

India Update

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Highlights

Sector/event	Impact
FMCG: Britannia Industries – Recommendation change	We believe that pressure on margins has bottomed out and the worst is over for Britannia. The recent enhancement in excise exemption purview to include biscuits with Rs100/kg MRP from Rs50/kg earlier would cover 75-80% of Britannia's biscuit portfolio, leading to an excise duty saving of ~Rs700mn. This coupled with recent price hikes is likely to offset the commodity inflation, enabling ~200bps OPM expansion in FY08E to 7.7%. On the back of 42% earnings CAGR expected through FY07-09E, we are upgrading Britannia to BUY from Hold.

News Snippets

Sectoral

- The Petroleum and Natural Gas Minister has indicated that the centre would not be able to further reduce the duty on petroleum products. (The Financial express)
- UK-based grocery biggie Tesco is learnt to be in preliminary talks with the Munjals of Hero Group for a joint foray into the retail sector. (The Economic Times)

Corporate

- Maruti Udyog has launched its new 1.6-litre petrol engine powered sedan SX4. (The Financial Express).
- Sinosteel plans to invest Rs160bn to build a 5mtpa greenfield steel plant in Jharkhand. (Business Line)
- Aurobindo Pharma has secured the US FDA approval for its Zolpidem tablets used in short-term treatment of insomnia. (Business Standard)
- Essar Steel is planning to set up two steel projects in Indonesia for US\$1bn. (The Economic Times)

Market data as on May 7, 2007

INDICES		
		% chg (DoD)
BSE Sensex	13879	(0.39)
S&P CNX Nifty	4111	(0.15)
BSE 100	7075	(0.30)
BSE 200	1675	(0.36)
Instanex Skindia DR	2494	0.21
Mindex	5878	(0.65)

OVERSEAS MARKETS		
		% chg (DoD)
Dow Jones	13313	0.36
Nasdaq Comp.	2571	(0.05)
S&P 500	1509	0.26
Hang Seng	20897	0.27
Nikkei	17670	1.58

ADVANCES/DECLINES (BSE)			
Group	A	B1	B2
Advances	77	316	401
Declines	127	382	424
Unchanged	2	12	20

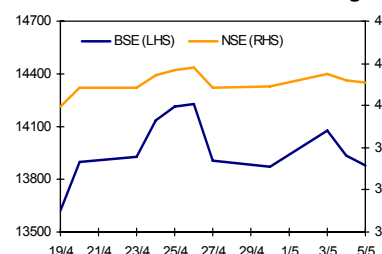
FII TURNOVER (BSE+NSE)* (Rs mn)		
Bought	Sold	Net
27535	26973	562

NEW HIGHS AND LOWS (BSE)			
Group	A	B1	B2
Highs	77	316	401
Low	-	7	4

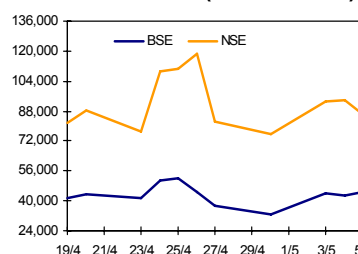
CURRENCY
US\$1 = Rs40.88

* FII turnover (BSE + NSE) as on May 4, 2007

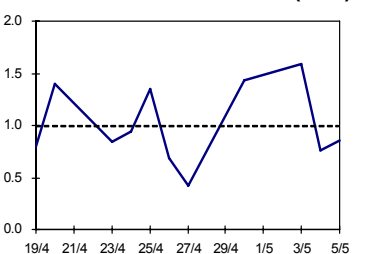
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



Britannia Industries (Upgrade to Buy)

FMCG

RECOMMENDATION CHANGE

When going gets tough...

Rs1,320

Anand Shah
Shilpa Yadavanand_shah@isecltd.com
shilpa_yadav@isecltd.com

Earnings revision

(%)	FY07E	FY08E
Sales	↑ 6.7	↑ 20.2
EBITDA	↓ 37.9	↓ 5.5
EPS	↓ 331	↓ 7.2

We believe that pressure on margins has bottomed out and the worst is over for Britannia. The recent enhancement in excise exemption purview to include biscuits with Rs100/kg MRP from Rs50/kg earlier would cover 75-80% of Britannia's biscuit portfolio, leading to an excise duty saving of ~Rs700mn. This coupled with recent price hikes is likely to offset the commodity inflation, enabling ~200bps OPM expansion in FY08E to 7.7%. On the back of 42% earnings CAGR expected through FY07-09E, we are upgrading Britannia to BUY from Hold.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (07/05/07) (Rs)	1,320	2005	57.4	23.0	15.3	BSE Sensex	13879
52 Week Range	1800/1025	2006E	59.9	22.0	14.0	Market Cap. (Rs bn)	31.5
Dividend FY08E (Rs/sh)	20	2007E	44.9	29.4	22.4	Market Cap. (US\$ mn)	712.1
Dividend yield (%)	1.5	2008E	71.1	18.6	12.7	Shares Out. (mn)	51.0
Face value (Rs)	10	2009E	90.7	14.6	9.6	Free float (%)	23.9

Source: Company data, i-SEC Research

- **Robust sales growth to sustain.** Britannia's sales growth registered unprecedented acceleration in 9MFY07 with 27% YoY growth on the back of not just the shift from the unbranded segment to the branded segment but also due to management's initiatives of introducing innovative products and packages beginning to bear fruit. Britannia improved its market share in the past six months; its volume share at 29.8% is now the highest since March '06.
- **Cost pressures offset by price hikes and lower taxes.** While cost pressures for Britannia have been building since the past four quarters, major price changes to offset them have happened only in the recent quarter. This coupled with enhanced excise duty exemption on biscuits selling up to Rs100/kg (covering 75-80% of Britannia's portfolio) is likely to result in a significant improvement in Britannia's profitability. The increased exemption limits would reduce excise duty to the extent of ~Rs700mn. We expect Britannia's OPM to expand ~200bps in FY08E to 7.7% and its operating profits to grow 72% YoY to Rs2.16bn.
- **Widening geographic reach and expanding product portfolio.** With acquisitions of companies in Dubai and Oman with Rs1.6bn revenues, Britannia has gained access to many new markets such as Gulf Cooperation Council (GCC) and Africa. The management expects to drive the global business contribution to 10% of the total turnover going ahead.
- **Upgrade to BUY.** We believe that the worst is over for Britannia and expect 42% earnings CAGR through FY07-09E. The company has emerged stronger post the past two years of intense pressures and is well positioned to capture growth in the fast-growing processed foods business. On the back of this, we are upgrading the stock, which is currently trading at FY08E EV/sales and P/E of 1.1x and 18x respectively, to BUY from Hold.

Details in our report 'When going gets tough...' dated May 7, 2007

Asian Paints (Buy)

FMCG

Q4FY07 RESULTS PREVIEW

Rs803

Anand Shah
Shilpa Yadavanand_shah@isecltd.com
shilpa_yadav@isecltd.com

- We expect the strong sales growth momentum to sustain in the decorative paints segment, primarily led by emulsions.
- Easing of pressure from rising input prices in Q4FY07 coupled with price hikes from mid-January '07 would augur well for Asian Paints' (APL) margins. After two quarters of margin decline, we expect the company's OPM to expand marginally.
- With reducing pressure on account of rising input prices, the profitability of the international business would likely improve further.
- Asian PPG, a 50% JV between APL and PPG of the US, acquired the 2k auto refinish business of ICI India in March '07. The acquisition would significantly strengthen Asian PPG's position in the auto refinish segment.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (7/05/07) (Rs)	803	2005	18.4	43.8	27.2	BSE Sensex	13879
52 Week Range	835/501	2006	23.1	34.8	22.3	Market Cap. (Rs bn)	77.1
Dividend FY08E (Rs/sh.)	21.7	2007E	27.7	29.0	18.6	Market Cap. (US\$ mn)	1,740
Dividend yield (%)	2.7	2008E	33.3	24.1	15.3	Shares Out. (mn)	96.0
Face value (Rs)	10	2009E	40.1	20.0	12.8	Free float (%)	57.2

Source: Company data, i-SEC Research

Table 2: Quarterly estimates (standalone)

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	6,717	5,645	19.0	(4.8)	20,943	17,547	19.4
EBITDA	993	812	22.3	(1.7)	3,184	2,707	17.6
PBT	981	830	18.2	(0.2)	3,066	2,554	20.0
PAT	643	537	19.7	(1.4)	2,030	1,677	21.1

Source: Company data, i-SEC Research; * April - December

Note: Performance on standalone basis

Details in our results preview dated April 9, 2007

Recent reports/updates		
Analyst	Company/Sector	Date
Anand / Shilpa Yadav	Britannia Industries: When going gets tough...	May 7
S. Ramesh / Amit	Indraprastha Gas: Refuelling for growth	May 3
S. Ramesh / Amit	Gujarat Gas: In the fast lane	May 3
Anand / Shilpa Yadav	Hindustan Lever: Muted tempo	May 3
Anand / Shilpa Yadav	GSK Consumer: Surprise packet	Apr 30
S. Ramesh/Amit	Reliance Industries: Growth plans on track	Apr 27
Rajesh Vora	Cipla: Sluggish gait	Apr 27
Anand /Shilpa Yadav	Godrej Consumer Products: Of waning hue	Apr 26
S Ramesh	BPCL: Piping hot	Apr 26
Rajesh Vora	Pharma: Theme note on Sun Pharma & Glenmark	Apr 24
Anand / Shilpa Yadav	Kansai Nerolac: Radiant hues	Apr 24
Anand / Shilpa Yadav	Colgate-Palmolive: Tranquil tone	Apr 23
S. Ramesh / Amit	Netback: Refining on a winning streak	Apr 19
Shilpa Gupta	Speedometer: Subdued pace	Apr 16
S. Ramesh / Amit	GAIL (India): Stepping up the gas	Apr 16
Shilpa Gupta	Automobiles Quarterly results preview: Mixed bag	Apr 12
Rajesh Vora	Pharma Quarterly results preview: In full bloom	Apr 11
S. Ramesh / Amit	Oil&Gas Quarterly results preview: Full blast ahead	Apr 9
Anand / Shilpa Yadav	FMCG Quarterly results preview: On a promising note	Apr 9
Rajesh Vora	Wockhardt: On come-back trail	Apr 5
Poonam Nishal	Utilities Quarterly results preview: Waiting for Godot	Apr 5
Amar Kedia	Aviation Quarterly results preview: Mixed bag	Apr 3
Rajesh Vora	Glenmark Pharma: Raising the bar	Apr 3
Amar Kedia	SpiceJet: Tempest to blow past	Apr 3
Poonam Nishal	Telecom Quarterly results preview: Swelling volumes to script success	Apr 2
S. Ramesh	Gujarat Gas: Set for new highs	Mar 30
Rajesh Vora	Cadila Healthcare: Run to form	Mar 26
Amar Kedia	Balmer Lawrie: Stirring up	Mar 23
Anand Shah	Nestle: On an accelerated growth path	Mar 22
S. Ramesh	Netback margin monthly: Refining, the lone star shining	Mar 19
Rajesh Vora	Sun Pharma: The Sun SPARCles	Mar 16
Vikash Mantri	Jagran Prakashan (Unrated): Augmenting clout	Mar 15
Shilpa Gupta	Speedometer (Mar '07) – Balanced manoeuvre	Mar 14
Eq. Research Team	Union Budget Review 2007-08	Mar 1

Quarterly results date reckoner

No.	Nifty companies	Date of result	No.	Other companies	Date of result
1	ABB India	April 26	1	Adlabs Films	April 26
2	ACC	April 19	2	Alembic Limited	-
3	Bajaj Auto	May 17	3	Apollo Hospitals Enterprise	-
4	Bharat Heavy Electricals	-	4	Arvind Mills	May 12
5	Bharat Petroleum Corporation	-	5	Ashok Leyland	May 4
6	Bharti Airtel	April 27	6	Asian Paints	May 10
7	Cipla	April 26	7	Aventis Pharma	April 16
8	Dabur India	May 8	8	Balaji Telefilms	May 16
9	Dr. Reddy's Laboratories	May 18	9	Bank of Baroda	April 28
10	GAIL (India)	May 8	10	Bharat Forge	-
11	GlaxoSmithKline Pharmaceuticals	April 27	11	Britannia Industries	-
12	Grasim Industries	April 25	12	Cadila Healthcare	April 26
13	Gujarat Ambuja Cements	April 20	13	Canara Bank	May 2
14	HCL Technologies	April 17	14	Colgate-Palmolive	May 3
15	HDFC Bank	April 24	15	Corporation Bank	April 28
16	Hero Honda Motors	May 11	16	GlaxoSmithKline Consumer	-
17	Hindalco Industries	May 4	17	Glenmark Pharma	April 25
18	Hindustan Lever	April 30	18	Godrej Consumer Products	April 25
19	Hindustan Petroleum Corporation	-	19	Gujarat Gas Company	April 30
20	Housing Development Finance Corporation	May 3	20	IDBI	April 20
21	ITC	-	21	Indian Hotels Co.	-
22	ICICI Bank	April 28	22	Indraprastha Gas	-
23	Indian Petrochemicals Corporation	-	23	Info Edge (India)	May 3
24	Infosys Technologies	April 13	24	Infotech Enterprises	-
25	Larsen & Toubro	-	25	Jammu & Kashmir Bank	May 7
26	Mahanagar Telephone Nigam	April 24	26	Jet Airways	-
27	Mahindra & Mahindra	May 28	27	JSW Steel	April 30
28	Maruti Udyog	April 24	28	Kansai Nerolac Paints	May 3
29	National Aluminium Company	April 25	29	Madras Cements	May 30
30	Oil & Natural Gas Corporation	-	30	Marico	April 26
31	Punjab National Bank	May 23	31	Mphasis	April 30
32	Ranbaxy Laboratories	April 27	32	National Thermal Power Corp.	-
33	Reliance Communications	April 30	33	Nestle India	April 30
34	Reliance Energy	April 25	34	Oriental Bank of Commerce	April 28
35	Reliance Industries	April 26	35	Patni Computer Systems	April 25
36	Reliance Petroleum	April 25	36	Polaris Software Lab	April 27
37	Satyam Computer Services	April 20	37	Procter & Gamble	April 30
38	Siemens	April 23	38	Punjab Tractors	-
39	State Bank of India	May 12	39	Raymond	April 26
40	Steel Authority of India	May 21	40	Sasken Communication Technologies	-
41	Sterlite Industries (India)	May 3	41	SpiceJet	-
42	Sun Pharmaceutical Industries	May 15	42	Tata Tea	-
43	Suzlon Energy	May 14	43	TVS Motor Company	-
44	Tata Consultancy Services	April 16	44	Union Bank of India	May 7
45	Tata Motors	May 18	45	UTI Bank	April 17
46	Tata Power Co.	May 30	46	Wockhardt	April 26
47	Tata Steel	-			
48	Videsh Sanchar Nigam	-			
49	Wipro	-			
50	Zee Entertainment	April 21			

Note: Result dates in calendar format on Page 6

Quarterly results date reckoner

MAY 2007

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	.	1 .	2 .	3 Kansai Nerolac, Info Edge, Colgate-Palmolive	4 Ashok Leyland	5 .
6 .	7 Union Bank of India, J&K	8 GAIL	9 .	10 Asian Paints	11 Hero Honda	12 SBI
13	14 .	15 Sun Pharma	16 Balaji Telefilms	17 Bajaj Auto	18 Tata Motors, DRL	19 .
20	21 .	22 .	23 PNB	24 .	25 .	26 .
27	28 M&M	29 .	30 Madras Cement, Tata Power	31 .		

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