CLSA ASIA-PACIFIC MARKETS

CIO Notes

Investment summary

Package includes separate detailed reports: Bajaj Hindusthan & Jain Irrigation

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29 May 2006

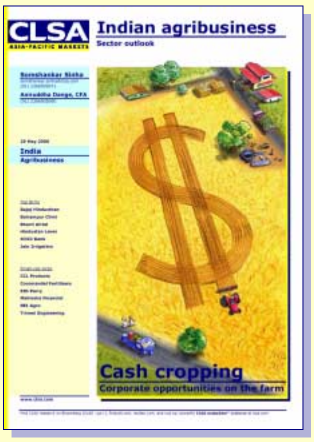
India
Agribusiness

Top BUYs

Bajaj Hindusthan
Balrampur Chini
Bharti Airtel
Hindustan Lever
ICICI Bank
Jain Irrigation

Small-cap picks

CCL Products
Coromandel Fertilisers
EID Parry
Mahindra Financial
REI Agro
Triveni Engineering



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Indian agribusiness

Cash cropping

The current revitalisation of India's agricultural sector and rural economy will open up several new growth opportunities for Indian industry. An improving policy environment, rising price realisations, improving rural infrastructure and higher investment are all driving this secular turnaround in agricultural and rural growth. Investors can play the theme through multiple sectors. BUY Bajaj Hindusthan, Jain Irrigation, Hindustan Lever, Bharti, Balrampur and ICICI Bank.

The past: A cup full of woes

- Agriculture has struggled to grow in the past two decades.
- Lack of policy direction and skewed investment priorities have constrained growth.
- The disparity between the farm and non-farm sectors has hampered overall growth.

The future: Improving outlook

- The government has started to usher in gradual structural changes in agriculture.
- Policy has shifted from a restrictive stance to recognition of the need for more collaboration and private-public partnerships.
- Liberalising market access, improving price discovery and stimulating the investment climate are some of the important changes underway.

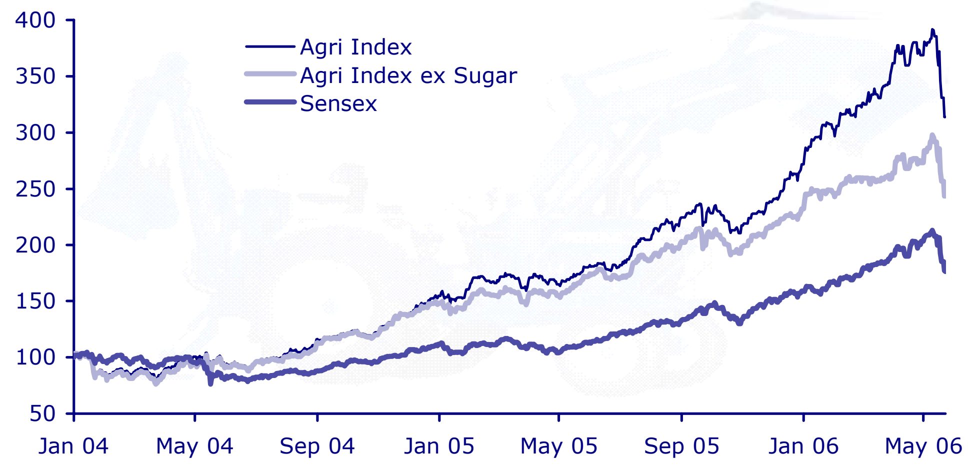
Play the rural-recovery theme

- While those with an established footprint and agri-linkages will be first to benefit, reforms will open up opportunities across the spectrum for new players.
- Consumption themes are obvious beneficiaries of increased incomes, while the agri-input space should also benefit as Indian agriculture moves up the value chain.
- Investments in rural infrastructure should also bring opportunities.
- The greatest promise, however, probably lies in food processing, high-value foods and retailing - all set to attract "big-ticket" investments.
- As enablers of change, the banks should also play an important symbiotic role.
- Our top picks here are Jain Irrigation, Bharti, ICICI Bank and HLL.

Soft commodities

- India's vast arable land and room for productivity gains suggest that the country may well emerge as the food factory of the world.
- India (along with China) may come to dominate the soft commodity space.
- Soft commodities have underperformed industrial commodities over the last several years. There are several players in India who would benefit from an uptick.
- Our top picks here are Bajaj Hindusthan and Balrampur Chini.

CLSA Agri Index



Source: CLSA Asia-Pacific Markets

Indian agri growth slowed in the last decade

Indian agriculture: Evolving into the next phase of growth

Pre-Green Revolution 1951-66	Green Revolution 1966-79	Post-Revolution 1980-2000	The next phase 2000-20
• Large-scale agrarian reforms, institutional changes and land reforms • Public investments into irrigation, credit linkages strengthened • Increase in acreage main source of output increase	• Sparked off by mid-1960s food crisis • Yield improvement was the focus • Enhanced use of higher yielding seeds, irrigation and fertilisers • Reforms took a back-seat with self-sufficiency deciding policy priorities	• Greater technological diffusion, boarder development in initial stages • Focus on industry diluted the policy rigour in agriculture • Lobby groups start to form and dictate policy and incentives	• A liberalisation of the policy outlook • Strengthening agriculture's linkages with the rest of the economy • Focus on agri-diversification and value addition • Greater market orientation

Source: CLSA Asia-Pacific Markets

Wide ranging changes are underway

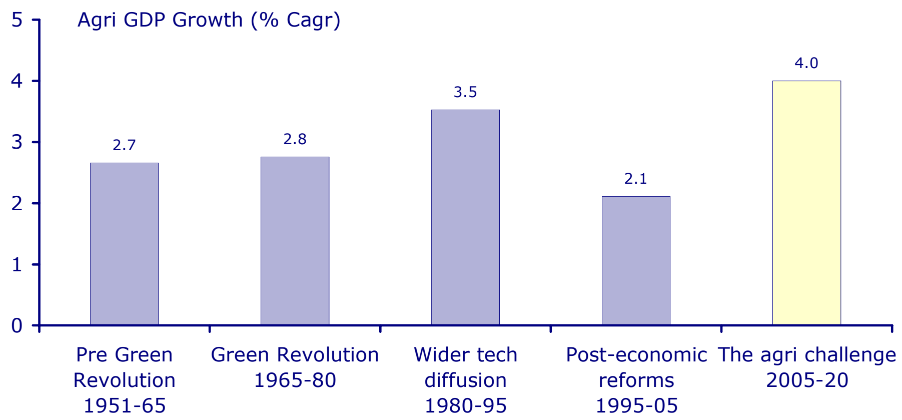
The changing face of Indian agriculture

Change in policy mindset	• A move to make laws collaborative and not prescriptive; redefining government's role as an enabler • Focus on integrating agricultural markets with the rest of the economy • Legal reforms on marketing, storage and transportation already underway • APMC Acts modified in several states to facilitate direct access to farmers and establish alternate more efficient market places • ECA getting liberalised; restrictions on storage and transportation progressively reduced
Targeted investments	• Greater and more targeted public investments in agriculture; reversing the trend of reducing public investment • Coordinated Bharat Nirman programme underway with clearly defined targets and appraisal systems to improve rural infrastructure and connectivity • Coordinated investment in strengthening the agri-supply chain in partnership with private sector; storage capacity, cold chains and market expansion on track in 2002-07 period
Greater private and corporate participation	• Building a public-private partnership in agriculture and developing linkages with industry • Policy incentives for greater participation in value added sectors like horticulture and food processing • Market instructions and incentive structures liberalised to facilitate private participation; pricing and market access also gradually opening up • Several corporates are chalking their agri-strategies
Quantum jump in credit availability and delivery	• Government has mandated low-cost credit availability for farmers for investment, crop management • Formal credit availability to agriculture doubled over FY04-07, now forms a quarter of agri-GDP • Corporate banks looking to tap into the rural credit market with innovative delivery channels • Warehouse accreditation process underway; post harvest collateralised loans have started picking up

Source: CLSA Asia-Pacific Markets

A secular turnaround

The Indian agriculture challenge - Breaking out from "trend growth levels"



Source: RBI, Chand (2005): *WTO & Indian Agriculture: Issues and Experience*, CLSA Asia-Pacific Markets

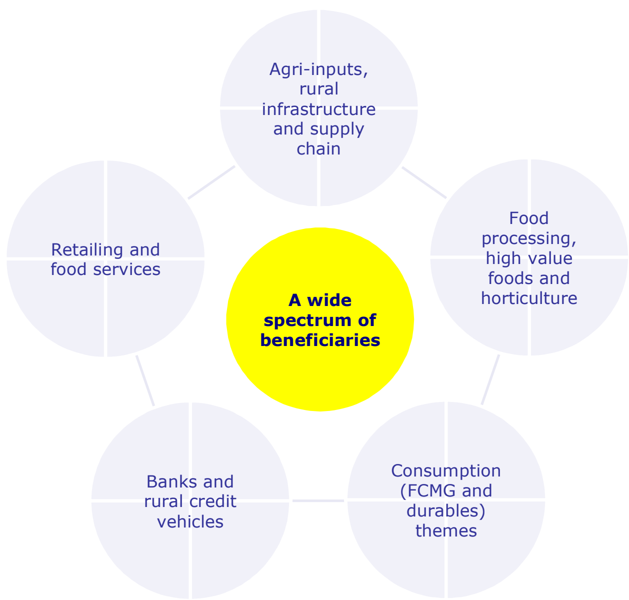
Investment in rural infrastructure and development under the Bharat Nirman

Roads US$10.7bn	Irrigation US$15.5bn	Rural electrification US$3.7bn	Rural housing US$3.3bn	Telephone connectivity US$0.7m	Drinking water US$4.3bn
• 0.2m km of roads to be constructed to link 67,000 villages. • Upgrade of existing 0.19m km to ensure full farm to market connectivity	• Create additional irrigation potential of 10m ha by 2009 • Focus on completion of ongoing projects, modernisation and extension of current schemes and implement minor and major irrigation schemes.	• Provide electricity to 125,000 villages by grid based supply or in remote and inaccessible areas through alternative technologies. • Ensure all rural poor have access to electricity • Franchisee system for service delivery	• Over 6m houses to be constructed over the next four years, 1.5m each year. • House allocation to homeless to be through village *panchayats* (local governing bodies).	• To provide c.67,000 villages with phone by Nov-07	• Every habitation to have a safe source of drinking water • 55,067 uncovered habitations to be covered by 2009. • All that have slipped back from full to partial coverage (c.280,000) (due to failure of source, water quality problems) to be addressed

Source: CLSA Asia-Pacific Markets

Food processing and horticulture are focus areas

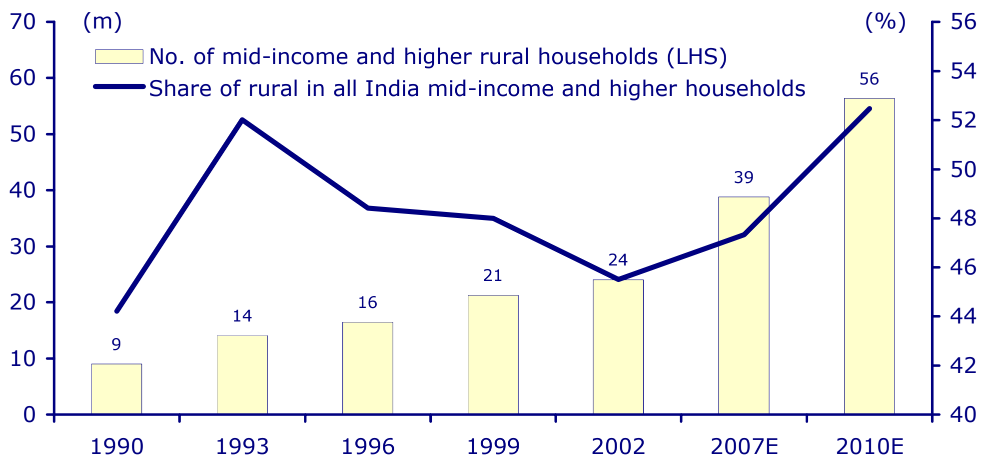
Resurgence in Indian agriculture will benefit multiple players



Source: CLSA Asia-Pacific Markets

Rising incomes will drive a secular consumption uptick

Projecting 56 million middle income rural households by 2010



Source: NCAER India Demographic Report 2002, *Businessworld*, websites

Company snapshot and valuation matrix

Name	Last price (Rs)	# sh (m)	M-cap (US$m)	Liq ($m)	EPS (Rs) 06CL	EPS (Rs) 07CL	EPS (Rs) 08CL	EPS (Rs) 2Y Cagr (%)	PE (x) 06CL	PE (x) 07CL	PE (x) 08CL	EV/E (x) 07 CL	PB (x) 06 CL	RoE (%) 06CL	Yld (%) 06CL	Perf (%) 1M	Perf (%) YTD
Bajaj Hindusthan	397	141	1,227	4.51	21.3	35.1	37.6	32.9	18.6	11.3	10.6	6.9	2.9	26.1	0.5	(25)	27
Comments	❑ India's largest sugar company and an emerging global top 10 ❑ Doubling capacity to 100,000tcd over next 6-8 months with further expansions likely ❑ Looking to tap into the sugar-ethanol model by overseas acquisitions																
Balrampur Chini	134	232	680	1.43	8.1	12.3	14.4	33.5	16.6	10.9	9.3	7.4	3.4	26.6	1.5	(28)	15
Comments	❑ India's second largest sugar company ❑ Likely to expand capacity by 30-40% to 75,000tcd ❑ Pioneer of the integrated sugar complex model																
CCL Products	471	13	137	0.05	30.2	38.9	58.3	38.8	15.6	12.1	8.1	12.1	5.4	41.0	0.6	5	2
Comments	❑ Produces and exports blended coffee; looking to double processing capacity ❑ Earnings to record 36% Cagr over FY05-08 ❑ Trading at 7.8xFY08CL, offers compelling valuation																
Coromandel Fertilisers	85	127	235	0.33	6.6	7.6	8.8	15.9	12.9	11.1	9.6	5.8	2.4	20.1	2.0	(5)	(52)
Comments	❑ India's second largest complex fertiliser company ❑ Strong volume growth in complex fertilisers expected to be mainstay ❑ Full decontrol of fertiliser sector holds margin upsides																
EID Parry	285	89	557	1.00	13.0	33.8	11.7	(5.1)	22.0	8.4	24.4	26.1	5.2	25.5	1.6	(2)	38
Comments	❑ One of India's leading sugar manufacturers; the largest in South India ❑ Expected to double capacity over the next 3 years; also setting up a 1mtpa export oriented sugar refinery in JV with Cargill ❑ Holds 68% stake in Coromandel Fertilisers and 50% stake in Parryware (India's largest sanitary-ware company) worth Rs130/share																
Jain Irrigation	237	58	302	1.14	9.7	15.0	19.8	43.1	24.4	15.8	11.9	7.8	2.7	25.3	-	(12)	14
Comments	❑ India's largest micro-irrigation player and an emerging top-5 leader in drip irrigation ❑ A perfect play on the expected investment surge in micro-irrigation ❑ All businesses in a sweet spot and expected to grow 20% Cagr+																
M&M Financial Services	228	86	430	0.06	14.6	14.1	18.3	11.9	15.6	16.2	12.5	302.7	2.8	20.6	1.5	(1)	-
Comments	❑ Rural focussed financier expected to deliver 40% loan Cagr ❑ Enjoys asset yields of over 15% as primary competition is unorganised financiers (money-lenders) ❑ Well capitalised but needs to raise NPL coverage levels																
Rei Agro	109	39	93	0.06	18.0	23.2	25.7	19.6	6.1	4.7	4.3	5.3	1.5	31.4	1.8	(33)	(40)
Comments	❑ India's largest basmati rice player ❑ Recently expanded capacity ❑ Expanding high margin brands and exports																
Triveni Ind & Eng	94	258	529	2.16	5.6	6.9	8.1	19.7	16.6	13.5	11.6	11.6	4.4	35.6	0.5	(13)	17
Comments	❑ India's third largest sugar manufacturer expanding capacity by 50% in the next 6-8 months ❑ Also has a high growth engineering division which is being demerged to unlock value																

Source: CLSA Asia-Pacific Markets

CLSA ASIA-PACIFIC MARKETS

Bajaj Hindusthan

Rs396.80 - BUY

See also separate detailed company report

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29 May 2006

India
Consumer

Reuters	BJHN.BO
Bloomberg	BJH IN

Priced on 25 May 2006
India Sensex @ 10,666.3

12M price target	Rs560.00
±% up/downside	+41%

Target set on 25 May 06

Market cap	US$1,222m
Shares in issue	141.4m
Free float (est.)	62.1%

3M average daily volume
Rs199.0m (US$4.4m)

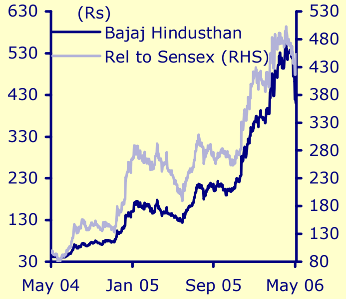
12M high/low
Rs568.80/122.80

Foreign shareholding 37.3%

Major shareholders
Promoters 37.9%
FIIs 35.9%

Stock performance (%)

	1M	3M	12M
Absolute	(24.9)	0.3	184.0
Relative	(18.0)	(4.1)	75.7
Abs (US$)	(26.3)	(2.9)	169.6



Source: Bloomberg

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Emerging sugar giant

Bajaj Hindustan, a top-10 global up-and-comer and India's largest sugar producer, is set to benefit from continued strength in sugar prices. Its profit is set to double in the next two years on the back of 80% volume expansion and value-accretive forward integration into power and alcohol, which will also make its earnings mix more resilient. A strong balance sheet, vertical integration and global scale will enable it to handle any sugar downturns. BUY for 41% implied upside to our target.

Multiple sugar price drivers

- Sugar prices have rallied to 25-year highs as rising demand, especially from emerging economies, has coincided with supply challenges on multiple fronts.
- This has seen inventory levels being drawn down for three consecutive years.
- This structural tightness will persist globally over the next couple of years as ethanol demand rises in the US, Japan and developing countries, the EU withdraws from the global trade and sugar demand remains robust.
- Although politically contentious, domestic prices in India will also respond to global signals as inventories remain at historic lows.

Emerging global leader

- The last couple of years have seen Bajaj Hindusthan (BJH) expanding capacity by 120%, transforming itself into India's largest sugar player.
- Its growth trajectory is angling higher and its crush capacity will expand a further 90% to 100,000tcd by FY08.
- By then, BJH would have 1.5-1.6mtpa of sugar output (2x FY06) making it one of the top-10 producers globally.

Resilient earnings mix

- BJH is also looking to reduce risk from its earnings stream via forward integrations into the more stable and high-margin cogen-power and alcohol-distillation business.
- This more resilient earnings mix, rapid volume growth and a healthy balance sheet also enhances our confidence in BJH's ability to handle any sugar-market downturn.

Profit to quadruple in three years

- Led by its explosive volume growth and chain integration, BJH will see profit quadruple by FY08CL over FY05 levels.
- Growth is set to continue even beyond its current announced plans with organic and inorganic opportunities already on management's radar.
- At 11.3x FY07CL PE, we remain comfortable with the valuation, rating BJH a BUY.
- Our DCF-based target price of Rs560 implies 41% potential upside for the stock.

Financials

Year to 30 Sep	04A	05A	06CL	07CL	08CL
Revenue (Rsm)	4,998	8,462	17,017	30,608	34,444
Ebitda (Rsm)	952	2,101	4,683	8,541	9,268
Net profit (Rsm)	610	1,404	2,844	5,305	5,673
EPS (Rs)	7.0	13.8	21.3	35.1	37.6
CLSA/consensus(3) (%)	-	-	107	102	87
EPS (% YoY)	115.1	97.3	54.3	65.0	6.9
ROAE (%)	47.0	37.3	26.1	29.4	24.7
Net gearing (%)	231.0	82.1	51.3	40.0	11.4
PEx (@Rs396.8)	56.8	28.8	18.6	11.3	10.6
Price/book (x)	25.2	6.5	2.9	2.3	2.0
EV/Op Ebitda (x)	42.2	25.9	15.4	8.5	7.2

Source: CLSA Asia-Pacific Markets

CLSA
ASIA-PACIFIC MARKETS

Jain Irrigation

Rs236.90 - BUY

See also separate detailed company report

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29 May 2006

India
Agricultural Products

Reuters	JAIR.BO
Bloomberg	JI IN

Priced on 25 May 2006
India Sensex @ 10,573.1

12M price target	Rs350.00
±% up/downside	+48%

Target set on 25 May 06

Market cap	US$302m
Shares in issue	58.4m
Free float (est.)	69.5%

3M average daily volume
Rs46.9m (US$1.0m)

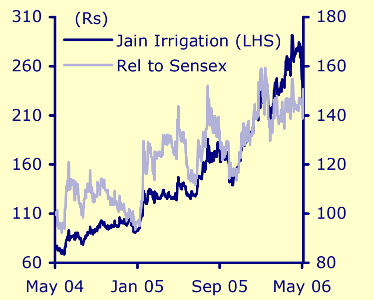
12M high/low
Rs296.00/120.00

Foreign shareholding 39.7%

Major shareholders
Promoters 30.5%
FIIs 35.2%

Stock performance (%)

	1M	3M	12M
Absolute	(11.9)	6.8	70.6
Relative	(3.0)	3.1	6.5
Abs (US$)	(13.5)	3.8	62.4



Source: Bloomberg

www.clsa.com

Watering the crops

The government's new farm mantra calls for a step-up in investment in irrigation projects to improve productivity and rural incomes. Micro-irrigation is a major focus in this initiative, with aggressive investment already underway. As India's largest supplier of micro-irrigation equipment and an emerging top-three global player, Jain Irrigation Systems is best placed to benefit. With its other businesses also in sweet spots, profit should treble by FY09CL. BUY.

Micro-irrigation: A focus area

- Although India has the highest irrigation coverage in the world, almost 60% of arable land is still rain-fed.
- Besides degrading the soil quality, the current irrigation practices are also inefficient, leading to wastage of key agri-inputs like water, fertilisers and power.
- To increase efficiency and crop productivity, a government task force has recommended a US$14bn, 10-year investment plan to increase the total micro-irrigation coverage by 20 times.

Investments well underway

- To kick-start implementation, a collaborative funding approach has evolved: central government (40%), state government (10%) and farmers (50%).
- Institutional credit access for farmers has also been streamlined to allow them to fund their share.
- The demonstrated advantages of micro-irrigation have led to a quick uptake over the past 18 months, setting the stage for more widespread use.
- With 35% of India's irrigation equipment market, Jain is best placed to benefit from this investment upsurge.

Multiple sweet spots

- Jain's other businesses (PE and PVC pipes, PVC sheets and agriprocessing) are also in sweet spots and should sustain a 26% three-year Cagr.
- While PVC sheets are gaining scale on the back of increased usage, the pipe business is set to ride the infrastructure-spending boom in India.
- Food processing is also emerging as a key growth area, also benefiting Jain.

Profit to treble by FY09CL

- Strong all-round business momentum should see Jain treble its profit to FY09CL.
- Micro-irrigation is a multiyear opportunity in India and Jain can easily maintain 15-20% earnings growth beyond our forecast period.
- Our DCF-based target price of Rs350/share implies 48% upside. BUY.

Financials

Year to 31 Mar	05A	06CL	07CL	08CL	09CL
Revenue (Rsm)	6,003	8,971	12,102	15,293	18,794
Ebitda (Rsm)	834	1,405	1,997	2,518	3,095
Net profit (Rsm)	192	566	901	1,295	1,602
EPS (Rs)	3.3	9.7	15.0	19.8	23.2
CLSA/consensus(2) (%)	-	115	98	101	-
EPS (% YoY)	5.7	194.4	55.1	31.9	16.7
ROAE (%)	11.1	25.2	28.1	22.1	18.6
Net gearing (%)	114.4	121.0	90.6	9.6	5.3
PEx (@Rs236.9)	71.9	24.4	15.8	11.9	10.2
Price/book (x)	7.0	2.7	2.2	2.1	1.8
EV/Op Ebitda (x)	22.5	14.0	10.3	7.5	5.9

Source: CLSA Asia-Pacific Markets

CLSA ASIA-PACIFIC MARKETS

Balrampur Chini

Rs134.20 - BUY

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29 May 2006

India
Agricultural products

Reuters	BACH.BO
Bloomberg	BRCM IN

Priced on 25 May 2006
India Sensex @ 10,573.1

12M price target	Rs180.00
±% up/downside	+34%

Target set on 20 May 06

Market cap	US$728m
Shares in issue	231.8m
Free float (est.)	68.1%

3M average daily volume
Rs59.7m (US$1.3m)

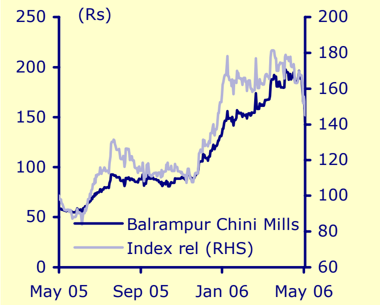
12M high/low
Rs205.00/54.00

Foreign shareholding 32.0%

Major shareholders
Promoters 31.9%
FIIs 19.3%

Stock performance (%)

	1M	3M	12M
Absolute	(28.5)	(12.9)	135.4
Relative	(21.2)	(16.0)	46.9
Abs (US$)	(29.7)	(15.4)	124.0



Source: Bloomberg

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Well diversified

As India's second-largest sugar company, Balrampur Chini Mills (BCM) is an ideal play on the continued strength in sugar prices. BCM has aggressively cut risk in its earnings model by expanding into alcohol distillation and cogeneration power plants. Further expansions in all segments remain on the anvil, with management guided by a medium-term vision to attain global scale. At 10.9x FY07CL PE, we find the risk-reward ratio favourable. We have initiated coverage with a BUY rating.

Sugar prices to remain firm

Sugar prices have rallied to 25-year highs as rising demand has run up against supply challenges on multiple fronts. As a result, inventory levels have been drawn down for three years in a row, with a concomitant rise in sugar prices. This structural tightness in the sugar market will persist over the next couple of years, keeping prices firm. Domestic prices in India will also respond to global signals as inventories remain at historic lows despite a strong production re-bound in FY06 and an expected bumper crop in FY07.

Plans to reach 75,000tcd of sugarcane crushing

BCM is one of India's best-known sugar mills with 47,500 tonnes crushed per day (tcd), making it the country's second-largest sugar company. It expanded capacity by 64% in FY06 and plans to increase it by another 15% in FY07, taking total capacity to 54,500tcd – more than double FY03 levels. The company is looking to grow further and management is aiming for 75,000tcd of capacity over the next 18 months. A formal announcement for at least a part of this additional expansion is likely over the next few weeks.

Integrated sugar complex pioneer in India

BCM is a pioneer of the integrated sugar complex model in India, with alcohol/ethanol capacity as well as modern cogen power capacity for grid-exports. As much as 25% of Ebit comes from these two segments; BCM's risk is considerably lower than its peers. This risk-reduced earnings model, proven management (widely regarded as one of the finest in the Indian sugar industry) and a robust balance sheet also enhances our confidence about the company's ability to handle an unforeseen sugar-price downturn.

Undemanding valuations

Led by sugar capacity expansion and high-margin power exports, BCM should deliver Rs3.1bn in FY07CL profit - 2.5x FY04 levels. With further growth a distinct possibility and sugar prices set to trend up, its 10.9x FY07CL PE is undemanding. BUY for 34% implied upside to our target price of Rs180.

Financials

Year to 30 Sep*	04A	05A	06CL	07CL	08CL
Revenue (Rsm)	6,994	8,133	11,172	16,911	19,542
Ebitda (Rsm)	1,234	2,395	2,944	4,481	5,306
Net profit (Rsm)	605	1,251	1,940	3,061	3,576
EPS (Rs)	3.2	5.9	8.1	12.3	14.4
EPS (% YoY)	104.9	86.1	36.1	52.6	16.8
ROAE (%)	23.6	32.5	26.5	28.2	26.7
Net gearing (%)	191.3	75.0	39.6	16.2	(7.4)
PEx (@Rs134.2)	42.1	22.6	16.6	10.9	9.3
Price/book (x)	9.2	6.3	3.4	2.8	2.3
EV/Op Ebitda (x)	24.9	14.5	12.6	7.9	6.1
Dividend yield (%)	0.8	1.2	1.5	1.9	2.2

Source: CLSA Asia-Pacific Markets. *07CL, 08CL are 12m ended Sep. 04A, 05A, 06P are 12m ended Mar.

CCL Products

Rs471.1

Walk on the Wild Side

ST	LT	Risk
↑↑↑	↑↑↑↑	●●●

Scores are out of five

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25 May 2006
India Sensex @ 10,573.15

India

Agricultural products

Reuters	CCLP.BO
Bloomberg	CCLP IN

Market cap
Rs6.27bn (US$137.06m)

Shares in issue
13.3m

Estimated free float
71%

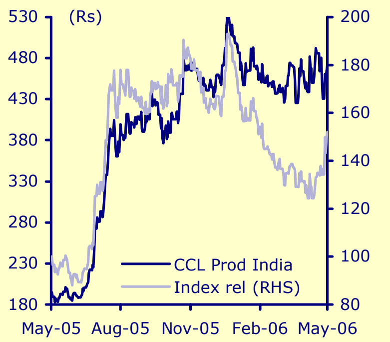
3M average daily volume
Rs2.07m (US$0.05m)

12M high/low
Rs534.8/172.1

Major shareholder (s)
Indian promoters 28.9%
Foreign collaborators 18.4%

Stock performance (%)

	1M	3M	12M
Absolute	4.9	2.1	143.6
Rel index	15.6	(1.5)	52.0
Absolute (US$)	3.0	(0.7)	131.9



Source: Reuters

www.clsa.com

The right brew

CCL Products produces and exports blended coffee. With the sales volume set to double over the next two years, we expect margins to improve and forecast net profit to realise a 36% Cagr over FY05 08. With strong return ratios, credible management and an attractive valuation of 8x FY08CL, we expect the stock to deliver superior returns over the next 12-18 months.

A niche profitable player

CCL Products has a strong track record of processing and exporting instant coffee to over 30 countries. It produces a wide range of different grades/qualities (in granulated and powder form) based on the customised requirements of its customers. During FY06, CCL Products sold nearly 7,000t of instant coffee - more than doubling its volumes in the last three years. The company tries to keep its margins stable by booking green coffee beans back to back with orders received.

Volumes to drive growth

A producer of spray-dried coffee, CCL Products is expanding its spray-dry facilities and setting up facilities to produce freeze-dried and liquid coffee. We estimate the company's production to grow to 13,000t in FY08 - a near doubling of volumes in two years. We also expect margins to improve with the introduction of freeze-dried and liquid coffee into the product mix, which fetch higher prices.

Strength is in marketing

We understand that the coffee business globally is family dominated, with the exception of a few MNCs, and the strength and entry barriers in this sector are in marketing and not in production. The Indian promoters have been in this industry for decades and have strong marketing linkages, along with foreign collaborators.

Compelling valuations

With forecast earnings growth of 36% over FY05-08, ROE over 40% and trading at 8x FY08CL PE, CCL Products presents a compelling investment opportunity in the small/mid-cap space.

Consolidated financials

Year to 31 March	2004A	2005A	2006CL	2007CL	2008CL
Revenue (Rsm)	2,204	2,495	2,996	3,664	4,801
Revenue growth (%YoY)	273.8	13.2	20.1	22.3	31.0
Net profit (Rsm)	271	307	402	518	775
EPS (Rs)	20.4	23.1	30.2	38.9	58.3
EPS growth (%YoY)	403.5	13.2	31.0	28.7	49.7
PEx (@Rs471.1)	22.8	20.1	15.4	11.9	8.0
Dividend yield (%)	0.4	0.7	0.6	0.6	0.6
ROE (%)	66.1	45.8	41.0	37.0	38.7
PB (x)	11.47	7.71	5.33	3.78	2.61
Net gearing (%)	30	65	72	78	44
EV/Op Ebitda (x)	26.9	20.1	15.6	12.1	7.9

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets

Coromandel Fertilisers

Rs84.8

Walk on the Wild Side

ST	LT	Risk
↑↑	↑↑↑↑	

Scores are out of five

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25 May 2006
India Sensex @ 10,573.15

India

Agricultural products

Reuters	CORF.BO
Bloomberg	CRFT IN

Market cap
Rs10.77bn (US$235.47m)

Shares in issue
127.0m

Estimated free float
30%

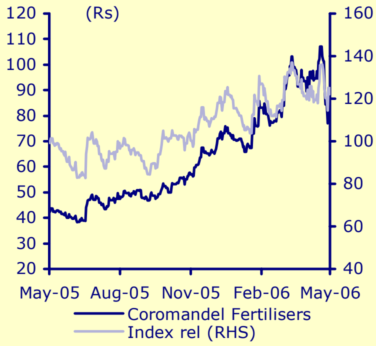
3M average daily volume
Rs14.04m (US$0.31m)

12M high/low
Rs180.0/64.0

Major shareholder (s)
Promoters: 70.2%
FII: 0.9%

Stock performance (%)

	1M	3M	12M
Absolute	(5.3)	1.9	(19.9)
Rel index	4.4	(1.7)	(50.0)
Absolute (US$)	(6.9)	(1.0)	(23.8)



Source: Reuters

www.clsa.com

Stable growth

As one of India's largest complex fertiliser companies, Coromandel Fertilisers (CFL) is an ideal play on India's rising fertiliser usage and a shift towards a more uniform nutrient mix. As India's most efficient manufacturer with a strong market franchise, CFL will also be among the first to benefit from an eventual full deregulation of the fertiliser industry. At 10x FY07CL PE, valuations are undemanding.

A large fertiliser market

Though it is the third-largest fertiliser producer and consumer, India's per hectare fertiliser consumption remains among the lowest in the world. This is starting to shift as policy changes should see a more modern production management evolve.

Higher demand growth for complex fertilisers

Not only is India's consumption of fertilisers set to increase, but the nutrient mix should also become more balanced as the skew towards nitrogenous (N) fertilisers like urea is corrected. As a leading manufacturer of complex (ie, NPK – nitrogenous, phosphate, potassium) fertilisers, CFL is one of the best placed to benefit from this trend; volumes have already recorded a 18-20% Cagr over the last three years.

An efficient player with a strong market franchise

Although the fertiliser industry in India is heavily regulated, complex fertilisers are less susceptible. As India's lowest cost producer of complex fertilisers (backward integration operations, strategic raw material tie-ups, captive jetty, power and desalination plants), CFL is able to derive efficiency gains in today's environment and would also be among the first to benefit when the industry is fully deregulated.

Valuations undemanding

CFL has achieved a 40% earnings Cagr over the last two years and should sustain its growth trajectory at 15%+ on the back of volume expansion as well as continued efficiency improvements. Stripping out its 45% stake in Godavari Fertilisers (a leading DAP fertiliser company), CFL trades at 10x FY07CL PE and the risk-reward appears favourable.

Consolidated financials

Year to 31 March	2004A	2005A	2006CL	2007CL	2008CL
Revenue (Rsm)	12,116	15,251	18,469	21,548	25,606
Revenue growth (%YoY)	110.3	25.9	21.1	16.7	18.8
Net profit (Rsm)	431	692	836	969	1,122
EPS (Rs)	3.8	5.4	6.6	7.6	8.8
EPS growth (%YoY)	38.3	41.7	20.7	15.9	15.9
PEx (@Rs84.8)	21.5	15.2	12.6	10.9	9.4
Dividend yield (%)	1.6	1.8	2.1	2.4	2.7
ROE (%)	15.2	19.1	20.1	20.3	20.3
PB (x)	3.11	2.73	2.37	2.05	1.78
Net gearing (%)	57	9	10	(3)	(14)
EV/Op Ebitda (x)	10.2	9.1	7.4	5.6	4.6

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets

CLSA
ASIA-PACIFIC MARKETS

EID Parry

Rs285.3

Walk on the Wild Side

ST	LT	Risk
↑↑↑	↑↑↑↑	💣💣

Scores are out of five

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25 May 2006
India Sensex @ 10,573.15

India

Agricultural products

Reuters	EIDP.NS
Bloomberg	NEID IN

Market cap
Rs25.46bn (US$556.83m)

Shares in issue
89.2m

Estimated free float
61%

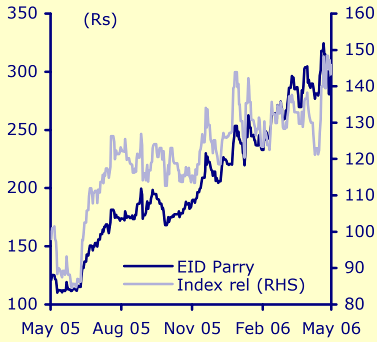
3M average daily volume
Rs45.77m (US$1.02m)

12M high/low
Rs365.2/108.1

Major shareholder (s)
Promoters: 39.3%
FII: 7.6%

Stock performance (%)

	1M	3M	12M
Absolute	(1.9)	22.6	133.7
Rel index	8.1	18.2	45.8
Absolute (US$)	(3.6)	19.1	122.5



Source: Reuters

www.clsa.com

Global ambitions

Over the next three years, EID Parry looks to expand sugar capacity by 70%, while reducing earnings risk through aggressive co-product integrations. It has also tied up with Cargill to build a 1mtpa export-oriented sugar refinery. Stripped off its 68% stake in Coromandel Fertilisers (Rs85/share) and 50% stake in Parryware (Rs30/share), EID trades at 14.7x FY08CL PE.

EID Parry is among India's largest sugar play

With 14,500tcd of sugarcane-crushing capacity in four mills in South India, EID is one of India's leading sugar manufacturers. Although sugar production in South India has been volatile due to a higher degree of dependence on the monsoon, and recoveries are also lower, EID can crush for a longer period of time than its northern Indian peers (200 vs 160 days), allowing it to produce more sugar per unit of capacity.

Capacity expansion and integration

EID is increasing capacity by 70% to 24,500tcd over the next three years via brownfield expansions and it aims to more than double sugar production by increasing recoveries and days of crush. Greenfield projects and acquisitions also remain on the radar. EID is also aggressively integrating to add value to co-products and expects to increase power capacity by 3x and distillery capacity by 6x by FY09. By this time, management expects to derive 40% of Ebit from alcohol and cogen power (cf.15% now), making it India's most de-risked sugar company.

Making a mark on the global sugar trade

India is well placed to emerge as a supply hub to serve the sugar deficit in South East Asian markets and EID has announced a 51:49 JV with Cargill of the US to set up a 1mtpa export-oriented sugar refinery on India's east coast (the largest in South East Asia) to tap into this opportunity.

Multiple investment triggers

Adjusted for its 68% stake in Coromandel Fertilisers (Rs85/share) and its 50% stake in Parryware (Rs30/share), EID trades at 15x FY08CL PE. Newsflow on more capacity additions over the next six to eight months and sustained buoyancy in sugar prices could be stock-price triggers.

Consolidated financials

Year to 31 March	2005A	2006A	2007CL	2008CL	2009CL
Revenue (Rsm)	7,172	9,350	7,452	10,046	18,838
Revenue growth (%YoY)	27.9	30.4	(20.3)	34.8	87.5
Net profit (Rsm)	1,043	1,158	3,019	1,043	1,817
EPS (Rs)	11.7	13.0	33.8	11.7	20.4
EPS growth (%YoY)	141.1	11.1	160.6	(65.4)	74.2
PEx (@Rs285.3)	24.4	22.0	8.4	24.4	14.0
Dividend yield (%)	0.9	1.6	1.6	1.8	1.9
ROE (%)	27.4	25.5	48.9	13.5	21.1
PB (x)	6.07	5.20	3.42	3.19	2.76
Net gearing (%)	26	24	16	74	58
EV/Op Ebitda (x)	25.2	21.2	26.1	19.9	10.4

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets

Mahindra Finance

Rs228.4

Walk on the Wild Side

ST	LT	Risk
↑↑	↑↑↑	

Scores are out of five

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25 May 2006
India Sensex @ 10,573.15

India

Financial services

Reuters	MMFS.BO
Bloomberg	MMFS IN

Market cap
Rs19.64bn (US$429.63m)

Shares in issue
86.0m

Estimated free float
32%

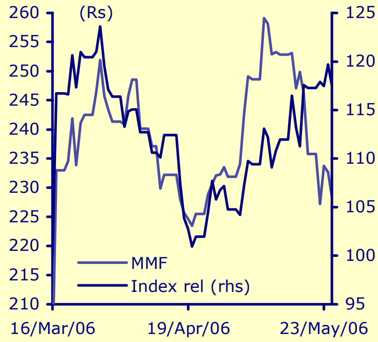
3M average daily volume
Rs115.58m (US$2.58m)

12M high/low
Rs277.0/200.0

Major shareholder(s)
Promoters 67.7%
ESOS 3.1%

Stock performance (%)

	1M	3M	12M
Absolute	(1.0)	na	na
Rel index	9.1	na	na
Absolute (US$)	(2.7)	na	na



Source: Reuters

www.clsa.com

Niche credit

Mahindra Finance (MFS) is a uniquely positioned financier with 99% of its branches in rural India. Its niche affords it lucrative loan yields (averaging over 15%), enabling it to generate a 3% ROA – one of the best in the system. With strong growth coming through in rural India and a comfortable capital adequacy after its recent equity issuance, MFS should realise a robust 20% earnings Cagr. The valuation is reasonable at 12.7x FY08CL earnings.

A unique franchise

With virtually all its 305 branches in rural/semi-urban areas, MFS enjoys a unique franchise. It has evolved from being a captive financier of Mahindra & Mahindra (M&M) vehicles to one of the largest non-banking financiers in rural India. Its customer base has been growing at over 40% for the past couple of years and it is a prime beneficiary of rising rural incomes. It is expanding its product portfolio from automobiles (tractors, cars, UVs) to personal loans and mortgages for its 0.4m client base.

High ROA business

MFS currently enjoys average loan yields of over 15%, which are by far the highest in the Indian financial system as its prime competition comes from informal rural financiers (ie, money lenders). Its favourable AA credit ratings has kept its funding costs reasonable (FY06CL:7-8%), enabling it to earn 8% spreads and deliver a superior 3% ROA. ROE, which dropped after the recent IPO, is set to expand as it leverages this capital.

Risks & concerns

MFS has securitised assets to manage capital and boost income (30% of FY06 PBT). However, with recent changes in regulations requiring securitisation income to be amortised over the asset life (vs booking upfront), this revenue stream will ease. MFS is also vulnerable to a liquidity dry-up as it is dependent on wholesale borrowings, where the rate rise is generally steeper and could pressure margins. Gross nonperforming loan (NPL) levels are also relatively high in this business (averaging 6%). While the high asset yields offset this higher risk, we believe NPL coverage is low at 50% and needs to be stepped-up.

Financials

Year to 31 March	2004A	2005A	2006CL	2007CL	2008CL
Op income (Rsm)	1,904	2,533	3,770	4,533	5,874
Op income growth (%YoY)	27.4	33.0	48.8	20.2	29.6
Net profit (Rsm)	651	823	1,083	1,211	1,574
EPS (Rs)	10.7	11.7	14.6	14.1	18.3
EPS growth (%YoY)	47.3	9.2	24.6	(3.6)	29.9
PEx (@Rs228.4)	21.7	19.8	15.9	16.5	12.7
Dividend yield (%)	1.2	1.5	1.5	1.7	1.9
PB (x)	5.60	4.59	2.88	2.57	2.25
ROA (%)	3.73	3.20	2.70	2.17	2.23
ROE (%)	28.5	27.1	20.6	16.4	18.9
CAR (%)	11.2	17.8	18.2	13.9	12.8

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets

REI Agro

CLSA ASIA-PACIFIC MARKETS

Rs109.3

Walk on the Wild Side

ST	LT	Risk
↑↑↑	↑↑↑	4 of 5

Scores are out of five

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25 May 2006
India Sensex @ 10,573.15

India

Agricultural products

Reuters	REAG.BO
Bloomberg	REIA IN

Market cap
Rs4.24bn (US$92.83m)

Shares in issue
38.8m

Estimated free float
56%

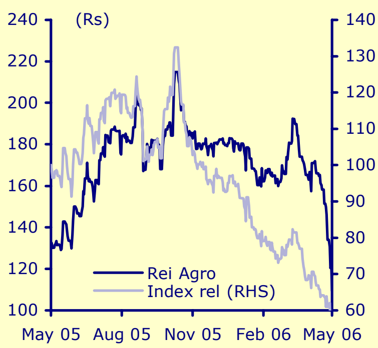
3M average daily volume
Rs2.61m (US$0.06m)

12M high/low
Rs218.9/106.5

Major shareholder (s)
Promoters: 44.2%
FII:24.1%

Stock performance (%)

	1M	3M	12M
Absolute	(33.0)	(32.7)	(17.6)
Rel index	(26.2)	(35.0)	(48.6)
Absolute (US$)	(34.2)	(34.6)	(21.6)



Source: Reuters

www.clsa.com

Basmati rice major

REI Agro is a leading basmati rice miller in India with a 13-14% market share. Having grown capacity rapidly over the past few years, it is now focusing on expanding profitability. With its recent 57% capacity expansion, the company should double its profit in two years. At 5.2x FY07CL PE, the stock trades at a third of the market's multiples and discounts most of the downside risks.

Growing demand for basmati rice

Rising incomes and changing dietary preferences should prompt a sustained shift in India's rice consumption from normal to premium-priced basmati rice. As the world's largest producer of basmati rice, India also has the opportunity to tap into the growing export market - primarily to the Middle East, the EU and the USA.

One of the largest players

As one of the largest basmati rice millers in India (13-14% market share) and a focused basmati rice processor, REI is ideally placed to benefit from the strong demand growth traction in the domestic as well as international markets. It has ramped up capacity aggressively to become a leading player in the domestic market and now has 487kta of capacity, along with a 230kta parboiling unit.

Improving profitability

After ramping up capacity rapidly, REI is now focused on improving profitability. It has the widest profit margin of its peers and will attempt to expand this as it focuses on process efficiencies, branding, higher-margin exports and rice ageing. Its Ebitda margin in rice processing doubled in two years to 13.5% in FY06 and we see overall Ebitda margins trending up to 16-17% levels as these initiatives boost profitability further.

Capital intensive, but also very cheap

REI's earnings will double in two years on the back of the recent capacity expansion as well as rising margins. The business should keep soaking up cash, however, as the company invests in its branding and rice-ageing initiatives. The business remains geared to weather-related volatilities, but at 5.2x FY07CL PE, the risk-reward appears favourable.

Consolidated financials

Year to 31 March	2004A	2005A	2006CL	2007CL	2008CL
Revenue (Rsm)	6,027	8,450	9,447	12,077	14,050
Revenue growth (%YoY)	21.2	40.2	11.8	27.8	16.3
Net profit (Rsm)	161	379	649	988	1,186
EPS (Rs)	5.7	12.0	18.0	23.2	25.7
EPS growth (%YoY)	77.5	110.8	49.4	29.4	10.6
PEx (@Rs109.3)	21.1	10.0	6.7	5.2	4.7
Dividend yield (%)	0.6	1.2	1.7	3.3	3.5
ROE (%)	40.9	43.6	31.4	25.8	22.5
PB (x)	7.6	3.2	1.6	1.2	1.0
Net gearing (%)	319	298	169	121	119
EV/Op Ebitda (x)	16.8	10.5	7.4	6.2	5.7

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets

CLSA
ASIA-PACIFIC MARKETS

Triveni Eng & Ind

Rs93.8

Walk on the Wild Side

ST	LT	Risk
↑↑↑	↑↑↑	4

Scores are out of five

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25 May 2006
India Sensex @ 10,573.15

India

Agricultural products

Reuters	TREI.BO
Bloomberg	TRE IN

Market cap
Rs24.18bn (US$528.79m)

Shares in issue
257.9m

Estimated free float
29%

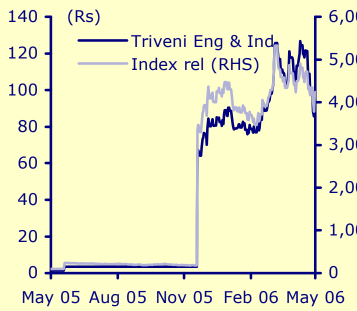
3M average daily volume
Rs98.39m (US$2.19m)

12M high/low
Rs130.0/1.4

Major shareholder (s)
Promoters: 44.2%
FII: 11.6%

Stock performance (%)

	1M	3M	12M
Absolute	(13.1)	18.7	nm
Rel index	(4.2)	14.6	nm
Absolute (US$)	(14.6)	15.4	nm



Source: Reuters

www.clsa.com

Multiple triggers

As India's third-largest sugar play, Triveni should benefit from continued strength in sugar prices. The company is expanding capacity by 50% in the next six to eight months and integrating forward to add value to co-products. It is also a market leader in the small turbines segment with strong growth traction. Triveni will de-merge its engineering division (turbines and gears) to unlock value. At 13.5x FY07 PE, the stock trades in line with peers.

Sugar prices to remain strong

Sugar prices should remain firm on rising demand and multiple supply challenges (ie, EU withdrawal of subsidies and cane diversion for ethanol). After being drawn down for three straight years, global inventories should remain tight, keeping prices high. Domestic prices in India will also respond to global signals as inventories remain at historical lows.

India's third-largest sugar manufacturer

Triveni, with four sugar plants in northern India, looks to benefit from continued strength in sugar prices. It recently announced expansion projects that will take its sugarcane-crushing capacity to 61,000tcd across seven mills. Triveni is also integrating forward by adding a 160klpd distillery and increasing its grid-export power capacity to 55MW.

Engineering division being demerged

Triveni also has a strong franchise in the sub-18MW turbine market where it commands 65% market share. It is expanding its product range as well and intends to move up to higher capacity turbines. The business has scaled up rapidly with despatches set to reach 700MW of turbines (cf. 228MW in FY05). The engineering division as a whole now makes up 21% of Ebit; Triveni recently announced a demerger of this division into a separate company for more focused business execution.

Demerger and sugar price outlook will increase

We expect the demerger of the engineering business (Rs20-25/share) to unlock value over the next 9-12 months. Stripping out the engineering division (Rs20-22/share), the core sugar company trades at 13.5x FY07CL PE - largely in line with its sugar-sector peers.

Consolidated financials

Year to 31 March	2004A	2005A	2006CL	2007CL	2008CL
Revenue (Rsm)	5,928	9,611	11,920	15,199	20,288
Revenue growth (%YoY)	(9.3)	62.1	24.0	27.5	33.5
Net profit (Rsm)	45	995	1,315	1,786	2,085
EPS (Rs)	0.2	4.8	5.6	6.9	8.1
EPS growth (%YoY)	–	2,615.4	18.0	22.7	16.7
PEx (@Rs93.8)	517.9	19.1	16.2	13.2	11.3
Dividend yield (%)	0.1	0.4	0.5	1.1	1.6
ROE (%)	3.7	63.5	35.6	28.7	26.7
PB (x)	15.56	9.92	4.30	3.38	2.73
Net gearing (%)	313	221	81	153	124
EV/Op Ebitda (x)	57.2	13.8	13.6	11.4	8.4

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets