March 15, 2010

ICICI Securities | I-Sec

India Update

Market data as on Mar 12, 2010

INDICES

		% chg (DoD)
BSE Sensex	17167	(0.01)
S&P CNX Nifty	5137	0.07
BSE 100	9116	(0.03)
BSE 200	2157	(0.06)

OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	10625	0.12
Nasdaq Comp.	2368	(0.03)
S&P 500	1150	(0.02)
Hang Seng	21030	(0.85)
Nikkei	10733	(0.17)

ADVANCES/DECLINES (BSE)

Group	A	B	S
Advances	69	666	145
Declines	127	1211	296
Unchanged	2	57	9

FII TURNOVER (BSE+NSE)* (Rs mn)

Bought	Sold	Net
23030	18560	4470

NEW HIGHS AND LOWS (BSE)

Group	A	B	S
High	3	53	7
Low	0	17	2

CURRENCY

US$1 = Rs45.44

* FII turnover (BSE + NSE) as on March 11, 2010

Contents

Highlights

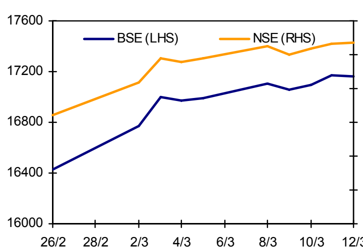
Sector/event	Impact
PHARMA: Sun Pharmaceutical (SPIL) – Company update	SPIL launched generic *Eloxatin* injections in the US after about seven months of receiving the US FDA approval. This is positive given that SPIL will be one of the five players in the market and could potentially generate an additional EPS of Rs6-7, which was excluded in our estimates. Factoring in the upside, we raise FY10E & FY11E EPS 2% & 9% and increase target price to Rs1,583 from Rs1,308. Besides, with the US FDA recently rejecting citizen's petition by Osmotica Pharma, all hurdles seem to be surmounted and SPIL hopes for an approval for the generic tablet version of *Effexor*XR capsules, implying an additional EPS of Rs4-6. However, we still maintain HOLD on SPIL given high valuations, huge idle cash and uncertainties over takeover battle for Taro & ongoing US FDA issues.

News Snippets

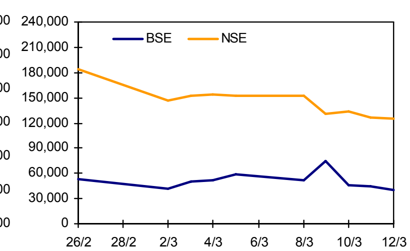
Corporate

- State Bank of India plans to invest Rs5-10bn in the general insurance business in synergy with Insurance Australia Group, with the former keeping 74% and the latter 24%. The entity would be named as the SBI General Insurance. (Business Standard)
- The Uttarakhand Government is setting up two gas-based plants of 500MW each in collaboration with Gas Authority of India. (Business Standard)
- Fortis Healthcare's Singapore-based hospital chain Parkway will be funded by short-term loans estimated at ~Rs25bn, to be raised from a host of banks and financial institutions. (The Economic Times)
- Vedanta Resources is likely to demerge a large aluminium project in Orissa into a separate entity to help the conglomerate get a better valuation for the aluminium business. (The Economic Times)
- Reliance Industries and US-based sports marketing company, IMG Worldwide have joined hands to build a professional sports business in India. The equal joint venture between the two would also manage entertainment businesses. (Business Standard)

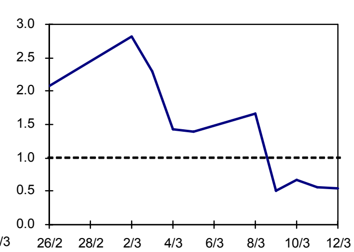
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



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Sun Pharmaceutical Industries (Hold) PHARMA

COMPANY UPDATE

Slowly emerging from shadows Rs1,656

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Target price Rs1,583

Earnings revision

(%)	FY10E	FY11E
Sales	↑ 0.9	↑ 4.1
EBITDA	↑ 1.7	↑ 8.6
EPS	↑ 1.9	↑ 8.9

Target price revision

Rs1,583 from Rs1,308

Sun Pharmaceutical Industries (SPIL) launched generic *Eloxatin* injections in the US after about seven months of receiving the US FDA approval. This is positive given that SPIL will be one of the five players in the market and could potentially generate an additional EPS of Rs6-7, which was excluded in our estimates. Factoring in the upside, we raise FY10E & FY11E EPS 2% & 9% and increase target price to Rs1,583 from Rs1,308. Besides, with the US FDA recently rejecting citizen's petition (CP) by Osmotica Pharma, all hurdles seem to be surmounted and SPIL hopes for an approval for the generic tablet version of *Effexor*XR capsules, implying an additional EPS of Rs4-6. However, we still maintain HOLD on SPIL given high valuations, huge idle cash and uncertainties over takeover battle for Taro & ongoing US FDA issues.

Table 1: Valuations summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/3/10) (Rs)	1,656	2009	87.7	18.9	17.6	M.Cap. (Rs bn)	343.3
52 wk Range (Rs)	1,693/993	2010E	58.3	28.4	23.6	M.Cap (US$ bn)	7.5
Dividend yield 2010E (%)	0.7	2011E	68.1	24.3	22.2	Shares Out (mn)	207.3
BSE Sensex	17167	2012E	78.3	21.1	18.9	Free Float (%)	36.3

Source: Company data, I-Sec Research

- **Upside from generic *Eloxatin* priced in; approval for *Effexor*XR awaited.** Based on our quick estimates for generic *Eloxatin*, SPIL could generate ~US$30mn profits and Rs6-7 EPS given a five-player scenario – Teva & Hospira are well-entrenched and Sandoz & Fresenius Kabi Pharma launching on March 10. Ascribing 5x P/E to Rs6-7 EPS upside from the drug, the upside could be worth Rs30-35/share -- SPIL already gained net Rs15/share in the last two days. Besides, the stock is up ~12% since Q3FY10 earnings call on January 30, largely in anticipation of the likely launch of the generic tablet version of *Effexor*XR capsules. But the actual launch could have further positive impact on the stock price and sentiment.

- **Earnings post *Protonix* launch & outcome of US FDA issues and Taro takeover hold the key.** Generic *Protonix* forms an estimated 15-20% of SPIL's net profits, which will shrink after January '11, when the last patent expires (including paediatric exclusivity). Also, uncertainty on the Taro takeover, ongoing US FDA issues pertaining to Caraco's Detroit facility and rising level of surplus cash (~Rs35bn now likely to rise to ~Rs45bn by end-FY12E) are key concerns.

- **SPIL appears fully valued; maintain HOLD.** While, in our view, Caraco is a deep-value BUY given the likely resolution of the warning letter by US FDA (by end-'10), SPIL seems fully valued bearing in mind FY11E P/E of 24x (five-year average 18x) and potential earnings volatility due to first-to-files (FTFs) & likely dip in profits from generic *Protonix*.

Details in our report '*Slowly emerging from shadows*' dated March 12, 2010

Union Bank of India (Buy) BANKING

MANAGEMENT MEET

Margin accretion on the cards Rs260

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Target price Rs315

Target price revision
Rs315 from Rs287

Our recent meeting with Union Bank of India (UBI) reaffirms our positive stance on the bank – we expect strong NIM traction to continue and fee income growth to remain robust. Loan growth is likely to surprise on the upside, which will lead to higher loan/deposit ratios and hence, margin accretion. While short-term asset quality issues persist, they are manageable in our view. UBI is well poised to deliver +22% RoE in FY11E. While the stock has underperformed its peers in the past few months, we believe it offers significant upside from the current levels given UBI's superior return ratios among peers. We reiterate BUY with a revised target price of Rs315/share.

Table 1: Valuations summary

		Y/E March	EPS (Rs)	P/E (x)	P/BV (x)		
Price (12/3/10) (Rs)	260	2009	34.2	7.6	1.9	M.Cap. (Rs bn)	131.3
52 wk Range (Rs)	284/125	2010E	39.2	6.6	1.5	M.Cap (US$ bn)	2.8
Dividend yield 2010E (%)	2.3	2011E	44.6	5.8	1.2	Shares Out (mn)	505.1
BSE Sensex	17167	2012E	52.7	4.9	1.0	Free Float (%)	44.6

Source: Company data, I-Sec Research

- **NIM traction to continue led by rising loan-to-deposit.** We expect loan/deposit ratios to continue improving as the management targets +23% loan growth in FY11 (I-Sec 21%), leading to sharp NIM improvement. As per the management, Q4FY10 NIMs are at ~3% (much higher than 2.74% in Q3FY10 & 2.4% in 9MFY10). We have factored in 13bps YoY margin expansion in FY11E and believe that there could be some upside to our estimates.

- **Fee income growth to remain robust; costs under control.** The management remains confident of maintaining traction in fee income given expectations of a sharp revival in credit growth in FY11 and considering that chunk of fee income is credit linked. While fee income growth guidance is at +25%, we have factored in 19% growth in other income (ex-treasury) in FY11E. Despite UBI mulling to expand to 300 branches in FY11 (~300 branches in FY10E), we believe cost-to-income will remain at ~40% and cost-to-assets at ~1.4%.

- **Short-term asset quality issues persist but manageable.** We note that delinquencies have been rising in the past few quarters and were at 2.03% as of Q3FY10. We expect performance of restructured book to be in line with PSU peers. NPAs from this book will likely peak at ~10% by December '10. We assume a slippages ratio of 1.9% in FY10E with GNPAs higher than management expectations. The management also indicated that with 10-year G-Sec yields at 8%, the bank would take a hit of Rs11-12mn per basis point (base yield of 7.59% as on Q3FY10).

- **Superior return ratios; reiterate BUY.** Despite short-term asset quality issues, we believe that UBI will maintain its above-industry return ratios with RoA and RoE at 1.1% and 23% respectively through FY12E. Strong core operating performance driven by NIM expansion will likely rectify the recent underperformance. Short-term deterioration in asset quality is not expected to be alarming. We reiterate BUY with a target price of Rs315/share (1.5x FY11 BV). Slower-than-expected NIM expansion and higher-than expected slippages are key risks.

Details to follow in our report '*Margin accretion on the cards*' dated March 15, 2010

Zee News (Buy) MEDIA

COMPANY UPDATE

Money on the table **Rs63**

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Target price Rs71

The Street is valuing Zee News's (ZNL) residual news business currently at Rs3.1/share post the announcement of the demerger of regional general entertainment channels (R-GECs) with Zee Entertainment Enterprises (ZEEL) – this implies ~Rs750mn market value and Rs1,550mn EV for ZNL's residual news business after factoring in Rs800mn debt. ZNL's residual news business is trading at an attractive FY11E EV/EBITDA & EV/sales of 5.3x & 0.55x respectively. The current implied value of ZNL's R-GECs is Rs58/ZNL share based on ZEEL's market price of Rs278/share. We believe ZNL is better placed versus competitors as it generates higher revenues (~Rs700mn) from subscription due to a legacy agreement with Zee Turner. We value ZNL's residual news business at Rs3bn or Rs13/share based on 1.5x FY10E EV/sales. In our view, there is a high probability that the R-GEC demerger with ZEEL will go through and based on guidance, we expect it to be over by FY10. We maintain BUY on ZNL with Rs71 target price – Rs58/share from R-GECs (as per the announced swap ratio) & Rs13/share from the residual news business – implying 14% upside from the current levels.

Table 1: Valuations summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/3/10) (Rs)	63	2009	1.9	33.6	19.9	M.Cap. (Rs bn)	15.1
52 wk Range (Rs)	65/29	2010E	2.4	25.6	14.1	M.Cap (US$ mn)	325
Dividend yield 2010E (%)	1.2	2011E	3.1	20.5	11.2	Shares Out (mn)	239.8
BSE Sensex	17168	2012E	3.6	17.2	9.6	Free Float (%)	45.9

Source: Company data, I-Sec Research

- **ZNL – Valuations attractive.** Post the restructuring, ZNL's residual business will be comparable with TV Today (TVTN), the leader in the Hindi news genre with flagship channel, *Aaj Tak*. We value ZNL's residual business at 1.5x FY10E EV/sales or Rs13/share (TVTN 1.9x).
- **Hindi news channels improving share.** ZNL's flagship Hindi news channel increased its market share to ~13% in January '10 from ~11% in July '09; it is the #4 player in the Hindi space. ZNL has been able to garner premium rates owing to its brand pull and strong traction among male 25+ metro centric target group.
- **Strong business model.** ZNL garners ~Rs700mn revenues from subscription due to a legacy arrangement with Zee Turner – For ZNL, subscription revenues formed 17.5% of total revenues in 9MFY10, whereas other news channels struggled to even generate 10% from subscription. This protects ZNL from the vagaries of the ad market and assists in delivering better profitability than other news companies. We expect ZNL's residual business to post Rs2.8bn revenues & Rs290mn EBITDA in FY11E. At present, profitability is subdued due to losses in Telugu & Tamil news channels launched recently. Profits are likely to improve over time as losses reduce.

Details in our report '*Money on the table*' dated March 12, 2010

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I-Sec investment ratings (all ratings relative to Sensex over next 12 months)
BUY: +10% outperformance; **HOLD**: -10% to +10% relative performance; **SELL**: +10% underperformance