



## Economy News

- ▶ THE government is considering selling part of its stake in some public sector firms to large institutional investors through auctions instead of public offers, after a couple of mega follow-on public offers that hit the market last fiscal failed to enthuse retail investors. (ET)
- ▶ The Central Board of Excise and Customs, the apex indirect taxes body, has amended a three-year old notification to tighten the norms for import of products that have intellectual property rights protection. (ET)

## Corporate News

- ▶ THE fertilizer ministry has turned down state-owned **SAILs** Rs 700 bn project for setting up a steel plant and an urea manufacturing unit in the premises of a sick Jharkhand PSU (ET).
- ▶ Healthcare chain **Apollo Hospitals** plans to bring in separate strategic partners for its business units-Apollo Wellness and Apollo Highway as part of an ongoing group restructuring to focus on core businesses. (ET)
- ▶ **TATA Motors** has kick-started a move to jointly develop engines and vehicles with its UK subsidiary, Jaguar Land Rover, more than two years after its \$2.3-billion acquisition of the British marques (ET)
- ▶ **JK CEMENT** has initiated talks with a few banks to raise debt of over Rs 8 bn to part finance setting up its first overseas plant in the Middle East (ET).
- ▶ In a bid to get out of the trouble it faces in CBM (coal-bed methane) development in eastern India, **ONGC** is exploring several options, ranging from farming-out operating stakes to roping in technology partners in three of its six CBM blocks (BL).
- ▶ **TajGVK**, a joint venture between Tata-owned Indian Hotels and the Hyderabad-based GVK group, is going slow on its earlier plan to put up a luxury hotel in Bangalore. The construction of this hotel has been deferred by four years (BS).
- ▶ **Indian Oil Corporation (IOC)** and **Bharat Petroleum Corporation Ltd (BPCL)** are planning to bid for Shell India's retail outlets (BS).
- ▶ IT services firm **HCL Technologies** on Sunday said it has signed a mega outsourcing agreement with Saudi Arabia's Al Majdouie Group to provide end-to-end services for a period of seven years for an undisclosed sum (ET).

### Equity

	9 Jul 10	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	17,834	1.0	4.5	(0.1)
NIFTY Index	5,352	1.0	4.6	0.2
BANKEX Index	11,061	1.3	2.9	2.4
BSET Index	5,478	1.1	6.1	2.6
BSETCG INDEX	14,652	0.2	5.2	2.6
BSEOIL INDEX	10,633	0.3	4.5	2.3
CNXMcap Index	8,301	0.8	5.2	4.2
BSESMCAP INDEX	9,271	0.4	7.3	2.0
<b>World Indices</b>				
Dow Jones	10,198	0.6	(0.1)	(7.3)
Nasdaq	2,196	1.0	(2.1)	(10.6)
FTSE	5,133	0.5	(0.6)	(11.2)
Nikkei	9,585	0.5	(1.2)	(14.8)
Hangseng	20,379	1.6	2.9	(7.6)

### Value traded (Rs cr)

	9 Jul 10	% Chg - Day
Cash BSE	3,988	9.5
Cash NSE	13,648	20.4
Derivatives	66,349.0	(7.3)

### Net inflows (Rs cr)

	8 Jul 10	% Chg	MTD	YTD
FII	1191	3283	499	30,744
Mutual Fund	1	(97)	(86)	(8,214)

### FII open interest (Rs cr)

	8 Jul 10	% Chg
FII Index Futures	16,483	(1.4)
FII Index Options	50,020	1.0
FII Stock Futures	30,324	2.4
FII Stock Options	1,358	3.7

### Advances / Declines (BSE)

	9 Jul 10	A	B	S	Total	% total
Advances	142	1,025	239	1,406	53	
Declines	61	888	204	1,153	43	
Unchanged	1	82	15	98	4	

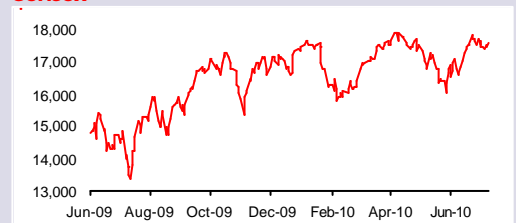
### Commodity

	9 Jul 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	76	(0.2)	2.9	(9.9)
Gold (US\$/OZ)	1,212	1.1	(1.4)	4.6
Silver (US\$/OZ)	18	0.9	(0.8)	(0.8)

### Debt / forex market

	9 Jul 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.65	7.60	7.61	NA NA
Re/US\$	46.66	46.87	47.03	44.29

### Sensex



**INITIATING COVERAGE**

**Huzaifa Suratwala A**  
huzaifa.a@kotak.com  
+91 22 6621 6306

**AUROBINDO PHARMA LIMITED (AURO)**

**PRICE : Rs.944**  
**TARGET PRICE : Rs.1120**

**RECOMMENDATION : BUY**  
**FY11E: P/E: 10.1**

**Aurobindo Pharma Limited (AURO) with the largest USFDA approved facilities in India; Basket of 120 ANDA approvals and strategy to penetrate further in Europe and ROW besides the US is on a strong footing to become a leading player in the generics space. Improving revenue mix with higher sales of formulations and dossier incomes would ensure margin expansion in the coming quarters. Strong relationships with MNCs like Pfizer could in our opinion enable the company to succeed in the CRAMS segment. We expect the company's adjusted profits to grow at a CAGR of 19.5% over FY10-12. Furthermore, improved cashflows and healthier balance sheet further warrant PE expansion.**

**Stock details**

BSE code	: 524804
NSE code	: AUROPHARMA
Market cap (Rs bn)	: 54.9
Free float (%)	: 43.1
52-wk Hi/Lo (Rs)	: 990/406
Avg. daily volume (m)	: 208998 (BSE+NSE)
Shares o/s (m)	: 58.2

**Summary table - Consolidated**

(Rs bn)	FY10	FY11E	FY12E
Sales	35,754	40,573	45,495
Growth (%)	16.2	13.5	12.1
EBITDA	6,254	9,338	10,891
EBITDA margin (%)	17.5	23.0	23.9
Recurring PAT	4,536	5,429	6,476
Net debt (cash)	20,815	18,232	18,029
EPS (Rs)	81.4	93.4	111.4
Growth (%)	336.8	14.7	19.3
CEPS	132.6	135.0	160.2
DPS (Rs)	5.0	5.0	6.0
ROE (%)	29.6	25.3	23.3
ROCE (%)	16.2	14.2	14.8
EV/Sales (x)	2.1	1.8	1.6
EV/EBITDA (x)	11.7	7.8	6.7
P/E (x)	11.6	10.1	8.5
P/Cash Earnings	7.1	7.0	5.9
P/BV (x)	3.4	2.6	2.0

Source: Company,  
Kotak Securities - Private Client Research

**We initiate coverage on AURO with BUY recommendation with a price target of Rs.1120**

**Key Investment Arguments**

- ❑ **Focus on the huge generic opportunity** - Generics market is AUROs key focus area. Globally the market for generics is growing at a robust pace of ~18%, which is higher compared to the sales of patented drugs. Rising healthcare costs and diminishing pipelines of patented products is helping the growth of the global generics market. AURO has established presence in US, UK which forms over 75% of generics market. Increased capacities and filings would enable AURO to augment its generic sales in key markets as well as RoW.
- ❑ **Improving sales mix** - AURO has successfully changed its product mix from being a dominant API player to an integrated formulation manufacturer. The share of formulations has steadily increased to over 50% of revenues in FY10 compared to about 16% in FY06. Also in APIs the share of low value oral SSPs have gone down, giving way to high value sterile cephalosporin and ARV. We expect the EBIDTA margins to inch up to over 24% in the coming quarters with higher contributions from formulation sales.
- ❑ **Established Pfizer relationships** - US pharma major Pfizer and AURO have inked a deal wherein the former would source a portfolio of products comprising largely solid oral and a few sterile betalectums for sale across the world. With large approved facilities, AURO could attract MNCs who are looking at increasing outsourcing of formulations and API. Income from dossier sales and CRAMS could boost revenues in the medium to long term.
- ❑ **Strong operational cashflows** - Strong revenue growth with a richer sales mix in the recent past has helped the company improve its financial position considerably. The D/E ratio has come down from 2:2 in FY07 to under 1:2 in FY10. The company is now in a position to repay its outstanding FCCBs through a mix of internal accruals and other low cost borrowing options. This should further improve per share ratios of the company.
- ❑ **Valuations** - In the recent past, AURO had been trading at a lower PE multiples, even lower than some of its peers. In our opinion, higher share of formulations and healthier balance sheet could be instrumental in re-rating the stock. At the CMP of Rs 944, the stock trades at a PE of 10.1/8.5x its estimated FY11/12 earnings of Rs93.4/Rs111.4 respectively. We initiate coverage on AURO with a BUY for a target of Rs 1120. At the target the stock shall trade at a PE of 12x FY11 earnings giving an upside of over 18% in the next 6-9 months.

## EVENT UPDATE

Ruchir Khare

ruchir.khare@kotak.com

+91 22 6621 6448

## ENIL

PRICE: Rs. 195

TARGET PRICE: Rs.180

RECOMMENDATION: REDUCE

FY10E EV/EBITDA: 12.7x

ENIL board approves sale of 83.44% stake in Times Innovative Marketing limited (TIML)- OoH business subsidiary to the promoter group for a cash consideration of Rs450m implying EV of Rs 1.1 bn.

The promoter group would also account for the loans of Rs 425 mn advanced by ENIL to TIML taking total consideration to Rs 875 mn.

OoH SBU was incurring losses since past few quarters primarily due to large fixed cost base associated with higher license fees in the DIAL/MAIL property depressing the EBITDA line of the company.

The recent development took a negative toll on the stock which shed 13% in value terms. We consider this as negative for ENIL as OoH business was expected to achieve turnaround in FY11E on the back of renegotiation in the airport license fees, increase in airport footfalls and improving macros leading to price and volume increase for the SBU.

Post sale of TIML stake, company would continue to hold the radio and event management business that currently contributes roughly 65% of the consolidated business.

Despite having a strong debt free balance sheet for the standalone business, we expect that the estimated opportunity loss to the tune of Rs 248.24 mn expected EBITDA in FY11E vis-à-vis EBITDA loss of Rs 151 mn in FY10 is meaningful.

While we are positive on the standalone radio business given the substantial improvement in the economy, driving corporate spending on advertising leading to increase in pricing and volumes for the company, we change our recommendation to 'Reduce' (accumulate earlier) based on the SOTP valuation with a revised price target of Rs 180 (Rs 245 earlier).

## Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	2,283	2,300	2,645
Growth (%)	(44.8)	0.8	15.0
EBITDA	499	588	750
EBITDA margin (%)	21.9	25.6	28.4
Net profit	98	243	310
EPS (Rs)	2.0	5.1	6.5
Growth (%)	(149.5)	149.3	27.5
CEPS	6.1	8.1	9.7
DPS (Rs)	0.0	0.0	1.0
ROE (%)	2.5	5.2	6.3
ROCE (%)	1.8	3.7	6.3
EV/Sales (x)	4.2	4.1	3.6
EV/EBITDA (x)	19.0	16.2	12.7
P/E (x)	88.2	41.1	32.3
P/Cash Earnings	34.5	25.8	21.7
P/BV (x)	2.2	2.1	2.0

Source: Company, Kotak Securities - Private Client Research

**Event Update; ENIL approves 83.44% stake sell in TIML at an EV of Rs 1.1 bn including cash realization of Rs 450 mn and Rs 425 mn to set off the advances made by the company to the OoH subsidiary**

- TIML that holds the OoH business of ENIL including two airport properties-DIAL and MAIL has been a pressure point for the company since past several quarters.
- In FY10 ENIL reported consolidated sales and EBITDA of Rs 4220 mn and Rs 436.7 mn respectively out of which TIML contributed Rs 1919.7mn to the topline. TIML reported an EBITDA loss of Rs 151.19 mn in FY10 on account of higher license fees corresponding to DIAL and MIAL properties coupled with hampered revenue growth due to lower airport footfalls.
- Analyzing from the macroeconomic perspective implied by SBUs Q4FY10 results we forecast a sharp recovery in the OoH business estimating 19% YoY increase in revenues for the subsidiary in FY11E. Our sanguine outlook also stems from increasing airport footfalls which we believe will trickle down to the newer forms of media like radio and OoH with a lag.
- We opine that the OoH business should post enhanced profitability with renewal of DIAL property with favourable terms pertaining to the new revenue sharing model in FY11E. Moreover, we also believe that the renewal of MIAL is critical for the overall growth of the business.
- In our projections we have build an EV of Rs 2.7 mn (Rs 57.5 per share) to the OoH business of the company.

**Revenues for standalone business is likely to grow by 15% YoY in FY11E on back of sharp up turn in advertising trend; higher operating leverage would result in meaningful operating margin expansion for the company**

- We remain positive on the radio business and expect a 15% YoY growth in the topline for FY11E with a significant margin expansion of +280 bps in the operating margins.
- We note radio revenues have registered YoY growth in last two consecutive quarters after stagnating/contracting over the earlier four quarters. We see this as a reflection of an improvement in the advertising environment and ENIL's strong radio franchise. We also believe this growth is largely attributable to volumes coming back even as pricing remains under pressure for nascent mediums like radio.
- We also see the likelihood of a price increase only towards Q2FY11E given a stable economic environment and sanguine outlook for corporate profit growth sustaining and, ENIL's radio business retaining its positioning.
- Through 2HFY09-FY10, within advertiser segments, BFSI, real estate and automobiles have visibly cut budgets given the headwinds these segments face. Segments like insurance, DTH, media (entertainment channels) though continued to invest given the high competitive intensity prevalent within them.
- Further we would be closely monitoring the advertising spending pattern of various sectors especially BFSI and real estate to estimate the future growth of the company.
- While we see an up tick in spend trends CY10 onwards, we also opine that traditional media (print, TV) are likely to be early beneficiaries of an improved macro versus alternate platforms like radio, outdoor.
- We expect EBITDA of Rs 750 mn up 27%YoY for FY11E and PAT of Rs 310.2 mn implying an EPS of Rs 6.5 for the radio business.
- Weak advertising revenue growth and/or economically unfavorable bidding in radio's Phase 3 licensing (when it materializes) could pose risks to earnings/cash flow in the standalone business.

**Valuations are likely to remain subdued in absence of the exponential growth and scalability that OoH was expected to ascertain in future; estimate radio business value at Rs 9 bn**

**We recommend REDUCE on ENIL with a revised price target of Rs.180**

- We have valued ENIL using relevant EV/EBITDA and EV/Sales multiples along with the DCF valuation methodology for the radio business. The same entail a fair value of Rs 180 (Rs 245 earlier) for the stock.
- We believe that the stock is likely to under perform the peer group and the broader market in near to medium term. We recommend reduce (accumulate earlier) on the ENIL stock with a price target of Rs 180.

## Bulk deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
9-Jul	Accurate Trans	Manoj Dua HUF	B	15,271	110.4
9-Jul	Accurate Trans	Dheerajkumar Lohia	B	15,888	112.0
9-Jul	Birla Shloka	Sarswati Vincom Ltd	S	104,937	69.3
9-Jul	Gujarat Capital	Pr Vyapaar Private Limited	B	300,000	115.5
9-Jul	Gujarat Capital	Darshankumar Gupta	S	135,356	115.6
9-Jul	Gujarat Capital	Ruchi Gupta	S	93,212	115.6
9-Jul	Hittco Tools	Sauda Moasif Sopariwala	B	25,000	37.9
9-Jul	Hittco Tools	Hardevsinh Balvantsinh Rathod	S	30,000	37.9
9-Jul	IFL Promoters	Bhavnit Pal Singh	B	27,000	21.8
9-Jul	IFL Promoters	Balwantsingh Bisht	B	25,000	20.7
9-Jul	IFL Promoters	Atul Mittal	B	29,872	21.3
9-Jul	IFL Promoters	Shark Communication Pvt Limited	B	18,500	22.8
9-Jul	IFL Promoters	Rajesh Mishra	S	35,000	21.5
9-Jul	IFL Promoters	Dmc International Ltd	S	15,500	21.5
9-Jul	ITL Inds	Ruchit Bharat Patel	S	25,000	92.4
9-Jul	JSL	Swiss Finance Corporation (Mauritius) Ltd	B	1,650,000	103.5
9-Jul	Katare Spin	Vishal Agarwal	B	44,219	27.1
9-Jul	Katare Spin	Seetha Bai	S	23,362	27.6
9-Jul	Mahalaxmi Rub	Amita Anand Parekh	S	65,000	192.6
9-Jul	Marathwada Re	Himadri Commodities Private Limited	B	5,000	513.1
9-Jul	Marathwada Re	Raghuhari Dalmia	S	5,400	513.2
9-Jul	Master	Bala Rama Venkata Siva Naga S	B	45,101	40.2
9-Jul	Master	Gopala Krishna Bonam	B	40,000	42.0
9-Jul	Master	Venkatesh Vaddepally	S	40,750	42.0
9-Jul	Minal Engr	Mansi Share & Stock Advisors Private Ltd	S	35,000	101.5
9-Jul	Mohit Inds	Datta Chandravadan Parikh	B	39,779	40.3
9-Jul	Mohit Inds	Niranjan Veni	S	60,000	39.8
9-Jul	Mohit Inds	Gitabhai Niranjan	S	40,000	39.8
9-Jul	Mohit Inds	Dhruti Naren Surti	S	24,130	40.8
9-Jul	Moldtek Tech	Ketan C Parikh HUF	S	30,000	90.2
9-Jul	Natraj Fin	Ask Financial Services Pvt Ltd	S	70,000	83.3
9-Jul	Nexsoft Info	Bp Fintrade Private Limited	B	26,487	87.2
9-Jul	Omkar Overseas	Elesh Hasmukhlal Sanghavi	B	50,000	82.5
9-Jul	Oregon Comm	Amul Gagabhai Desai	B	18,000	420.0
9-Jul	Oregon Comm	Jimish J Soni	B	14,000	420.0
9-Jul	Oregon Comm	Krunal Gopaldas Rana	B	17,087	420.0
9-Jul	Oregon Comm	Harshil Dipak Shah	B	30,000	420.0
9-Jul	Oregon Comm	Nilesh Rasiklal Pandya	S	4,811	420.0
9-Jul	Ranklin Sol	Bala Rama Venkata Siva Naga S	B	37,898	118.9
9-Jul	Sacheta Metals	Kalpesh Chinubhai Patel	B	70,000	41.8
9-Jul	Sacheta Metals	Nilpa K Patel	S	70,100	41.8
9-Jul	Seax Global	Tejash Jayantilal Shah	B	84,000	52.2
9-Jul	Seax Global	Columbia Global Limited	S	78,747	52.3
9-Jul	Shakti Pumps	Santosh Vishram Ghadshi	B	60,800	201.5
9-Jul	Shakti Pumps	Subhkam Ventures (I) Private Limited	S	275,000	200.1
9-Jul	Shakti Pumps	Yaminiben Maheshbhai Pandya	S	61,000	201.0
9-Jul	Sky Inds	Vijay Jamnadas Vora	B	21,955	139.8
9-Jul	Trinethra In	Rama Lakshmi Alapati	B	173,452	52.4

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
Bharti Airtel	309	9.9	11.7	47.1
Infosys Tech	2,874	1.6	7.5	1.0
HDFC Bank	2,003	2.9	6.9	1.6
<b>Losers</b>				
ITC LTD	300	(0.9)	(2.5)	2.0
HINDUSTAN UN	262	(1.5)	(1.5)	1.2
NTPC LTD	198	(0.6)	(0.5)	2.8

Source: Bloomberg

## Research Team

**Dipen Shah**

IT, Media  
dipen.shah@kotak.com  
+91 22 6621 6301

**Sanjeev Zarbade**

Capital Goods, Engineering  
sanjeev.zarbade@kotak.com  
+91 22 6621 6305

**Teena Virmani**

Construction, Cement, Mid Cap  
teena.virmani@kotak.com  
+91 22 6621 6302

**Apurva Doshi**

Logistics, Textiles, Mid Cap  
doshi.apurva@kotak.com  
+91 22 6621 6308

**Saurabh Agrawal**

Metals, Mining  
saurabh.agrawal@kotak.com  
+91 22 6621 6309

**Saday Sinha**

Banking, Economy  
saday.sinha@kotak.com  
+91 22 6621 6312

**Sarika Lohra**

NBFCs  
sarika.lohra@kotak.com  
+91 22 6621 6313

**Arun Agarwal**

Automobiles  
arun.agarwal@kotak.com  
+91 22 6621 6143

**Ruchir Khare**

Capital Goods, Engineering  
ruchir.khare@kotak.com  
+91 22 6621 6448

**Huzaifa Suratwala A**

Pharmaceuticals  
huzaifa.a@kotak.com  
+91 22 6621 6306

**Jayesh Kumar**

Economy  
kumar.jayesh@kotak.com  
+91 22 6652 9172

**Shrikant Chouhan**

Technical analyst  
shrikant.chouhan@kotak.com  
+91 22 6621 6360

**K. Kathirvelu**

Production  
k.kathirvelu@kotak.com  
+91 22 6621 6311

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