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Updates

ITC: Acquires Technico—strengthening backend for FMCG business

News Roundup

Corporate

- Blackstone Group, the US-based global private equity fund with US\$85 bn in assets under management, today agreed to acquire 50.1% stake in Bangalore-based apparel exporter Gokaldas Exports. (BS)
- Sobha Developers will sign a memorandum of understanding with the government of Kerala for setting up an integrated township in the state with an investment of Rs50 bn. (FE)
- Pantaloon Retail India has decided to issue 4 mn equity shares and 21.2 mn warrants, aggregating Rs12.6 bn, on preferential basis to the promoter group, private investors and select employees of the company. (BS)
- Ranbaxy Laboratories has obtained approval from USFDA to manufacture and market hydrocodone bitartrate and acetaminophen pain relieving tablets; the drugs presently have annual sales of US\$390 mn and would be launched by November, 2007. (BL)
- Direct-to-home (DTH) operator Tata Sky and leading southern broadcaster Sun TV have reached an out-of-court settlement on channel sharing and pricing based on which Tata Sky will offer 15 of Sun's channels in its package for the southern states. (BL)
- India's leading CDMA-based mobile services provider Reliance Communications has added 1.46 mn mobile customers during the month of July, taking its total subscriber base to about 320 mn. (BL)

Economic and political

- The Prime Minister, Dr Manmohan Singh, reiterated his Government's commitment to the development of nuclear energy while pursuing a sound energy security strategy. (BL) Oil and gas production in the country is likely to be affected as almost 45,000 oil officers of public sector companies have decided to go on an indefinite strike. (ET)
- An Assocham survey revealed that high attrition rate, which was till now confined to IT and ITeS sector, has come to characterize other branches of the service industry such as finance, retail and engineering. (BS)
- The central government today raised the minimum export price (MEP) of onions by a record US\$100/ton to US\$445/ton in a move to discourage exports and check the sharp rise in domestic price of onions in the last few weeks. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	20-Aug	1-day	1-mo	3-mo
Sensex	14,428	2.0	(7.3)	0.1
Nifty	4,209	2.5	(7.8)	(1.2)
Global/Regional indices				
Dow Jones	13,121	0.3	(5.3)	(3.1)
Nasdaq Composite	2,509	0.1	(6.7)	(2.7)
FTSE	6,079	0.2	(7.7)	(8.4)
Nikkei	15,968	1.5	(12.1)	(9.1)
Hang Seng	22,476	4.1	(3.5)	7.4
KOSPI	1,745	0.8	(12.0)	7.2
Value traded - India				
		Moving avg, Rs bn		
	20-Aug	1-mo	3-mo	
Cash (NSE+BSE)	155.5	166.7	154.2	
Derivatives (NSE)	400.8	480.7	298.4	
Deri. open interest	852.2	906.3	585.0	

Forex/money market

	Change, basis points			
	20-Aug	1-day	1-mo	3-mo
Rs/US\$	41.0	-	68	30
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	(2)	18	(18)

Net investment (US\$m)

	16-Aug	MTD	CYTD
FIs	(705)	1,759	9,530
MFs	58	111	(112)

Top movers -3mo basis

Best performers	Change, %			
	20-Aug	1-day	1-mo	3-mo
Thermax	627	1.3	1.4	49.4
Rashtriya Chem	53	19.0	(1.7)	35.9
Chambal Fert	45	19.9	25.3	32.9
Reliance Energy	725	0.8	5.4	31.5
Gujarat Narm Vly	135	13.2	2.7	29.8
Worst performers				
Polaris	115	(1.2)	(12.3)	(33.4)
Escorts	88	1.9	(21.6)	(32.1)
Balrampur Chini	55	(2.2)	(21.4)	(28.2)
HPCL	229	1.6	(9.7)	(24.9)
IOC	383	1.9	(10.9)	(23.8)

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Consumer Products**ITC.BO, Rs156**

Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	225
52W High -Low (Rs)	196 - 140
Market Cap (Rs bn)	584.6

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	123.7	145.0	161.8
Net Profit (Rs bn)	27.0	31.1	35.9
EPS (Rs)	7.2	8.3	9.6
EPS gth	20.4	15.4	15.1
P/E (x)	21.7	18.8	16.3
EV/EBITDA (x)	13.7	11.6	9.8
Div yield (%)	2.0	2.0	2.3

Shareholding, June 2007

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	-	-	-
FIs	14.0	1.2	(0.7)
MFs	2.7	1.3	(0.5)
UTI	11.9	48.0	46.2
LIC	13.5	6.1	4.2

ITC: Acquires Technico—strengthening backend for FMCG business

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- **Acquisition of Technico Pty Ltd to ensure supply of potato seeds.**
- **Technico's focus on emerging markets.**
- **Retain Outperform with a target price of Rs225/share.**

ITC Ltd has announced the acquisition of 100% stake in Technico Pty Ltd, a producer of high-grade potato seeds. Technico is a small company with a turnover of Rs319 mn in FY2007. The acquisition through Russell Credit (ITC's subsidiary) gives ITC access to high-grade potato seed technology and supply chain expertise needed for procurement of potatoes for its salty-snacks products. Though the company has not disclosed the cost of acquisition, we believe that the transaction is small and is unlikely to have a material impact on the company. We retain our OP rating with a target price of Rs225/share.

Acquisition of Technico Pty Ltd to ensure supply of potato seeds. ITC through its wholly owned subsidiary Russell Credit has acquired Technico Pty Ltd, Australia. Technico is in the business of producing high-grade potato seeds and provides assistance in the development of potato supply chain solutions to the processing sector. Technico also utilizes its network to source and supply both seed and commercial potatoes to commercial users. The acquisition holds relevance for the potato snack business of ITC as Bingo launched in March 2007 is set to become a Rs1 bn per annum brand. We note that Pepsico (Frito Lays brand) has in the recent past faced difficulties in procurement due to the poor quality of seeds used.

Technico's focus on emerging markets. Technico's seed production facilities are operational in Australia, China, India, US and Mexico. Technico Pty Ltd was a subsidiary of Chambal Fertilisers and Chemicals Ltd. (77.65% equity held through Chambal Biotech Ltd). Technico reported an EBIDTA of Australian \$ (AU\$) 1.15 mn during FY2007 on revenues of AU\$8.97 mn. The Indian business of Technico (Chambal Agritech Ltd) represents around 65% of the companies overall business with revenues of AU\$6.2 mn.

Retain Outperform with a target price of Rs225/share. We retain our outperform rating on the stock with a target price of Rs225/share, as the acquisition is very small and is unlikely to impact our earnings estimates. We believe the acquisition will strengthen the backend supply chain for ITC's fast-growing FMCG business and will also benefit from the existing agri-business of ITC. ITC has develop a robust model of agri-procurement and retailing through its eChopal and Choupal Sagar network.

Financial details of Technico Pty Ltd and its subsidiaries for FY2007

(Rs mn)

	Sales	PAT	Networth	Total assets
Technico Pty Ltd, Australia	34	(44)	311	350
Chambal Agritech Ltd, India	217	31	77	507
Technico Horticulture(Kunming) Co Ltd, China	66	1	29	62
Technico Technologies Inc, Canada	2	(10)	(33)	26
Total	319	(22)	384	945

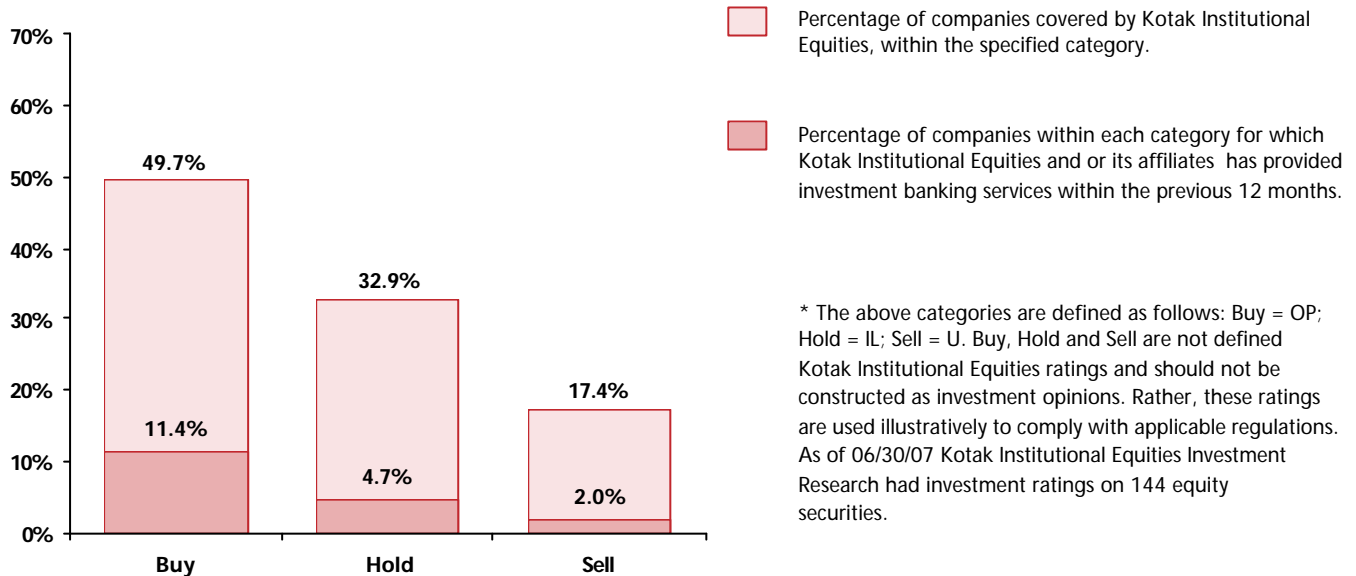
Note: Technico ISC Pty Ltd, Australia; Technico Group America Inc, USA and Technico Asia Holdings Pty Ltd, Australia are non-operational

Source: Company data, Kotak Institutional Equities

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Aman Batra."

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Source: Kotak Institutional Equities.

As of June 30, 2007

Ratings and other definitions/identifiers

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Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

Our target price are also on 12-month horizon basis.

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