232-3613		
<b>Far Eastern Text</b>	1402 TT	1L	NT\$26.60	NT\$30.00	16.9	10.9	1.3	13.8
<i>Should be a major beneficiary of asset reflation</i>						Andre Chang / +886-2-8725-1723		
<b>SELLS</b>								
<b>Venture Corp</b>	VMS SP	3L	\$S13.60	\$S13.20	1.0	13.5	2	19
<i>Share run-up more than factors in growth potential</i>						Horng Han Low / +65-6432-1161		
<b>AirAsia</b>	AIRA MK	3H	RM1.48	RM1.33	-10.1	20.7	2.5	34.2
<i>Low earnings visibility and potential share overhang</i>						Corrine Png / +65-6432-1159		
<b>Shun Tak</b>	242 HK	3M	HK\$12.06	HK\$8.60	-27.7	48.8	3.3	-4.6
<i>Being valued as a gaming company rather than as a property play</i>						Anil Daswani / +852-2501-2774		
<b>Johnson Electric</b>	179 HK	3L	HK\$6.31	HK\$4.00	-34.5	21	3	18.3
<i>Weak pricing power and trades at a large premium to global peers</i>						Clement Wong / +852-2501-2726		

Additions: None

Deletions: None

1 = Buy; 2 = Hold; 3 = Sell; L = Low Risk, M = Medium Risk, S = Speculative Risk

ETR = Estimated Total Return (Expected share price return + expected dividend yield)

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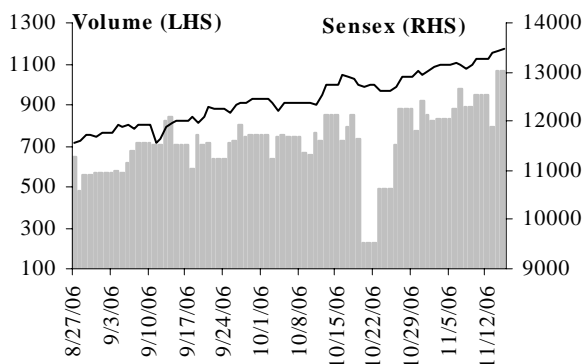


**Market Snapshot**

Performance (%)	1-Day	1-Week	1-Mth	3-Mth	6-Mth	12-Mth	YTD	Mkt Volume	(Rs Mils.)
<b>Absolute</b>								BSE	51,150
BSE Sensex	0.3	3.0	5.8	19.1	10.2	58.6	43.3	NSE	87,890
CIR India Index	0.3	2.1	0.3	7.9	(3.8)	31.5	19.2	<b>Top Volume*</b>	<b>(Rs Mils.)</b>
Aluminum	0.1	(3.5)	1.5	7.6	(22.9)	25.8	10.7	HIND.ZINC	1877.1
Auto	0.1	1.6	(6.5)	6.0	(12.7)	42.3	23.0	PUNJ LLOYD	1813.5
Banks	2.4	5.4	9.6	31.5	20.1	40.7	33.4	BOMBAY DYEI	1525.9
Capital Goods	(0.1)	2.2	4.9	15.7	4.7	87.4	66.4	RELIANCE CAPITAL	971.9
Cement	1.0	1.7	1.3	15.3	12.0	112.0	92.2	REL COM LTD	678.5
Consumer	(1.2)	(1.1)	1.4	4.5	(10.3)	28.0	13.2	HINDUSTAN LEVER	431.7
Hotels	0.1	2.5	7.4	21.7	8.8	88.0	46.6	MAHANAG TELE	401.9
IT Services	0.1	3.7	3.9	15.8	19.1	45.5	28.7	HINDALCO IN	270.5
Media	(2.2)	2.3	10.7	20.7	27.4	113.2	109.3	STERL BIOTEC	201.7
Oil & Gas	0.0	2.1	7.0	10.6	(8.0)	19.4	4.9	WELSP GUJ SR	190.7
Petrochemical	(1.3)	0.9	5.5	21.9	15.8	56.7	41.1	<b>Top Gainers*</b>	<b>Close (Rs)</b>
Pharmaceutical	(0.3)	1.2	0.4	0.5	(12.1)	23.8	14.8	BOMBAY DYEI	756
Power	(0.5)	2.2	7.8	10.5	(5.8)	12.8	7.8	HIND.ZINC	927
Steel	(0.2)	(2.1)	(1.6)	2.2	(13.2)	50.6	45.0	BANK OF INDIA	186
Telecom Equipment	(1.7)	2.5	18.3	57.5	2.1	49.0	34.3	MAHANAG TELE	143
Telecom	1.8	5.4	16.5	32.9	24.7	55.0	53.4	PUNJAB NATBK	546
								KOTAK BANK	402
								TATA ELXSI	255
								SBI	1,178
								INDIAN OVERS	116
								BOB	271
								<b>Top Losers*</b>	<b>Close (Rs)</b>
								BALAJI TELE	161
								IGATE GLOBAL	231
								GTL LIMITED	135
								RCF	38
								THERMAX LMTD	335
								INGERSOL RND	344
								ASAHI INDIA	112
								POLARIS LAB	128
								ZEE TELEF LT	329
								JSW SL	328
								<b>Chg (-%)</b>	
								BALAJI TELE	3.6
								IGATE GLOBAL	3.4
								GTL LIMITED	3.3
								RCF	3.3
								THERMAX LMTD	3.0
								INGERSOL RND	2.7
								ASAHI INDIA	2.6
								POLARIS LAB	2.6
								ZEE TELEF LT	2.2
								JSW SL	2.2
<b>Relative to BSE-30 Sensex</b>								*BSE-Group A	
CIR India Index	(0.1)	(0.9)	(5.5)	(11.2)	(14.0)	(27.1)	(24.1)	Source: The Economic Times, www.bseindia.com.	
Aluminum	(0.2)	(6.5)	(4.2)	(11.5)	(33.2)	(32.7)	(32.6)		
Auto	(0.2)	(1.5)	(12.3)	(13.1)	(22.9)	(16.3)	(20.4)		
Banks	2.1	2.3	3.8	12.5	9.8	(17.9)	(9.9)		
Capital Goods	(0.4)	(0.8)	(0.9)	(3.4)	(5.5)	28.8	23.1		
Cement	0.7	(1.3)	(4.4)	(3.7)	1.7	53.4	48.8		
Consumer	(1.5)	(4.1)	(4.3)	(14.5)	(20.6)	(30.6)	(30.1)		
Hotels	(0.3)	(0.6)	1.7	2.6	(1.4)	29.4	3.3		
IT Services	(0.2)	0.6	(1.9)	(3.3)	8.9	(13.1)	(14.6)		
Media	(2.6)	(0.7)	4.9	1.6	17.1	54.7	66.0		
Oil & Gas	(0.3)	(0.9)	1.2	(8.5)	(18.2)	(39.2)	(38.4)		
Petrochemical	(1.6)	(2.2)	(0.3)	2.8	5.5	(1.8)	(2.3)		
Pharmaceutical	(0.7)	(1.9)	(5.3)	(18.5)	(22.4)	(34.8)	(28.5)		
Power	(0.8)	(0.8)	2.1	(8.6)	(16.0)	(45.8)	(35.5)		
Steel	(0.5)	(5.1)	(7.3)	(16.9)	(23.4)	(7.9)	1.7		
Telecom Equipment	(2.1)	(0.5)	12.6	38.4	(8.1)	(9.6)	(9.0)		
Telecom	1.5	2.3	10.8	13.8	14.5	(3.5)	10.1		

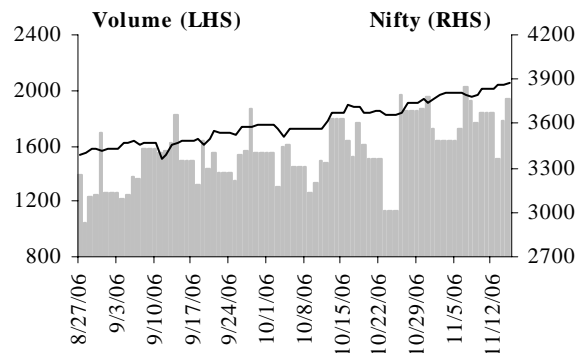
Source: Citigroup Investment Research estimates

**BSE-30 – Performance & Volume (US\$ Mils.)**



Source: Bloomberg, Citigroup Investment Research estimates

**NIFTY – Performance & Volume (US\$ Mils.)**



Source: Bloomberg, Citigroup Investment Research estimates

## Company Flash

15 November 2006 | 5 pages

# United Phosphorus (UNPO.BO)

## Buy – Into a New Orbit

- Into a new orbit** — UPL's acquisition of the Cerexagri group is a landmark deal in our view and makes it the 3<sup>rd</sup> largest generic crop protection company in the world. The deal would lead to a big scale up in UPL's revenues (c.46% to US\$730m), widen its product portfolio (adds fungicides) and add to its distribution network in USA and Europe. Maintain Buy.
- About Cerexagri** — A unit of Arkema, it is a 70 year old business with revenues of c.US\$200m. It specializes in fungicides (c.75% of sales) and is the market leader in post-harvest treatment products for fruits and vegetables. It also has a strong distribution presence in Europe and US (cumulatively c.80% of sales). It has 9 manufacturing sites (8 in EU; 1 in China) and employs around 630 people
- Reasonable valuations** — The deal is likely to be closed for c.EUR111m (in 1Q07) – a trailing EV/Sales multiple of 0.55x. While we do not have information on profitability, Arkema has stated in its release that EBIDTA multiple is higher than its own EV/EBIDTA (c.6.5x trailing). We await further details from UPL
- Multiple benefits** — We believe UPL would benefit from: a) diversification into fungicides (24% of global market; UPL had minimal exposure); b) lower exposure to the volatile Indian market; c) higher scale and more products to improve visibility among key distributors; d) potential manufacturing synergies
- Effective integration is key** — This is the largest deal done by UPL so far, and the key risk relates to its ability to effectively integrate the operations going forward. We shall put out a more detailed note after more details are available

<b>Buy/Low Risk</b>	<b>1L</b>
Price (14 Nov 06)	Rs304.55
Target price	Rs343.00
Expected share price return	12.6%
Expected dividend yield	0.3%
<b>Expected total return</b>	<b>13.0%</b>
Market Cap	Rs57,011M US\$1,265M

### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2005A	1,560	9.42	37.0	32.3	6.5	25.2	0.3
2006A	2,169	11.37	20.7	26.8	4.6	21.1	0.3
2007E	3,258	16.17	42.2	18.8	3.9	22.9	0.4
2008E	4,183	20.76	28.4	14.7	3.1	23.7	0.5
2009E	4,957	24.59	18.5	12.4	2.5	22.6	0.5

Source: Powered by dataCentral

### Prashant Nair, CFA<sup>1</sup>

 +91-22-6631-9855  
 prashant.nair@citigroup.com

 Chirag Dagli<sup>1</sup>  
 chirag.dagli@citigroup.com

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<sup>1</sup>Citigroup Global Market India Private Limited

## Company Flash

15 November 2006 | 6 pages

### MTNL (MTNL.BO)

#### Sell: Tax Refund On Its Way?

- IT Department's appeal has been denied** — The Income Tax Department's appeal to the Committee of Disputes (CoD) to drag the tax refund case to the High Court has been denied. This raises hope of ultimate recovery of Rs17-18bn of refunds (Rs14b principal and Rs3-4bn interest) i.e.Rs28/share. Eventual refund is likely higher than Rs15bn (provisional) due to interest.
- This issue is not new, however** — MTNL had won the IT Tribunal award for allowing license fee as tax deductible item, two years back. However, it has yet to receive any refund in cash – the only compensation of Rs2.5b was through a setoff against an outstanding tax demand. The refunds pertain to nine assessment years (FY1996-2004) for which MTNL has already paid advance tax.
- Some hurdles still remain** — MTNL has paid advance tax in excess of tax provision of ~Rs26bn (Rs40/share), which includes license fee case as well as the pending 80IA issue. However, IT has also raised a penalty of Rs8.5bn in the 80IA case, which could be used to set off the refunds in the license fee case. The timing of hard cash inflows therefore remains uncertain.
- Cash refunds only a temporary respite** — With pressure on core business evident in 1HFY07, cash + potential refunds (Rs60/share) only act as support at best. MTNL's adjusted EV/EBITDA at 5.0x FY08E is well priced given the business outlook. Favorable ruling in the pending IT case poses upside risk. Meanwhile, monetisation of real estate is fraught with execution risks.

<b>Sell/Low Risk</b>	<b>3L</b>
Price (15 Nov 06)	Rs143.50
Target price	Rs97.00
Expected share price return	-32.4%
Expected dividend yield	3.1%
<b>Expected total return</b>	<b>-29.3%</b>
Market Cap	Rs90,405M US\$2,006M

#### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2004A	11,501	18.26	31.0	7.9	0.9	11.6	3.1
2005A	9,390	14.90	-18.4	9.6	0.8	8.8	3.1
2006E	6,775	10.75	-27.8	13.3	0.8	6.1	3.1
2007E	5,023	7.97	-25.9	18.0	0.8	4.4	3.1
2008E	4,042	6.42	-19.5	22.4	0.8	3.5	2.8

Source: Powered by dataCentral

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#### Rahul Singh<sup>1</sup>

+91-22-6631-9863  
 rahul.r.singh@citigroup.com

#### Anand Ramachandran, CFA<sup>2</sup>

+852-2501-2448  
 anand.ramachandran@citigroup.com

#### Supriya Gupte<sup>1\*\*</sup>

supriya.gupte@citigroup.com

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\*\*US investors please do not contact this analyst. <sup>1</sup>Citigroup Global Market India Private Limited; <sup>2</sup>Citigroup Global Markets Asia

## Analyst Certification Appendix A-1

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Data current as of 30 September 2006

	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (2914)	46%	40%	14%
<i>% of companies in each rating category that are investment banking clients</i>	44%	43%	32%

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