

June 6, 2006
FOR PRIVATE CIRCULATION
Equity

	5 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	10,213	(2.3)	(17.4)	(4.9)
Nifty	3,017	(2.4)	(17.7)	(5.4)
Banking	4,732	(2.3)	(16.1)	(10.2)
IT	2,376	(2.3)	(15.0)	(6.4)
Healthcare	3,296	(1.8)	(19.3)	(10.1)
FMCG	1,845	(2.7)	(21.0)	(9.0)
PSU	5,116	(1.9)	(19.6)	(12.1)
CNX Midcap	4,207	(1.2)	(19.9)	(8.6)
World indices				
Nasdaq	2,170	(2.2)	(7.4)	(5.1)
Nikkei	15,668	(0.8)	(10.1)	(3.0)
Hangseng	16,016	0.7	(6.7)	0.4

Value traded (Rs cr)

	5 Jun 06	% Chg - 1 Day
Cash BSE	2,714	(18.1)
Cash NSE	6,532	(11.7)
Derivatives	22,755.0	(24.2)

Net inflows (Rs cr)

	2 Jun 06	% Chg	MTD	YTD
FII	640.4	326.9	(7,889)	10,421
Mutual Fund	(109.4)	(187.1)	7,904	13,904

FII open interest (Rs cr)

	2 Jun 06	% Chg
FII Index Futures	9,279	1.4
FII Index Options	1,988	1.2
FII Stock Futures	11,293	(4.2)
FII Stock Options	88	1.2

Advances/Declines (BSE)

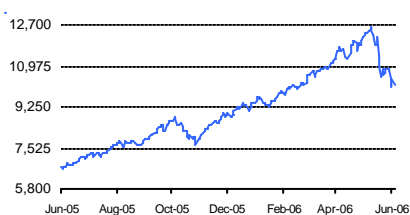
5 Jun 06	A	B1	B2	Total	% Total
Advances	61	153	135	349	28
Declines	148	402	341	891	71
Unchanged	1	7	11	19	2

Commodity

	5 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	72.6	0.4	3.4	14.0
Gold (US\$/OZ)	637.2	(0.2)	(6.9)	14.6
Silver (US\$/OZ)	12.1	(0.3)	(14.4)	19.4

Debt/forex market

	5 Jun 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.66	7.61	7.42	7.43
Re/US\$	45.77	45.90	44.84	44.32

Sensex


Source: Bloomberg

ECONOMY NEWS

- The government has hiked the prices of petrol and diesel by an average Rs. 4 and Rs. 2 per liter, respectively, in accordance with the new pricing regime. However, prices of kerosene and LPG were not changed. (ET)
- The RBI has said that 77% of the net annual foreign capital inflow into the country was 'volatile' for the year '05-06. This is the first time the RBI has defined what it means by volatility in foreign capital flows with respect to India. (ET)
- The government is planning to encourage multiple airports at metro cities; restructuring of the AAI to form a separate organization for air traffic services and exploration of new models of public-private partnership to develop loss-making airports. (ET)
- India has overtaken China as exporter of textiles to the US and Europe markets due to cap on Chinese textiles in those geographies. (BS)

CORPORATE NEWS

- **Ballarpur Industries (BILT)** is acquiring Malaysia's largest pulp and paper company, Sabah Forest Industries (SFI), in a deal worth \$261 mn. The acquisition will place Bilt among the top ten paper companies in Asia, excluding Japan. (ET)
- **EDS** is reported to have sailed through with its proposed acquisition of a majority stake in the Bangalore-based **Mphasis BFL**. The open offer, which opened on May 17, closed on June 5. (ET)
- **Sabmiller** has entered into talks with its main rival United Breweries (UB) to buy the latter's brewery in Tamil Nadu. The global brewer has expressed interest in acquiring the Chennai-based Empee Breweries, as UB mulls divesting one of its plants in the state. (ET)
- **PFC** on Monday filed a draft prospectus with Sebi for public offering and divesting 5% government stake. PFC is offering an aggregate of up to 154,567,500 equity shares of Rs. 10 each for cash at a price to be decided through the book building process. (BL)
- **Sify Ltd**, the Chennai-based provider of consumer Internet and enterprise services, has acquired the US-based Globe Travels, which issues e-tickets in the India-US travel space. Financial transaction of the deal was not disclosed. (BL)
- **Bajaj Hindusthan (BHL)** is learnt to have initiated the process to buy a sugar factory in Brazil. BHL's merchant bankers are actively scouting for a suitable target there. An investment of around \$500 mn has been earmarked for inorganic growth in Brazil. (ET)
- In a bid to become an integrated communication services provider, **Reliance Communication Ventures (RCoVL)**, the listed telecom arm of the Anil Dhirubhai Ambani Group (ADAG), will merge its nine subsidiaries with itself. (ET)
- **Praj Industries** is eyeing the US ethanol market and is looking actively at setting up base there through acquisitions. It will be helped in this process by both the money global venture capitalist Vinod Khosla invested in it for a 10% stake and his reputation as an ethanol evangelist. (BS)

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

EVENT UPDATE

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Summary table

(Rs mn)	FY06	FY07E	FY08E
Revenues	7,003	11,430	15,166
Growth (%)	23.0	63.2	32.7
EBITDA	1,395	3,518	4,470
EBITDA margin (%)	19.9	30.8	29.5
Net profit	907	2,539	3,279
Net Margin (%)	13.0	22.2	21.6
EPS diluted (Rs)	7.6	20.3	25.7
Growth (%)	(15.4)	165.1	26.6
DPS (Rs)	0.8	0.7	0.7
RoE (%)	25.2	38.2	28.1
RoCE (%)	14.3	29.4	29.7
EV/Sales (x)	5.3	3.5	2.5
EV/EBITDA (x)	26.6	11.3	8.4
P/E (x)	36.9	15.8	12.5
P/BV (x)	9.0	4.4	3.0

Source: Company & Kotak Securities - Private Client Research

GLENMARK PHARMACEUTICALS LTD (Rs.320, FY08E PE: 12.5x, BUY)

Glenmark signs a royalty deal with Paul Capital Partners for US\$27 mn to build a US generic dermatology portfolio

Glenmark Pharmaceuticals has signed a unique royalty deal with Paul Capital Partner's Royalty Fund (Paul Royalty), a leading international healthcare investment fund, to develop and supply dermatology products in the US market. According to the terms of the agreement, Paul Royalty will invest up to US\$27 mn to finance the development of 16 dermatological products by Glenmark for the US market. In return, Paul Royalty will receive royalties on net sales (still undisclosed) upon the launch of each product, subject to USFDA approval. At present, the total US market size of all of these products in the portfolio is approximately about US\$1.0 bn with very few players due to a number of entry barriers, including high clinical trial costs, investment in infrastructure and FDA approval timelines. Glenmark has the necessary expertise for developing a dermatological range and infrastructure, particularly its new dermatological manufacturing facilities in Goa and Baddi.

The said dermatological portfolio ranges from the easier to more complex product development, near to medium term revenue opportunities, and a mix of Para I-III and Para IV filings. Clinical trials for two of the products have already been initiated and abbreviated new drug applications (ANDAs) filings will commence from the end of 2006 and continue over the next two years. All 16 products are likely to be launched over the next five years with the first product launch occurring in 2007.

We believe this deal is significant in nature, as this will provide Glenmark funding to continue its research endeavor and reduce the risk related to R&D initiatives to some extent. We can directly compare this deal with the one Dr Reddy's concluded with Citigroup & ICICI Venture to fund its R&D venture.

According to the agreement, Glenmark will be responsible for —

- Pre-clinical development;
- Management of the clinical trials;
- Manufacturing the products;
- Filing the ANDAs with USFDA; and
- Marketing the products in the US upon the final approval.

Glenmark will also supply active pharmaceutical ingredients (APIs) for some of the products. Paul Royalty will finance the total cost of product development through milestone payments to Glenmark over a period of two years. In return, Paul Royalty will receive a royalty on net sales for these products, with the percentage varying according to product and performance.

Where the deal will benefit Glenmark...

We believe this is a risk-sharing financing deal that will help Glenmark mitigate its operational risk attached to the R&D program. Sharing the clinical and operational risks inherent in the portfolio and reducing the impact of generic R&D expenditure on the financial are among the key reasons behind this deal. With this deal, Glenmark becomes the first Indian company to enter the US market with an entire portfolio of dermatology products.

Valuations and recommendation

Since the first products launch will occur in mid or late 2007, we believe this deal will have a marginal positive impact (if at all) on our earnings estimates for FY08, leaving our estimates unchanged.

At Rs.320, the stock is trading at PE 15.8x FY07E and 12.5x FY08E fully diluted earnings. In our report on Glenmark in last month, we had recommended a BUY on stock on account of attractive valuations. The stock has seen fall in the price by about 14% (almost equal to market fall) from that price level due to the recent high volatility in the markets. We strongly believe that this decline should be used to own this stock from a long-term perspective. We maintain BUY on Glenmark with a price target of Rs448 that implies an upside of 38% from the current price levels.

SECTOR UPDATE

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FOUR WHEELER SALES UPDATE

Volume Trends - Four Wheeler

	May'06	May'05	YoY (%)
Tata Motors			
M&HCV	13,461	8,580	57%
LCV	11,049	6,812	62%
Utility	3,077	2,503	23%
Cars	16,770	12,698	32%
Total	44,357	30,593	45%
M&M			
UVs	8,945	8,241	9%
LCVs	611	643	-5%
3-Wheelers	2,073	1,358	53%
Exports	488	345	41%
Tractors	7,958	6,978	14%
Total	20,075	17,565	14%
MUL			
PCs	50,562	39,817	27%
MUVs	342	189	81%
Exports	2,492	2,280	9%
Total	53,396	42,286	26%

Source: Company

Tata Motors: Tata Motors reported total sales of 44,357 vehicles (including exports) for May 2006, a growth of 45% over 30,593 vehicles sold in May last year. The company's sales of commercial vehicles in May 2006 in the domestic market were 21,903, a rise of 64% over 13,338 vehicles sold in May last year. M&HCV sales stood at 12,682, a growth of 55% over May 2005, while LCV sales were 9,221, a growth of 79% over May 2005. However the growth in May 2006 is on a low base of May 2005, which was due to unanticipated difficulties in certification and procurement of some critical parts. The company's sales from exports were 4,339 vehicles in May 2006 as compared to 3,251 vehicles in May 2005, a rise of 33%.

M&M: M&M overall sales in May grew by 14% YoY and cumulative sales YTD for FY07 improved by 10% YoY. The sales were bolstered by the improved performance of the three-wheelers that registered a growth of 53% and higher tractor sales. Although the total tractor sales for the month grew by 14%, M&M did reasonably well on the domestic front with higher sales of 18% YoY. Exports also picked up during the month with YoY growth of 41%.

MUL: Domestic car sales for Maruti rose by 27% YoY while export volumes improved by 9.3% YoY, resulting in a total sales growth of 26% YoY. Maruti's volume in the domestic A2 segment grew by 38.56%, in A3 by 9.93% and in A1 segments by 10.25% during the month compared to sales in May 2005. Swift continues to drive the company's sales growth. The company continues to focus on the domestic market due to capacity constraints. With new capacity expected to come into operation in December FY07, we expect export growth to remain muted during the coming quarters.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
5-Jun	Birla Cap	Nalini Bhushan	S	17,500	14.50
5-Jun	Chan Guide I	Satyanarayan Baxiram Rang	S	48,000	3.22
5-Jun	Essar Steel	Societe Generale	B	4,010,000	43.64
5-Jun	Essar Steel	Cross Border Investment P	S	3,800,000	43.67
5-Jun	Fag Bearing	Surya Corporation	S	142,067	516.52
5-Jun	Gulsha Sug C	Shankar Mahato	S	35,000	63.54
5-Jun	Mefcom Agr I	D Rana	B	142,690	13.67
5-Jun	Mefcom Agr I	Avisha Credit Capital Lim	B	125,000	13.69
5-Jun	NIIT Ltd	Reliance Mutual Fund	S	100,423	365.00
5-Jun	Rico Aut Ind	Reliance Capital Trustee	B	2,016,805	71.00
5-Jun	Rico Aut Ind	Lloyd George Investment M	S	2,018,750	71.00
5-Jun	Saven Techno	JKC Leasing and Sec Ltd	B	99,320	10.90

Source: BSE

Forthcoming events

COMPANY/MARKET	
Date	Event
6-Jun	Tata Tea, Sun Pharmaceutical Industries to announce earnings and dividend
7-13 Jun	Initial Public Offer of Vigneshwara Exports opens
7-Jun	LIC Housing Finance, Moser Baer India, Jindal Steel & Power to announce earnings and dividend
8-Jun	Indian Hotel Company, Cummins India to announce earnings and dividend
9-Jun	Wyeth, Neyveli Lignite Corporation to announce earnings and dividend
15-Jun	Shipping Corporation of India to announce earnings
16-Jun	Exide Industries to consider stock split
27-Jun	Corporation Bank holds shareholders meeting; Reliance Industries holds annual shareholders meeting
30-Jun	State Bank of India holds shareholders meeting

Source: Bloomberg

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Larsen & Toubro	2,268.3	3.5	2.2	0.6
Zee Telefilm	240.5	6.9	1.4	1.2
HDFC	1,199.0	1.7	1.1	0.8
Losers				
ONGC	1,085.7	(3.7)	(12.6)	1.3
Reliance Ind	925.4	(3.4)	(9.8)	5.9
Bharti Airtel	352.3	(3.7)	(5.5)	0.6

Source: Bloomberg

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