The Front Page

April 27, 2009

What's Inside: ICICI Bank (REDUCE); Maruti Suzuki (REDUCE); Cipla (BUY); Ranbaxy (SELL); Pantaloon Retail (REDUCE); GSK Consumer (ADD); HCC (REDUCE); Infotech Enterprises (ADD), From our China desk, Events calendar, Pledged shares

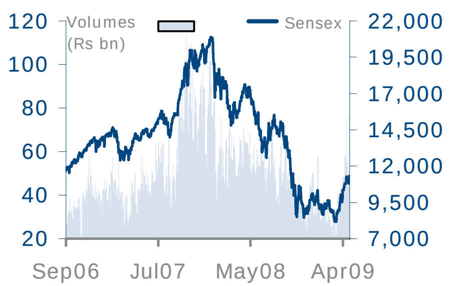
Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	11,329	1.7	17.4
Nifty	3,481	1.7	17.6
BSE Smallcap	4,068	1.7	10.5
CNX Midcap	3,960	1.7	6.0
Nasdaq	1,694	2.5	7.4
DJIA	8,076	1.5	(8.0)
IBOV	46,772	2.1	24.6
FTSE	4,156	3.4	(6.3)
CAC	3,103	3.1	(3.6)
Turnover		US$m	% Chg
BSE		1,043	11.8
NSE		2,998	10.7
Derivatives (NSE)		13,691	0.6
FII F&O (US$m)		Index	Stocks
Net buying		(20)	10
Open interest		9,601	3,969
Chg in open int.		446	98
Equity Flows (US$m)	Latest	MTD	YTD
FII (23/4)	62	1,140	(514)
DII (24/4)	31	(22)	2,059
MF (23/4)	92	43	(147)

ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	75.3	2.4	12.5
Reliance	73.5	3.5	2.3
Infosys	28.9	1.0	(0.7)
Satyam	1.9	(1.6)	(2.1)
Wipro	9.1	1.3	45.5
ICICI Bank	18.1	3.0	3.7
SBI	53.9	1.9	2.4
Sterlite	8.2	5.0	2.5
Tata Motors	7.6	5.1	49.1
Commodities	Latest	%Chg	%YTD
Gold (US$/ounce)	913	1.0	3.5
Crude (US$/bl)	51	4.1	13.9
Aluminium (US$/MT)	1,457	0.6	(5.4)
Copper (US$/MT)	4,470	2.9	45.6
Forex Rates	Closing	% Chg	%YTD
Rs/US$	49.9	(0.3)	3.1
Rs/EUR	65.8	0.3	(3.6)
Rs/GBP	73.3	0.1	4.7
Bond Markets		Closing	bps Chg
10 yr bond		6.1	(3.0)
Interbank call		3.3	(5.0)

Charts Front Page

Sensex price volume



Sensex intraday

Corporate Front Page

- **Reliance Industries** will sell natural gas from its eastern offshore KG-D6 fields to **ADAG** group power plant in AP at government-approved rates (TOI)
- **ONGC Mittal Energy** has got the Nigerian National Petroleum Corporation's nod for its plan to set up a refinery in Nigeria (BL)
- **Reliance Infrastructure** may submit bids for retail power distribution in 11 cities in Uttar Pradesh and Bihar, according to company sources (BL)
- **Reliance Infrastructure** outlines plans to invest Rs13bn in its two power distribution companies in Delhi over the next couple of years for strengthening their electricity distribution networks (BL)
- Delhi HC allows **Cipla** to manufacture and sell the generic version of lung cancer drug 'Erlotinib' of Roche (TOI)
- **ONGC Videsh** set to quit Sudan block, write off US$90m (TOI)
- **UTI** asset management arm plans to offload 26% in three months (FE)
- **Jet Airways** has approached the US Exim Bank and European export credit agencies to reschedule a US$2bn loan that was raised to buy 27 Boeing and 8 Airbus aircraft (BS)
- **Indiabulls Real Estate** board approves a plan to raise US$600m through a QIP (BS)
- **SBI** mulls reduction in education loan rates by 0.25% (BS)
- Renault is looking to introduce up to two new models in India with **Mahindra & Mahindra** this year (ET)
- **Jindal Steel and Power** to start producing gas in Bolivia in June for export to Argentina (ET)
- As part of cost-cutting measures, **Tata Consultancy Services** said that it will relocate staff abroad into India (FE)
- **KEC International** bags orders worth Rs950m (BL)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Adani Enterprises L	444	14.3	46.9	Amtek Auto Ltd	100	-5.8	49.4
IDBI Bank Ltd	67	12.8	-0.6	JAI Corp Ltd	194	-5.0	151.2
Essar Shipping Port	45	10.0	24.0	Zee Entertainmen	114	-3.2	-18.2
Century Textile & I	237	10.0	41.7	IDFC Ltd	76	-2.6	13.0
Videocon Industries	123	9.5	1.7	Bajaj Holdings an	366	-2.3	50.9

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Piramal Healthcare Ltd	216	904	1,265	340	272
Adani Enterprises Ltd	444	2,192	2,275	760	199
IDBI Bank Ltd	67	977	12,645	5,399	134
Aditya Birla Nuvo Ltd	563	1,071	451	212	113
Grasim Industries Ltd	1803	3,309	635	303	110
Mundra Port and Special E	404	3,237	2,201	1,093	101
Maruti Suzuki India Ltd	803	4,645	3,203	1,681	91
Castrol India Ltd	321	795	92	49	87
Idea Cellular Ltd	61	3,759	18,143	9,786	85
Zee Entertainment Enterp	114	995	7,292	3,986	83

FII - FII trades

Scrip	23/4/2009			24/4/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Grasim	1	1,679	2.0	36	1,763	1.2
Pantaloon	3	205	5.5	500	210	6.5

Corporate Front Page

- **GAIL** readies Rs10bn for city gas networks (DNA)
- **Ranbaxy Laboratories** has pared its operations in Europe, where it had been forced to cut product prices to cope with intense competition and posted a steep decline in revenue (Mint)
- **ICICI Bank** writes to Department of Industrial Policy and Promotion that it is not a foreign-owned bank and will not be covered by the new guidelines (ET)
- **Aptech** enters into a 51:49 JV with the Falgo Group to set up its training centre (ET)
- **Jindal Stainless** seeks more time to buy back its FCCBs (ET)
- **SKF India** to invest Rs1.5bn in a new ball-bearing manufacturing plant at Haridwar (ET)
- **Infosys** BPO to acquire captive operations of customers (ET)
- The Department of Divestment to launch public offering to divest government stake in **NHPC**, **Oil India** and **RITES** (ET)
- **JSW Energy** is close to acquiring a sub-Saharan African thermal coal mine for US$70m (ET)
- **Tamil Nadu Newsprint and Papers** plans to invest Rs10bn for expansion (BS)
- **Karnataka Bank** is restructuring its loans worth Rs3bn-3.5bn that are under stress (BS)
- **Tata's** to launch GSM service with NTT DoCoMo co-branding (BS)

Economy Front Page

- Forex reserves fell by US$517m in the week ended April 17 (BL)
- India is ready to buy US$10bn of IMF bonds said planning commission deputy chairman Montek Singh Ahluwalia (BS)
- Banks to get Rs50bn for farm debt waiver (Mint)
- A government panel set up to resolve the critical issue of additional spectrum allocation is understood to have moved from the current user-based formula to revenue generating auction model (Mint)
- India Infrastructure Fund invests US$50m in two toll road projects (Mint)
- Bank credit witnesses a moderate growth of Rs14bn in the first fortnight of the current financial year (BS)
- World Bank's private sector lending arm, IFC, to invest US$1bn in Indian companies during its financial year beginning June 2009 (ET)
- The government is considering levying a safeguard duty of 25% on key steel products imported from countries like China and Japan (ET)

Results Front Page

Rs m	Revenues	%YoY	PAT	%YoY
3I Infotech	1,229	17.1	640	77.3
Balrampur Chini	3,571	14.9	661	0.7
Bharat Electronics	27,535	19.4	5,594	10.8
Cipla	13,667	21.8	2,529	40.9
Corporation Bank	17,064	39.3	2,605	26.7
Greaves Cotton	2,620	(22.8)	143.7	(52.8)
ICICI Bank	27,177	5.6	7,484	17.7
Infotech Enterprise	2,350	25.4	186	(28.7)
Pantaloon	16420.9	18.9	343.7	5.7

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy / Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Amtek Auto Ltd	Arvind Dham	15/04/2009	Buy	166,150	97.2	16	0.1	1.7
Amtek Auto Ltd	Anjali Malhotra	15/04/2009	Sell	106,150	97.2	10	0.1	-
Amtek Auto Ltd	Aarti Jain	15/04/2009	Sell	60,000	97.2	6	0.0	-
Apollo Hospitals Enterprises Ltd	Dr Prathap C Reddy	18/04/2009	Buy	1,549,157	398.0	617	2.5	4.5
IOL Chemicals & Pharmaceuticals Ltd	Mayadevi Polycot Ltd	--	Buy	1,200,000	91.0	109	5.7	46.1
Orissa Sponge Iron And Steel Ltd	Prakausali Investments (India) Pvt Ltd	29/01/2009	Sell	1,900,000	118.0	224	9.5	2.6

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

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy / Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Master Trust	Geomatrix HK Ltd A/c Dumauritius Capital Ltd	24/04/2009	Sell	540,345	22.3	12
Rolta India Ltd	Morgan Stanley Mauritius Co Ltd	24/04/2009	Sell	1,200,000	83.4	100

ICICI Bank – REDUCE

ICICIBC IN	Rs434	Banking	27 April 2009	Results Update

In transition

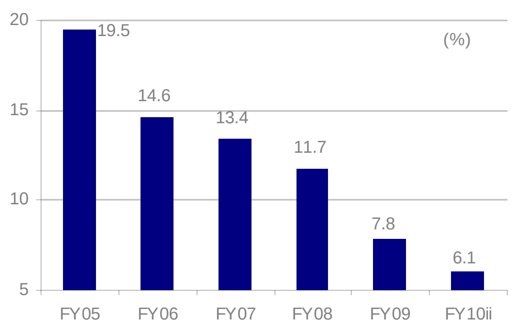
ICICI Bank's 4QFY09 net profit was down 35%YoY and 42%QoQ to Rs7.44bn, in line with our estimates. As the bank shrinks its loans (down 3%YoY) and assets (down 5%), it is adversely affecting fee income, which dropped to its lowest level in the last 10 quarters. Problem loans reached 7.1% of total loans and we expect them to peak at 10-12% in FY11. ROE was only 6.2% in 4QFY09 and 7.8% for full-year FY09. We estimate profits will decline by 17% in FY10 and ROE will reach 6.1%. The bank remains in a transition phase and further restructuring/downsizing is expected to impair medium-term profit outlook. REDUCE.

Downsizing to continue: While loans grew by 3% QoQ in 4QFY09, primarily from rural loans to fulfil priority sector requirement, the domestic loan book still shrank by 8% YoY (versus 17.3% growth for the system), retail loans contracted by 19% YoY (system grew by an estimated 7.5%) and deposits declined by 11% YoY (system grew by 19.8%). Loan/deposit ratio of 79% on domestic balance-sheet is still high (system average 73%) and needs to correct further. We expect a further 5-10% contraction in loans in FY10 as the bank is shrinking both its retail and overseas loan books.

Fee income suffers: An adverse fallout of the downsizing is the drop in fee income, which in 4QFY09 was the lowest in the last 10 quarters. Fee income/average assets ratio fell from an average of 50bps over the last three years to 34bps in 4QFY09. This can only fall further as fees from loan origination, third-party product distribution and corporate banking remain on the decline. Other non-interest income, including trading gains, also halved in FY09.

Problem loans reach 7.1% of total loans: While growth in NPLs slowed down to 19% YoY in FY09 vs 72% YoY in FY08, problem loans still reached 7.1% of total loans (5.5% in end-FY08), including 4.3% of GNPL and 2.8% of standard restructured loans. The bank restructured Rs11bn of loans in FY09, most of it in 4Q, taking total restructured loans up to Rs61bn. Another Rs20bn (1% of loans) of restructuring cases were under consideration. ICICI's 7.1% problem loans compare with 2.7% for Axis and 2.0% for HDFC Bank. We estimate problem loans will peak at 10-12% in FY11 for ICICI compared with 5-6% for the system.

Standalone ROE



Source: Company, IIFL Research

Financial summary

Y/e 31 Mar	FY08	FY09	FY10ii	FY11ii	FY12ii
Op income (Rs m)	161,149	159,703	147,477	162,940	185,589
Net profit (Rs m)	41,577	37,581	31,138	34,470	39,195
EPS (Rs)	37.4	33.8	28.0	31.0	35.2
Growth (%)	8.0	(9.6)	(17.1)	10.7	13.7
PER (x)	11.6	12.9	15.5	14.0	12.3
Dividend yield (%)	2.5	2.5	2.5	2.5	2.5
Price/Book (x)	1.0	1.0	0.9	0.9	0.9
ROA (%)	1.1	1.0	0.8	0.9	0.9
ROE (%)	11.7	7.8	6.2	6.6	7.2
CAR (%)	14.0	15.5	14.5	14.6	13.6

Source: Company, IIFL Research. Price as at close of business on 24 April 2009

Market cap (US$ m)	**9,700**
52Wk High/Low (Rs)	971/252
Diluted o/s shares (m)	1113
Daily volume (US$ m)	150.8
Dividend yield FY09 (%)	2.7
Free float (%)	100.0

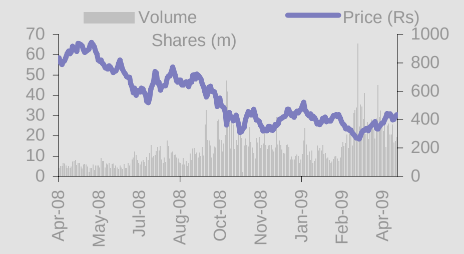
Shareholding pattern (%)

FIIs	63.2
Domestic MFs/Insurance cos	22.5
Others	14.3

Price performance (%)

	1M	3M	1Y
ICICI Bank	15.7	19.3	-52.6
Rel. to Sensex	3.0	-6.5	-18.7
Axis Bank	25.7	37.8	-41.7
HDFC Bank	11.8	27.3	-26.0
SBI	19.7	25.9	-25.0

Stock movement



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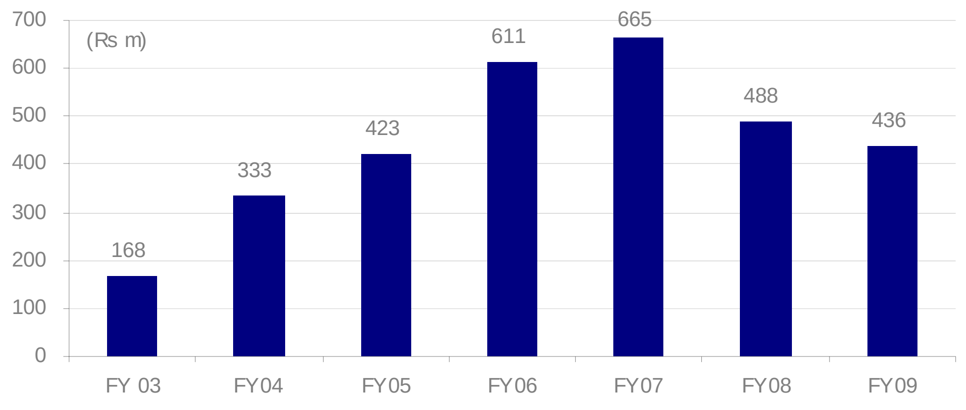
In transition

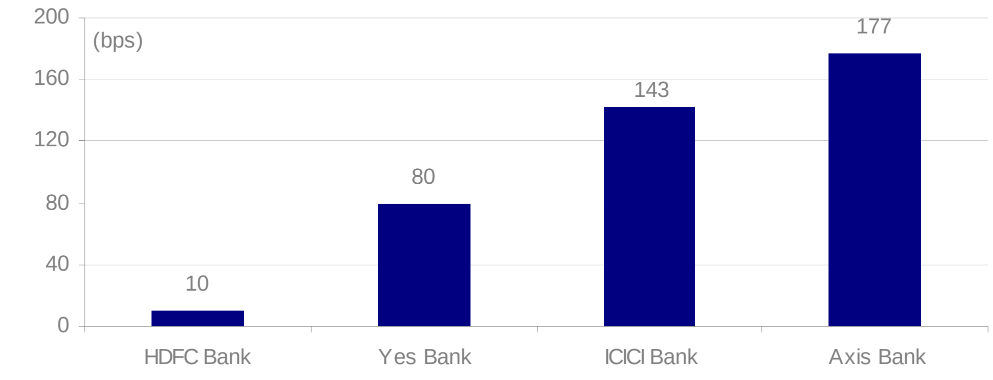
The elusive CASA: Growing CASA has been a top priority for the bank for a long time now. However, the CASA actually declined by 2%YoY in FY09 to Rs627bn. CASA as % of total deposits improved marginally from 26.1% last year to 28.7% in end FY09. During the last six years, the bank has added 969 branches but its CASA ratio has increased by only 575bps over this period. CASA/branch is on the decline for the past two years and is the lower than that of Axis and HDFC Bank. The bank plans to add 580 branches during the current year and to raise the CASA ratio to 33%. This may be difficult to achieve as new branches would take time to ramp up. Moreover, since the bank is doing very little lending, it would also make it difficult to raise CASA deposits. ICICI Bank's 2% YoY decline in CASA deposits compares with 15% YoY growth for HDFC Bank and 27% YoY growth for Axis Bank.

Figure 1: ICICI Bank CASA/branch



Source: Company, IIFL Research

Figure 2: Restructured loans/total loans – including loans under consideration for restructuring



Source: Company, IIFL Research

NPL coverage remains inadequate: NPL coverage dropped to 54% in end FY09 compared to 57% in FY08, 58% in FY07 and 64% in FY06. Moreover, the bank disclosed that it had made no material provision on restructured loans, which is unlike other private banks. Loan-loss provision charges grew by only 14%YoY in 4Q and 13%YoY for full year FY09. This looks inadequate in view of the problem in hand and will need to rise, unless there is a significant turnaround in the economic outlook and asset quality.

Musical chairs at senior management: The bank announced several changes in management positions, although these had been leaked to the press earlier on. Several businesses now have a new head including ICICI Prudential Life Insurance, ICICI Lombard General Insurance, ICICI Venture, ICICI Securities and retail banking.

International lending is no more viable: Loans through overseas branches in Singapore, Hong Kong and Bahrain still account for 25% of outstanding loans. This book has shrunk by 5% since peaking in 2QFY09 and is expected to contract by a further 10% in FY10, since the bank made no new loans since July 2008 and is liquidating them as and when they become due. About US$1bn of loans mature this year compared with US$2bn of liabilities coming up for repayment during the year. This would need to be rolled over, possibly at higher rates. ICICI has so far not tapped the RBI's forex swap lines made available to Indian banks. ICICI remains handicapped by its high borrowing costs in international markets compared with global banks, most of which now carry an explicit government guarantee.

Meager returns from overseas banking subsidiaries: ICICI UK made a profit of US$6.8m in FY09 after absorbing MTM losses of US$164m in its reserves, or in other words it incurred losses of US$157m last year. In the 4Q alone, US$58m of loss was routed through the reserves. Similarly, ICICI Canada made a profit of only CAD$1.5m in 4QFY09 and CAD$34m for full year FY09. ICICI Eurasia's assets shrank by 40% since the beginning of 2008, as the bank remains in a retreating mode. These three subsidiaries, with a combined balance sheet of over US$14bn and capital of US$1.2bn, would struggle to show decent returns given reduced investment, lending and fee generation opportunities in these countries. 90% of exposure through overseas branches and 80% through overseas subsidiaries is India related exposure. The bank will look to restructure them, if required.

Non-banking subsidiaries profits down 7%YoY: Key subs including ICICI Securities Ltd., ICICI Securities PD and ICICI Prudential AMC incurred losses in the 4QFY09. For full year FY09, net profit changes were as follows: I-Sec (down 97%YoY), I-Sec PD (up 94%), ICICI Venture (up 64%), ICICI Prudential AMC (down 99%), ICICI Housing Finance (up 104%), ICICI General Insurance (down 77%) and ICICI Prudential Life (losses came down by 44%). Aggregate net profits for all subsidiaries (excluding ICICI Prudential Life) were down 7%YoY. ICICI Prudential Life made a loss of Rs7.8bn in FY09 wiping out of the entire profit of Rs5.9bn earned by all other subs.

Figure 3: Results at a glance

(Rs m)	4QFY08	3QFY09	4QFY09	QoQ (%)	YoY (%)	FY09	YoY (%)
Interest Income	80,293	78,361	75,297	(3.9)	(6.2)	310,926	1.0
Interest expenses	(59,498)	(58,457)	(53,909)	(7.8)	(9.4)	(227,259)	(3.2)
Net interest income	**20,795**	**19,904**	**21,388**	**7.5**	**2.9**	**83,666**	**14.5**
Non-interest income	**23,617**	**25,145**	**16,737**	**(33.4)**	**(29.1)**	**76,037**	**(13.7)**
o/w Fee income	19,280	13,470	13,430	(0.3)	(30.3)	65,240	(1.6)
o/w Lease and other income	2,697	1,915	1,167	(39.1)	(56.7)	6,367	(53.4)
o/w Treasury income	1,640	9,760	2,140	(78.1)	30.5	4,430	(45.7)
Total income	**44,411**	**45,050**	**38,125**	**(15.4)**	**(14.2)**	**159,703**	**(0.9)**
Operating expenses	(21,505)	(17,341)	(16,571)	(4.4)	(22.9)	(70,451)	(13.6)
Pre provision operating profit	**22,907**	**27,708**	**21,555**	**(22.2)**	**(5.9)**	**89,252**	**12.1**
Provisions	(9,475)	(10,077)	(10,845)	7.6	14.5	(38,083)	31.1
Profit before tax	**13,432**	**17,631**	**10,710**	**(39.3)**	**(20.3)**	**51,170**	**1.2**
Taxation	(1,933)	(4,910)	(3,272)	(33.4)	69.2	(13,588)	51.3
Net Profit	**11,498**	**12,722**	**7,438**	**(41.5)**	**(35.3)**	**37,581**	**(9.6)**
Business parameters							
Loans (Rs bn)	2,256	2,125	2,183	2.7	(3.2)	2,183	(3.2)
Deposits (Rs bn)	2,444	2,091	2,183	4.4	(10.7)	2,183	(10.7)
LDR (%)	92.3	101.7	100.0	(1.7)	7.7	100.0	7.7
CASA Deposits (Rs bn)	638	574	627	9.2	(1.7)	627	(1.7)
CASA (%)	26.1	27.4	28.7	1.3	2.6	28.7	2.6
P&L ratios (%)							
Net Interest margins (%)	2.4	2.4	2.6	0.2	0.2	2.3	0.2
Cost/Income ratio (%)	48.4	38.5	43.5	5.0	(5.0)	44.1	(6.5)
Non-interest income/Total income (%)	53.2	55.8	43.9	(11.9)	(9.3)	47.6	(7.1)
Provision charges/Total income (%)	21.3	22.4	28.4	6.1	7.1	23.8	5.8
Asset quality							
GNPL (Rs bn)	83.5	96.4	99.3	3.0	18.9	99.3	18.9
GNPL (%)	3.3	4.5	4.3	(0.2)	1.0	4.3	1.0
NNPL (Rs bn)	35.6	44.7	46.2	3.4	29.6	46.2	29.6
NNPL (%)	1.5	2.0	2.0	0.0	0.5	1.8	0.3
NPL coverage ratio (%)	57.3	53.7	53.5	(0.2)	(3.8)	53.5	(3.8)
Capital Adequacy (%)							
CAR	14.0	15.6	15.5	0.0	1.6	15.5	1.6
Tier I	11.8	12.1	11.8	(0.3)	0.1	11.8	0.1

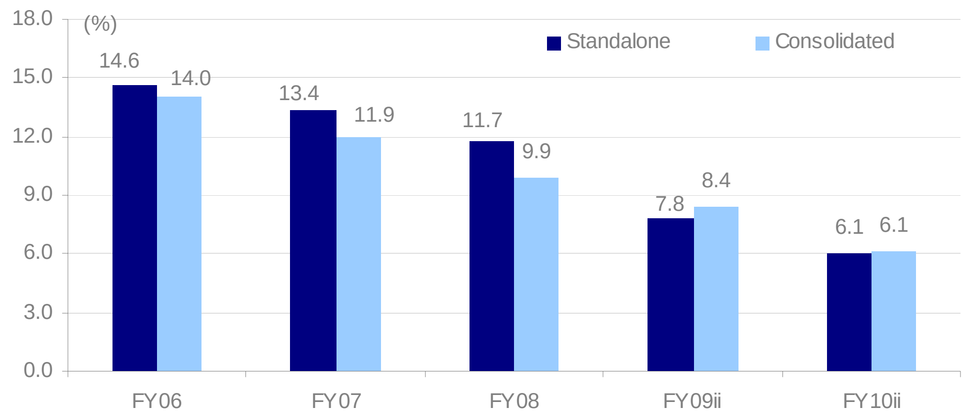
Source: Company, IIFL Research

Figure 4: 4QFY09 results comparison on key metrics

4QFY09	ICICI Bank	HDFC Bank	Axis Bank	YES Bank
Loan growth, YoY (%)	(3.2)	24.8*	36.7	31.5
Deposit growth, YoY (%)	(10.7)	16.6*	33.9	21.8
LDR (%)	100.0	69.2	69.5	76.7
NIM (%)	2.6	4.2	3.4	3.0
NIM change (bps)	20.0	(20.0)	(14.2)	(6.0)
GNPL growth, YoY (%)	18.9	33.1*	81.5	703.5
GNPL (%)	4.3	2.0	1.0	0.7
NNPL (%)	2.0	0.6	0.4	0.3
CASA (%)	28.7	44.4	43.1	8.7
Tier I (%)	11.8	10.6	9.3	9.5
Annualized RoA (%)	0.8	1.2	1.8	1.6
Annualized RoE (%)	6.2	17.6	25.1	21.8

Source: Company, IIFL Research. *On a like-to-like basis, including CBOP

Figure 5: Standalone vs. Consolidated RoE



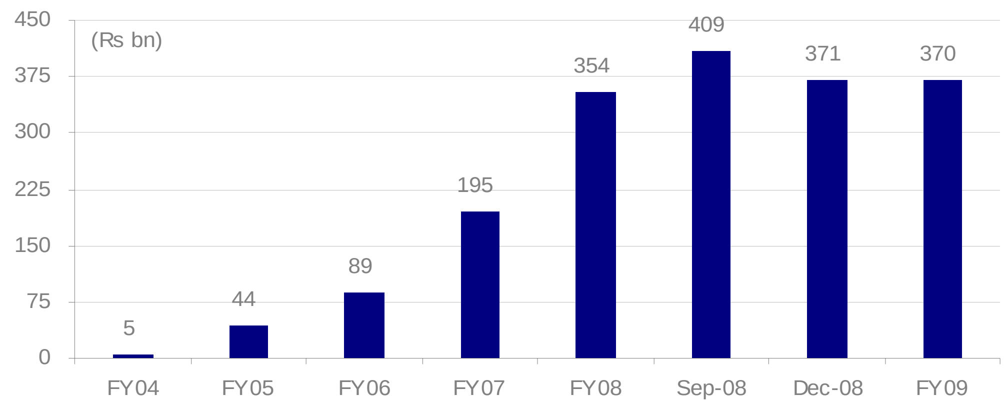
Source: Company, IIFL Research

Figure 6: ICICI UK Balance sheet – contracted by 4% QoQ

US$ m	Mar-09	(% of total)	QoQ (%)
Cash & Liquid securities	1,095	15	(10)
Loans & advances (80% to Indian corporate)	3,285	45	20
Debt securities (senior debt of OECD banks)	2,044	28	(13)
Asset backed securities	292	4	(36)
India linked investments	292	4	(36)
Other assets & investments	292	4	(23)
Total	**7,300**	**100**	(4)
Deposits	4,599	63	12
o/w demand deposits	1,825	25	
o/w term deposits	2,774	38	
Borrowings	1,971	27	(1)
o/w long term debt	*1,168*	*16*	
o/w Syndicated loans	*803*	*11*	
Other liabilities	292	4	(75)
Net worth	438	6	35
Total	**7,300**	**100**	(4)

Source: Company, IIFL Research

Figure 7: ICICI UK total assets



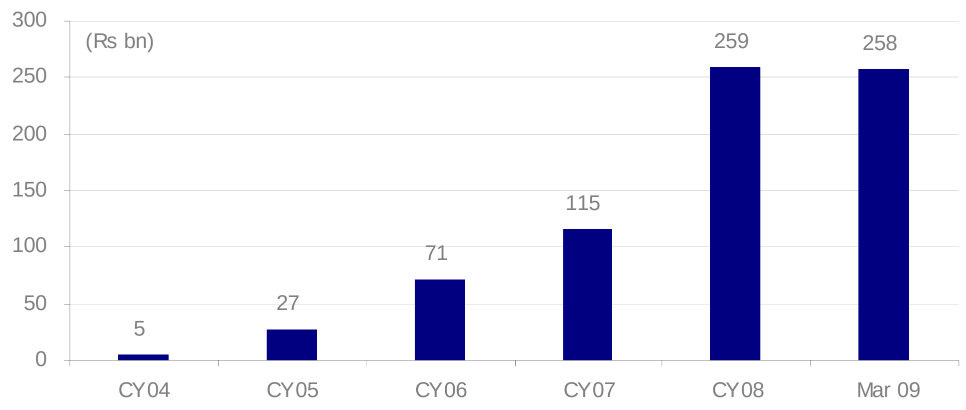
Source: Company, IIFL Research

Figure 8: ICICI Canada Balance sheet

Canadian $m	Mar-09	(% of total)	QoQ (%)
Cash & liquid securities	896	14	(31)
Loans to customers (80% to Indian corporate)	4,096	64	15
Federally insured mortgage	896	14	(19)
India linked investments	192	3	(2)
Asset backed securities	128	2	(2)
Other assets & investments	192	3	(2)
Total assets	**6,400**	**100.0**	(2)
Deposits	5,120	80	(5)
o/w demand deposits	640	10	
o/w term deposits	4,480	70	
Borrowings	64	1	
Other liabilities	256	4	
Networth	960	15	
Total liabilities & shareholder's equity	**6,400**	**100.0**	(2)

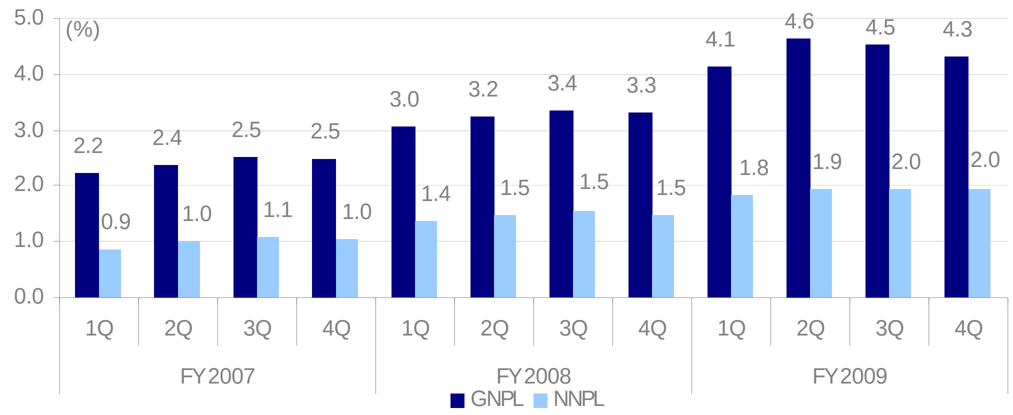
Source: Company, IIFL Research

Figure 9: ICICI Canada total assets



Source: Company, IIFL Research

Figure 10: Gross and net NPL trend



Source: Company, IIFL Research

Figure 11: Equity investments in subsidiaries

(Rs bn)	Mar-08	Mar-09	YoY (%)
ICICI Prudential Life Insurance	27.8	35.9	29.0
ICICI Lombard General Insurance	7.2	11.0	52.9
ICICI Bank Canada	13.5	33.5	147.6
ICICI Bank UK	18.6	23.3	25.3
ICICI Home Finance	8.0	11.1	39.5
ICICI Bank Eurasia LLC	3.0	3.0	0.0
ICICI Securities Primary Dealership	1.6	1.6	(3.7)
ICICI Securities Limited	0.9	0.9	0.0
ICICI AMC	0.6	0.6	0.0
ICICI Venture Funds	0.1	0.1	0.0
Others	0.1	0.1	0.0
Total	**81.4**	**121.0**	**48.7**

Source: IIFL Research

Figure 12: ICICI Bank – Key subsidiaries – profit after tax

Rs m	FY08	FY09	YoY (%)
ICICI Securities Ltd.	1,500	40	(97.3)
ICICI Securities PD	1,400	2,720	94.3
ICICI Venture	900	1,480	64.4
ICICI Prudential Asset Management Company	820	10	(98.8)
ICICI Home Finance Company	700	1,430	104.3
ICICI Lombard General Insurance	1,029	240	(76.7)
Total (excluding ICICI Prudential Life Insurance)	**6,349**	**5,920**	**(6.8)**
ICICI Prudential Life Insurance	(13,950)	(7,800)	(44.1)

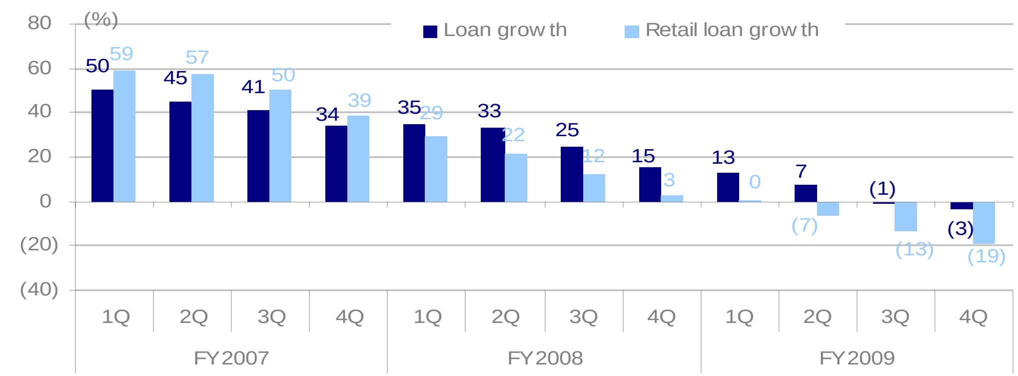
Source: Company, IIFL Research

Figure 13: Standalone loan book break-up

Rs m	4QFY09	QoQ (%)	YoY (%)
Domestic *	567,608	34	23
Retail	1,069,723	(79)	(89)
Home	*577,651*	*(5)*	*(13)*
Vehicle loans	*310,220*	*(3)*	*(24)*
Auto loans	*139,064*	*(7)*	*(21)*
Commercial business	*149,761*	*0*	*(27)*
2 wheeler	*21,394*	*(7)*	*(26)*
Other secured	*14,976*	*(48)*	*(1)*
Personal loans	*91,996*	*(16)*	*(33)*
Credit cards	*74,881*	*(7)*	*(18)*
Overseas	545,777	(1)	14
Total	**2,183,109**	**3**	**(3)**

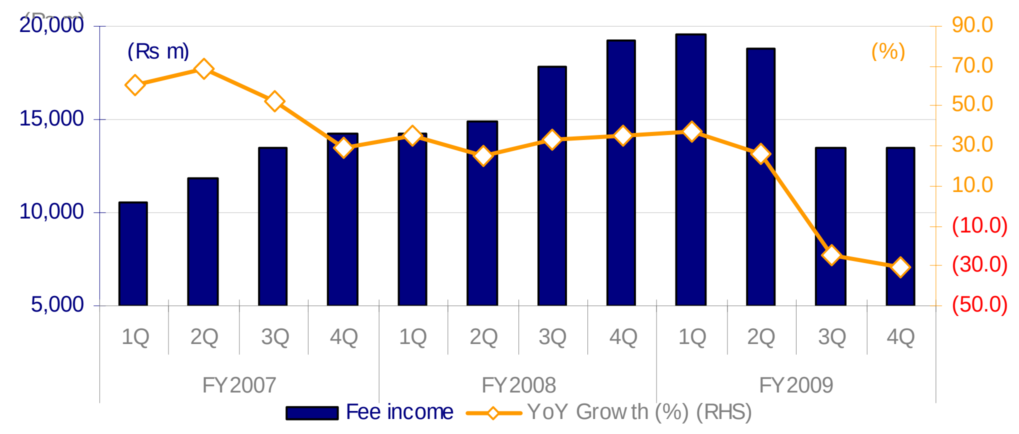
Source: Company, IIFL Research. *Domestic book includes Corporate, Rural and SME.

Figure 14: YoY growth in loans – total and retail



Source: Company, IIFL Research

Figure 15: Fee income slowing down



Source: Company, IIFL Research

Figure 16: ICICI Bank relative to Sensex

Source: Bloomberg, IIFL Research. Price as at close on 24 April 2009

Financial summary

Fee income to decline in FY10

Net profit to decline in FY10

Loan CAGR of 2% over FY09ii-11ii

Share of CASA deposits to increase

Income statement summary (Rs m)

Y/e 31 Mar	FY08	FY09	FY10ii	FY11ii	FY12ii
Interest income	307,883	310,926	311,991	324,184	357,020
Interest expense	234,842	227,259	228,097	234,111	254,953
Net interest income	**73,041**	**83,666**	**83,895**	**90,072**	**102,067**
Fee Income	57,155	65,240	55,454	63,772	73,338
Portfolio gains	18,802	4,430	3,101	3,566	4,101
Others	12,151	6,367	5,027	5,530	6,083
Non-interest income	**88,108**	**76,037**	**63,582**	**72,868**	**83,522**
Total operating income	**161,149**	**159,703**	**147,477**	**162,940**	**185,589**
Employee cost	20,789	19,717	18,140	20,861	25,033
Other operating expenses	60,753	50,734	43,137	47,434	54,620
Total operating expenses	**81,542**	**70,451**	**61,277**	**68,294**	**79,653**
Pre provision operating profit	**79,607**	**89,252**	**86,200**	**94,646**	**105,937**
Provisions for loan losses	25,420	28,855	33,865	34,842	38,327
Other provisions	3,626	9,227	7,852	10,561	11,618
Profit before tax	**50,561**	**51,170**	**44,483**	**49,242**	**55,992**
Taxes	8,984	13,588	13,345	14,773	16,798
Net profit	**41,577**	**37,581**	**31,138**	**34,469**	**39,194**

Balance sheet summary (Rs m)

Y/e 31 Mar	FY08	FY09	FY10ii	FY11ii	FY12ii
Net loans & advances	2,256,161	2,183,109	2,073,953	2,281,348	2,509,483
Placements to other banks	86,636	90,968	86,419	93,333	97,066
Cash & equivalents	293,775	208,693	154,669	166,892	157,752
Other interest-earning assets	1,114,543	1,030,580	1,110,954	1,193,381	1,361,754
Total interest-earning assets	**3,751,116**	**3,513,349**	**3,425,995**	**3,734,955**	**4,126,055**
Fixed assets	41,089	47,252	54,340	62,491	71,865
Other assets	205,746	232,699	267,604	294,364	323,801
Total assets	**3,997,951**	**3,793,001**	**3,747,939**	**4,091,810**	**4,521,721**
Customer deposits	2,444,311	2,183,478	2,227,148	2,449,863	2,743,846
Other interest-bearing liabilities	863,986	928,050	858,477	944,325	1,038,757
Total interest-bearing liabilities	**3,308,297**	**3,111,528**	**3,085,625**	**3,394,187**	**3,782,603**
Other non-interest-bearing liabilities	221,452	182,650	146,120	160,732	176,805
Total liabilities	**3,529,749**	**3,294,178**	**3,231,745**	**3,554,919**	**3,959,408**
Net worth	**468,202**	**495,330**	**516,195**	**536,891**	**562,312**
Total liabilities & equity	**3,997,951**	**3,793,001**	**3,747,939**	**4,091,810**	**4,521,721**

Source: Company, IIFL Research

Net interest margins likely to improve

ROE on a decline

Asset quality to deteriorate

Ratio analysis

Y/e 31 Mar	FY08	FY09	FY10ii	FY11ii	FY12ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	92.3	100.0	93.1	93.1	91.5
Loan Growth	15.2	-3.2	-5.0	10.0	10.0
Growth in Deposits	6.0	-10.7	2.0	10.0	12.0
Growth in Total Assets	16.0	-5.1	-1.2	9.2	10.5
Profitability Ratios (%)					
Net Interest Margin	2.1	2.3	2.4	2.5	2.6
Return on Average Assets	1.1	1.0	0.8	0.9	0.9
Return on Average Equity	11.7	7.8	6.2	6.6	7.2
Non-Interest Income as % of Tot Income	54.7	47.6	43.1	44.7	45.0
Net Profit Growth	33.7	-9.6	-17.1	10.7	13.7
FDEPS Growth	8.0	-9.6	-17.1	10.7	13.7
Efficiency Ratios (%)					
Cost to Income Ratio	50.6	44.1	41.6	41.9	42.9
Salaries as % of Non-Int Costs	25.5	28.0	29.6	30.5	31.4
Credit Quality Ratios (%)					
Gross NPLs as % of loans	3.3	4.3	6.0	6.8	6.7
NPL coverage ratio	57.3	53.5	67.6	67.7	69.2
Total provision charges as % avg loans	1.3	1.4	1.6	1.7	1.7
Net NPLs as % of net loans	1.5	1.8	2.0	2.3	2.2
Capital Adequacy Ratios (%)					
Total CAR	14.0	15.5	14.5	14.6	13.6
Tier I capital ratio	11.8	11.8	11.6	11.5	10.5
Key earnings drivers (%)					
Loan growth	15.2	-3.2	-5.0	10.0	10.0
Net interest margin	2.1	2.3	2.4	2.5	2.6
Net int income growth	29.6	14.5	0.3	7.4	13.3
Core fee income growth	14.9	14.1	-15.0	15.0	15.0
Non-interest income as % of total	54.7	47.6	43.1	44.7	45.0
Operating costs growth	21.9	-13.6	-13.0	11.5	16.6
Cost/income ratio	50.6	44.1	41.6	41.9	42.9
Gross NPLs as % of loans	3.3	4.3	6.0	6.8	6.7
Total provision charges as % of loans	1.3	1.4	1.6	1.7	1.7
Tax rate	17.8	26.6	30.0	30.0	30.0

Source: Company, IIFL Research

Maruti Suzuki – REDUCE

MSIL IN	Rs803	Auto	25 Apr 2009	4QFY09 Results update

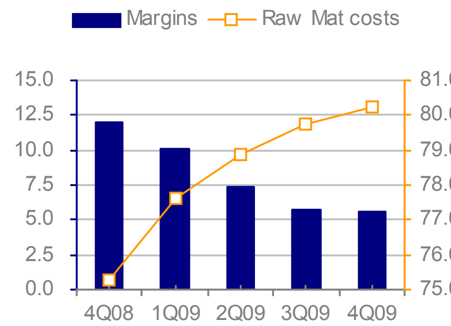
Disappoints again; volume revival is priced in

Maruti's reported PAT of Rs2,431m was well below our estimates. Even adjusted for the one-time forex loss of Rs1,210m on derivative contracts, the quarter's PAT was not very encouraging. However, the disappointment was largely forex-related, as commodity price benefits were offset by yen appreciation and the company also had a translation loss of Rs510m. Since a large part of the commodity price benefits have kicked in, going forward, margin improvement from declining commodity prices will be restricted to ~100bps. Given the recent traction in volumes, we raise our FY10 domestic volume growth estimate from 2% to 5% and raise our target price to Rs700. Key concerns are the slowdown in the broader economy and the threat of increasing competition, on the back of new car launches by foreign players—starting with Honda's *Jazz* in June and Volkswagen's *Polo* in January 2010.

Sharp contraction in 4QFY09 margins: Maruti's reported EBITDA margin declined 650bps YoY and did not expand QoQ, in spite of commodity price benefits kicking in. Even after commodity price benefits, the raw-material to net sales ratio increased 50bps QoQ as the gains were more than offset by the yen's appreciation on both direct imports by the company (8.5% of net sales) and indirect imports by vendors (10% of net sales). However, adjusted for the Rs1,210m forex loss on dollar-denominated hedges and Rs510m of translational loss, EBITDA margins did improve sequentially to 8.3%. The improvement came on account of a Rs3,750/car fall in other manufacturing overheads on account of operating leverage and a cost reduction drive (which led to a decline in travel expenses, repairs and maintenance, etc).

Commodity gains limited to 100bps in FY10; larger gains if currency movement is not adverse: Gains from domestic commodity purchases were evident in 4QFY09. Imported steel accounts for only 25% of Maruti's imports; excluding steel purchases by vendors, it accounts for 60%. Thus, margin benefits from imported steel would be limited to ~100bps, in our view. Assuming currency remains stable, we expect EBITDA margin to expand to 9% in FY10. Given the strong demand from the rural market and PSU employees, we upgrade our FY10 volume growth estimate to 5% from 2%, and hence raise our FY10 earnings estimate by 6%. The stock is trading at a PE of 14.7x on FY10ii, which is expensive, in our view. given the uncertain outlook on both volumes and margins. We value the stock at 13x FY10ii and maintain Reduce with a target price of Rs700.

Margins continue to decline



Source: IIFL Research

Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	146,539	179,362	206,638	229,737	254,062
EBITDA Margins (%)	13.6	12.8	6.6	9.0	9.6
Pre-Exceptional PAT (Rs m)	15,620	17,308	12,375	15,628	17,664
Reported PAT (Rs m)	15,620	17,308	12,375	15,628	17,664
EPS (Rs)	54.0	59.9	42.8	54.1	61.1
Growth (%)	31.4	10.8	-28.5	26.3	13.0
PER (x)	**14.9**	**13.4**	**18.8**	**14.8**	**13.1**
ROE (%)	22.8	20.6	13.0	14.3	14.1
Net Debt/Equity (x)	-0.6	-0.5	-0.4	-0.5	-0.5
EV/EBITDA (x)	**9.6**	**8.2**	**14.1**	**8.8**	**7.0**
Price/Book (x)	3.4	2.8	2.4	2.1	1.8

Price as at close of business on 24 April 2009

12-mth Target price (Rs) 700 (-13%)

Market cap (US$ m)	**4,132**
52Wk High/Low (Rs)	874/428
Diluted o/s shares (m)	289
Daily volume (US$ m)	23.6
Dividend yield FY09ii (%)	0.5
Free float (%)	45.8

Shareholding pattern (%)

Promoters	54.2
FIIs	19.4
Domestic MFs/Insurance cos	21.7
Others	4.8

Price performance (%)

	1M	3M	1Y
Maruti Suzuki	9.4	55.9	8.8
Rel. to Sensex	-3.3	30.0	42.7
Tata Motors	58.1	87.7	-59.0
Mahindra & Mahindra	24.5	78.1	-25.7

Stock movement

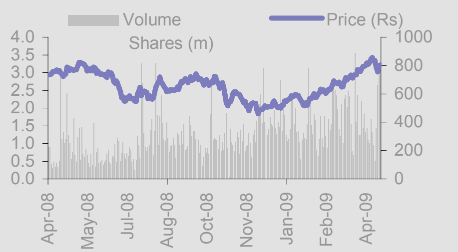


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Figure 1: Even adjusted for forex fluctuations, results were poor operationally

(Rs. m)	4QFY08	3QFY09	4QFY09	% YoY	% QoQ	IIFL Comments
Volumes	202,219	173,495	236,638	17.0	36.4	The significant increase in volumes during the quarter was led by 60% QoQ increase in *WagonR* and a 31% QoQ increase in the *Alto.*
Realisation per vehicle	**239,264**	**264,683**	**267,682**	**11.9**	**1.1**	Sequentially, realisation improved as the company increased prices on select models. YoY, product mix shifted towards the higher-priced *Swift* and *Dzire* from entry-level models like *Alto*, *WagonR* and *Zen*.
Net Sales	**48,384**	**45,921**	**63,344**	**30.9**	**37.9**	Revenue increase was much higher than volume increase on account of better realisation.
Raw Material	36,415	36,617	50,809	39.5	38.8	Sequentially, there was a benefit of Rs4,000 per car from commodity prices. However, this benefit was more than offset by fx impact. Maruti imports 8.5% of its components directly and around 12% of its components via vendors (this part shows in the company's financials with a one-quarter lag). The yen appreciated by 5% in 4QFY09 and 25% in 3QFY09.
Raw Mat/Sales (%)	75.3	79.7	80.2	**495 bps**	**47 bps**	
Employee costs	880	1,104	1,331	51.2	20.6	Employee costs increased as the company added employees for its R&D facility.
Other Expenditure	5,273	5,569	7,696	45.9	38.2	
Power costs	377	532	747	97.9	40.4	Increase in production at Manesar plus higher mix of cars produced at Manesar (*Swift* line, *A-star* and *SX4).*
Royalty costs	1,519	1,593	2,160	42.2	35.6	Increase in number of models on which royalty is paid and appreciation of yen against the rupee.
Selling and distribution expenses	1,935	1,665	2,040	5.4	22.5	*A-star* launch and higher ocean freight. Will increase going forward with *A-star* exports.
Other manufacturing overheads	1,441	1,779	1,539	6.8	(13.5)	Fell Rs3,500 per car; operating leverage playing out here.
Forex loss on export contracts			1,210			The company had taken export contracts at Rs41/US$. The contracts for the entire year were cancelled in the current quarter.
EBIDTA	**5,816**	**2,631**	**3,508**	**(39.7)**	**33.3**	Margins have bottomed out in this quarter, and should start improving from hereon, provided the currency remains stable will start improving from here.
EBIDTA Margin	**12.0**	**5.7**	**5.5**	**-648 bps**	**-19 bps**	
Depreciation	988	1,775	1,971	99.5	11.1	Depreciation charge increased further as the company increased production at the K-series engine plant.
Interest	161	45	89	(45.0)	96.7	
Other income	2,861	2,095	2,040	(28.7)	(2.7)	
Operational other income	2,088	887	985	(52.8)	11.1	Declined sharply on the drop in scrap prices.
Non-operational other income	772	1,209	1,054	36.5	(12.8)	In spite of cash balances improving, non-operational other income fell sequentially because of decline in bond yields.
Extra ordinary expense/(income)	3,173	(18)	0			
PBT	**4,354**	**2,925**	**3,487**	**(19.9)**	**19.2**	
Tax	1,377	789	1,056	(23.3)	33.8	
Tax rate	31.63	26.98	30.28	**-135 bps**	**330 bps**	
Reported PAT	**2,977**	**2,136**	**2,431**	**(18.3)**	**13.8**	
PAT Margin	**6.2**	**4.7**	**3.8**	**-231 bps**	**-81 bps**	

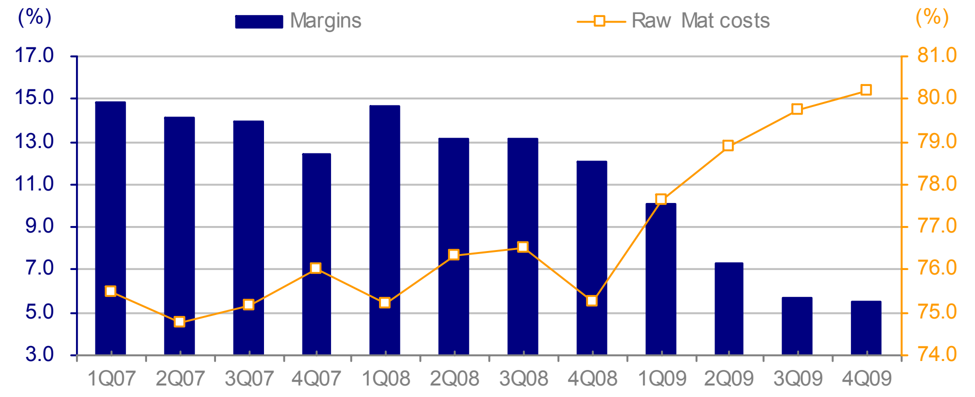
Source: IIFL Research

Figure 2: *Alto* and *WagonR* contributed towards the bulk of the QoQ improvement

Car volume sales	4QFY08	3QFY09	4QFY09	% YoY	% QoQ
800	17,568	8,521	12,076	-31.3%	41.7%
Alto	60,081	48,329	63,528	5.7%	31.4%
Wagon R	34,115	25,920	41,551	21.8%	60.3%
Estilo	10,729	5,144	7,753	-27.7%	50.7%
Swift	26,960	27,042	27,324	1.4%	1.0%
Dzire	5,658	16,026	19,739	-	23.2%
SX4	6,763	1,885	3,489	-48.4%	85.1%
Domestic car volumes	161,874	132,867	175,460	8.4%	32.1%

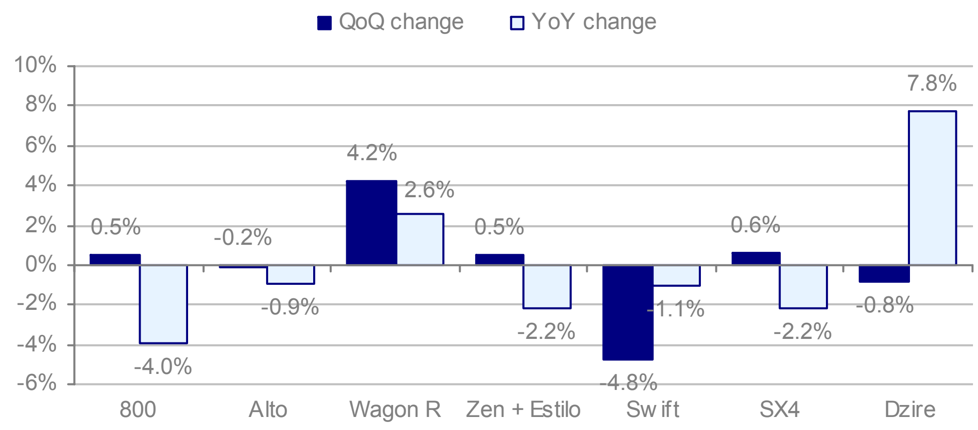
Source: CRISIL, IIFL Research

Figure 4: Higher raw-material costs led to a 650bps YoY decline in EBITDA margin



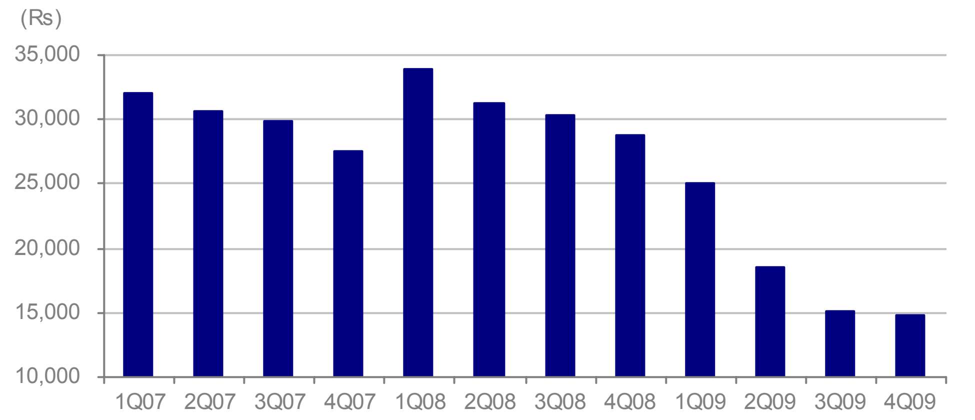
Source: Company, IIFL Research

Figure 3: Sequentially, product mix shifted from *Swift* to *WagonR*—this, we believe, reflects increase in demand from PSU employees



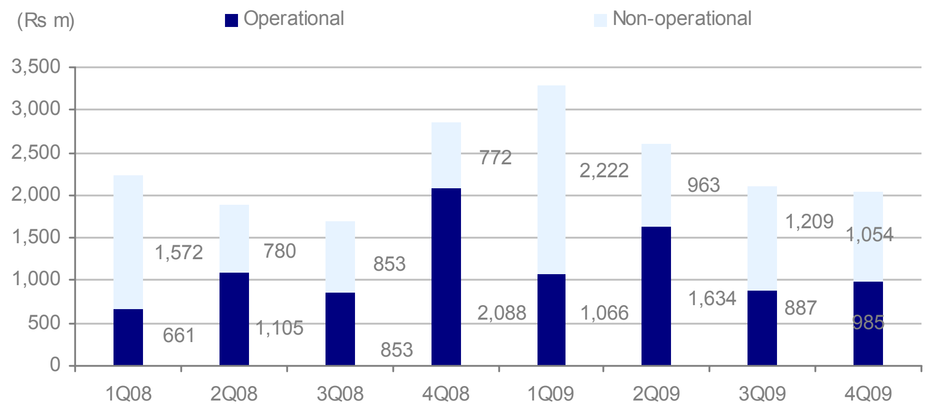
Source: CRISIL, IIFL Research

Figure 5: EBITDA per car has bottomed out, in our view



Source: Company, IIFL Research

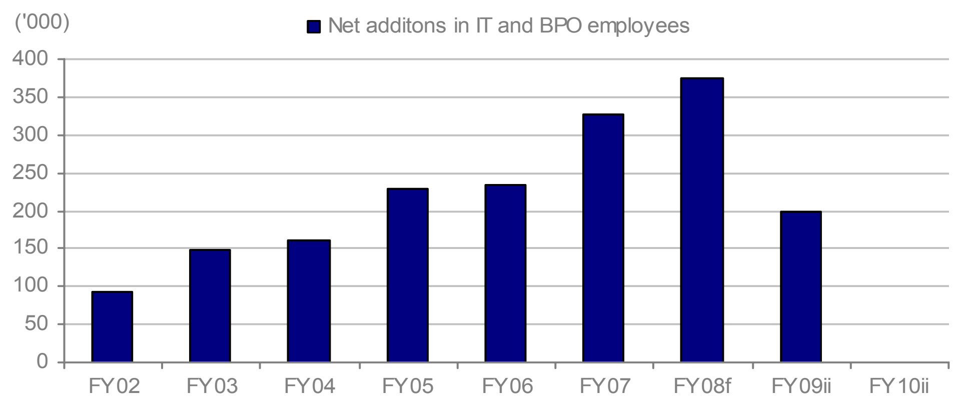
Figure 6: Operational other income declined on lower scrap prices



Source: Company, IIFL Research

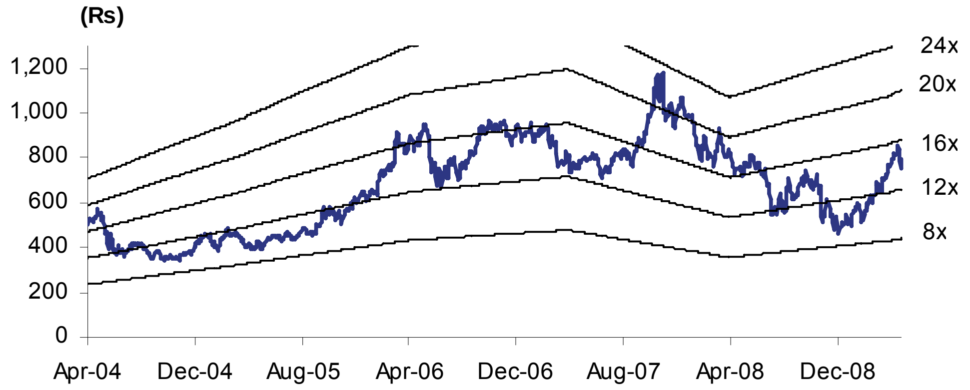
In our view, the key factors for growth in 4QFY09 volumes were pent-up demand in the system, a surge in sales to government employees following Sixth Pay Commission payouts, and improved financing from PSU banks. However, volume growth in 2HFY09 was only 1.5% YoY, a reflection of the slowdown in the economy. We expect volume growth to slow down again once pent-up demand in system is fulfilled and the impact of Pay Commission volumes starts wearing off.

Figure 7: IT/BPO – a key demand driver – likely to witness a decline in employment



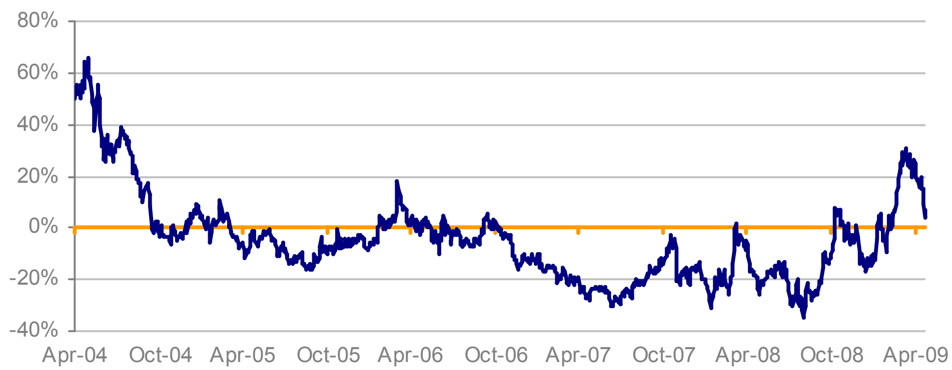
Source: Company, IIFL Research

Figure 8: The stock is currently trading at close to its historic average



Source: Company, IIFL Research

Figure 9: Maruti has historically traded at a small discount to the market; currently trading at a small premium



Source: Company, IIFL Research

Financial summary

Revenue growth will be higher than volume growth as product mix shifts to higher-end cars

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue	146,539	179,362	206,638	229,737	254,062
EBITDA	19,998	22,937	13,608	20,714	24,503
EBIT	**17,284**	**17,255**	**6,529**	**12,054**	**14,672**
Interest income	1,109	1,408	839	923	1,016
Interest expense	470	596	545	236	112
Others	4,875	6,963	10,289	9,270	9,303
Profit before tax	**22,798**	**25,030**	**17,112**	**22,011**	**24,878**
Taxes	7,178	7,722	4,737	6,383	7,215
Net profit	**15,620**	**17,308**	**12,375**	**15,628**	**17,664**

Cashflow summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Profit before tax	22,798	25,030	17,112	22,011	24,878
Depr. & amortization	2,714	5,682	7,080	8,660	9,831
Tax paid	-6,281	-7,696	-4,737	-6,383	-7,215
Working capital Δ	4,406	-266	-2,614	3,308	-2,257
Other operating items	-89	-69	0	0	0
Operating cashflow	23,548	22,681	16,841	27,596	25,238
Capital expenditure	-13,828	-17,024	-17,747	-16,710	-13,010
Free cash flow	**9,720**	**5,657**	**-906**	**10,886**	**12,228**
Investments	-176	-1,716	0	0	0
Debt financing/disposal	5,590	2,695	-2,001	-4,002	1,000
Dividends paid	-1,519	-1,625	-1,138	-1,463	-1,625
Net change in cash	**13,615**	**5,011**	**-4,045**	**5,422**	**11,603**

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Cash & equivalents	46,885	51,896	47,852	53,273	64,876
Sundry debtors	7,474	6,555	9,302	8,203	11,128
Inventories - trade	7,132	10,380	14,807	11,833	17,477
Other current assets	9,625	10,734	10,877	11,024	11,173
Fixed assets	**28,986**	**40,328**	**50,995**	**59,045**	**62,225**
Other term assets	1,435	3,151	3,151	3,151	3,151
Total assets	**101,537**	**123,044**	**136,985**	**146,529**	**170,029**
Sundry creditors	20,110	24,492	29,474	28,472	34,708
Other current liabs	4,905	3,695	3,417	3,800	4,025
Long-term debt/CBs	6,307	9,002	7,001	2,999	3,999
Other long-term liabs	1,676	1,701	1,701	1,701	1,701
Net worth	**68,539**	**84,154**	**95,391**	**109,557**	**125,595**
Total liabs & equity	**101,537**	**123,044**	**136,985**	**146,529**	**170,029**

Ratio analysis

EBITDA margins will expand, thanks to lower raw-material costs and lower exchange variation losses

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue growth (%)	21.6	22.4	15.2	11.2	10.6
Op Ebitda growth (%)	20.0	14.7	-40.7	52.2	18.3
Op Ebit growth (%)	25.1	-0.2	-62.2	84.6	21.7
Op Ebitda margin (%)	13.6	12.8	6.6	9.0	9.6
Op Ebit margin (%)	11.8	9.6	3.2	5.2	5.8
Net profit margin (%)	10.7	9.6	6.0	6.8	7.0
Dividend payout (%)	9.7	9.4	9.2	9.4	9.2
Tax rate (%)	31.5	30.9	27.7	29.0	29.0
Net debt/equity (%)	-59.2	-51.0	-42.8	-45.9	-48.5
Return on equity (%)	22.8	20.6	13.0	14.3	14.1
Return on assets (%)	15.4	14.1	9.0	10.7	10.4

Source: Company data, IIFL Research

Cipla – BUY

CIPLA IN | **Rs240** | **Pharmaceuticals** | **27 Apr 2009** | **Earnings update**

Continuing performance

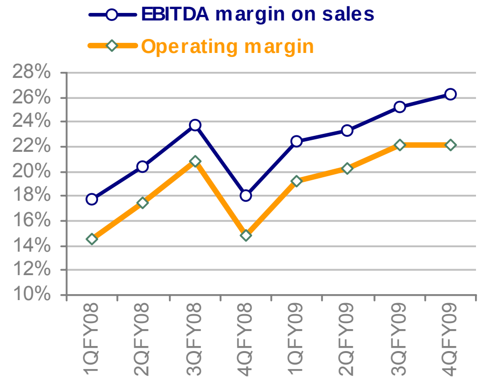
Cipla's 4QFY09 results were in line with our estimates, with operating revenue up 22% YoY and EBITDA up 77% YoY. The quarter's results make us more confident in our call that rupee depreciation combined with falling raw-material prices and better operating leverage will drive strong margin expansion. EBITDA margin has improved 400bps in FY09 from FY08 and we project another 300bps margin expansion in FY10. Products that continue to roll out of the expanded capacity in the new plants will sustain the growth momentum even beyond the margin expansion phase. We keep our FY10 estimates unchanged. We maintain our BUY rating and raise our price target to Rs288 from Rs246.

Revenue in line; high licensing fee helps: Cipla's overall revenues were in line with our estimate, registering 22% growth YoY. Domestic sales grew 18% YoY, in line with our estimates. Revenues from formulation exports grew 17% YoY, slower than our expectation; but we attribute it to quarterly fluctuations and believe in the longer-term growth potential. We project 26% growth in this segment in FY10. The lower growth in formulation exports was compensated by substantially better performance in licensing and technology fees, which rose 286% YoY.

Expanded margins sustain: Cipla has sustained its expanded margins in 4QFY09: EBITDA margin is 821bps higher and operating margin 741bps higher than in the year-ago period. EBITDA margin on core sales (excluding technology and licensing fees and others) also expanded 340bps over a year ago. We expect the current margins to sustain as operating leverage from the newly-set-up plants in Sikkim and Indore can cushion minor currency rate fluctuations. However, any significant appreciation of the rupee against US$ and euro could be a risk.

Continues to be a good bet on global generics story: We continue to view Cipla as a secular growth story in the global generics space, with a low-risk business model. As the capex programme eases out, Cipla should generate significant cash flows starting FY10. Our raised price target of Rs288 is 15x FY11ii core earnings estimate. The pending decision by the Supreme court on a case with the Pharmaceutical Pricing Authority is a major risk; this could create a Rs11bn-plus liability.

Sustaining expanded margins



Source: Company reports, IIFL research

Financial summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	42,189	52,705	62,462	71,367	81,564
EBITDA Margins (%)	20%	24%	27%	28%	28%
Pre-Exceptional PAT (Rs m)	7,010	7,678	13,024	15,200	18,513
Reported PAT (Rs m)	7,010	7,678	13,024	15,200	18,513
EPS (Rs)	9.0	9.9	16.8	19.6	23.8
Growth (%)	4.9	9.5	69.6	16.7	21.8
PER (x)	**26.6**	**24.3**	**14.3**	**12.3**	**10.1**
ROE (%)	18.7	17.7	23.9	22.5	22.1
Debt/Equity (x)	0.2	0.2	0.1	0.0	0.0
EV/EBITDA (x)	**22.4**	**15.3**	**11.4**	**9.4**	**7.6**
Price/Book (x)	5.0	4.3	3.4	2.8	2.2

Price as at close of business on 24 April 2009

12-mth Target price (Rs) 288 (20%)

Market cap (US$ m)	**3,750**
52Wk High/Low (Rs)	245/145
Diluted o/s shares (m)	777
Daily volume (US$ m)	6.5
Dividend yield FY09ii (%)	1.0
Free float (%)	60.6

Shareholding pattern (%)

Promoters	39.4
FIIs	13.4
Domestic MFs/Insurance cos	18.4
Others	28.8

Price performance (%)

	1M	3M	1Y
Cipla	15.3	29.2	7.2
Rel. to Sensex	2.5	3.3	41.0
Ranbaxy	12.0	-6.5	-63.3
Dr Reddy's	24.6	28.3	-10.1
Sun Pharma	11.4	11.6	-14.0

Stock movement

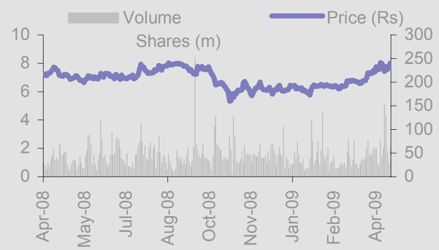


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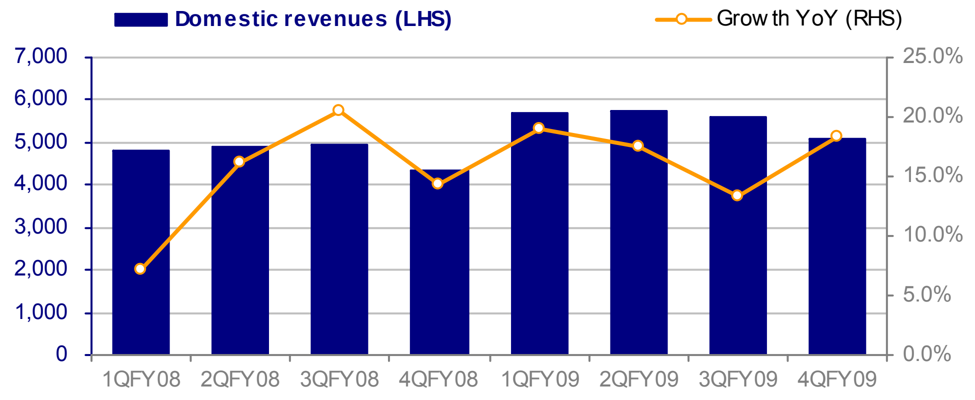
Figure 1: Performance continues

Rs m	4QFY08A	3QFY09	4QFY09	% YoY	% QoQ
Exports - formulations	4,730	5,907	5,553	17.4%	-6.0%
Exports - APIs	1,769	1,116	1,689	-4.5%	51.3%
Domestic sales	4,318	5,620	5,110	18.3%	-9.1%
Technology / consulting fees	259	613	999	285.5%	63.0%
Others	146	164	317	117.6%	93.3%
Total operating revenue	11,221	13,420	13,667	21.8%	1.8%
Materials	5,700	5,921	5,665	-0.6%	-4.3%
Employee cost	730	770	779	6.6%	1.1%
Others	2,764	3,344	3,632	31.4%	8.6%
EBITDA	2,027	3,385	3,592	77.2%	6.1%
EBITDA Margin	18.1%	25.2%	26.3%	821	105
Depreciation	367	412	557	51.8%	35.3%
Operating profit	1,660	2,974	3,035	82.8%	2.1%
Operating margin	14.8%	22.2%	22.2%	741	5
Other income	407	(241)	55	-86.6%	-122.6%
Interest cost	46	110	133	191.0%	20.4%
PBT	2,021	2,622	2,957	46.3%	12.8%
Total Provision for tax	227	388	428	88.5%	10.3%
Tax rate	11.2%	14.8%	14.5%	324	(32)
Net profit	1,795	2,234	2,529	40.9%	13.2%

Source: Company reports, IIFL Research

Figure 2: Domestic growth continues to be strong



Source: Company reports, IIFL Research

Financial summary

Steady growth in revenue and profits; FY09 impacted by forex hedging losses

Income statement summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue	42,189	52,705	62,462	71,367	81,564
EBITDA	8,496	12,832	16,973	19,817	23,127
EBIT	**7,189**	**11,076**	**14,635**	**17,340**	**20,648**
Interest income	1,308	-1,640	800	400	400
Interest expense	117	335	635	467	10
Exceptional items	0	0	0	0	0
Profit before tax	**8,380**	**9,101**	**14,800**	**17,272**	**21,037**
Taxes	1,369	1,423	1,776	2,073	2,524
Minorities and other	0	0	0	0	0
Net profit	**7,010**	**7,678**	**13,024**	**15,200**	**18,513**

Strong cash flows from FY10ii

Cashflow summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Profit before tax	8,380	9,101	14,800	17,272	21,037
Depr. & amortization	1,307	1,757	2,338	2,477	2,479
Tax paid	1,710	1,423	1,776	2,073	2,524
Working capital Δ	-4,045	-6,618	-6,271	-5,387	-6,188
Other operating items	-262	1,975	-165	67	-390
Operating cashflow	3,670	4,792	8,926	12,357	14,414
Capital expenditure	-5,628	-7,000	-4,000	-2,500	-2,500
Free cash flow	**-1,958**	**-2,208**	**4,926**	**9,857**	**11,914**
Equity raised	0	0	0	0	0
Investments	231	0	0	0	0
Debt financing/disposal	4,484	4,783	-2,798	-7,621	0
Dividends paid	-1,819	-1,819	-2,001	-2,183	-2,365
Other items	-1,699	-1,975	165	-67	390
Net change in cash	**-761**	**-1,219**	**292**	**-14**	**9,940**

Source: Company data, IIFL Research

Comfortable debt position

ROE set to recover sharply; impacted by strong rupee in FY08 and by forex hedging losses in FY09

Balance sheet summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Cash & equivalents	1,732	513	805	791	10,730
Sundry debtors	14,065	17,920	21,237	24,265	27,732
Inventories - trade	11,205	14,230	16,865	19,269	22,022
Other current assets	11,379	12,994	15,336	17,473	19,920
Fixed assets	**18,945**	**24,188**	**25,850**	**25,873**	**25,894**
Intangible assets	0	0	0	0	0
Other term assets	0	0	0	0	0
Total assets	**57,326**	**69,845**	**80,092**	**87,671**	**106,298**
Sundry creditors	12,477	14,354	16,376	18,558	21,037
Long-term debt/CBs	5,805	10,588	7,791	170	170
Other long-term liabs	1,492	1,492	1,492	1,492	1,492
Minorities/other equity	0	0	0	0	0
Net worth	**37,552**	**43,411**	**54,434**	**67,451**	**83,600**
Total liabs & equity	**57,326**	**69,845**	**80,092**	**87,671**	**106,298**

Ratio analysis

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue growth (%)	18.2	24.9	18.5	14.3	14.3
Op Ebitda growth (%)	3.6	51.0	32.3	16.8	16.7
Op Ebit growth (%)	0.3	54.1	32.1	18.5	19.1
Op Ebitda margin (%)	20.1	24.3	27.2	27.8	28.4
Op Ebit margin (%)	17.0	21.0	23.4	24.3	25.3
Net profit margin (%)	16.6	14.6	20.9	21.3	22.7
Dividend payout (%)	22.2	22.3	14.3	13.3	11.8
Tax rate (%)	16.3	15.6	12.0	12.0	12.0
Net debt/equity (%)	10.8	23.2	14.3	0.3	0.2
Net debt/op Ebitda (x)	0.5	0.8	0.5	0.0	0.0
Return on equity (%)	18.7	17.7	23.9	22.5	22.1

Source: Company data, IIFL Research

Ranbaxy – SELL

RBXY IN	Rs176	Pharmaceuticals	27 Apr 2009	Earnings update

Slipping into operating losses; forex hedges eat into networth

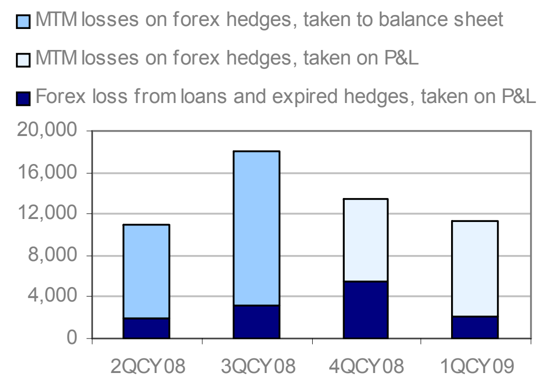
Ranbaxy's 1QCY09 results could not get worse: FDA ban hurting US sales; revenues erosion across most geographies; collapsing margins; huge forex derivative losses; potential loss of Valtrex exclusivity opportunity of late CY09; and guidance to operating loss in CY09. The business issues now seem far worse than we had thought—there are more problems across various segments that are unlikely to get solved any time soon. The resolution of the FDA compliance issues seems unlikely for at least a year. Nexium API supply to Astra Zeneca is also likely to be delayed. We downgrade Ranbaxy from REDUCE to SELL and cut our price target to Rs104 from Rs155.

Business eroding, and not just in the US: The US FDA's import ban of products from two facilities led to 7% YoY and 21% QoQ erosion in the US business. There is no near-term resolution in sight and Nexium API supply to Astra Zeneca and Valtrex exclusivity opportunity of late CY09 could be in jeopardy. Business declined across geographies: CIS (-9% YoY), Europe (-14% YoY) and Latin America (-9% YoY). Only Asia Pacific and Africa registered growth. EBITDA margin collapsed more than 1000bps YoY, pushing the company into operating losses.

Forex bets eat significantly into networth: Over the last four quarters, Ranbaxy has booked more than Rs29.7bn in forex losses in P&L. In addition to this, Rs9.1bn in 2QCY08 and an estimated Rs15bn in 3QCY08 were taken directly to the balance sheet. All these losses add up to Rs53.8bn—which is more than the company's networth. The company has US$1.4bn of forex derivatives (zero-cost options) on which the impact of adverse currency movement is multi-fold at current levels.

Guiding to operating loss in CY09: Ranbaxy is unlikely to come out of its current problems any time soon. The FDA issue in the US and declining sales in Europe, CIS and Latin America will continue to dog the company for at least a year, in our view. It has guided to Rs8bn loss in CY09 at INR/US$ of 50.50, which implies operating loss in the quarters ahead. Except for the potential Flomax and Donepezil exclusivity opportunities in the US, we estimate operating losses will continue in CY10. Our price target of Rs104 is 5x CY11ii core earnings plus the value of exclusivities and cash per share net of forex liabilities.

Forex losses eat into networth



Source: Company reports, IIFL research

Financial summary

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Revenues (Rs m)	66,480	72,218	68,569	81,703	105,845
EBITDA Margins (%)	9%	10%	2%	8%	18%
Pre-Exceptional PAT (Rs m)	7,742	-7,644	-8,167	3,446	12,804
Reported PAT (Rs m)	7,742	-9,190	-8,167	3,446	12,804
EPS (Rs)	20.7	-18.2	-19.4	8.2	30.2
Growth (%)		-187.7	6.6	-142.1	270.9
PER (x)	8.5	-9.7	-9.1	21.6	5.8
ROE (%)	27.6	-18.7	-19.9	7.7	17.7
Debt/Equity (x)	1.5	0.6	0.8	0.7	0.2
EV/EBITDA (x)	17.7	11.7	64.7	12.9	3.6
Price/Book (x)	2.3	1.5	1.8	1.7	1.0

Price as at close of business on 24 April 2009

12-mth Target price (Rs) 104 (-41%)

Market cap (US$ m)	**1,483**
52Wk High/Low (Rs)	660/133
Diluted o/s shares (m)	420
Daily volume (US$ m)	13.4
Dividend yield CY09ii (%)	0.0
Free float (%)	36.1

Shareholding pattern (%)

Promoters	63.9
FIIs	3.3
Domestic MFs/Insurance cos	11.5
Others	21.3

Price performance (%)

	1M	3M	1Y
Ranbaxy Laboratories	12.0	-6.5	-63.3
Rel. to Sensex	-0.8	-32.3	-29.4
Sun Pharma	11.4	11.6	-14.0
Dr Reddy's	24.6	28.3	-10.1
Cipla	15.3	29.2	7.2

Stock movement

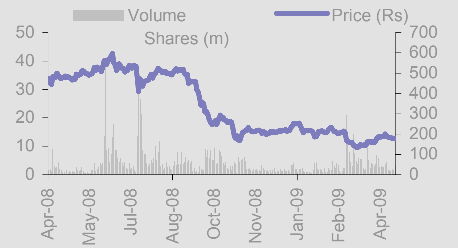


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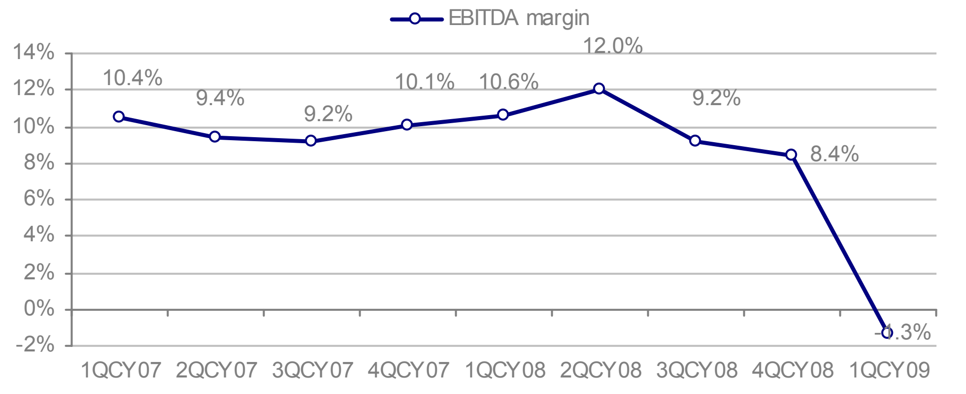
Figure 1: Eroding topline and margins

Rs m	1QCY08A	4QCY08	1QCY09ii	% YoY	% QoQ
Dosage forms - India & Middle East	3,590	3,972	3,551	-1.1%	-10.6%
Dosage forms – CIS	947	1,458	865	-8.6%	-40.7%
Dosage forms - Rest of Asia Pacific	986	1,174	1,242	25.9%	5.8%
Dosage forms – Europe	3,274	3,628	2,831	-13.5%	-22.0%
Dosage forms – Africa	1,223	1,678	1,315	7.5%	-21.6%
Dosage forms - Latin America	631	912	576	-8.7%	-36.8%
Dosage forms - North America - base business	4,340	5,080	4,040	-6.9%	-20.5%
Total dosage forms	14,952	17,670	14,420	-3.6%	-18.4%
Total API	1,184	1,379	1,128	-4.7%	-18.2%
Total operating revenue	16,137	19,049	15,548	-3.6%	-18.4%
Manufacturing & materials	8,516	10,178	9,115	7.0%	-10.4%
Administrative & marketing	4,998	6,013	5,554	11.1%	-7.6%
R&D expense	920	1,264	1,079	17.3%	-14.6%
EBITDA	1,703	1,594	(200)	NA	NA
EBITDA Margin	10.6%	8.4%	-1.3%	(1,184)	(965)
Depreciation	621	720	639	2.9%	-11.3%
Operating profit	1,082	874	(839)	NA	NA
Operating margin	6.7%	4.6%	-5.4%	(1,210)	(998)
Other income	136	(11,896)	(10,626)	NA	NA
Interest cost	384	442	246	-35.9%	-44.3%
Exceptional items, net of tax	895			NA	NA
PBT	1,729	(11,464)	(11,711)	NA	NA
Total Provision for tax	361	(4,666)	(4,101)	NA	NA
Net profit	1,359	(6,797)	(7,609)	NA	NA

Source: Company reports, IIFL Research

Figure 2: EBITDA margin collapses



Source: Company reports, IIFL Research

Financial summary

Revenue decline in CY09 due to FDA issues in US and business erosion in Europe, CIS and Latin America

Forex gains inflated net profit in CY07 and forex losses eroded it in CY08 and CY09

Income statement summary (Rs m)

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Revenue	66,480	72,218	68,569	81,703	105,845
EBITDA	5,804	7,212	1,251	6,479	18,643
EBIT	**3,621**	**4,556**	**-1,581**	**3,573**	**15,670**
Interest income	7,776	-15,875	-9,726	2,000	2,000
Interest expense	1,412	1,886	1,125	1,149	1,218
Exceptional items	0	-1,546	0	0	0
Profit before tax	**9,985**	**-14,751**	**-12,432**	**4,424**	**16,452**
Taxes	2,120	-5,605	-4,252	929	3,455
Minorities and other	122	44	-13	49	193
Net profit	**7,742**	**-9,190**	**-8,167**	**3,446**	**12,804**

Equity infusion by Daiichi in CY08

Cashflow summary (Rs m)

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Profit before tax	9,985	-14,751	-12,432	4,424	16,452
Depr. & amortization	2,183	2,656	2,833	2,905	2,973
Tax paid	1,411	0	-4,252	929	3,455
Working capital Δ	802	-974	2,889	-4,719	-9,569
Other operating items	-1,336	19,307	10,851	-851	-782
Operating cashflow	10,223	6,238	8,393	831	5,619
Capital expenditure	-8,385	-7,686	-4,000	-4,000	-4,000
Free cash flow	**1,838**	**-1,448**	**4,393**	**-3,169**	**1,619**
Equity raised	92	34,092	0	0	0
Investments	0	0	0	0	0
Debt financing/disposal	4,333	5,867	10,031	861	1,146
Dividends paid	-3,642	-3,711	0	0	-2,464
Other items	-1,199	-17,761	-10,851	851	782
Net change in cash	**1,424**	**17,039**	**3,572**	**-1,457**	**1,083**

Source: Company data, IIFL Research

Capital infusion by Daiichi used to retire part of debt in CY08

Base business growth is tepid; likely to accelerate in CY10 on the back of exclusivity upsides

Base business EBITDA margin collapses in CY09

Balance sheet summary (Rs m)

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Cash & equivalents	4,379	21,418	24,990	23,533	24,616
Sundry debtors	14,931	15,888	15,085	17,975	23,286
Inventories - trade	16,409	17,332	16,457	19,609	25,403
Other current assets	9,042	9,560	9,158	10,603	13,259
Fixed assets	**45,619**	**47,263**	**48,430**	**49,525**	**50,552**
Others	0	5,605	5,605	5,605	5,605
Other term assets	2,403	4,243	4,243	4,243	4,243
Total assets	**92,782**	**121,309**	**123,969**	**131,093**	**146,964**
Sundry creditors	21,327	22,752	23,561	26,328	30,521
Long-term debt/CBs	41,416	31,407	31,712	32,573	16,375
Other long-term liabs	1,434	17,309	27,035	27,035	27,035
Minorities/other equity	571	614	602	651	844
Net worth	**28,034**	**49,226**	**41,058**	**44,504**	**72,189**
Total liabs & equity	**92,782**	**121,309**	**123,969**	**131,093**	**146,964**

Ratio analysis

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Revenue growth (%)	10.5	8.6	-5.1	19.2	29.5
Op Ebitda growth (%)	-23.2	24.2	-82.6	417.7	187.8
Op Ebit growth (%)	-36.7	25.8	-134.7	-326.0	338.5
Op Ebitda margin (%)	8.7	10.0	1.8	7.9	17.6
Op Ebit margin (%)	5.4	6.3	-2.3	4.4	14.8
Net profit margin (%)	11.6	-10.6	-11.9	4.2	12.1
Dividend payout (%)	41.0	0.0	0.0	61.1	33.0
Tax rate (%)	21.2	38.0	34.2	21.0	21.0
Net debt/equity (%)	132.1	20.3	77.2	73.2	22.7
Net debt/op Ebitda (x)	6.4	1.4	25.3	5.0	0.9
Return on equity (%)	27.6	-18.7	-19.9	7.7	17.7

Source: Company data, IIFL Research

Quick Take

Pantaloon Retail - REDUCE

Retail

27 April 2009

Slowdown bites

Pantaloon Retail (PRIL) reported a weak 3QFY09 result. Sales grew only 21% YoY, which is the slowest quarterly growth in the last three years. Same-store sales (SSS) growth slowed down to c5% YoY, as compared to over 10% YoY in 1QFY09. EBITDA margin expanded by 210bps YoY, thanks to lower employee cost. Net profit growth was muted at 7% YoY—much lower than the 51% rise in EBITDA—owing to sharp escalation in interest (up 98%) and depreciation costs (up 65%). SSS are likely to remain weak in the current macro environment. We reckon space addition will be limited, owing to funding constraints. Recent fund raising of Rs2.9b is positive, but not sufficient, in our view. We await details on the new structure that will transfer PRIL's retail formats to subsidiaries, and maintain REDUCE.

- **SSS growth will likely remain subdued over the coming quarters:** Sales momentum at PRIL continues to be sluggish. SSS growth has slowed down to c5% YoY for the last two quarters as compared to over 10% in 1QFY09. We believe the current slowdown in PRIL's SSS growth will persist for a while, owing to: 1) a slowing economy and the consequent cutback in discretionary spends; 2) high exposure (62% of revenues) to tier-1 cities, which have borne the brunt of the ongoing slowdown; 3) significant revenue contribution from slowdown-prone cyclical categories such as home improvement and apparels (41%); and 4) the decline in consumer footfalls in organised retail destinations across the country (estimated at 30% by industry sources). Tickets sizes are likely to drop amid heavy discounting by PRIL, implying a hit to both revenues and profitability.

- **EBITDA margin expansion aided by lower staff costs:** In line with the trend seen in the last three quarters, employee costs were lower on account of transfer of c300 employees from PRIL's books to some of its subsidiaries. EBITDA margin expanded by 210bps YoY during the quarter due to 112bps decline in staff costs. EBITDA margins at the consolidated level, however, were likely under pressure during the quarter. Raw-material costs were lower by 30bps, owing to lower sales of low-margin discretionary items such as electronic goods, on which consumers are scaling back their spends.

CMP	**Rs202**
12-mth Target price (Rs)	***165 (-18%)***
Market cap (US$ m)	**703**
Bloomberg	**PF IN**
52Wk High/Low (Rs)	576/105
Diluted o/s shares (m)	174
Daily volume (US$ m)	1.7
Dividend yield FY09ii (%)	0.0
Free float (%)	51.2
Shareholding pattern (%)	
Promoters	48.8
FIIs	21.8
Domestic MFs/Insurance cos	10.6
Others	18.8

Price performance (%)

	1M	3M	1Y
Pantaloon Retail	25.3	23.5	-58.1
Rel. to Sensex	12.5	-2.3	-24.3
Shoppers Stop	24.2	29.0	-69.2
Vishal Retail	32.2	-19.5	-94.7
Indiabulls Retail	13.8	-13.9	-90.4

Stock movement

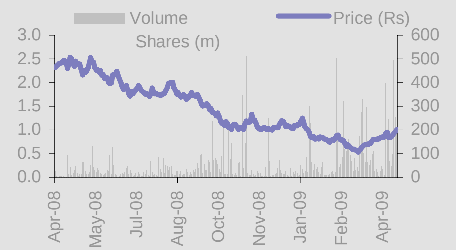


Figure 1: PRIL 3QFY09 results

Rs m	3QFY08	2QFY09	3QFY09	% YoY	%QoQ
Net Sales	13,543	15,257	16,421	21.2	7.6
Total Expenditure	-12,401	-13,684	-14,691	18.5	7.4
EBITDA	1,142	1,573	1,730	51.5	10.0
EBITDA Margin (%)	8.4	10.3	10.5	210 bps	23 bps
Interest	-429	-742	-847	97.6	14.3
Depreciation	-223	-325	-369	65.1	13.6
Other Income	17	15	16	-3.0	5.3
PBT	507	522	530	4.7	1.6
Tax	-185	-187	-186	0.8	-0.2
Tax Rate (%)	36.5	35.8	35.2	-136 bps	-60 bps
PAT (Pre-exceptional)	322	335	344	6.90	2.50
Extraordinary Items incl of Tax	0	0	0	NM	NM
Post-exceptional PAT	322	335	344	6.9	2.5

Source: Company, IIFL Research

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Figure 2: Employee costs were lower YoY by 112 bps

Key Costs	3QFY08	2QFY08	3QFY09	% YoY	%QoQ
Raw Materials and Finished Goods	9,526	10,672	11,500	20.7	7.8
% of Sales	70.3	69.9	70.0	-30 bps	9 bps
Staff Costs	725	656	695	-4.1	5.9
% of Sales	5.4	4.3	4.2	-112 bps	-7 bps
Other Expenditure	2,151	2,356	2,496	16.0	5.9
% of Sales	15.9	15.4	15.2	-68 bps	-24 bps

Source: IIFL Research

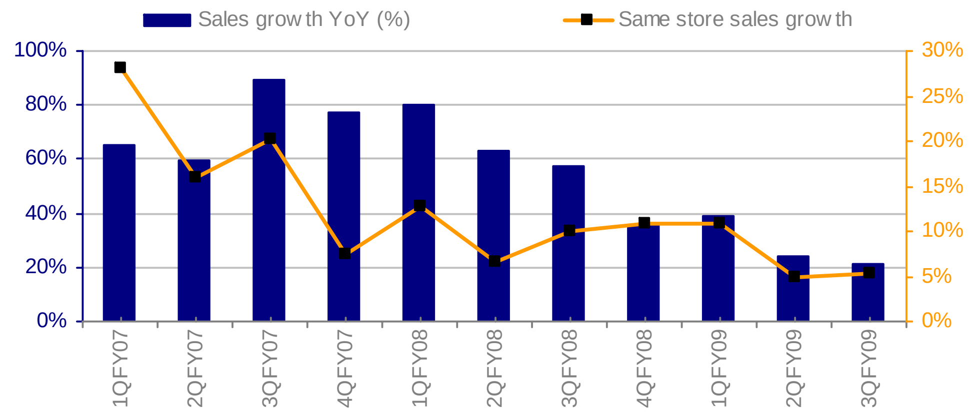
- **High fixed costs erode profitability, recent funding inadequate:** Interest and depreciation costs increased sharply YoY by 98% and 65% respectively, negatively affecting reported profit growth. Net profit grew 7% YoY, lagging the EBITDA growth of 51%. Interest costs will continue to erode profitability, unless fresh funding is secured. PRIL has a total debt of Rs29bn, debt: equity is close to 1.16x (post the new equity infusion) and interest coverage has dropped below 2. We estimate PRIL's total funding requirement at Rs17bn for funding its space expansion over the next two years. Internal accruals to the tune of Rs6bn-7bn would also not bridge the capital shortfall. The recent round of fund raising of Rs2.9bn is thus positive, but not adequate, in our view, implying further capital-raising and dilution.

- **Space addition likely to be limited for want of funds:** PRIL added 0.5m sq ft during the quarter, reaching 9.1m sq ft of retail space in the standalone entity. PRIL aims to reach 10.3m sq ft by end-FY09. That translates into a 1.2m sq ft addition in 4QFY09, which looks challenging. PRIL aims to take its footprint to 18m sq ft by FY11. Easing liquidity conditions may enable PRIL to resume its expansion plan, but the company still might go slow on expansion in the backdrop of a slowing economy.

- **Promoters revoke share pledges:** In a recent filing with exchanges, PRIL promoters declared that they have revoked pledges totaling 4.02m shares of the company. This brings down the total number of pledged promoter shares to 27.025m, shares or 16.97% of the outstanding shares, from 19.5% earlier.

- **We reiterate REDUCE:** Deceleration in PRIL's SSS growth amid heavy discounting underscores a persistent weakness in consumption demand. Relatively resilient categories such as foods and FMCG account for less than 30% of PRIL's revenues, highlights the remaining portfolio's susceptibility to a slowdown. Discounts to draw consumers to stores will put gross margins under pressure. High interest costs will dent profitability further, unless fresh funds are tied up. Increasing losses in PRIL's subsidiaries are another overhang. We await further details on the recently announced business restructuring, wherein PRIL will transfer its 'retail' and 'fashion' divisions to wholly-owned subsidiaries, effectively making PRIL a holding company of retail assets. Our one-year TP is Rs165. We maintain REDUCE.

Figure 3: Sales and SSS growth slowed down to the lowest in over three years



Source: Company, IIFL Research

Figure 4: PRIL financial summary

Y/e 30 Jun	FY07	FY08	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	32,367	50,489	62,286	76,084	91,032
EBITDA Margins (%)	6.7	9.1	9.5	8.8	8.7
Pre-Exceptional PAT (Rs m)	311	1,259	1,394	1,493	1,988
Reported PAT (Rs m)	1,199	1,260	1,394	1,493	1,988
Adj. EPS (Rs)	2.1	7.9	8.0	8.6	11.4
Growth (%)	-55.6	272.9	1.1	7.1	33.1
PER (x)	95.3	25.6	25.3	23.6	17.7
ROE (%)	11.0	6.8	6.2	6.2	7.7
Debt/Equity (x)	1.19	1.19	1.16	1.24	1.21
EV/EBITDA (x)	19.0	11.5	9.8	9.4	8.1
Price/Book (x)	2.7	1.7	1.6	1.5	1.4

Price as at close of business on 24 April 2009

GSK Consumer - ADD

SKB IN	Rs786	FMCG	27 Apr 2009	Company Update

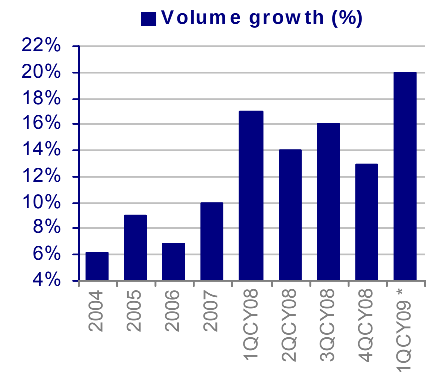
Volume boost

GSK Consumer's 1QCY09 results surpassed our estimates. Pre-exceptional PAT grew 48% YoY against our estimate of 16% YoY growth. Sales grew at a robust 31%, led by 20% volume growth (our estimate). EBITDA margin expanded by 231bps as the escalation in raw-material costs (216bps) was more than offset by a reduction in ad spends (down 230bps) and other expenses (down 200bps). The acceleration in volume growth is highly creditable, given: 1) strong year-ago quarter, in which volume grew 16% YoY; and 2) high leverage to urban demand (which has borne the brunt of the economic slowdown) of malted beverages, which form 95% of GSK's revenues. The impact of higher raw-material costs on account of continued inflation in key inputs (wheat, milk, etc) is likely to be offset by lower ad-spends (helped by media deflation). On the back of the better-than-expected results and to incorporate faster revenue growth and lower ad-spends, we upgrade our CY09 and CY10 EPS estimates by 7% and 12%, respectively. We raise our target multiple to 14x, in line with GSK's historical average, to reflect the sustained sales and earnings momentum. Our new TP is Rs890, based on one-year forward earnings. Maintain ADD.

Velocity of volumes improves: GSK Consumer's volume growth has sustained in the 13-20% range for the last five quarters in a portfolio driven largely by high-value malted foods products, notwithstanding the economic slowdown. The volume growth of c20% in 1QCY09 came on the back of a strong base quarter (1QCY08), in which volume had grown 16%+. Low penetration (c10%) of malted beverages, rising awareness of the benefits of health beverages and GSK's new launches of Horlicks variants targeting new consumers (such as women) is likely to have led to the strong volume growth. We expect volume growth to sustain at 10-12% over the next 2-3 years

Lower ad spends offset raw-material cost pressures: Prices of GSK Consumer's key inputs, such as wheat and milk, have remained strong, leading to a 216bps YoY increase in raw-material costs despite a 5.5% price hike affected in January this year. However, a reduction of 230bps and 200bps in ad spend and other expenses respectively more than offset this escalation. Media costs are likely to soften further going forward. While absolute ad spend may increase, it is likely to come down as a % of sales, given the strong sales momentum.

Volume growth accelerating



Source: IIFL Research, * Estimate

Financial summary

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Revenues (Rs m)	12,778	15,428	18,339	21,509	25,241
EBITDA Margins (%)	17.6	15.4	15.7	15.7	15.7
Pre-Exceptional PAT (Rs m)	1,627	1,884	2,261	2,673	3,131
Reported PAT (Rs m)	1,627	1,884	2,261	2,673	3,131
EPS (Rs)	38.6	44.7	53.7	63.5	74.4
Growth (%)	28.2	15.8	20.0	18.2	17.1
PER (x)	**20.3**	**17.6**	**14.6**	**12.4**	**10.6**
ROE (%)	25.2	24.8	25.1	24.9	24.9
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	**13.0**	**11.9**	**9.3**	**7.5**	**5.9**
Price/Book (x)	5.1	4.3	3.7	3.1	2.6

Price as at close of business on 24 April 2009

12-mth Target price (Rs) 890 (13%)

Market cap (US$ m)	**664**
52Wk High/Low (Rs)	800/452
Diluted o/s shares (m)	42
Daily volume (US$ m)	0.2
Dividend yield CY09ii (%)	2.8
Free float (%)	56.8

Shareholding pattern (%)

Promoters	43.2
FIIs	2.8
Domestic MFs/Insurance cos	13.7
Others	40.4

Price performance (%)

	1M	3M	1Y
GSK Consumer	26.6	37.3	28.0
Rel. to Sensex	7.0	6.7	60.2
Nestle	13.3	15.2	8.8
Britannia	16.1	18.4	17.5
HUL	-0.4	-3.4	-4.3

Stock movement

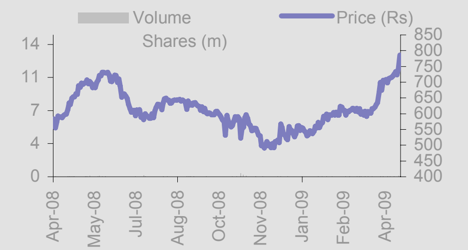


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Figure 1: 1QCY09 results

Rs m	1QCY08	4QCY08	1QCY09	% Growth YoY	% Growth QoQ
Net Sales	4,109	3,334	5,394	31.3%	61.8%
Total Expenses	-3,300	-2,932	-4,207	27.5%	43.5%
EBITDA	809	402	1,187	46.7%	195.0%
EBITDA margin (%)	19.7	12.1	22.0	231bps	994bps
Interest	-25	-30	-13	-47.6%	-56.4%
Depreciation	-106	-107	-106	0.0%	-0.5%
Other Income	186	242	256	37.8%	6.0%
PBT	864	507	1,324	53.3%	161.0%
Tax	-298	-181	-485	62.6%	167.3%
Tax rate (%)	34.5	35.8	36.6	211bps	86bps
Net Profit	566	326	839	48.3%	157.5%
Net margin (%)	13.8	9.8	15.6	179bps	578bps

Source: IIFL Research

Figure 2: 1QCY09 cost details

Cost Details	1QCY08	4QCY08	1QCY09	% Growth YoY	% Growth QoQ
Raw Materials	1,542	1,151	2,141	39%	86%
As % of Sales	37.5	34.5	39.7	216bps	518bps
Staff costs	386	428	498	29%	16%
As % of Sales	9.4	12.8	9.2	-18bps	-360bps
Advertising and Promotions	556	394	606	9%	54%
As % of Sales	13.5	11.8	11.2	-230bps	-60bps
Other expenses	816	959	963	18%	0%
As % of Sales	19.9	28.8	17.9	-200bps	-1091bps

Source: IIFL Research

Strong momentum in volume growth

We estimate that volume growth for 1QCY09 was over 20%, despite GSK's 5.5% price in January 2009. This makes 1QCY09 the fifth straight quarter of strong volume growth (13%+). This growth is highly creditable on two counts: 1) strong base quarter (1QCY08) which had c16% volume growth; and 2) high leverage to urban demand (which has borne the brunt of the ongoing economic slowdown) of malted beverages, which form over 95% of GSK's revenues. We think low penetration of malted beverages (c10%), increased level of consciousness of the benefits of health drinks, and the large number of launches of Horlicks variants for new target groups such as women seem to be the key drivers behind the strong volume growth. We believe the company will be able to sustain volume growth at 11-12% for CY09, even if volume growth slows down from hereon.

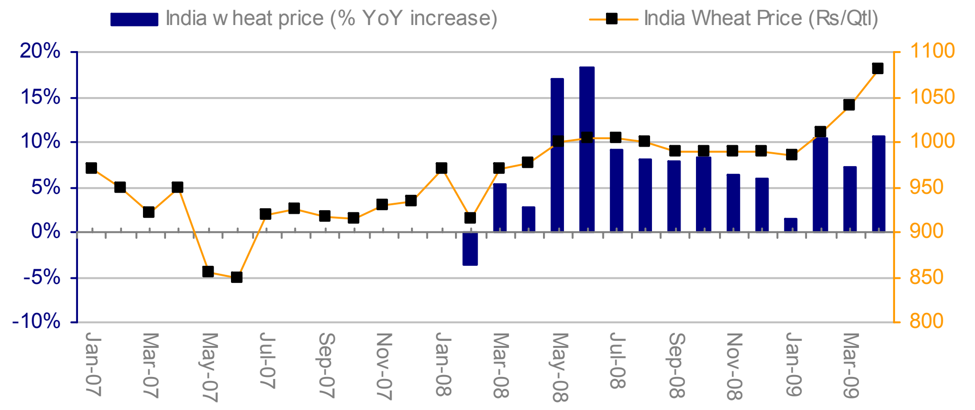
Figure 3: Volume growth is accelerating

Source: Company data, IIFL Research. * Estimate

No relief on raw-material costs due to high wheat prices

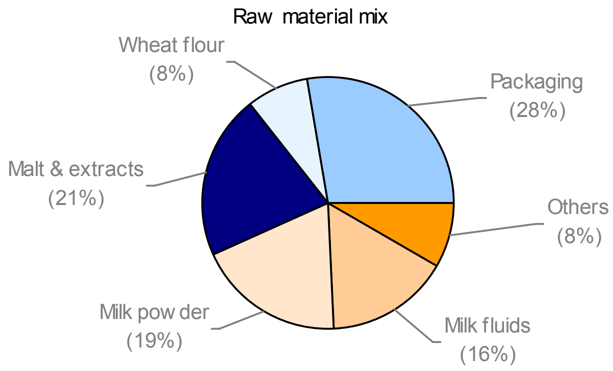
Raw-material costs rose by 216bps during 1QCY09, as prices of many agri inputs such as wheat, malt and milk still remain elevated. Wheat and malt are the key inputs for GSK Consumer, accounting for 30% of its material cost. These commodities had seen high inflation during 2008—malt prices increased by 20%+ in CY08, while wheat prices were up by 7%. Wheat and malt prices have firmed up further after the increase in wheat MSP (minimum support prices) by 8%. As such, we believe the pressure on raw-material costs for GSK Consumer is unlikely to abate during CY09. However, there is likely to be some relief on account of the 5.5% price hike taken in January this year. We are building in a contraction of 50bps in gross margins for CY09.

Figure 4: Wheat prices have firmed again up after the MSP hike



Source: Government data, IIFL Research

Figure 5: Wheat and malt account for 30% of GSK's raw materials



Source: Company, IIFL Research

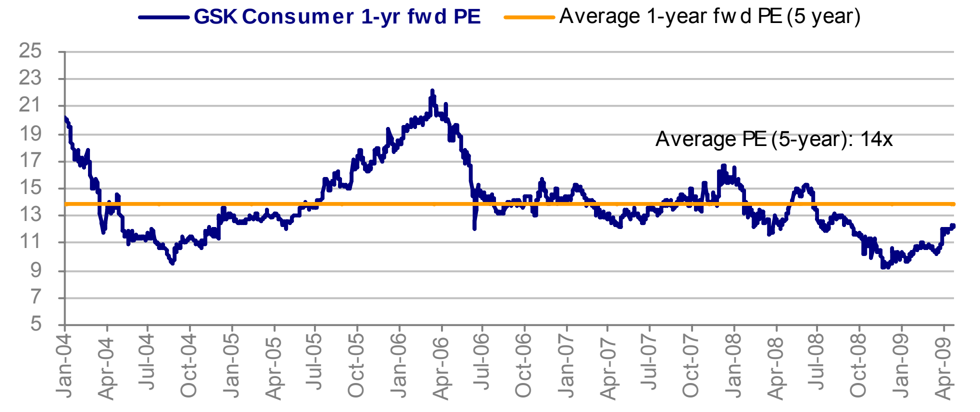
Lower adverting spends will offset higher raw-material costs

Advertising expense declined by 230bps in 1QCY09, which offset the increase in raw-material costs. Absolute ad spends increased 9%, but declined as a % of sales due to strong sales momentum. This is in line with the trend seen in other FMCG companies, which are witnessing a similar reduction in ad spends as a % of sales. With the economic slowdown, media players are under pressure to cut ad rates amid slowing advertising revenues. Also, we reckon there has been a slowdown in the overall advertising volumes as well. As such, we are now building a slight reduction in ad spends (we were earlier building in an increase on account of new product launches).

We upgrade EPS estimate, target price

On the back of better-than-expected 1QFY09 results and to incorporate faster revenue growth and lower ad spend, we upgrade our EPS estimates for CY09 and CY10 by 7% and 12% respectively. We raise our target multiple to 14x (from 12x), in line with the stock's historical trading average, to reflect the sustained revenue and earnings momentum. Our new TP is Rs890, based on one-year forward earnings.

Figure 6: GSK Consumer is trading well below its 5-year average PE of 14x



Source: IIFL Research

Figure 7: Changes in estimates for CY09 and CY10ii

Rs m	CY09ii			CY10ii		
	Old	New	% Change	Old	New	% Change
Sales	17,678	18,338	3.7%	20,182	21,508	6.6%
EBITDA	2,781	2,888	3.8%	3,195	3,371	5.5%
Net Profit	2,115	2,261	6.9%	2,374	2,673	12.6%
EPS (Rs)	50.3	53.8	6.9%	56.5	63.6	12.6%

Source: IIFL Research

Financial summary

Sales growth will be driven by volume growth in malted beverages

Income statement summary (Rs m)

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Revenue	12,778	15,428	18,339	21,509	25,241
EBITDA	2,244	2,376	2,888	3,371	3,967
EBIT	**1,809**	**1,956**	**2,436**	**2,874**	**3,435**
Interest expense	46	70	77	84	84
Exceptional items	688	955	1,050	1,242	1,372
Others items	**2,451**	**2,841**	**3,410**	**4,032**	**4,723**
Profit before tax	824	958	1,149	1,359	1,592
Tax expense	0	0	0	0	0
Minorities and others	0	0	0	0	0
Net profit	**1,627**	**1,884**	**2,261**	**2,673**	**3,131**

Increase in capex in CY08 for expansion and modernisation of facilities

Cashflow summary (Rs m)

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Profit before tax	2,451	2,841	3,410	4,032	4,723
Depreciation & Amortization	435	419	452	497	532
Tax paid	-798	-958	-1,149	-1,359	-1,592
Working capital Δ	125	-411	455	-121	-142
Other operating items	-95	0	-66	0	0
Operating Cash-flow	2,119	1,892	3,102	3,050	3,521
Capital expenditure	-289	-251	-637	-500	-500
Free cash flow	**1,829**	**1,641**	**2,465**	**2,550**	**3,021**
Equity raised	0	0	0	0	0
Investments	-782	2,978	0	0	0
Debt financing/disposal	0	0	0	0	0
Dividends paid	-590	-738	-849	-976	-1,269
Other items	0	-107	0	0	0
Net change in Cash & cash equivalents	**457**	**3,774**	**1,616**	**1,574**	**1,752**

Source: Company data, IIFL Research

Strong cash generation as the dividend payout remains low at 30%

Balance sheet summary (Rs m)

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Cash & cash equivalents	3,915	4,710	6,327	7,901	9,653
Sundry debtors	274	433	392	460	539
Trade Inventories	1,948	2,772	2,713	3,182	3,734
Other current assets	561	620	904	1,061	1,245
Fixed assets	**2,433**	**2,265**	**2,450**	**2,453**	**2,420**
Intangible assets	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**9,131**	**10,798**	**12,786**	**15,056**	**17,592**
Short-term debt	0	0	0	0	0
Sundry creditors	274	433	392	460	539
Other current liabilities	2,221	2,692	3,373	3,878	4,472
Long-term debt/Convertibles	0	0	0	0	0
Other long-term liabilities	173	66	0	0	0
Networth	**6,463**	**7,609**	**9,021**	**10,718**	**12,581**
Total liabilities & equity	**9,131**	**10,799**	**12,786**	**15,056**	**17,592**

EBITDA margin to marginally increase as reduction in ad spend will offset raw material cost inflation

ROE of GSK is low due to high cash buildup

Ratio analysis

Y/e 31 Dec	CY07A	CY08A	CY09ii	CY10ii	CY11ii
Sales growth (%)	15.3	20.7	18.9	17.3	17.4
Core EBITDA growth (%)	21.6	5.9	21.6	16.7	17.7
Core EBIT growth (%)	27.5	8.1	24.5	18.0	19.5
Core EBITDA margin (%)	17.6	15.4	15.7	15.7	15.7
Core EBIT margin (%)	14.2	12.7	13.3	13.4	13.6
Net profit margin (%)	12.7	12.2	12.3	12.4	12.4
Dividend payout ratio (%)	36.3	39.2	37.5	36.5	40.5
Tax rate (%)	33.6	33.7	33.7	33.7	33.7
Net Debt/Equity (%)	-60.6	-61.9	-70.1	-73.7	-76.7
Return on Equity (%)	25.2	24.8	25.1	24.9	24.9
ROCE (%)	63.3	68.8	86.1	104.3	119.6

Source: Company data, IIFL Research

Hindustan Construction - REDUCE

Construction | **27 April 2009**

Execution faltering; balance sheet worsening

HCC's revenue declined 7.2% YoY in 4QFY09, due to execution delays in hydro power projects in J&K. However, EBITDA grew 15% YoY as margins expanded, driven by booking of accumulated profits on two projects which crossed the profit recognition threshold. Net profit growth was higher at 38% YoY, driven by reversal of forex losses totalling ~Rs194m. This also masked a sharp 13% QoQ (28% YoY) increase in interest costs. Order book increased to Rs144.6bn as at end-FY09 on order inflows of Rs52.7bn during 4Q. However, recently-won large projects have long execution cycles and would not translate to near-term revenue support. With D:E ratio at a five-year high of 2.1x, the balance sheet would be stretched further in FY10 to fund working capital, capex and investments in BOT assets. We maintain REDUCE.

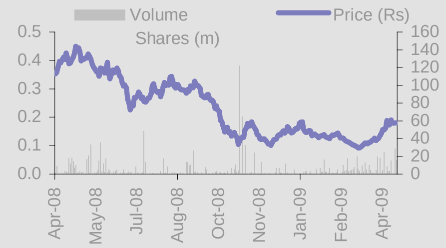
- HCC's revenues declined 7.2% YoY to Rs9.8bn in 4QFY09, primarily because of execution delays in hydro power projects in J&K and in a road project in Assam. We have been highlighting that HCC's portfolio of projects is riskier as compared to peers and more prone to slippages, given the adverse operating conditions in many of its locations.
- EBITDA margins increased sharply by 294bps YoY to 15.4%, the highest in the last 23 quarters. Two projects—a cavern and a tunnel project in Andhra Pradesh—crossed the profit recognition threshold during 4Q, resulting in accumulated profits being recognised. The company indicated that 4Q margins are not sustainable going forward.
- Despite the margin improvement, EBITDA grew by 14.9% YoY, lower than our estimates of 25% growth, on account of execution slippages.
- Interest costs are rising relentlessly; in 4Q, they rose 28% YoY and 13% QoQ to Rs650m. For FY09, interest costs have increased by 38% against a sales growth of 16%. A sharp increase in interest costs indicates a further worsening in an already-elongated operating cycle.
- Profit before tax increased by 64% YoY, due to a sharp jump in other income at Rs242m, against a loss of Rs93m in 4QFY08. Other income was higher due to reversal of forex losses recognised during FY08 and 9MFY09 as per changes in applicability of AS-11.

CMP	**Rs58**
12-mth Target price (Rs)	***40 (-30%)***
Market cap (US$ m)	**296**
Bloomberg	**HCC IN**
52Wk High/Low (Rs)	151/29
Diluted o/s shares (m)	256
Daily volume (US$ m)	3.8
Dividend yield FY09ii (%)	1.4
Free float (%)	52.8
Shareholding pattern (%)	
Promoters	47.2
FIIs	8.7
Domestic MFs/Insurance cos	18.6
Others	25.6

Price performance (%)

	1M	3M	1Y
HCC	60.3	40.2	-56.1
Rel. to Sensex	40.7	9.6	-23.8
Nagarjuna	36.8	56.5	-63.7
IVRCL Infra	44.1	88.7	-58.5
Simplex Infra	26.0	41.2	-69.8

Stock movement



Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09A	FY10ii	FY11ii
Revenues (Rs m)	23,576	30,828	33,137	40,174	47,837
EBITDA Margins (%)	9.1	11.9	13.0	12.7	12.7
Pre-exceptional PAT	793	1,088	1,253	603	1,205
Reported PAT (Rs m)	368	1,088	1,253	603	1,205
Recurring EPS (Rs)	3.1	4.2	4.9	2.4	4.7
Growth (%)	-4.4	37.2	15.2	-51.9	100.0
PER (x)	**18.6**	**13.6**	**11.8**	**24.5**	**12.2**
ROE (%)	8.8	11.5	12.1	5.4	10.1
Net debt/Equity (x)	1.5	1.6	1.9	2.0	2.2
EV/EBITDA (x)	13.1	8.3	8.4	7.4	6.9
Price/Book (x)	**1.6**	**1.5**	**1.3**	**1.3**	**1.2**

Source: Company, IIFL Research

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- The company has exercised the option of retrospectively applying the amendments to AS-11 from 1QFY08 onwards. As a result, long-term monetary exchange loss of Rs290m is accounted in Foreign Currency Monetary Items Translation Account, to be amortised over three years. Out of this, Rs96.7m has been written off in FY09 and Rs193.3m carried forward.

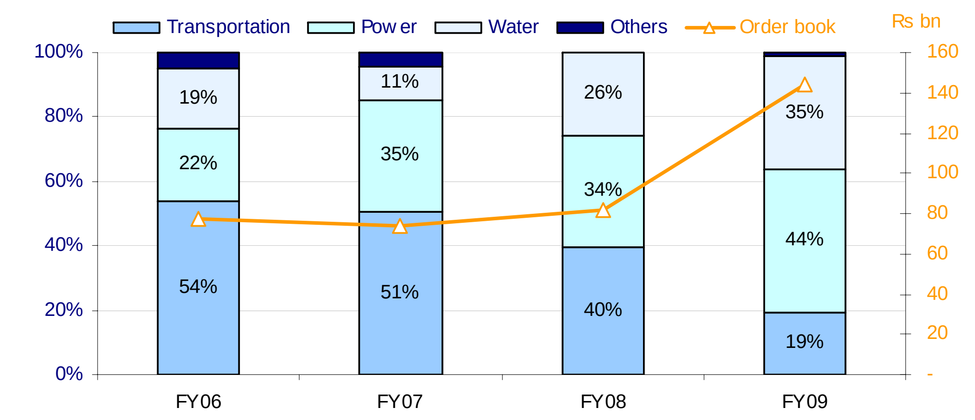
Figure 1: HCC's 4QFY09 and FY09 results

Rs m	4QFY08	3QFY09	4QFY09	% YoY	FY08	FY09	% YoY
Sales	**10,550**	**8,194**	**9,795**	**-7.2**	**30,828**	**33,137**	**7.5**
Expenses	9,240	7,134	8,290	-10.3	27,162	28,823	6.1
EBIDTA	**1,310**	**1,060**	**1,504**	14.9	**3,666**	**4,314**	17.7
EBITDA margin	***12.4%***	***12.9%***	***15.4%***	**294 bps**	***11.9%***	***13.0%***	**113 bps**
Depreciation	275	299	304	10.7	962	1,152	19.8
Interest	452	573	650	43.7	1,524	2,105	38.1
Other Income	(93)	(46)	242	NA	387	588	52.0
Profit/Loss(-) on integrated JVs	(6)	0	2		(7)	1	
PBT	**484**	**142**	**794**	64.2	**1,560**	**1,645**	5.5
Tax	113	(90)	281	149.0	472	392	-17.0
Tax Rate	*23.3%*	*-62.9%*	*35.3%*		*34.0%*	*34.0%*	
PAT	**371**	**232**	**514**	38.4	**1,088**	**1,253**	15.2
PAT Margin	***3.5%***	***2.8%***	***5.2%***	**173 bps**	***3.5%***	***3.8%***	**25 bps**
EPS (Rs)	**1.45**	**0.91**	**2.00**	**38.4**	**4.24**	**4.89**	**15.2**
Order book	82,180	102,370	144,600	76	82,180	144,600	76
Order inflow	21,801	22,244	52,729	142	39,490	91,520	132

Source: Company, IIFL Research

- Order inflows during the quarter were strong at Rs52.7bn, driven by order booking for 330MW Kishanganga hydro project in Kashmir.
- The book-to-bill ratio of 4.13x as at end-FY09 looks strong prima facie, but would not translate to strong near-term revenue growth, given the very long execution cycles. For example, the Kishanganga hydro project won during 4QFY09 has to be executed over 84 months. Thus, it is safe to assume that no meaningful revenues would be booked from the project in at least the first two years.

Figure 2: FY09 order book – higher proportion of long gestation power projects

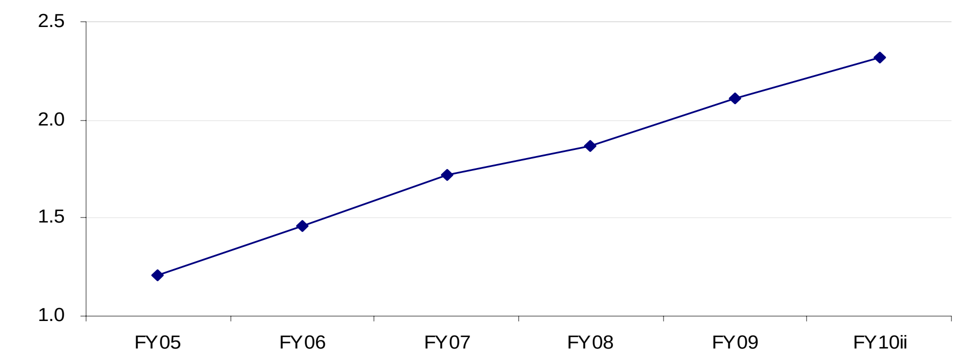


Source: IIFL Research, *Order book excludes Rs19.4bn Sawalkote HPP which is under dispute

Standalone balance sheet under pressure, with D:E ratio of 2.1x

With end-FY09 debt of Rs23bn, HCC's standalone debt/equity ratio is at a five-year high of 2.1x and is one of the highest among peers. We expect a further worsening in FY10 as the company would need to fund the capex and working capital requirement of the construction business and its equity commitments for the BOT assets.

Figure 3: HCC's end FY09 D:E of 2.1x is highest in the last five years



Source: Company, IIFL Research

The company recently bought back US$3.4m of the outstanding US$100m FCCBs. It paid US$2.5m for the buyback. The balance US$96.6m FCCBs will be due for conversion in March 2011. Conversion price for the FCCBs is Rs248. Yield-to-maturity of 6.5% means that the bond holders would be in the money only if the price is above Rs340. Non-conversion of the FCCBS would translate into a cash outflow of US$132m (including the interest cost) in March 2011.

Consolidated profits indicate large losses in subsidiaries

HCC also published FY09 consolidated accounts, which included the revenues and profits booked on Lavasa. The company reported consolidated PBT of Rs1.5bn and net profit of Rs592m in FY09. Consolidated PBT of Rs1.5bn was lower than standalone FY09 PBT of Rs1.65bn, due to large losses in key subsidiaries. Management indicated that its subsidiaries—Pune-Paud Toll Road Company and HCC Realty—incurred losses of Rs100m and Rs150m respectively. This translates into unexplained losses of Rs236m on other subsidiaries.

Figure 4: Reconciliation of standalone and consolidated profits

	Rs m
Standalone profit before tax	1,645
Less: Profits booked on land sale to subsidiary in 1QFY09	619
Less: Profits booked on contracts executed for own road SPVs	400
Add: Lavasa's profit before tax	1,350
Calculated consolidated profit before tax	1,976
Reported consolidated PBT	1,491
Difference	**486**
Explanation for the difference as per management commentary	
Losses in Pune-Paud Toll Road Co Ltd	100
Losses in HCC Real estate due to interests pertaining to 247 Park	150
Unexplained losses in other subsidiaries	**236**

Source: Company, IIFL Research

Quick Take

Infotech Enterprises - ADD

IT Services | **27 April 2009**

Against the odds

Infotech's 4QFY09 results were above our expectation, with a QoQ revenue growth of 1% (INR) against our expectation of a 5% decline. Some of the cost-cutting during the quarter was due to one-time measures that led to a strong 230bps margin expansion; going ahead, likely salary cuts and rationalisation of employee bench could continue to be a margin lever. Also, pricing remained stable in a tough environment and our recent interaction with management indicated that it had received a price increase from a key client (effective January). Among mid-cap IT services companies, Infotech remains our favourite pick, given its stable business from key clients and high cash balances (~50% of market cap).

- **Revenue growth (QoQ), as opposed to decline at larger industry peers:** While the larger IT services firms reported pricing pressure of up to 2% (QoQ) and volume decline of up to 6%, Infotech was able to contain volume decline at 0.5% and its realisations were stable. We believe stable/annuity volumes from its geospatial services (~35% of revenues) and pricing increases from a key customer in the EMI vertical (~65% of revenues) led its outperformance.

- **EBITDA margins expand 230bps:** Certain one-time cost-cutting measures including leaves not being credited and abeyance of superannuation contribution led to a 150bps expansion in margins.

  Also, management had been contemplating rationalising the bench and salaries, given the increase in project cancellations and a reduction in the pipeline at the beginning of the quarter. Combined, they have likely resulted in the overall margin expansion of 230bps (QoQ) during 4QFY09. During the quarter, headcount decreased by ~4%.

- **Forex losses are a concern:** Forex hedges have been an overhang on profitability. During FY09, the company booked ~30% of EBITDA in forex losses. As at the end of the quarter, the company had US$50.5m of forex hedges outstanding. However, the likely impact of their entire MTM losses has already been provided during FY09.

  On the back of margin resilience and marginally better growth, we are upgrading our FY10 EPS estimate 5% and maintain ADD.

CMP	**Rs119**
Market cap (US$ m)	**131**
Bloomberg	**INFE IN**
52Wk High/Low (Rs)	290/68
Diluted o/s shares (m)	55
Daily volume (US$ m)	0.0
Dividend yield FY09ii (%)	1.4
Free float (%)	76.6

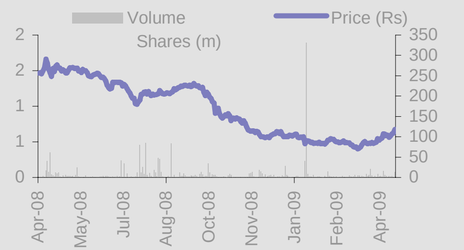
Shareholding pattern (%)

Promoters	23.4
FIIs	16.1
Domestic MFs/Insurance cos	13.6
Others	46.9

Price performance (%)

	1M	3M	1Y
Infotech	37.1	40.0	-56.2
Rel. to Sensex	24.4	14.2	-22.4
Patni	27.1	36.6	-37.4
Rolta	41.2	-1.4	-75.1
KPIT	50.1	83.7	-63.5

Stock movement



Financial Summary

Financial Summary	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	5,425	6,741	8,918	9,186	9,807
YoY (%)	49.7	24.3	32.3	3.0	6.8
EBITDA Margins (%)	20.9	18.1	20.0	19.4	18.8
Reported PAT (Rs m)	837	855	926	1,091	989
EPS (Rs)	18.1	16.4	16.6	19.6	17.8
YoY (%)	65.2	-9.5	1.4	17.8	-9.3
PER (x)	6.6	7.3	7.2	6.1	6.7
ROE (%)	33.0	17.7	12.9	13.5	10.9
EV/EBITDA (x)	4.2	2.5	2.2	1.7	1.1
Price/Book (x)	1.9	0.9	0.9	0.8	0.7

Source: IIFL Research

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Figure 1: 4QFY09 summary

Income statement brief (Rs m)	4QFY08	3QFY09	4QFY09	QoQ	YoY
Net sales	1,874	2,328	2,350	1.0%	25.4%
Net Sales (US$ m)	46.6	47.7	47.0	-1.4%	1.0%
COGS	-1,208	-1,550	-1,530		
Gross profits	666	778	820	5.4%	23.1%
Gross margins	35.5%	33.4%	34.9%		
SG&A	-324	-327	-311		
EBITDA	342	451	509	12.9%	49.0%
EBITDA margin	18.2%	19.4%	21.7%	230 bps	343 bps
Depreciation	-103	-119	-125		
Net forex gains	11	-225	-375		
Other income	69	45	95		
PBT	319	152	104	-31.6%	-67.4%
PBT margin	17.0%	6.5%	4.4%		
Tax	-86	-36	66		
ETR	27.1%	23.8%	-63.1%		
PAT	233	116	170	46.4%	-27.1%
IGIL minority interest + IASI profit share	27	29	26		
Adj. PAT	259	145	195	35.0%	-24.6%
PAT margin	13.8%	6.2%	8.3%		
EPS diluted (Rs)	259	144	206		
Revenues by segment (Rs m)					
Utilities Telecom and Govt. (UTG)	761	788	802	1.7%	5.3%
Engg., Mfg. and Industrial (EMI)	1,121	1,546	1,554	0.5%	38.7%
Revenue by geography (Rs m)					
North America	824	1,232	1,210	-1.8%	46.8%
Europe	830	840	886	5.5%	6.8%
Asia/Australia	220	256	253	-0.9%	15.1%
Client metrics					
Top 5 cont.	41.3%	42.1%	41.0%		
Top 10 contribution	53.9%	57.9%	55.4%		
Employee count	7,021	7,974	7,661	-3.9%	9.1%

Source: Company, IIFL Research

Rupee revenue growth of 1.2% QoQ was driven by
Pricing: +1.2%
Volume: -0.5%
Exchange rate: 0.3%

Constant-currency revenue growth was 0.5% QoQ.

Forex losses of Rs375m due to
Cash loss on matured forward contracts of (-) Rs80m
MTM provision: (-) Rs310m
Gain on currency translation: Rs14 m

Strong 40% YoY growth in EMI and 1.7% QoQ growth in UTG in a challenging environment

China, the under-leveraged, is de-leveraging

While the world is experiencing the pain of de-leveraging, China, arguably the most under-leveraged nation, also saw its external debt dwindle for the first time since 2000. And the seemingly good development (less debt) is caused by a bad development—collapse of foreign trade (and hence the decline in trade financing).

Figure 1: China external debt

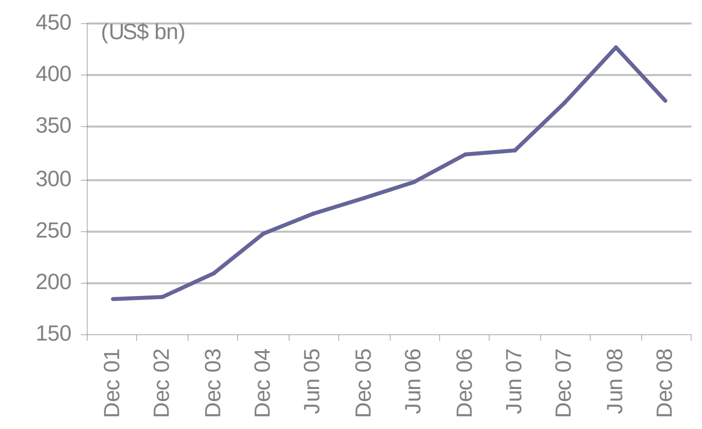
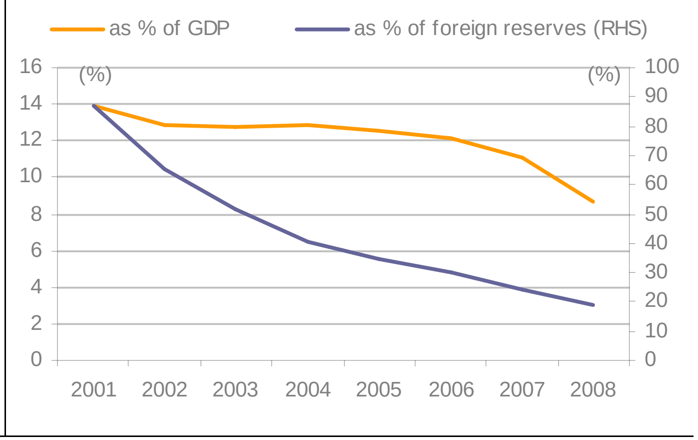


Figure 2: as % of GDP and foreign reserves



Source: SAFE, IIFL Research

As at end-2008, China's external debt stood at US$375 bn, which is less than 20% of the country's foreign reserves and 10% of its GDP. Back in 2001, the figures were 87% and 14%, respectively. Measured by external debt as % of GDP, China is the lowest among major economies.

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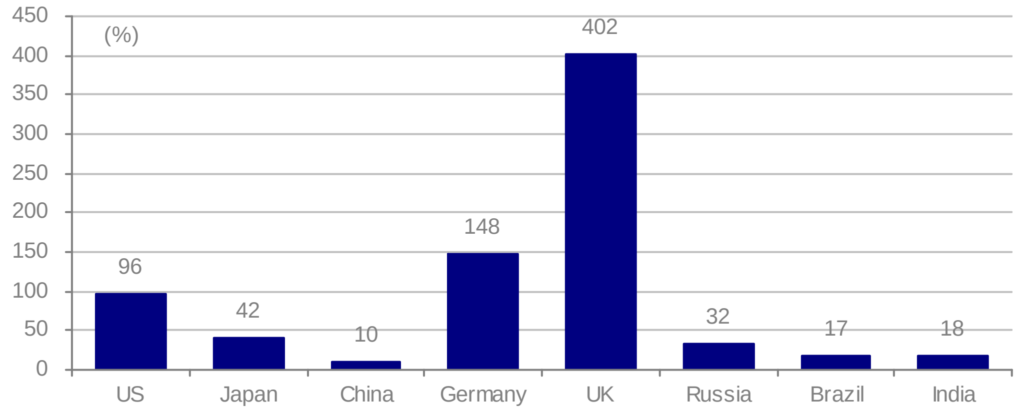
Figure 3: External debts as % of GDP



Source: World Bank, IMF, IIFL Research
Note: GDP as at end-2008; external debt as at Sep-2008.

As China emerged as the world's factory, trade finance became the most important source of incremental foreign debt. Consequently, the share of trade-finance-related debt increased from 20% in December 2001 to 35% in June 2008.

But the fall of Lehman Brothers in September 2008 triggered a worldwide collapse in trade. Then partly as the result (real demand decline) and partly as the cause (banks balking at export finance), China witnessed a sharp decline in outstanding trade finance debt (dropped from US$154 bn in end-Sep to US$ 114 bn in end-December). The decline in trade-finance-related debt accounted for more than 60% of the decrease in China's external debt in 4Q2008. As a result, by the end of 2008, share of trade-finance-related debt dropped to 30%, from the peak of 36% (December 2007) and back to 3Q2005 level.

Figure 4: Share of trade finance debt

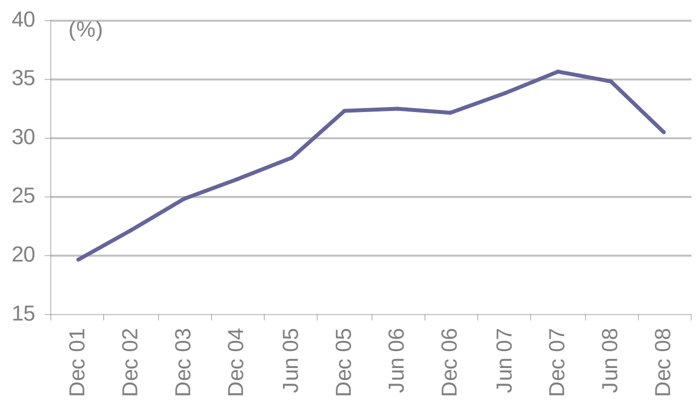
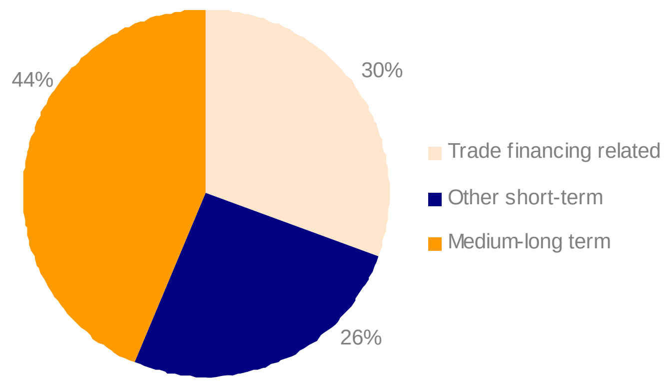


Figure 5: External debt breakdown (Dec-2008)



Source: SAFE, IIFL Research

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IIFL

Events calendar – April 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		1	2	3	4
		Feb Exports ↓ **21.7%** Feb Imports ↓ **23.3%**	BHEL (Provisional FY09) WPI for 21 Mar ↑ **0.31%**		
6	7	8	9	10	11
		NTPC (Provisional FY09)	Mastek IIP for Feb ↓ **1.2%** WPI for 28 Mar ↓ **0.26%**		Goa Carbon
13	14	15	16	17	18
CMC		Infosys	Concor **Elections** WPI for 4 Apr ↓ **0.18%**	Power Finance Corp	
20	21	22	23	24	25
Axis Bank, Sesa Goa, TCS CPI - AL, RL for Mar	Hero Honda, Ultratech, RBI Monetary Policy Repo ↓ 25bps Reverse repo ↓ 25bps CRR Unch	ACC, Ambuja Cement, GTL, HCL Tech, Hind Zinc, Marico, Wipro, Yes Bank, Zee	Bajaj Hind, HDFC Bank, Idea Cellular, Reliance Ind, Reliance Infra, Reliance Petro Reliance Power **Elections** WPI for 11 Apr ↑ **0.26%**	Cipla, Corp. Bank Bharat Electronics, GSK Consumer, HCC, Maruti Suzuki, Piramal H/C, Ranbaxy, Wockhardt,	ICICI Bank, Infotech Ent., Pantaloon, Petronet LNG, United Phos.,
27	28	29	30		
3i Infotech, Areva T&D, Bank of Baroda, Exide, Jaiprakash Ass, KPIT, Mindtree, OBC, Tech Mahindra, Noida Toll	Aventis, Biocon (FY09), Cadila Health, Genus Power, Glaxo Pharma, Hexaware, IDFC, India Infoline, Jubilant Org, Laksmi Energy, Philips Carbon, Shree Cement, Sterlite Inds, Vijaya Bank	Alstom Projects, Apollo Tyres, Bank of India, Canara Bank, Dabur India, GTL Infra, GVK Power, ICSA, KEC Intl, MTNL, Patni, Shopper Stop, CPI - IW for Mar WPI for 18 Apr	ABB, Aurobindo Pharma, Bharti Airtel, CESC, DLF, Jain Irrigation, Nestle, PTC, Puravankara, Rel Capital, Rel Comm., Siemens, Tanla **Elections**		Kesoram – 2 May HDFC – 4 May IOB – 4 May UBI – 7 May Kotak Mah Bank – 12 May Lupin – 13 May Bajaj FinServ – 20 May Bajaj Auto – 21 May

Black: Quarterly results, Blue: Economic data, Red: India Holiday, **Brown: Election**

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Economics / Politics	• India's national elections • State elections in Andhra Pradesh, Orissa, Sikkim • RBI's Monetary policy meeting (end April) • Elections will be held between 16th April to 13th May in 5 Phases (16th April, 23rd April, 30th April, 7th May, 13th May) • Counting will be held on 16th May. Results would be out by **16th May** evening • The new Lok Sabha will be constituted by 2nd June	• Revised Budget for 2009-10 (July) • RBI's Monetary policy meeting (end July)	• RBI's Monetary policy meeting (end October)		
Auto	• **Tata Motors** – Repayment of the US$3bn bridge loan taken for the JLR acquisition (Jun-09) • **Maruti** – launch of the Splash		• **Tata Motor's** Nano plant at Sanand to start operations	• **M&M's** Chakan plant with a capacity of 320,000 vehicles to start operations.	

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Cement	• **JK Cement** 3.5 mtpa Karnataka plant to start • **Shree Cement** 1.0 mtpa plant to start • **Orient Cement** 1.6 mtpa Devapur, AP plant to start • **Grasim's** 4.4 mtpa Kotputli expansion to commence prod. • **OCL's** 2.0 mtpa Orissa plant to start • **Chettinad Cement** 2mtpa plant at Ariyalur to start • **Murli Industries** 2.5mtpa Chandrapur plant to start • **JP Associates** 1.2 mtpa Gujarat plant to start	• **Lafarge's** 1.3 mtpa Sonadih plant to start • **Dalmia Cements** 2.3 mtpa Ariyalur plant to start • **Ambuja Cement's** 1.5 mtpa Dadri plant to start • **ACC's** 1.2 mtpa Bargarh plant to start	• **JP Associates** 3.0 mtpa HP plant to start • **NCL Industries** 1.5 mtpa AP plant to start • **Raghuram Cement** AP 2 mtpa plant to start • **Andhra Cement** 1 mtpa AP plant to start • **Ambuja Cement** 1.5 mtpa Panipat plant to start • **ACC** 3 mtpa Wadi, Kar plant to start • **Zuari Cements** 2.4 AP mtpa plant to start		
Infrastructure			• **BHEL** Capacity goes up from 10 GW to 15 GW		
Metals	• **Sterlite**: Bauxite mining at Niyamgiri will start		• **Sterlite**: First phase of 2,400MW power plant will commence operation	• **JSW Steel**: Commissioning of 3.5mntpa hot strip mill	

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Pharma	• **Jubilant:** Generic sestamibi approval by USFDA • **Glenmark:** Data from phase II study of melogliptin in diabetes mellitus • **Glaxo Pharma:** Launch of an in-licensed anti-fungal product in the domestic market • **Sun Pharma:** FDA clearance of Caraco facility in Detroit; Potential deal on Taro acquisition		• **Max Healthcare:** Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi • **Ranbaxy:** Launch of generic Valaciclovir under exclusivity in US	• **Dr Reddy's:** Potential USFDA approval for fondaparinux and omeprazole OTC	
Real Estate	• **DLF** – Buy back of shares- upto Rs 11bn & cap price at Rs600/share • **DLF** –To acquire stake in DAL. Capital raising by DAL through private equity • **DLF** to sell wind energy business • **Unitech**- To raise funds via stake sale in hotel & office projects. Planning to raise money by diluting stake at parent level. • **Puravankara** Projects – Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project • **Sobha** – Right issue upto Rs3.5bn				

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Telecom	• **Idea Spice** merger expected to receive court approval, and get completed • **RCOM** expected to explain retention plans for subscribers gained in 4QFY09	• **Indus Towers** expected to receive towers from Bharti, Vodafone and Idea and thus merger of tower subsidiaries into Indus completed			
Utilities	• **NTPC**'s Kahalgaon-II Ph II Unit 7 (500MW) to commission	• **CESC** Budge Budge (250MW) unit operational • **Suzlon** to start production from new facilities	• **NTPC**'s Sipat-I Unit 1 (660MW) to commission		
Others	• 200,000 billet pierced industrial cylinders capacity at Gandhidham comes on stream • 5,000 Jumbo cylinder plant at Gandhidham to start operations • **Arshiya International** – Capital raising to fund its FTWZ & Rail business		• **EKC's** Kandla SEZ plant to manufacture 300,000 steel plate cylinders for exports to Europe to start operations.		

Shares pledged by Promoters

- In all, more than 600 companies have reported the data, taking the total pledge amount at current market price to US$18.8bn.

Company Name	Mkt. Cap. (US$ m)	% of Paid-up Share Cap.	% of Promoter Hldg
Tata Consultancy Serv.	11472	12.3	16.2
Reliance Communications	9632	13.2	19.9
Jindal Steel & Power	5033	1.7	2.8
Sun Pharmaceutical	4947	0.4	0.6
GMR Infrastructure	4223	14.2	19.2
Essar Oil	4054	36.4	41.1
Tata Power	3946	14.8	44.6
Tata Steel	3830	13.5	39.8
Reliance Infra	3349	16.4	43.8
Mundra Port	3246	11.8	14.5
Tata Communications	3152	10.5	13.8
Jaiprakash Associates	2991	2.2	4.7
Kotak Mahindra Bank	2766	0.0	0.0
Reliance Capital	2750	4.0	7.5
Mahindra & Mahindra	2638	8.1	30.5
Tata Motors	2290	14.1	33.7
Adani Enterprises	2197	25.2	33.6
Suzlon Energy	1982	25.5	38.7
Dr Reddys Laboratories	1874	7.1	26.7
Dabur India	1870	9.2	13.1
Bajaj Auto	1819	3.2	6.4
Asian Paints	1714	17.0	33.9
Sun Television	1519	4.2	5.4
Unitech	1484	49.8	73.8
UT Ltd.	1484	1.8	2.7
United Spirits	1465	33.2	90.8
JSW Steel	1281	28.0	61.7
Crompton Greaves	1193	6.2	15.8
Lupin	1176	12.6	24.9
United Phosphorus	1123	6.1	21.8
Lanco Infratech	1076	8.5	11.6
Zee Entertainment	997	11.5	27.8
Torrent Power	985	11.1	21.0
Tata Teleservices Maha.	962	49.7	75.7
EIH	938	6.4	13.7

Company Name	Mkt. Cap. (US$ m)	% of Paid-up Share Cap.	% of Promoter Hldg
Tata Tea	862	15.4	43.5
GVK Power & Infra.	833	4.4	7.2
Tata Chemicals	791	20.0	68.6
Indian Hotels Company	745	3.5	11.7
Bajaj Holdings & Inv.	743	3.8	12.1
Punj Lloyd	708	1.2	2.8
India Cements Ltd	706	22.4	80.0
Godrej Consumer Products	691	7.6	10.9
Bajaj Finserv	691	4.4	8.0
Jain Irrigation	680	4.7	14.4
Sterling Biotech	671	13.3	36.2
Pantaloon Retail	643	19.5	41.9
Great Eastern Shipping	642	0.0	0.0
Max India	622	26.0	75.1
CESC	619	5.7	10.9
Ashok Leyland	605	17.8	46.2
Dish TV India	598	7.2	12.4
Shree Renuka Sugars	578	8.5	20.2
Videocon Industries	566	36.4	53.7
Akruti City	560	52.6	58.5

Source: Bloomberg
Note: Sorted on the basis of market capitalization.
This is not an exhaustive list; companies with market cap of more than US$500mn are considered. Updated till 24 Apr 2009.

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

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

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