

March 23, 2007
FOR PRIVATE CIRCULATION
Equity

	22 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,308	2.8	(2.4)	(1.2)
Nifty	3,876	3.0	(1.6)	0.1
Banking	6,827	4.3	1.0	(0.0)
IT	3,642	2.1	(1.7)	3.4
Healthcare	3,554	0.4	(1.6)	(5.1)
FMCG	1,710	2.7	(4.3)	(10.1)
PSU	5,904	3.0	0.5	(0.2)
CNX Midcap	4,838	1.6	(3.2)	(3.6)
World indices				
Nasdaq	2,451.7	(0.2)	(2.5)	2.1
Nikkei	17,419	1.5	(4.0)	2.0
Hangseng	19,690	0.9	(4.9)	2.0

Value traded (Rs cr)

	22 Mar 07	% Chg - 1 Day
Cash BSE	3,434	30.3
Cash NSE	7,865	34.7
Derivatives	39,944	21.7

Net inflows (Rs cr)

	21 Mar 07	% Chg	MTD	YTD
FII	165	21	(1,071)	4,520
Mutual Fund	(56)	(140)	(1,301)	(2,861)

FII open interest (Rs cr)

	21 Mar 07	% chg
FII Index Futures	14,011	(1.4)
FII Index Options	10,016	7.0
FII Stock Futures	16,608	2.6
FII Stock Options	58	4.8

Advances/Declines (BSE)

	22 Mar 07	A	B1	B2	Total	% Total
Advances	178	479	529	1,186	65	
Declines	38	219	341	598	33	
Unchanged	2	14	31	47	3	

Commodity

	22 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	61.9	0.3	1.2	(0.9)
Gold (US\$/OZ)	664.0	(0.0)	(2.9)	6.8
Silver (US\$/OZ)	13.5	0.6	(8.0)	6.6

Debt/forex market

	22 Mar 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.00	8.11	7.95	7.60
Re/US\$	43.75	43.45	44.25	44.58

Sensex


Source: Bloomberg

ECONOMY NEWS

- Short selling of stocks in the spot market will now become a reality for institutions. In a significant move, the Securities & Exchange Board of India has authorized FIIs, mutual funds and other institutions to short sell stocks. (ET)
- The Union Cabinet has cleared the revised Press Note 5, paving the way for 74% FDI in telecom compared to the current 49%. The revised guidelines include a series of additional security norms, especially on the controversial issue of remote access. (ET)
- Companies will now have to mandatorily get their initial public offers graded, the Securities and Exchange Board of India has decided. In doing so, the Indian capital markets regulator has created, perhaps, an international precedent of sorts. (BL)
- Cement manufacturers have refused to cut prices even after a second meeting with Finance Minister P Chidambaram. However, there appear to be two opinions among manufacturers. (BL)
- Planning Commission Deputy Chairman Montek Singh Ahluwalia warned that any extraordinary steps to contain inflation may prove counter-productive. (BS)
- India has threatened to walk out of the \$7-bn Iran-Pakistan-India gas pipeline project if Islamabad did not bring down the fee it wants to charge for allowing flow of natural gas from Iran to India. (BS)

CORPORATE NEWS

- **Dabur India** is close to acquiring more than 60% in Singapore-based consumer goods company Unza Holdings for Rs.6-6.75 bn. If the deal is signed and sealed, it will boost Dabur's consolidated sales by 22% and make it the third largest FMCG company after **HLL** and **ITC**. (ET)
- **Reliance Industries** has announced that an MoU has been signed with Philadelphia-based \$8-bn Rohm & Haas to jointly explore construction of a world-scale acrylic-monomer complex in Jamnagar. (ET)
- **Hindalco Industries** paid \$12 per share more than its nearest rival bidder to acquire US-based Novelis, in a six month long battle that finally ended in February this year, when Hindalco said its \$6.9-bn pitch to buy Novelis had been declared successful. (ET)
- **Punjab Lloyds** has secured the Uran Trombay Gas Pipeline project on an EPC basis from ONGC. The contract has been bagged in consortium with its wholly-owned subsidiary PT Punjab Lloyds Indonesia. The value of the contract is Rs.2.42 bn. (BL)
- **Bharti Airtel** has overtaken Hutchison Essar with regard to its average revenue per user. According to the latest data by the Cellular Operators Association of India, Bharti had an ARPU of Rs.343.17 per month for the quarter ended December 2006, ahead of Hutchison Essar's Rs.340.15 per month. (ET)
- Jewellery manufacturer **Rajesh Exports** is set to launch its own brand of diamond jewelry for the international market. It is in talks with international retailers for this venture, which will also mark the company's foray into diamond jewelry manufacturing. (BS)
- **Nirma's** acquisition of pharma company Core Healthcare has finally received a green signal. The Gujarat High Court has approved the merger of Core Healthcare's Sachana unit in Gujarat, with Nirma rejecting opposition from minority lenders. (ET)
- **Reliance Retail** is all set to expand its operations in South India with the opening of 11 'Reliance Fresh' pilot stores at one go across Bangalore on Friday. (ET)

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

Awadhesh Garg
awadhesh.garg@kotak.com
+91 22 6634 1406

PFIZER INDIA LTD (Rs725, P/E CY07E 16.8x, BUY)

- Pfizer has announced its quarterly results for Q1CY07, which are slightly disappointing at the revenue level. Net sales rose 6.2% to Rs.1.55 bn. Net profit after tax grew by 14.1% to Rs.283 mn.
- The pharma and animal healthcare business grew 10% while consumer healthcare saw a decline of 7%. The trader's boycott in Maharashtra has resulted in a slowdown in December 2006 sales.
- The management will take a decision on option on sales of the OTC division in a couple of months.
- The company is likely to launch a couple of new products by Q3CY07 in the cardiovascular segment.
- Income from clinical development operations will be under pressure due to severe competition from Korea, Malaysia and Indonesia.

Disappointing revenue performance, net sales grew 6.2%

Pfizer has announced its results for Q1CY07 ending on February 28 2007, which are slightly disappointing at the revenue level. Net sales during the period have risen by a moderate 6.2% to Rs.1.55 bn from Rs.1.46 bn. The pharma and animal healthcare business grew 10% while the consumer healthcare business saw a decline of 7%. Pfizer has said that a trader's boycott in Maharashtra has resulted in a slowdown in December 2006 sales. Further, the company has maintained that it will grow at a higher than market growth rate of about 10% in CY07.

Net profit after tax grew 14.1% at Rs.283 mn, compared to Rs.248 mn in Q1CY06, leading to earning per share of Rs.9.5. The key attributes for higher growth in net profit were sustained higher operating margin, and lower VRS expenses amortization.

At operating levels, Pfizer has maintained margins at 24% due to operational efficiencies, better cost management, change in product mix and new product launches, which eventually led to good growth at the net profit level. Net profit margin has improved by 120 bps to 18.2%.

Summary table

(Rs mn)	CY06	CY07E	CY08E
Sales	6,929	7,699	8,423
Growth (%)	10.0	11.1	9.4
EBITDA	1,658	1,926	2,171
EBITDA margin (%)	23.9	25.0	25.8
Net profit	1,063	1,289	1,559
Net Margin (%)	15.3	16.7	18.5
EPS (Rs)	35.6	43.2	52.3
Growth (%)	50.3	21.3	20.9
DPS (Rs)	12.5	12.5	12.5
RoE (%)	24.6	24.8	24.6
RoCE (%)	41.5	38.1	37.2
EV/Sales (x)	3.4	2.3	2.0
EV/EBITDA (x)	14.4	9.1	7.6
P/E (x)	25.3	16.8	13.9
P/BV (x)	6.2	4.2	3.4

Source: Company & Kotak Securities - Private Client Research

Financial Performance (Year-end November)

(Rs mn)	Q1CY07	Q1CY06	YoY (%)	Q4CY06	QoQ (%)	CY06
Net Sales	1,550	1,460	6.2	1,709	-9.3	6,624
Expenditure	1,176	1,104	6.5	1,447	-18.8	5,232
Raw Material Costs	394	333		291		1,296
Purchase of finished goods	130	145		233		940
Staff Costs	220	247		272		1,023
Manufacturing & Other Costs	432	380		651		1,973
EBIDTA	374	355	5.3	261	43.3	1,391
Depreciation	27	31		31		131
EBIT	347	324	7.0	230	50.7	1,261
Interest	-	0		1		1
Other Income	120	121		120		476
PBT	467	445	4.9	350	33.4	1,735
Tax	158	139		121		563
Reported PAT	309	306	0.9	228	35.2	1,173
Extra-ordinary Items	(26)	(58)		(58)		(115)
Adjusted PAT	283	248	14.1	170	66.3	1,057
Equity Shares (Mn)	29.8	29.8		29.8		29.8
EPS (Rs)	9.5	8.3	14.1	5.7	66.3	35.4
EBIDTA Margin (%)	24.1	24.3		15.3		21.0
PAT Margin (%)	18.2	17.0		10.0		16.0

Source: Company

Animal healthcare business likely to witness stable growth while clinical research services will be under pressure

The animal healthcare business is growing stably where it has shown 10% growth to Rs.170 mn. The management expects the animal health business to grow at around 10% in CY07. The income from clinical research and development service will be under pressure due to severe competition at the international level along with the entry of new players from countries like South Korea, Malaysia, Philippines and Indonesia.

Company likely to decide option on sales of OTC division in a couple of months

The parent company had sold off its global consumer healthcare business to Johnson & Johnson for US\$16 bn in June 2006. Consequently, the global closure was fixed on December 20 2006. This is barring a few markets like India for the divestiture of the aforesaid business. The division had a range of products like Benadryl, Listerine and Gelusil that have got huge brand equity. The consumer healthcare business generates revenue of around US\$4 bn globally.

The consumer health product division of Pfizer India had generated revenues of Rs.1.8 bn in 2005, which is around 30% of the net sales. The management has not commented on the issue and its impact on sales and likely compensation to Pfizer India. The board is evaluating the various options available for the smooth restructuring of the said business and is likely to decide option on sales of OTC division in couple of months. Though the outcome of the agreement and its implications on domestic business is not yet clear, we believe Pfizer India may get compensation around two to three times of division sales.

Sale of Chandigarh property for Rs.2.78 bn to result in one-time gain in Q2CY07

The company has sold its Chandigarh property comprising land, buildings, movable plants and machineries and other assets on an 'as is where is' basis for a total consideration of Rs.2.78 bn. Earlier, the company had received an advance of Rs.278 mn and the sale was awaiting Government clearances. The company has now received the balance consideration of Rs.2.5 bn. The profit on sale of these assets will be accounted in Q2CY07 and will result in a one-time gain.

Valuation and recommendation

We expect the company to register a 10% and 21% consolidated revenues and earnings CAGR over CY07-08E, respectively. The company has posted an EPS of Rs.35.6 in CY06 and we expect the normalized EPS to grow by 21% each in CY07E and CY08E to Rs.43.2 and Rs.52.3, respectively. At the current market price of Rs.725, the stock is trading at 16.8x CY07E and 13.9x CY08E earnings. The stock has corrected significantly from our previous **HOLD** recommendation. We are **upgrading** the stock to a **BUY** with a one-year target price of Rs.965.

We have arrived at a target price of Rs.965, based on the average of DCF and earning multiple valuation method. DCF valuation with a WACC of 12.3% and terminal growth rate of 3% yields fair value of Rs.885. While, the two-year forward multiple works to 20x to CY08 EPS of Rs.52.3 yields Rs.1045. The average price works out to Rs.965, which provides a 33% upside over CMP.

We upgrade Pfizer India to a BUY with a price target of Rs.965

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
22-Mar	Aditya Forge	Sainath Herbal Mkt	B	196,600	11.25
22-Mar	Aditya Forge	Neil Information	S	197,300	11.25
22-Mar	Arvind Chem	Anju Gaggar	B	20,500	27.50
22-Mar	Axon Infotec	Alliance Intermediateries	B	3,424	278.00
22-Mar	Den So India	Ruchit B Patel	B	423,674	67.05
22-Mar	Den So India	Minal B Patel	S	291,041	67.05
22-Mar	Den So India	Hardik B Patel	S	132,633	67.05
22-Mar	DMC Inter	Incap Financial Ltd	B	17,500	58.15
22-Mar	DMC Inter	Niranjan Lal Gupta	S	14,000	58.80
22-Mar	Emmso Intern	Waterbase Mercantile Comp	B	28,938	62.00
22-Mar	Emmso Intern	Abdul Razick Magbool Khan	S	28,725	62.73
22-Mar	Gayatri Proj	Buena Vista Fund Managememe	B	110,000	234.93
22-Mar	Gayatri Proj	Goldman Sachs Investments	S	145,000	234.83
22-Mar	Hanung Toys	DSP Merrill Lynch Mutual	S	154,000	130.34
22-Mar	Jagjanani	Brijesh Patel	B	200,000	22.52
22-Mar	Jagjanani	Dharmesh Patel	B	200,001	22.20
22-Mar	Jagjanani	Jhaveri Trading And Inves	S	200,000	22.53
22-Mar	Jupiter Bios	Riteline Mercantile Compa	S	45,000	125.03
22-Mar	Kadamb Const	Qurrum Marketing Services	B	15,000	34.35
22-Mar	Mefcom Agr I	Master Finlease Ltd	B	15,600	56.05
22-Mar	Modipon Ltd	Mavi Investment Fund Ltd	B	135,000	81.50
22-Mar	Modipon Ltd	Pinnacle Trades and Inves	S	135,000	81.50
22-Mar	Nikki Glob F	Vinod Kumar Dhingra	S	240,000	11.48
22-Mar	Nikki Glob F	Tribhuvan Loona	S	30,000	11.48
22-Mar	Nikki Glob F	Renu Dhingra	S	130,000	11.48
22-Mar	Osian Lpg Bo	Sanjay Vrajajal Kothari	S	77,920	11.78
22-Mar	Riga Sugar C	Sushilkumar Jiwrajka	B	25,000	33.00
22-Mar	Riga Sugar C	Sab Electronics Ltd	S	25,000	33.00
22-Mar	Scenario Med	Share Point	B	1,550	106.95
22-Mar	Simplex Trad	Surendra Kumar Somany HUF	S	14,850	130.00
22-Mar	SQL Star Int	Industrial Investment Tru	B	79,196	40.25
22-Mar	SQL Star Int	Dhananjaya Money Management	S	75,000	40.23
22-Mar	Sujana Metal	Morgan Stanley and Co Int	B	615,000	124.14
22-Mar	Sulzer India	Bjd Securities Pvt Ltd	B	164,284	307.86
22-Mar	Sulzer India	Gandiv Investment Pvt Ltd	S	161,342	308.00
22-Mar	Sumeet Indus	Cosmo Corporte Services Ltd	S	110,103	23.89
22-Mar	Sumeet Indus	ISF Securities Ltd	S	102,609	23.73
22-Mar	Vimal Oil Fo	Kaushik Shah Shares Sec P	B	50,000	43.94
22-Mar	Vimal Oil Fo	Abishek D Bafna	S	27,500	43.15
22-Mar	Vimal Oil Fo	Purnima Singhi	S	33,634	42.87
22-Mar	Vyapar Inds	GRD Securities Ltd	S	91,500	116.76
22-Mar	Wearology Ltd	Apeksha Chopra	B	100,000	72.58
22-Mar	Wearology Ltd	Purvi Mehta	B	50,000	73.41
22-Mar	Wearology Ltd	Sainath Herbal Mkt	S	128,231	73.07
22-Mar	Welsp Guj Sr	Welspun Trading Ltd	B	3,000,000	102.75
22-Mar	Welsp Guj Sr	Gyanshankar Invst and Tra	S	3,000,000	102.75
22-Mar	Xpro India-Pms	Sutlej Cotton Mills Suppl	B	400,000	36.60
22-Mar	Xpro India-Pms	The Indiaman Fund Mauriti	S	404,498	36.60

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	852	5.0	17.4	1.7
Reliance Ind	1,375	2.6	9.8	2.4
Bharti Airtel	780	2.5	7.1	1.2
Losers				
GAIL India	277	(1.0)	(0.4)	0.4
Grasim Industries	2,083	(1.0)	(0.4)	0.3
Zee Ent	248	(1.5)	(0.3)	1.2

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
23-Mar	Wipro to announce interim dividend; Thomas Cook to consider rights offer and dividend; Wire & Wireless to consider rights offer
24-Mar	Corporation Bank to announce interim dividend
26-Mar	Aventis Pharma to announce audited earnings and dividend
28-Mar	Polaris Software to announce second interim dividend
29-Mar	Ranbaxy Laboratories to announce earnings and dividend; Abbot India to announce earnings

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Vinay Goenka	Auto, Auto Ancillary, Sugar	+91 22 6634 1291	vinay.goenka@kotak.com
Saday Sinha	Economy, Banking	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

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