



Economy News

- ▶ Industrial production grew 5.4% in June 2008, higher than 4.1% (revised) growth in May 2008, but well below the 8.9% figure in June 2007. (ET)
- ▶ The latest data released by the Directorate General of Civil Aviation (DGCA) show that in July, the 10 domestic airlines carried 30.85 lakh passengers, a drop of about 12% from the 34.87 lakh passengers carried during the same period in the previous year. (BL)
- ▶ The poor show of some of the recent IPOs has called for a review of the book building system used to price new stock offerings. The issue may feature in Sebi's next round of primary market reforms. (ET)
- ▶ The Telecom Regulatory Authority of India has told the Government that there should be a review of some parts of the recently announced policy for third generation mobile policy, including the decision to allocate spectrum to CDMA operators based on subscriber base criterion. (BL)
- ▶ Power plant developers building large and ultra mega projects (UMPPs) may soon get to buy equipment without paying Customs or excise duties. (ET)

Corporate News

- ▶ **Reliance Natural Resources (RNRL)** on Tuesday demanded Rs 50,000 crore from Mukesh Ambani-owned Reliance Industries (RIL) to scrap the so-called gas sale master agreement (GSMA) signed between the two companies. According to GSMA, RNRL is entitled to a supply of 28 million cubic metres of gas per day from KG basin at a price of \$2.34 per mmbtu for 17 years. (BS)
- ▶ With a FPSO (Floating, Production, Storage and Offloading) vessel set to stream into Kakinada from Singapore shortly, **Reliance Industries Ltd** is gearing up to extract crude from its Krishna Godavari basin wells by the second half of September. (BL)
- ▶ **Voltas Ltd** will acquire 51 per cent stake in Mumbai-based Rohini Industrial Electricals for Rs 62 crore. Rohini Electricals is engaged in undertaking turnkey electrical and instrumentation projects for the industrial and commercial sectors. (BL)
- ▶ A global consortium led by **Larsen and Toubro (L&T)** has secured an engineering procurement construction (EPC) order worth Rs 38.16 billion from various customers in the metal industry. (ET)
- ▶ **Jindal Stainless Ltd** has cut prices of its 300-series products by as much as 5-6 per cent, following a drop in nickel prices globally. Nickel prices have come down to \$17,000 per tonne from \$30,000 per tonne over the last three months in the international market. (BS)
- ▶ **Tesco** is signing an exclusive franchise agreement with Trent, the retailing arm of the Tatas. The agreement will give Trent's hypermarket chain, Star Bazaar, access to Tesco's supply chain, computer systems and inventory and infrastructure management. (BS)

Equity

	12 Aug 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	15,212	(1.9)	12.9	(9.2)
Nifty	4,552	(1.5)	12.4	(8.2)
BSE Banking	7,437	(3.4)	23.0	(13.5)
BSE IT	3,772	(2.8)	(3.5)	(11.6)
BSE Capital Goods	12,740	(0.8)	18.2	(2.5)
BSE Oil & Gas	10,442	0.0	17.5	(4.3)
NSE Midcap	5,935	(0.9)	13.3	(11.9)
BSE Small-cap	7,220	(0.7)	7.5	(14.0)
World Indices				
Dow Jones	11,642	(1.2)	4.9	(9.3)
Nasdaq	2,431	(0.4)	8.6	(2.6)
FTSE	5,535	(0.1)	5.2	(10.9)
Nikkei	13,304	(0.9)	(0.3)	(6.8)
Hangseng	21,641	(1.0)	(3.4)	(16.2)

Value traded (Rs cr)

	12 Aug 08	% Chg - Day
Cash BSE	5,728	8.7
Cash NSE	13,927	12.0
Derivatives	52,461.8	32.1

Net inflows (Rs cr)

	11 Aug 08	% Chg	MTD	YTD
FII	410	418	1,420	(26,084)
Mutual Fund	455	(446)	38	10,599

FII open interest (Rs cr)

	11 Aug 08	% Chg
FII Index Futures	15,489	(3.6)
FII Index Options	20,512	0.6
FII Stock Futures	18,450	(0.2)
FII Stock Options	775	3.4

Advances / Declines (BSE)

12 Aug 08	A	B	S	Total	% total
Advances	57	704	187	948	40
Declines	145	993	248	1,386	58
Unchanged	-	53	9	62	3

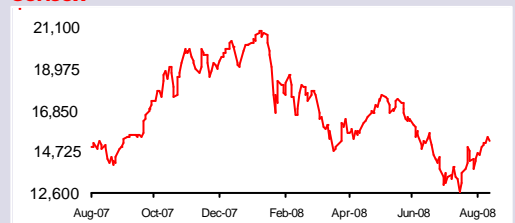
Commodity

	12 Aug 08	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	113.2	0.2	(22.0)	(10.0)
Gold (US\$/OZ)	812.3	(1.4)	(16.0)	(6.6)
Silver (US\$/OZ)	14.5	(1.2)	(22.8)	(13.1)

Debt / forex market

	12 Aug 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.95	8.97	9.42	7.91
Re/US\$	42.36	42.17	42.85	41.98

Sensex



ECONOMY UPDATE**Saday Sinha**saday.sinha@kotak.com
+91 22 6621 6312**IIP FOR JUNE 08 - INLINE WITH ESTIMATE**

The IIP (Index of Industrial production) in June 2008 grew by 5.4%, as compared to 8.9% in the same month last year. Growth in manufacturing and electricity sectors accelerated to 5.9% and 2.6%, respectively during June 2008 as compared to previous month. Consumer goods was a bright spot, with a growth of 10%.

The cumulative growth in IIP during April-June 2008-09 stands at 5.2% over the corresponding period of the previous year. During the same period, Mining, Manufacturing and Electricity sectors grew at 4.7%, 5.6% and 2.0% respectively.

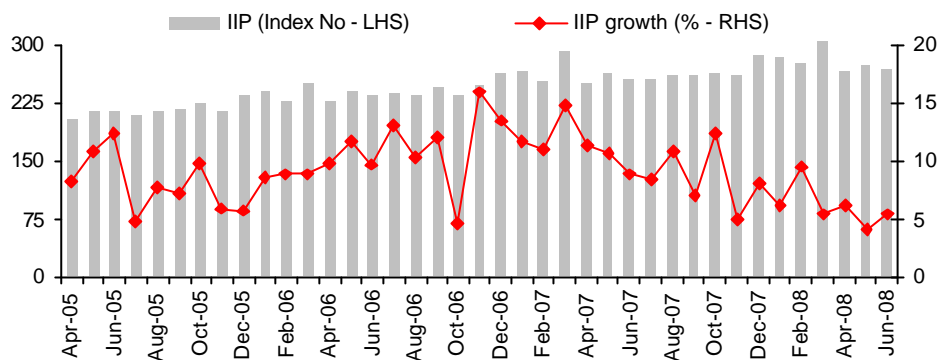
Capital goods picked up in June 2008 to 5.6% as compared to 3.4% in May 2008. However, it is below the double digit growth seen till couple of months back.

The overall moderation in IIP growth has been on the expected lines mainly on the back of tightening measures initiated by the central bank.

The Central Statistical Organization (CSO) has released the quick estimate of Index of industrial production (IIP) for June 2008, which came on the expected lines at 5.4%, as compared to 8.9% in the same month last year.

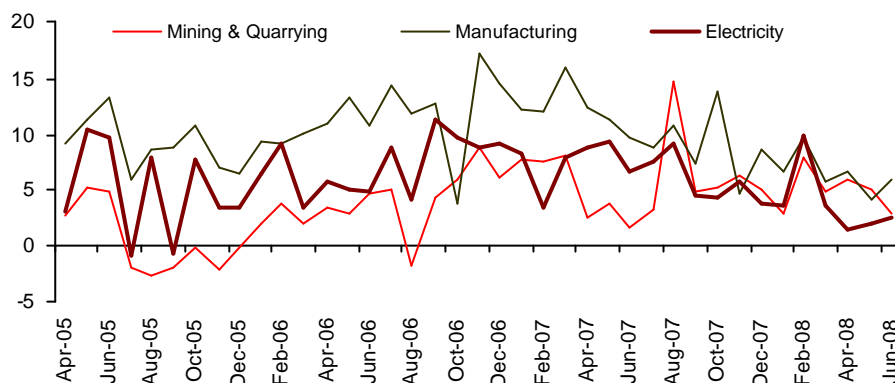
- The manufacturing sector recorded 5.9% growth during June 2008. The revised cumulative growth during April-June 2008-09 stands at 5.6% over the corresponding period of last year.
- The mining sector grew 2.9% during June 2008. The revised cumulative growth during April-June 2008-09 stands at 4.7% over the corresponding period of last year.
- The electricity sector grew 2.6% during June 2008. The revised cumulative growth during April-June 2008-09 stands at 2.0% over the corresponding period of last year.
- In terms of industries, 10 out of the 17 industry groups in the manufacturing sector recorded positive growth during this month as compared to the corresponding month of the previous year.
- The industry groups that have shown the highest growth in this month are...
 - Beverages, Tobacco and Related Products: 22.3%
 - Transport Equipment and Parts: 12.6%
 - Basic Chemicals & Chemical Products (except Petroleum & Coal): 11.5%
- The sectoral growth (use-based classification) has been as under:
 - Basic goods: 2.9%
 - Capital goods: 5.6%
 - Intermediate goods: 2.9%
 - Consumer goods: 10.0%
- In June 08, consumer durables and consumer non-durables witnessed healthy growth of 3.5% and 12.2% with overall consumer goods recording growth of 10.0%.
- Apart from this, IIP for May 2008 has been revised upwards to 4.1% from the previously reported 3.8%.

Index of Industrial Production (IIP)



Source: MOSPI

Sectoral Breakup of IIP



Source: MOSPI

Consumer goods witnessed growth of 10%

The consumer goods sector has shown robust growth of 10% in June 2008. Both, consumer durable and non-durable have shown healthy growth at 3.5% and 12.2%, respectively. Consumer durables after de-growing for most of the FY08 have picked up in recent months. The reversal from the earlier trend of negative growth can be attributed to the initiatives taken by the Government in recent budget in the form of excise cut as well as reduction in tax burden on consumers.

Overall moderation is on expected lines

Capital goods grew at 5.6% in the month of June 08 as compared to 3.4% in May 2008. However, it is below the double digit growth seen till couple of months back.

The overall moderation in IIP growth has been on expected lines as we believe that the investment growth in FY09 would be lower than the last year. The deceleration in IIP has come on the back of tightening measures initiated by the RBI in recent past. The tight financing environment along with the rise in input cost is affecting the investment climate of Indian economy. However, fiscal stimulus provided by government in the form of reduction in the excise duties as well as reduction in tax burden on consumers is likely to increase consumption demand and hence mitigate the ill effect of moderating investment climate to a certain extent.

COMPANY UPDATE

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PANACEA BIOTEC LTD (PBL)

PRICE: Rs.304
TARGET PRICE: Rs.474

RECOMMENDATION: BUY
FY10E P/E: 10.9x

PBL bags US\$34.2mn order for pentavalent vaccine from UNICEF

- PBL has received a US\$34.2mn order for pentavalent vaccine (EasyFive) from UNICEF for years 2008 and 2009;
- We estimate, the total market size to be around US\$700mn in 2008 (200mn dosage at US\$3.5/dose), of which PBL will likely to capture around US\$50mn in FY09. We have modeled US\$30mn and US\$45mn sales from combination vaccines in FY09 and FY10, respectively, on the back of supplies to UN agencies for their global requirements.
- We remain positive on company albeit a slower growth in key Oral Polio Vaccine (OPV) business. We expect strong growth in private vaccine business, combination vaccines and proprietary formulations;

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	8,413	10,251	12,050
Growth (%)	(0.0)	21.8	17.5
EBITDA	2,117	2,563	3,073
EBITDA margin (%)	25.2	25.0	25.5
Net profit	1,290	1,539	1,978
Net Margin (%)	15.3	15.0	16.4
EPS diluted (Rs)	19.3	21.7	27.9
Growth (%)	(14.0)	12.3	28.6
DPS (Rs)	1.0	1.0	1.0
RoE (%)	20.9	18.2	18.2
RoCE (%)	20.5	18.3	19.5
EV/Sales (x)	3.1	1.9	1.5
EV/EBITDA (x)	12.4	7.5	5.7
P/E (x)	15.7	14.0	10.9
P/BV (x)	3.7	2.2	1.8

Source: Company, Kotak Securities - Private Client Research

Combination vaccines to drive growth from FY09 and onwards

PBL has received an award notification for supply of its pentavalent vaccine (EasyFive) for 2008 and 2009. The total value of order is US\$34.2mn. EasyFive is the world's first fully liquid pentavalent vaccine introduced in India, which immunizes children against dreadful diseases (DTP+Hep B+Hib) of early childhood. The company in July 2008 has received WHO pre-qualification for this innovative pentavalent combination vaccine. We expect significant contribution from this combination vaccine by Q3 onwards.

Pentavalent vaccines are used by UN agencies (UNICEF, PAHO etc.) to vaccinate children in the developing world. The Indian government also has plans to include pentavalent vaccines in its immunizations program. Developing countries would need a combination vaccine to the tune of around 300 million dosages annually. The combined demand of all combination pediatric vaccines worldwide was valued at US\$600mn in 2005, which is expected to grow up to US\$1.6bn by 2012. Pentavalent vaccine market is estimated to cross US\$1bn by 2009, out of which UN agencies are likely to procure this vaccine worth more than US\$350mn by 2009.

We estimate, the total market size to be around US\$700mn in 2008 (200mn dosage at US\$3.5/dose), of which PBL will likely to capture around US\$50mn in FY09. However, due to regulatory delay in pre-qualification form WHO, we expect revenue from combination vaccines only for part of the year in FY09. We have modeled US\$30mn and US\$45mn sales from combination vaccines in FY09 and FY10, respectively, on the back of supplies to UN agencies for their global requirements.

Oral Polio Vaccines (OPV) business remains solid; however growth may stabilize

PBL is the largest supplier of Oral Polio Vaccines (OPV) to UN agencies (UNICEF) for their requirements in India. It also supplies oral polio vaccines and hepatitis-B vaccines to UN agencies for their international requirements (mainly developing countries). In domestic market, the demand of OPV is expected to increase at lower pace (or in worse case remain stable) in the wake of recent increase in the number of polio cases in India, which has increased from 676 in 2006 to 874 in 2007 and to 346 in 2008 YTD. Considering the increasing number of polio cases, we believe that polio eradication program will continue at-least for next 4 to 5 years.

NDDS-based products for international markets - another growth driver

At present, the company is exporting its branded formulations to several countries in CIS regions, African Region and SEA region. The company is in the process of registering its existing branded formulations in several countries in these regions and plans to launch Panimun Bioral (Cyclosporin) NDDS formulations in the Brazilian market by end of FY09. We have assumed that Panimun Bioral could yield revenues of US\$2mn in FY09 and US\$5mn in FY10. Further, formulations exports in other developing countries are expected to yield around US\$5mn in FY09 and US\$15mn in FY10. During the quarter, PBL has been granted a patent in the USA for its proprietary product Thank God (Euphorbia Prostrata) for effective management of hemorrhoids and piles.

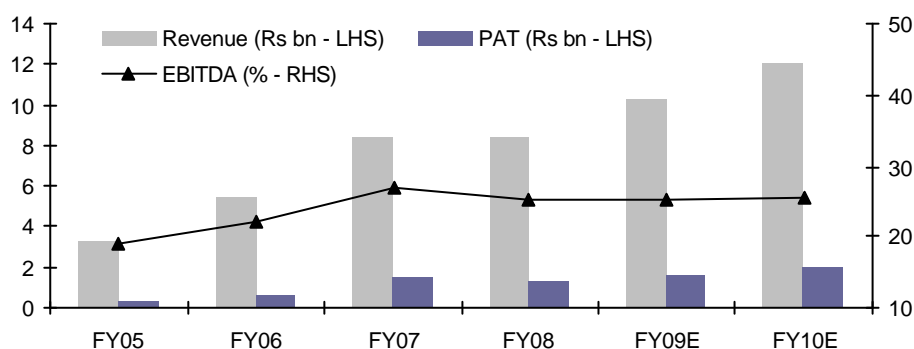
Ultra-modern vaccine facility commenced commercial production

PBL has commissioned its ultra modern vaccine production facility at Baddi (HP) to cater to domestic and global markets. The green-field facility, constructed at an investment of approximately US\$25mn, have a capacity of more than one billion doses per annum. With the commissioning of this latest state-of-art facility, the total capacity to produce vaccines doubled to two billion doses per annum. During the quarter PBL has launched a new injectable vaccine, Polprotec (Inactivated Polio Virus) in pre-filled syringe device form this facility

Financial outlook remain strong

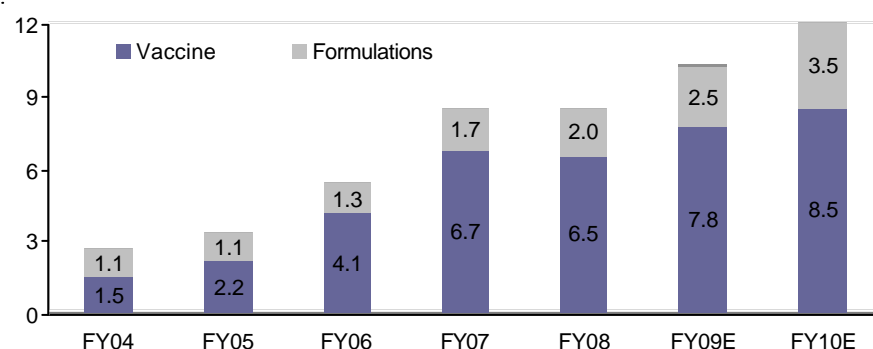
We expect revenue growth of 21.8% and 17.5% to Rs.10.25bn and Rs.12.05bn in FY09 and FY10, respectively. Net profit is expected to grow at 19.3% and 28.6% to Rs.1.54bn and Rs.1.98bn in FY09 and FY10, respectively. We expect formulation business to register a growth of around 24% in FY09 and 42% in FY10 and vaccines business to clock a growth of 19.8% and 9.7% during the same period.

Annual Performance (FY2005-10E)



Source: Company, Kotak Securities - Private Client Research

Business wise sales break up (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Valuations and Recommendation

We remain positive on the business model and growth prospects in Panacea's key businesses. We believe that going forward growth will be driven by supplies of innovative combination vaccines to US agencies (UNICEF, WHO), progress on NDDS project and cyclosporine NDDS approval for Brazil and collaboration for anthrax vaccine for the US stockpiling program.

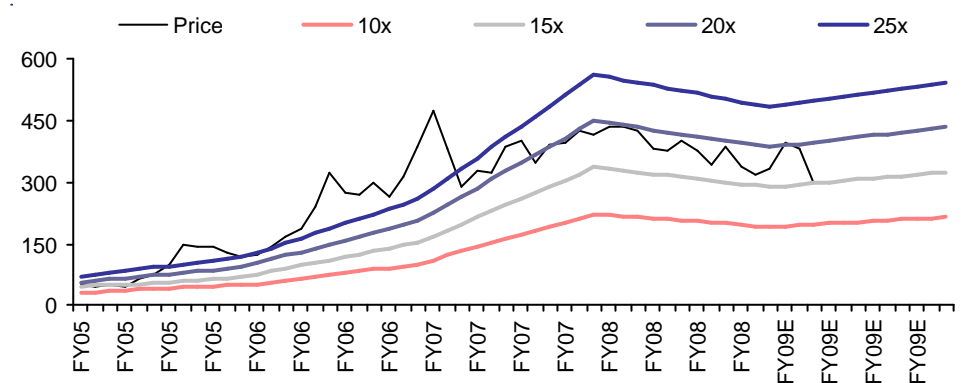
The company has posted EPS of Rs.19.3 in FY08. Going forward, we expect fully diluted EPS Rs.21.7 and Rs.27.9 in FY09 and FY10, respectively. The stock has corrected quite a bit in the recent market slow-down which we believe should be used as an opportunity to accumulate the stock. At current market price Rs304, the stock is trading at 14x FY09 and 10.9x FY10 fully diluted earning estimates. We believe business outlook remain strong with potential catalysts in combination vaccines and proprietary formulation products. We maintain **BUY** with one year price target of Rs.474.

We maintain our BUY recommendation on Panacea Biotec with a price target of Rs.474

Key risks

- Price cut and/or potential slowdown in domestic formulation market and risk of failure in NDDS research initiatives
- Timely execution risk - Panacea is working on several new combination vaccines and proprietary products. Any delay in execution of new business segment could roll-over the revenue to farther period
- Potential delays in regulatory approvals for combination vaccines, Panimun Bioral (Cyclosporin), Sitcom (piles management) and other NDDS-based formulation products
- Separation risk - The Company has entered into several collaborations and tieups/JVs. Pre-mature break-up of these long-term relationship would impact the revenue directly.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
12-Aug	Asian Oilfie	VSB Investments Pvt Ltd	B	300,000	150.00
12-Aug	Asian Oilfie	Decent Fin Ser P Ltd	B	200,000	150.00
12-Aug	Asian Oilfie	Consolidated Securities Ltd	S	186,448	150.00
12-Aug	Bihar Tubes	Kinsfolk Industries Pvt Ltd	B	40,000	166.44
12-Aug	Gokul Refoil	Cresta Fund Ltd	B	672,000	222.10
12-Aug	Gokul Refoil	Pacific Corporate Services Limited	S	656,606	222.10
12-Aug	Jaisal Secur	Palanichamy A	S	18,000	40.10
12-Aug	K S Oils Ltd	Morgan Stanley Mauritius Co Ltd	B	2,000,000	60.00
12-Aug	Kancha Inter	Pramoda H Shah	B	25,000	6.50
12-Aug	Kancha Inter	Vishal H Shah	S	20,000	6.50
12-Aug	Karan Woosin	Pramoda H Shah	B	158,000	3.00
12-Aug	Karan Woosin	Vishal H Shah	S	79,000	3.00
12-Aug	Karan Woosin	Harshad N Shah HUF	S	79,000	3.00
12-Aug	Katare Spg.	Divya Stock Broking Ltd	B	38,700	24.32
12-Aug	Katare Spg.	Krishnagopal Motilal Chandak	S	14,000	24.42
12-Aug	Man Alumin	The Bank of Newyork GDR	S	37,399	30.18
12-Aug	Octav Inves	Yuvak Share Trading Pvt Ltd	B	28,631	87.50
12-Aug	Octav Inves	HDFC Premier Multicap	S	25,689	82.99
12-Aug	Octav Inves	Hitesh Shashikant Jhaveri	S	57,773	90.05
12-Aug	Octav Inves	Yuvak Share Trading Pvt Ltd	S	33,097	88.81
12-Aug	Ranklin Solu	Ravi Bhagwandas Panchal	B	50,000	169.26
12-Aug	Rit Pro Ind	Shree Atam Vallabh Poly Plsti	S	55,000	112.42
12-Aug	Stelco Strip	Index Securities and Research Pv	B	138,074	20.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	2,347	1.0	5.3	3.8
ITC	196	1.0	1.2	4.1
Cairn India	237	1.3	1.0	4.5
Losers				
Bharti Airtel	823	(2.6)	(7.0)	2.8
Infosys Tech	1,604	(4.0)	(6.3)	3.3
ONGC	1,088	(1.6)	(6.1)	1.8

Source: Bloomberg

Forthcoming events

Company/Market

Date Event

13-Aug Macquarie Securities holds press meet for its plans in India

Source: Bloomberg

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