

May 10, 2007
FOR PRIVATE CIRCULATION
Equity

		% Chg		
	9 May 07	1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,782	0.1	4.5	(5.2)
Nifty	4,079	0.1	6.0	(2.6)
Banking	6,851	1.5	3.8	(9.4)
IT	3,646	(0.3)	3.9	(6.5)
Healthcare	3,701	0.1	(0.0)	(3.7)
FMCG	1,804	(0.1)	(0.5)	(5.1)
PSU	6,418	0.2	5.8	1.8
CNX Midcap	5,260	0.5	6.2	(0.6)

World indices

Nasdaq	2,576.3	0.2	4.0	4.7
Nikkei	17,748	0.5	0.5	1.4
Hangseng	20,845	0.7	2.0	0.4

Value traded (Rs cr)

	9 May 07	% Chg - 1 Day
Cash BSE	3,960	(4.6)
Cash NSE	8,394	(12.1)
Derivatives	31,001.8	14.3

Net inflows (Rs cr)

	8 May 07	% Chg	MTD	YTD
FII	(222)	(330)	143	12,835
Mutual Fund	(19)	(133)	445	(1,834)

FII open interest (Rs cr)

	8 May 07	% chg
FII Index Futures	15,319	6.5
FII Index Options	5,682	3.1
FII Stock Futures	15,201	2.6
FII Stock Options	67	14.0

Advances/Declines (BSE)

9 May 07	A	B1	B2	Total	% Total
Advances	117	277	347	741	42
Declines	91	412	435	938	54
Unchanged	3	24	44	71	4

Commodity

		% Chg		
	9 May 07	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	61.6	(1.1)	0.1	2.8
Gold (US\$/OZ)	680.5	(0.7)	0.3	2.0
Silver (US\$/OZ)	13.4	(1.0)	(3.7)	(3.7)

Debt/forex market

	9 May 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.1	8.2	8.1	7.8
Re/US\$	40.9	40.8	42.9	44.2

Sensex


Source: Bloomberg

ECONOMY NEWS

- The recent directive to treat all money flowing in through preference shares as debt, instead of equity, has pulled the plug on interest rate arbitrage opportunity available to PE investors so far. Sources said nearly 30% of all PE investments have been through subscribing to preference shares of companies. (ET)
- The Finance Ministry has clarified that FBT will be applicable on all such Esop offers where the physical transfer of shares have taken place beyond March 31, even though the option may have been exercised by the employee in March itself. (ET)
- In a blow to steelmakers, the committee on future iron ore pricing has rejected their plea for preferential pricing of ore from domestic suppliers including National Mineral Development Corporation. (ET)
- India has remained at the 27th place in competitiveness in 2007, according to a survey by IMD, a Lausanne-based premier business school. However, the country's position has improved substantially since 2003, when it was ranked 42. (BS)
- The Central Board of Direct Taxes has directed income tax establishments across the country to ensure they pay the interest due on tax refunds. Any delays in executing this will result in the department forking out additional interest on a refund. (BS)

CORPORATE NEWS

- The board of approval for SEZs has deferred a decision on giving formal clearance to the **Reliance**-promoted Navi Mumbai SEZ Pvt Ltd for a multi-product SEZ spread over 1,250 hectares in Maharashtra, while granting formal approvals to 16 proposals out of 23 cases it considered. (BL)
- The Government hopes to raise around Rs.25 bn from the auction of its remaining 10.27% equity in **Maruti Udyog**. The total number of bids received were for around 3,59,00,000 shares as against 2,96,79,709 shares on offer (1.21 times the subscription). The highest bid of Rs.850 per share for a lot of 1,00,000 shares came in from Corporation Bank. (BS)
- **Tata Power Company** is planning to raise \$600 mn to fund its recent acquisition of coal mines in Indonesia. In March, TPC had acquired 30% stake in Indonesia-based Bumi Resources' two coal mines for \$1.3 bn. (ET)
- **HCL Technologies** has said it will implement an integrated enterprise-wide IT solution for Sidbi, which will increase the bank's efficiency and reduce response time. (ET)
- Life Insurance Corporation has hiked its stake in Aditya Birla flagship **Hindalco** to over 9% through open market transactions, after its share price plunged on Novelis buyout. (BS)
- **ONGC Videsh Ltd** continues with its success in Iran's Farsi offshore block. The overseas investment arm of ONGC struck gas in the fourth well on the block recently. It has already discovered oil in the three previous wells. (BL)
- The **Future Group** has hived off its logistics department into a separate entity, Future Logistics & Solutions. The launch of an independent company adds to the different verticals in which Future Group is looking to create a presence. (ET)
- UK's Vodafone has paid a discounted price of \$10.9 bn in cash for acquiring the 52% stake held by Hutchison Telecom International in Indian mobile firm **Hutch-Essar** to complete a deal that gives it access to one of the fastest growing mobile markets. (BS)

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

FROM OUR RESEARCH TEAM

RESULT UPDATE

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AVENTIS PHARMA LTD

PRICE : Rs.1281

TARGET PRICE : Rs.1643

RECOMMENDATION : BUY

CY07E PE : 14.4x

Highlights

- Aventis has announced its results for Q1CY07, which are in line with our expectation at net profit level. However, the company has disappointed us at revenue level. Net sales rose 6.2% to Rs.2.13 bn, which was impacted by de-growth in exports sales.
- EBITDA margin for the quarter was down 180 bps to 23.2%, as material costs rose 120 bps and staff costs rose 100 bps.
- Net profit after tax grew 17.3% at Rs.433 mn, as compared to Rs.369 mn in Q1CY06, helped by higher other income and interest income.
- Overall, we expect revenue growth of about 11% for the next two years and compounded earnings growth of around 16%.

Summary table

(Rs mn)	CY06	CY07E	CY08E
Sales	8,840	9,786	10,825
Growth (%)	9.4	10.7	10.6
EBITDA	2,207	2,593	2,923
EBITDA margin (%)	25.0	26.5	27.0
Net profit	1,693	2,048	2,295
Net Margin (%)	19.2	20.9	21.2
EPS (Rs)	73.5	88.9	99.6
Growth (%)	16.7	20.9	12.1
DPS (Rs)	4.0	16.0	16.0
RoE (%)	29.9	29.7	26.5
RoCE (%)	44.9	45.8	40.8
EV/Sales (x)	3.9	2.4	2.0
EV/EBITDA (x)	15.7	9.0	7.6
P/E (x)	17.4	14.4	12.9
P/BV (x)	6.3	3.8	3.1

Source: Company & Kotak Securities - Private Client Research

De-growth in exports sales impact overall revenue growth

Net sales rose 6.2% at Rs.2.13 bn against Rs.2.0 bn in Q1CY06, which was impacted by de-growth in exports sales. Operating margin for the quarter was down 180 bps to 23.2% vs. 25% as material cost rose 120 bps and staff cost rose 100 bps. There is some impact of the higher Lantus sales, which has significantly lower gross margins (~14%). The low gross margin is a result of the product being under price control, whereby it only gets a 50% markup over imported price.

However, Aventis was reimbursed certain marketing costs from the parent, which helps shore up the operating margin of this product. Net profit after tax grew by 17.3% at Rs.433 mn, as compared to Rs.369 mn in Q1CY06, helped by higher other income and interest income.

Domestic formulation sales grew 11%, while exports dipped 10%. We expect the domestic formulation business to continue to be robust. It may grow at about 12-14% over the next two years. However, we have moderated our estimates for exports sales and expect growth in single digits. Exports accounted for about 26% of total sales in CY06 and dipped 1%. Most exports are to group companies (mainly to the CIS and EU countries), either formulations or intermediates. For the full year CY07, we expect exports to grow 6%, contributing 23% to total sales.

Overall, we expect revenue growth of 10.7% and 10.6% and earnings growth of 21% and 12.1%, in CY07 and CY08, respectively. We estimate an EPS of Rs.89 for CY07 and Rs.99.6 for CY08. We further estimate cash per share of Rs.150, after paying a dividend of Rs.32.5 per share in CY06.

Geographical Revenue Break-up

(Rs mn)	Q1-07	Q1-06	CY07
Domestic Sales (Net)	1,706	1,535	1,706
% of Sales	80	77	80
Growth in % (Y-o-Y)	11	26	-74
Exports Sales	423	470	423
% of Sales	20	23	20
Growth in % (Y-o-Y)	-10	-10	-81
Net Sales	2,129	2,005	2,129

Source: Company

Strategic brands to remain key growth driver in domestic market

Aventis has identified certain brands as strategic, based on the parent's strength in R&D and marketing, which can be leveraged to improve sales growth and margins. These strategic brands are key growth drivers in the domestic market in domestic formulations and constitute over 30% of Aventis' domestic sales.

In CY05, strategic brands as a group grew 20% and made up 32% of domestic sales, led by Lantus (83%), Rabipur (22%), Frisium (18%), Amaryl (18%), Cardace (15%), Clexane (14%) and Targocid (8%). We do not have individual brand wise growth for CY06. However, we understand that these brands are all doing well. We expect these same brands to continue to drive growth. The company expects Lantus to be its largest brand in three to four years, the world's first and only once-daily twenty-four hour basal insulin. However, insulin is under price control, and this being an imported drug, we estimate gross margins of 15%.

Parent's global R&D pipeline may benefit domestic entity

Sanofi Aventis globally has 127 new drug discovery projects in its research and development pipeline. This pipeline includes about 45 drugs in pre-clinical development, 26 in phase-I, 38 in phase-II and 18 in late stage development, that is, phase-III. It plans to file about 11 ANDAs and seven vaccines by CY08E. Although clarity on the launch of these drugs will emerge only over a period of time, we believe some of these products could be relevant for the Indian markets and are likely to be launched in India with a time lag.

Sanofi-Aventis Global R&D pipeline

No. of Drgus	Pre-Clinicals	Phase-I	Phase-IIA	Phase-IIB	Phase-III	Total
Cardiovascular	5	3	2	4	1	15
Thrombosis	4	1	1	3	1	10
Central Nervous System	10	6	3	2	7	28
Oncology	7	4	3	1	4	19
Metabolic Disorders	4	4	3	2	1	14
Internal Medicine	6	6	4	2	2	20
Vaccines	9	2	4	4	2	21
Total	45	26	20	18	18	127

Source: Sanofi Aventis Global Annual Report 2005

Valuation and Recommendation

We maintain BUY on Aventis Pharma with a price target of Rs.1643

We expect Aventis to register 11% and 16% consolidated revenues and earnings CAGR, respectively over CY07-08E. The company has posted an EPS of Rs.73.5 in CY06 and we expect EPS of Rs.89 in CY07E and Rs.99.6 in CY08E. At the current market price of Rs.1281, the stock is trading at 14.4x CY07E and 12.9x CY08E earnings. The stock has corrected significantly in the last one year and seems to reflect most risk and concerns in the current price. We maintain **BUY**.

Key risks and concerns

- Possibility of new products being routed through Sanofi's unlisted Indian subsidiary, which would be a key risk. However, Aventis' inherent marketing strengths, in our view, make it the preferred vehicle for such launches.
- Risk of likely termination of Chiron Behring JV owing to acquisition of Chiron Vaccines by Novartis.
- Slowdown or price control in domestic formulation market.

Financial Performance (Q1-CY07)

(Rs mn)	Q1CY07	Q1CY06	YoY (%)	Q4CY06	QoQ (%)	CY06	CY05	YoY (%)
Net Sales	2,129	2,005	6.2	2,176	-2.2	8,840	8,078	9.4
Expenditure	1,635	1,503		1,749		6,605	5,837	
EBIDTA	494	502	-1.6	427	15.7	2,235	2,241	-0.3
Depreciation	45	43		51		179	172	
EBIT	449	459	-2.2	376	19.4	2,056	2,069	-0.6
Interest	-	-		1		2	-	
Other Income	200	86		111		443	295	
PBT	649	545	19.1	486	33.5	2,497	2,364	5.6
Tax	216	176		139		804	913	
Reported PAT	433	369	17.3	347	24.8	1,693	1,451	16.7
Equity Shares (Mn)	23	23		23		23	23	
EPS (Rs)	18.8	16.0	17.3	15.1	24.8	73.5	63.0	16.7
EBIDTA Margin (%)	23.2	25.0		19.6		25.3	27.7	
PAT Margin (%)	20.3	18.4		15.9		19.2	18.0	

Source: Company Press Release

ANALYST MEET UPDATE

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PATEL ENGINEERING**PRICE : Rs.375****TARGET PRICE : Rs.424****RECOMMENDATION : BUY****FY08E PE : 20x**

Patel Engineering conducted its analyst meet to discuss company's business strategy and future plans to foray into thermal and hydropower projects as independent power producer and real estate development in different cities. We remain positive on the future prospects of the company and reiterate BUY with a price target of Rs.424. Following are the key takeaways of the analyst meet:

ANALYST MEET HIGHLIGHTS**Standalone financials**

(Rs mn)	FY07	FY08E	FY09E
Revenues	11,036	14,951	17,921
% change YoY		35.0	20.0
EBITDA	1,512	1,909	2,300
% change YoY		26.0	21.0
Other Income	80	200	200
Depreciation	273	393	450
EBIT	1,319	1,716	2,051
% change YoY		30.0	19.0
Interest	109	150	184
Profit before tax	1,210	1,566	1,867
% change YoY		29.0	19.0
Tax	129	470	560
as % of PBT	11.0	30.0	30.0
Profit after tax	1,081	1,097	1,307
Net income	1,081	1,096	1,307
Shares outstanding (m)	59.7	59.7	59.7
EPS (reported) (Rs)	18.1	18.4	21.9
P/E (x)	20.7	20.4	17.0
EV/EBITDA (x)	21.6	13.9	11.0

Source: Company & Kotak Securities -
Private Client Research

Robust order book and diversification towards high margin business

Order inflow momentum had been robust in FY07 with the current outstanding order book of the company at Rs.50 bn, out of which around 55% of the orders are from multipurpose hydro power projects, 25% from irrigation and 20% from transportation related projects. Patel has increased its order book diversification more towards higher margin projects and continues to remain focused on hydropower and water related projects as a future growth strategy.

Separate entity formed for real estate ventures

- Patel has formed a wholly-owned subsidiary Patel Realities India Ltd (PRIL) to carry out real estate development in cities such as Mumbai, Bangalore, Hyderabad, Chennai and other cities. The company's historical land bank of 500 acres had been accumulated at a very low cost with Hyderabad contributing 200 acres, Chennai 200 acres, Bangalore 50 acres and Maharashtra 50 acres.
- This wholly-owned subsidiary would carry out development in phases primarily in commercial, residential, IT parks etc. Phase 1 would cover Mumbai and Bangalore. In Mumbai, commercial development of 750,000 sq ft of land would either be leased out or sold depending upon the demand scenario. Simultaneously, the company would develop an IT park and residential complex on 3-5 mn sq ft of land in Bangalore. The second phase would entail development in Chennai and then Hyderabad. We expect the NPV per share of the real estate projects to be Rs.105 taking into account the phased development of all projects.
- Fund raising for real estate development is not required since the company has sufficient funds for initial development. Once the returns start coming from the first phase, company would deploy the money in the next phases of development. The management has also stated that they are not looking at listing the real estate subsidiary since they would have sufficient funds for carrying out the real estate development.

Venture into thermal power projects through IPP route

The company has also announced its plans for its venture into thermal power generation. It has signed an MoU with the government of Gujarat for setting up a thermal power plant of 1200 MW, entailing an investment of Rs.50 bn. Coal for this project would be imported from abroad and the electricity generated will be sold to power traders, captive consumers and state governments. Details of the project are

Details of the thermal IPP project

Project size	1200MW
Location	Bhavnagar, Gujarat
Investment	Rs 50bn
Debt:Equity	80:20
Development phases	3 phases (400MW *3)
Stake of strategic partner	30-40%
Phase 1 equity requirement from Patel Eng	1.5-1.8bn

Source: Company, Kotak Securities - Private Client Research

We expect the work on thermal power project to be started in a year and returns from sale of power are only expected from 2011. Hence, we are currently not factoring in the upsides from the power project in the near term. However, this foray would result in enabling the company to emerge as an independent power producer in the long-run. Hence, it would strengthen its position in the power segment.

Strong balance sheet, no fund raising required

Company had raised Rs.4.25 bn in May 2006 through a follow-on-IPO. The unutilized funds as on 31st March 2007 stands at Rs.1.58 bn. Hence, it currently has sufficient funds to invest in real estate projects as well as thermal power projects. The management does not intend to raise fund for any of these ventures since the returns from the first phase of the real estate development would be sufficient to invest in the second phase.

Tax rate lower than expected

Post the Union Budget 2007-08, the effective tax rate for construction companies has been raised to 28-33%. The company claims to be a developer. Hence, it has provided tax according to a lower tax rate. Though we do not expect any changes in Section 80IA in terms of lower tax rate, we have assumed a higher tax rate in our future estimates. Hence, any changes if accepted by the Government related to Section 80IA would result in upward revision of our profits.

Valuation and Recommendation

We recommend a BUY on Patel Engineering with a one year price target of Rs.424

At the current market price of Rs.375, the stock is trading at 20.4x and 17x on P/E multiples on FY08 and FY09 estimates. Adjusted with the subsidiary and land bank valuations, it is trading at 14x and 11.6x on P/E multiples on FY08 and FY09 estimates. The venture into the thermal power IPP would be extremely positive for Patel Engineering in the long-term. However, upsides from this venture to our estimates would only be incorporated from 2010-11. We are positive on the future prospects of the company and recommend **BUY** with a one year price target of Rs.424 based on the sum of DCF value of the core business, subsidiary valuation and land development valuations arrived through NPV methodology

NPV methodology

1 year forward price target	(Rs)	Methodology
Core business valuation	305	DCF
Subsidiary valuation	14	Relative valuation
Land valuation	105	NPV
Total(Rs)	424	

Source: Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
9-May	Cinevista Ltd	Haresh Hindocha	B	73,164	50.32
9-May	FAG Bearing	Reliance Capital Trustee Co Ltd Ac Reliance Long Term Equity	B	375,778	603.00
9-May	FAG Bearing	Deutsche Securities Maur	S	242,852	603.00
9-May	Flap Prod Eq	Religare Securities Ltd Panthe	B	49,801	302.26
9-May	Flap Prod Eq	Religare Securities Ltd Leo	B	25,000	317.30
9-May	G V Films Ltd	Lotus Global Investmnts Ltd Ac GDR	S	2,200,000	6.88
9-May	Gemstone Inv	Kishor B Chauhan	B	35,000	22.00
9-May	Gemstone Inv	Hemant Madhusudan Sheth	S	35,150	22.00
9-May	Guj Min Devl	KSK Energy Ventures Pvt Ltd	B	380,000	652.47
9-May	IPCA Lab Ltd.	Templeton Mutual Fund	B	153,000	610.00
9-May	Lakshmi Over	Morgan Stanley Dean Witter M	B	1,000,000	160.00
9-May	Lakshmi Over	Nomura Ac 157074	S	998,480	160.00
9-May	Maharastra	Vikas Jain	B	55,000	123.19
9-May	Man Indust I	ICICI Prudential Life Insurance	B	493,912	220.00
9-May	Man Indust I	Dubai Bank Pjsc	S	565,000	220.58
9-May	Mefcom Agr I	N C Jain	S	15,937	27.00
9-May	Rama Pul Pap	Pravinkumar Jhaverchand Nathwani	B	42,060	51.05
9-May	Rama Pul Pap	Krishnagopal M Chandak	S	40,000	50.71
9-May	Sayaj Hotels	Emerging India Tiger Fund	S	529,985	45.00
9-May	Somany Cram	Emerging India Tiger Fund	S	91,356	67.78
9-May	Uniply Ind	Vivek Lakshminath Mehrotra	B	115,000	37.28

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ACC Limited	886	2.8	0.9	3.0
SAIL	136	0.7	0.7	11.1
Sterlite Industries	543	1.2	0.7	0.9
Losers				
Infosys Technologies	2,002	(1.9)	(4.4)	1.5
State Bank of India	1,082	(3.4)	(3.9)	1.5
Reliance Industries	1,593	(0.8)	(3.6)	2.2

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
10-May	Finolex Cables to announce earnings; Oracle India holds press conference; Asian Paints to announce earnings and dividend; Time Technoplast holds press conf to announce IPO
11-May	Hero Honda to announce earnings and dividend
12-May	Chambal Fertilizers, SBI to announce earnings and dividend
14-May	Voltas, LIC Housing Finance and Suzlon Energy to announce earnings and dividend
15-May	Sun Pharmaceutical Industries, Tata Teleservices (Maharashtra) to announce earnings
16-May	Balaji Telefilms; JB Chemicals, Indo Rama Synthetics to announce earnings and dividend
17-May	Bajaj Auto, Wyeth Ltd, Dabur Pharma, Tata Steel to announce earnings and dividend
18-May	Federal Bank, DRL, Tata Motors to announce earnings and dividend; Hindustan Lever holds Annual shareholder meeting
19-May	Karnataka Bank to announce earnings and dividend
21-May	SAIL to announce earnings and dividend
23-May	Punjab National Bank to announce earnings and dividend
24-May	Centurion Bank of Punjab to announce earnings and dividend
28-May	Mahindra & Mahindra to announce earnings and dividend
30-May	Madras Cements, Tata Power Company to announce earnings and dividend

Source: Bloomberg

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