

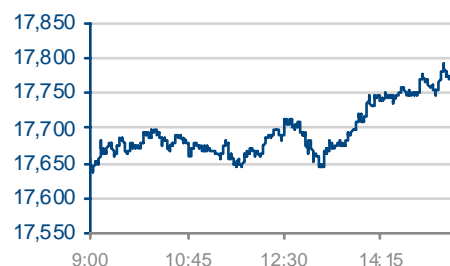
What's Inside: RCOM (REDUCE); Biocon Ltd (ADD); Balkrishna Industries (BUY); Events calendar

Market Front Page

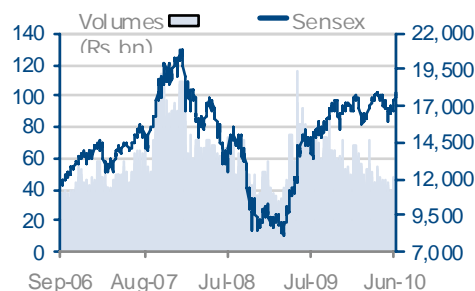
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	17,774	1.1	1.8	HDFC Bank	147.5	(0.1)	16.5
Nifty	5,334	1.2	2.5	Reliance	46.7	1.7	(1.1)
BSE Smallcap	9,088	1.1	8.7	Infosys	62.1	(0.4)	2.2
CNX Midcap	8,159	1.2	9.8	Satyam	5.2	1.6	31.5
Nasdaq	2,221	(0.1)	(2.1)	Wipro	12.6	0.2	47.8
DJIA	10,139	(0.1)	(2.8)	ICICI Bank	38.0	1.1	0.9
IBOV	64,225	(0.9)	(6.4)	SBI	99.0	0.0	(0.7)
FTSE	5,072	0.5	(6.3)	Sterlite	14.8	0.8	0.3
CAC	3,576	1.6	(9.1)	Tata Motors	17.7	(0.2)	3.6
Turnover	US\$m	% Chg		Commodities	Latest	%Chg	%YTD
BSE	875	(4.7)		Gold (US\$/ounce)	1,237	(0.1)	12.8
NSE	2,843	(2.3)		Crude (US\$/bl)	78	(0.5)	(1.4)
Derivatives (NSE)	13,034	(21.6)		Aluminium (US\$/MT)	2,029	1.6	(9.0)
FII F&O (US\$m)	Index	Stocks		Copper (US\$/MT)	6,869	1.5	(6.9)
Net buying	87	27		Forex Rates	Closing	% Chg	%YTD
Open interest	12,388	6,191		Rs/US\$	46.2	(0.4)	(1.1)
Chg in open int.	410	294		Rs/EUR	57.0	(0.4)	(15.0)
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/GBP	69.4	(0.3)	(7.5)
FII (25/6)	(61)	1,947	6,547	Bond Markets	Closing	bps Chg	
DII (28/6)	(21)	(975)	2,685	10 yr bond	7.6	(2.0)	
MF (24/6)	(61)	(126)	(1,766)	Interbank call	5.2	(18.0)	

Charts Front Page

Sensex intraday



Sensex price volume trend



Corporate Front Page

- RIL** announced its seventh discovery in the 635 square-kilometre block, CB-ONN-2003/1 (CB 10 A&B), in the Cambay Basin, about 130 kilometres from Ahmedabad. (BS)
- SBI** to announce its base rate today; hints at fixing it at 8%. (ET)
- Tata Motors** plans to raise Rs47bn through a combination of instruments to meet capital requirements and cut debt. (BS)
- ITC** is setting up another unit at its existing paper mill in Bhadrachalam at a cost of Rs10bn to add a paper plant of 0.2mtpa capacity. (BS)
- PowerGrid Corp** would invest Rs580bn for setting up network to facilitate evacuation of electricity from power surplus states to others. (FE)
- ITC** plans to extend its Vivel personal care range to deodorants and talcs. (BS)
- NTPC** plans to raise a syndicated loan of US\$300mn to finance its ongoing capacity addition initiatives. (BS)
- Plethico Pharmaceuticals** has joined hands with US retailing giant Wal-Mart for supplying its nutritional products to US consumers. (ET)
- IDFC** has received the shareholders' approval to raise Rs35bn and also to double its borrowings to Rs800bn. (BS)
- Reliance Infrastructure** to borrow around Rs26bn for the Bandra-Worli-Haji Ali Sea Link project in Mumbai. (ET)
- Essar Steel** has acquired the UK based steel processor Servosteel for an undisclosed amount. (ET)
- IndusInd Bank** to raise upto Rs10bn through share sale. (ET)
- NTPC** has rejected a proposal for pooling of gas prices for the power sector. (BS)
- Pantaloon Retail** to receive Rs4bn in lieu of convertible warrants issued to promoters. (ET)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Balrampur Chini Mills Lt	86	9.1	-35.2	Hindustan Oil Explorati	219	-2.5	-26.3
NHPC Ltd	31	8.8	-9.0	GAIL India Ltd	474	-2.1	14.6
Hindustan Petroleum Cc	433	7.7	10.9	Indian Overseas Bank	103	-1.7	-6.8
Indiabulls Power Ltd	31	7.3	-11.4	Asian Paints Ltd	2366	-1.4	31.7
Indiabulls Financial Serv	146	6.1	15.8	Mphasis Ltd	563	-1.3	-22.3

Volume spurts

Company	CMP	M.Cap (US\$m)	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Oil India Ltd	1,380.9	7,193	3,279	460	613
Indian Oil Corp Ltd	397.6	20,913	20,128	4,271	371
NHPC Ltd	31.0	8,261	33,431	7,327	356
Indiabulls Power Ltd	30.9	1,351	4,781	1,073	345
Hindustan Petroleum Corp	433.0	3,176	22,377	5,673	294
Bharat Petroleum Corp Ltd	642.5	5,032	13,141	3,530	272
Balrampur Chini Mills Ltd	86.1	483	10,343	2,941	252
Mangalore Refinery & Petrc	75.7	2,872	6,938	2,256	208
GAIL India Ltd	473.8	13,020	5,571	1,841	203
Castrol India Ltd	439.8	2,356	321	117	173

FII - FII trades

Scrip	25/6/2010			28/6/2010		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Maruti	173	1,405	0.5	37	1,400	0.4
Boi	5	352	1.2	235	349	1.2
Pnb	14	1,128	7.0	2	1,054	0.4
Bob	240	687	0.2	30	711	0.5
Union bank	10	312	1.0	405	312	1.3
Pantaloon	10	443	5.2	-	-	-

Corporate Front Page

- **Crompton Greaves** through its subsidiary CG Power Systems USA Inc opens its transformer unit in US. (BL)
- **M&M** may set up aircraft financing arm in Australia. (BS)
- **Tube Investments** shifts China plant to Chennai. (BL)
- **CCCL** has bagged contracts totaling Rs1.8bn for constructing 10 elevated stations for Chennai Metro Rail project. (BL)
- **Strides Arcolab** plans to raise up to US\$100mn through various financial instruments, also plans to hike the borrowing limit to Rs25bn. (ET)

Economy Front Page

- IRDA has ordered life insurers to offer customers a guaranteed return of 4.5% per annum on pension and annuity plans as part of its new, tighter norms. (ET)
- Finance Minister has hinted that the RBI may not increase key policy rates before its next monetary policy review due on July 27. (BS)
- Growth in six key infrastructure sectors decelerated for a consecutive month to 5% in May, as output in coal, cement and finished steel slowed. (BS)
- Mobile phone firms in India added 16.3m new users in May taking the total wireless user base to 617.5m. (ET)
- The government is believed to be in the final stages of formulating a gas allocation policy, which is likely to give preference to new power plants over expansion projects. (ET)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Coromandel International Ltd	V Ravichandran	24/06/2010	Sell	30,000	481.0	14	0.0	0.0
Delta Magnets	Highland Resorts	22/06/2010	Buy	1,005,981	16.8	17	20.7	20.7
Delta Magnets	Bayside Property Dev	22/06/2010	Buy	1,005,979	16.8	17	20.7	20.7
Delta Magnets	Aditi Mgmt	22/06/2010	Sell	1,005,979	16.8	17	20.7	-
Delta Magnets	Anjoss Trading	22/06/2010	Sell	1,005,979	16.8	17	20.7	-
HDFC	K M Mistry	24/06/2010	Sell	2,500	3,022.0	8	0.0	0.0
HDFC Bank Ltd	Abhay Aima	22/06/2010	Sell	9,000	1,987.0	18	0.0	0.0
Kiri Dyes and Chemicals Limited	Manish Kiri	22/06/2010	Buy	141,957	550.6	78	0.9	11.5
Kiri Dyes and Chemicals Limited	Pravin Kiri	22/06/2010	Buy	98,597	550.6	54	0.7	49.6
Kiri Dyes and Chemicals Limited	Pravin Kiri	22/06/2010	Buy	50,000	550.6	28	0.3	49.0
Lok Housing & Constructions Ltd	Saturn Trading Pvt Ltd	--	Buy	1,666,600	38.5	64	3.7	3.8
Max India Limited	Maxopp Investments Limited		Buy	905,000	165.2	150	0.4	6.0
Mphasis	A Sivaram Nair	24/06/2010	Sell	9,500	565.0	5	0.0	0.0
Provogue	Nailsfield		Buy	3,340,000	57.0	190	2.9	8.2
Shiv-Vani Oil & Gas Exploration Services Ltd	T R S Technology Pvt Ltd	04/06/2010	Buy	50,200	425.0	21	0.1	1.2
Shiv-Vani Oil & Gas Exploration Services Ltd	Rohan Consultancy Services Pvt Ltd	04/06/2010	Buy	50,100	425.0	21	0.1	2.2
Smartlink Network Systems Ltd	Nitin Kunkolienker		Sell	174,325	53.5	9	0.0	1.0
Trent	Noel N Tata	25/06/2010	Buy	10,000	885.0	9	0.0	0.3

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Brushman India	Bnp Paribas Arbitrage	28/06/2010	Sell	55,563	8.9	0
Core Projects And Technol	The Royal Bank Of Scotland N.V.	28/06/2010	Buy	2,100,000	232.4	488
Diamonpower	Ksk Emerging India Energy Pvt Ltd li	28/06/2010	Sell	200,000	192.5	39
Surana Inds	Itf Mauritius	28/06/2010	Buy	200,000	299.8	60
Surana Inds	Gita Mahesh	28/06/2010	Sell	200,000	299.8	60
Torrent Cables	Birla Mutual Fund	28/06/2010	Sell	47,691	114.4	5
Voltamp Transformers Limited	Deutsche Securities Mauritius Limited	28/06/2010	Sell	56,000	1,021.2	57

Reliance Communications - REDUCE

Telecom

29 June 2010

De-leveraging makes RCOM M&A savvy

RCOM's towers will increase in value only if the merged tower company (which we call GTL Infratel) turns out to be truly neutral. According to our calculations, the merged company needs to raise US\$1.7bn from new investors to contain the shareholding in the merged company of the current Reliance Infratel shareholders at 50% or less. This is a tall task, and we understand that shortly, details on this will become available. We believe that with a stronger balance sheet, RCOM's prospects of divesting 26% equity stake (as per the board resolution passed) are much brighter. However, we retain REDUCE on the stock in view of its sharp rise in recent times, as the industry—and particularly RCOM—has some way to go before a state of healthy revenue growth returns. But a back-of-the-envelope calculation based on the value of its various assets suggests an upside of 15% from the CMP of Rs202.

RCOM's net debt to reduce considerably: As per our estimates from available information on the deal, RCOM shareholders will get 'S' shares of GTLI per share of RCOM (S is the share swap ratio, not announced yet). In addition, GTLI will make a cash payment to RCOM. The cash infusion into RCOM will bring down net debt from current levels of ~US\$7bn to US\$3.5bn. Hence, GTLI will need to infuse cash to the tune of US\$3bn and assume a debt of US\$500m passed on to RITL from RCOM.

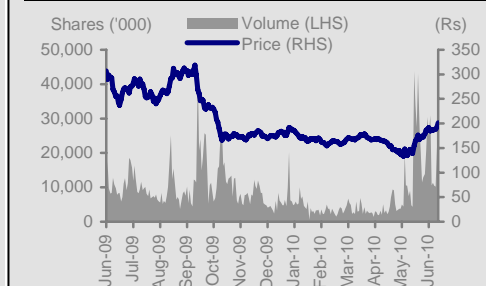
De-leveraged RCOM increases its M&A-worthiness: The de-leveraging makes RCOM a much less risky company for potential investors / strategic partners. RCOM had obtained a board resolution for an equity dilution up to 26%, and this now looks possible. The media has speculated about Etisalat and Vivendi being in the fray, and we believe that at least in the case of Etisalat, certain indications are firming up.

Share swap could be ~1.68x, with cash infusion of US\$3bn: We expect the share swap ratio to be ~1.68x, and cash infusion of US\$3bn, which will offset RCOM's existing debt to US\$3.5bn. As per our calculations, 3.6bn shares will be issued to RCOM shareholders forming less than 50% of the merged entity, to enable 'independent' ownership of the tower company and catalyse tenancies for the merged entity.

CMP	Rs202
Market cap (US\$ m)	9,006
Bloomberg	RCOM IN
52Wk High/Low (Rs)	320/132
Diluted o/s shares (m)	2064
Daily volume (US\$ m)	35
Dividend yield FY10ii (%)	0.5
Free float (%)	32.4
Shareholding pattern (%)	
Promoters	67.6
FIIIs	7.7
DIIIs	9.8
Others	15.0

Price performance (%)			
	1M	3M	1Y
RCOM	36.8	20.1	-35.4
Rel. to Sensex	31.4	19.4	-55.8
Bharti	1.8	-14.4	-34.5
Idea	16.9	-12.0	-26.2
MTNL	16.4	-10.0	-35.2

Stock Performance



Financial Summary

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenues (Rs m)	222,505	214,963	201,555	218,572	236,024
EBITDA Margins (%)	38.7	33.2	31.2	31.2	30.8
Pre-Exceptional PAT (Rs m)	60,449	40,395	15,779	15,553	18,513
Reported PAT (Rs m)	60,449	40,395	15,779	15,553	18,513
EPS (Rs)	29.3	19.6	7.6	7.5	9.0
Growth (%)	11.9	-33.2	-60.9	-1.4	19.0
PER (x)	5.7	8.6	22.0	22.3	18.7
ROE (%)	17.0	9.1	3.4	3.2	3.7
Debt/Equity (x)	0.7	0.6	0.7	0.7	0.6
EV/EBITDA (x)	7.3	8.6	11.1	10.2	9.6
Price/Book (x)	0.8	0.8	0.7	0.7	0.7

Source: Company, IIFL Research. Priced as on 28 June 2010, Deal effects not included in financials yet

Significant de-leveraging for RCOM: The deal results in a stronger RCOM, since a substantial amount of de-leveraging has been accomplished at one stroke. The cash infusion into RCOM will bring down net debt from the current level of ~US\$7bn to US\$3.5bn. Hence, GTLI will need to infuse cash to the tune of US\$3bn and assume a debt of US\$500m passed on to RITL from RCOM.

De-levered RCOM is much more M&A-worthy: The de-leveraging makes RCOM a much less risky company for potential investors / strategic partners. RCOM had obtained a board resolution for an equity dilution up to 26%, and this now looks possible. The media has speculated about Etisalat and Vivendi being in the fray, and we believe that at least in the case of Etisalat, certain indications are firming up.

Curiously, Reliance Telecom is the entity which RCOM has used to bid for 3G licences. This entity had a UAS licence and GSM spectrum in eight circles. Etisalat has UAS licences in most of the other 14 circles. Regulation would not prevent RCOM, if it so desired, to sell off Reliance Telecom to Etisalat, because neither is Reliance Telecom sale obstructed by a three-year lock-in, nor is there an overlap between the licences of Etisalat and Reliance Telecom. Hence, such a sale (of Reliance Telecom to Etisalat) is not inconceivable.

Such a scenario would leave RCOM with its: 1) 14 circles of dual-technology licence; 2) pan-India CDMA spectrum; and 3) optic-fibre assets. RCOM, through its promoter group, would have reasonable (but not controlling) representation in GTLI, which would be a tower company to rival Indus Towers in size, and hence attempt to bring the sort of scale economies that currently Indus alone is able to attempt.

Figure 1: Our estimates of RCOM, RITL and the merged entity break-up of enterprise value (into debt and equity value)

USD bn	Old RCOM	New RCOM	RITL	G TLI Old	RITL+GTLI
Net Debt	7.0	3.5	3.5**	2.3	5.8
Equity Value	9.1	5.3	3.7	2.0*	5.1
Enterprise Value	16.1	8.8	7.2	4.3	10.9

Source: IIFL Research. *US\$2bn market cap includes the value from the Aircel deal. ** The debt on Infratel books is just US\$500m, the extra US\$3bn is the cash payout that GTLI will make to RCOM (we assume debt funding for the same); this will reduce the new RCOM's debt by US\$3bn.

Details of the deal: Regarding the deal itself, what we understand / expect is as follows:

- GTIL will issue fresh equity such that RCOM / R-Infratel (RITL) shareholders will own <50% in the post-merger company (temporarily named GTL Infratel).
- The EV of RITL is estimated at Rs3.5m per tenant, and 1.9 tenancy for RITL, for 50,000 towers (Rs/US\$ = 46.0) =>US\$7.2bn, based on recent deals.
- RCOM's debt will reduce by US\$3.5bn, and this US\$3.5bn taken together with RITL's EV of US\$7.2bn implies an equity value for R-Infratel holders of US\$3.7bn. If GTLI issues US\$3.7bn worth of new shares @Rs47 to these shareholders, then the share swap ratio is $\text{US\$3.6bn} \times 46 (\text{US\$/INR}) / 47 (\text{CMP of GTLI}) / 2064 (\text{RCOM share count}) = 1.68x$. GTLI would issue 3.6bn shares to this group of holders (including minority shareholders in RITL).
- For this 3.6bn shares to be 50% of the post-issue equity, the total share count of GTLI has to be 7.3bn. Post the Aircel deal, we estimate GTLI's share count to be 1.97bn. Hence, GTLI has to issue another 1.7bn shares, also at (CMP) Rs47, ie, raise almost US\$1.7bn. Hence, we expect that judging by this combination, GTLI has to bring in private equity investors, for this US\$1.7bn. These investors would have $1.7\text{bn} / 7.3\text{bn} = 23\%$ (adjusted for rounding errors).

By any standards, this is a very large equity issuance. However, if RCOM's current shareholders, particularly the promoters hold the majority of GTL-Infratel, then the company would not be perceived to be a neutral company, and this would obstruct efforts to raise its tenancy. Hence, it looks to be a toss-up between neutrality or the improbable quantum of new equity raising by GTLI.

Negative development for incumbents: In either case, for incumbent GSM telcos, this represents a negative development, as a previously overleveraged RCOM now stands substantially strengthened. Further, if GTL-Infratel's tenancy does rise from here on (after the merger, it is ~1.5 compared to 1.77 of Indus Towers), it will enable RCOM to improve its cost competitiveness to some extent.

26% stake sale could happen at higher than CMP: We calculate RCOM's value on the basis of sum-of-the-parts (assets) as follows:

1. RCOM paid US\$1.9bn for 3G spectrum in the recent auctions.
2. Based on the fact that the price of 5MHz of 3G spectrum in the recent 3G auction was US\$3.5bn, we would place a value of US\$2bn for a pan-India block of 4.4MHz (this is in the less favoured 1800MHz band).
3. Correspondingly, RCOM's 5MHz of CDMA spectrum should be valued at US\$5bn.
4. Furthermore, RCOM has network equipment and optic fibre worth US\$5bn.
5. This total ~US\$13.9bn in EV terms, implying that new RCOM equity value is closer to \$10.4bn after deducting US\$3.5bn residual debt.

In the short run, the improved financial strength of RCOM makes an equity dilution at healthy levels by RCOM likely, and the above back-of-the-envelope calculation based on the value of its various assets suggests an upside of 15% from the CMP of Rs202.

Confident on performance; investing more on R&D

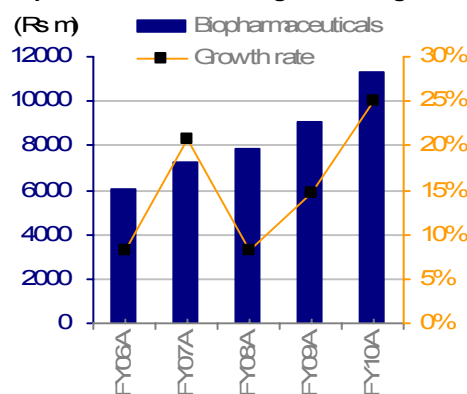
Our recent management meeting has added to our confidence in Biocon's prospects—more customers for new immunosuppressant products in US and semi-regulated market penetration of glargine insulin will be new drivers for the biopharma business, while Syngene (contract research subsidiary) will benefit from the general pick-up in the industry. However, the step-up in R&D spend, partly offset by continuing strong licensing fee income, could weigh on FY11 earnings growth; we expect it to pick up in FY12 (we estimate ~30% core earnings growth). Higher spend on R&D, we believe, improves the company's prospects in the large biosimilars opportunity in regulated markets. We raise our FY11 and FY12 revenue estimates by 3-5%; lower our core EPS estimate for FY11 by 5% to account for higher R&D spends, but raise it for FY12 by 1%. We raise our target price to Rs364 from Rs342, and retain ADD.

Momentum in biopharma: The new immunosuppressant products—mycophenolate mofetil (MMF) and tacrolimus—have started delivering robust growth in the legacy biopharmaceuticals business. The domestic formulations business is also increasing its share of overall revenue growth—this business now accounts for more than 10% of the company's revenues (excluding Axicorp) and is growing at over 30% annually. We expect the newly launched glargine insulin product to boost growth further.

Syngene sees better days: The overall pick-up in the contract research space improves management's outlook of better growth in the contract research business. The large deal with BMS should ramp up fully by 3QFY11, with 400 full-time-equivalents working on the project.

Reasonable valuation; additional value in biosimilar pipeline: Biocon is trading at 20x FY11ii core earnings, without ascribing value to the R&D spend on the biosimilar pipeline. Our price target of Rs364 is 19x FY12ii core earnings plus cash per share.

Biopharma – accelerating revenue growth



Source: Company, IIFL Research

Financial Summary

Y/e 31 Mar	FY09A	FY10ii	FY11ii	FY12ii	FY13ii
Revenues (Rs m)	16,087	23,678	27,970	32,143	36,996
EBITDA Margins (%)	21%	20%	19%	19%	20%
Pre-Exceptional PAT (Rs m)	931	2,933	3,498	4,232	5,159
Reported PAT (Rs m)	931	2,933	3,498	4,232	5,159
Reported EPS (Rs)	4.7	14.7	17.5	21.2	25.8
Growth (%)		215.0	19.3	21.0	21.9
PER (x)	69.0	21.9	18.4	15.2	12.4
ROE (%)	6.2	16.7	17.3	17.5	17.8
Debt/Equity (x)	0.3	0.3	0.2	0.0	0.0
EV/EBITDA (x)	19.7	13.4	12.7	10.1	8.1
Price/Book (x)	4.2	3.7	3.2	2.7	2.2

Source: Company, IIFL Research. Price as at close of business on 28 June 2010

12-mth TP (Rs) 364 (12%)

Market cap (US\$ m) 1387

52Wk High/Low (Rs) 329/194

Diluted o/s shares (m) 200

Daily volume (US\$ m) 4

Dividend yield FY11ii (%) 0.5

Free float (%) 39.1

Shareholding pattern (%)

Promoters 60.9

FIIIs 3.9

DIIIs 13.2

Others 22.0

Price performance (%)

1M 3M 1Y

Biocon 12.6 9.9 48.6

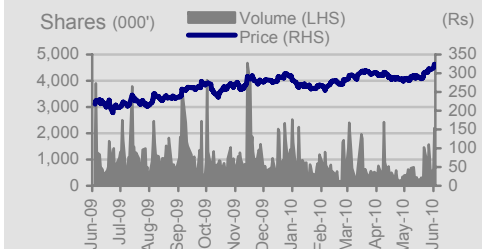
Rel. to Sensex 4.9 8.3 25.6

Jubilant Organ 2.0 1.4 106.3

Divis Lab 6.1 15.7 40.2

Orchid Chem 20.6 7.8 60.2

Stock movement



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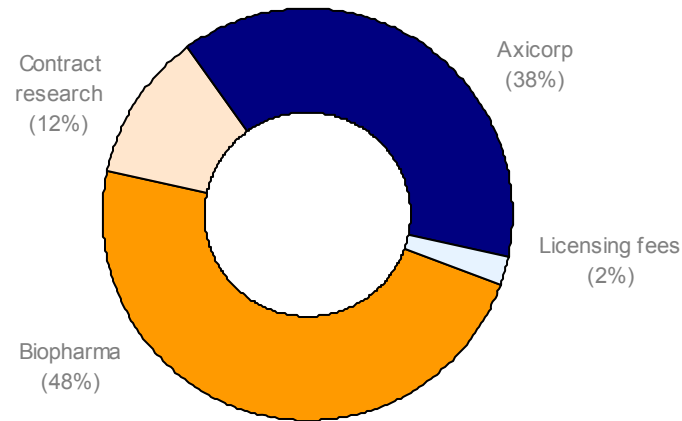
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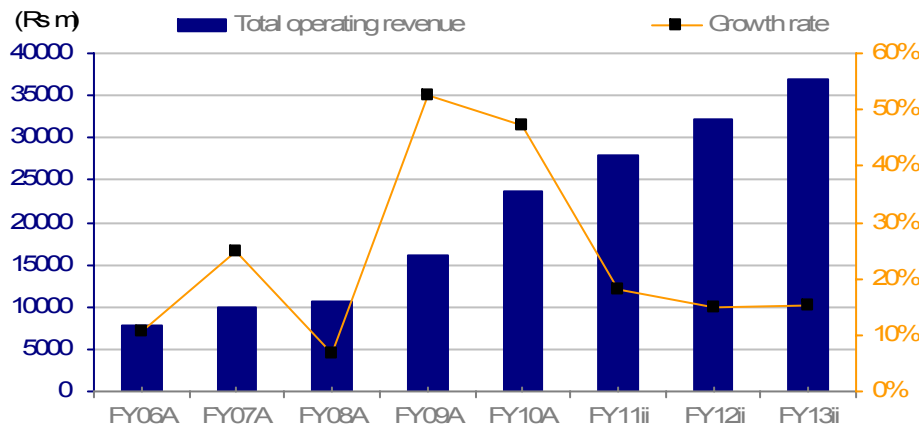
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Figure 1: Revenue break-up (FY10) – biopharma contributes almost half of overall revenues



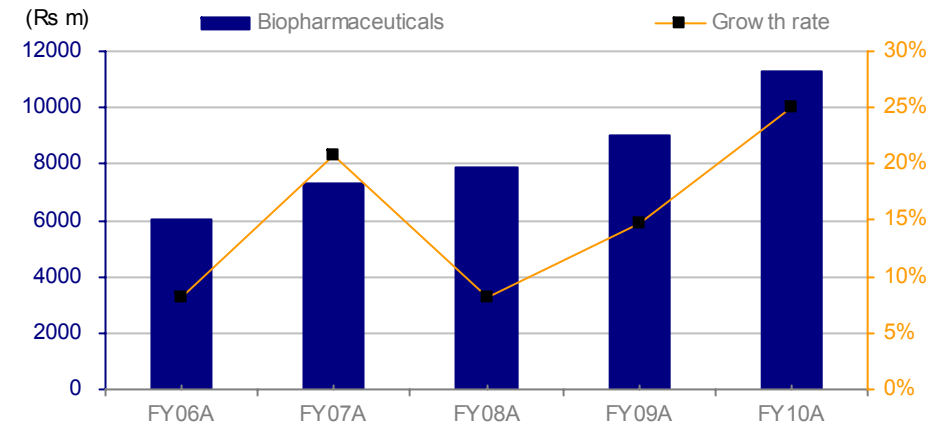
Source: Company, IIFL Research

Figure 2: Growth prospects improving (acceleration in FY09-10 was due to acquisition)



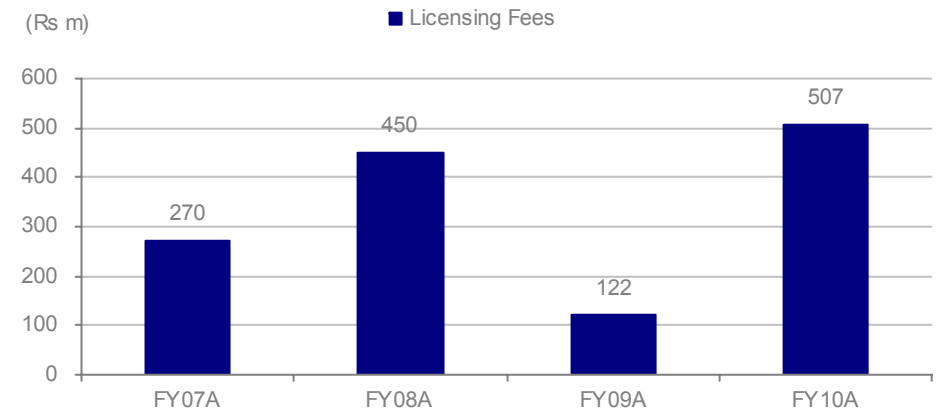
Source: Company, IIFL Research

Figure 3: Biopharma – accelerating revenue growth

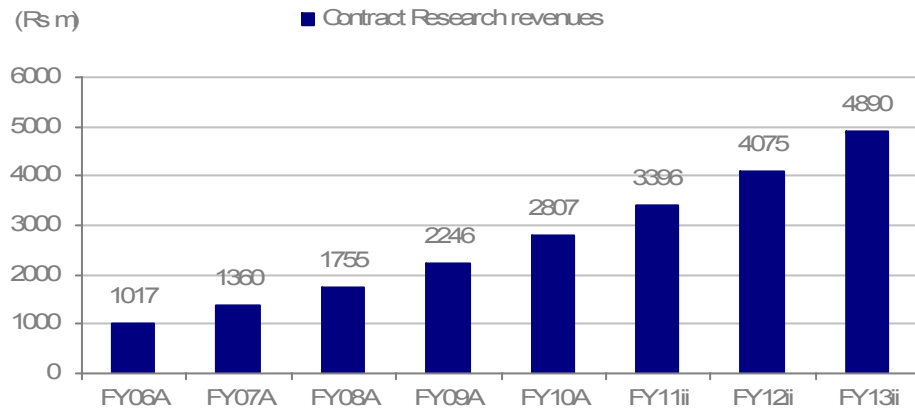


Source: Company, IIFL Research

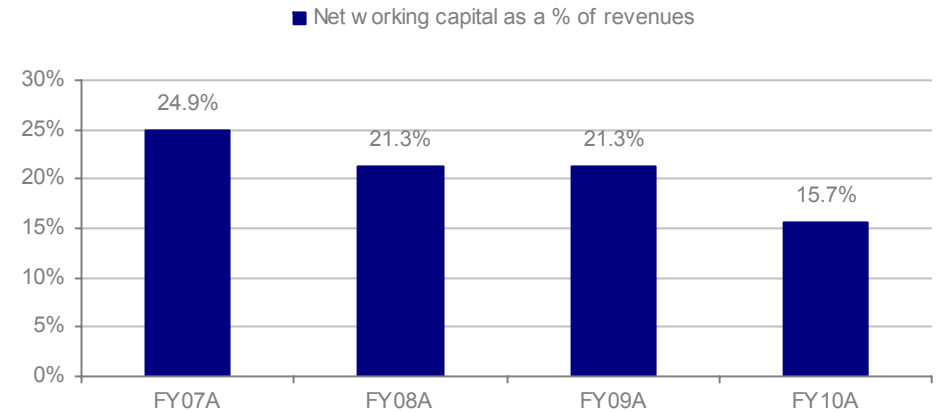
Figure 4: Licensing fees picked up in FY10 – likely to sustain



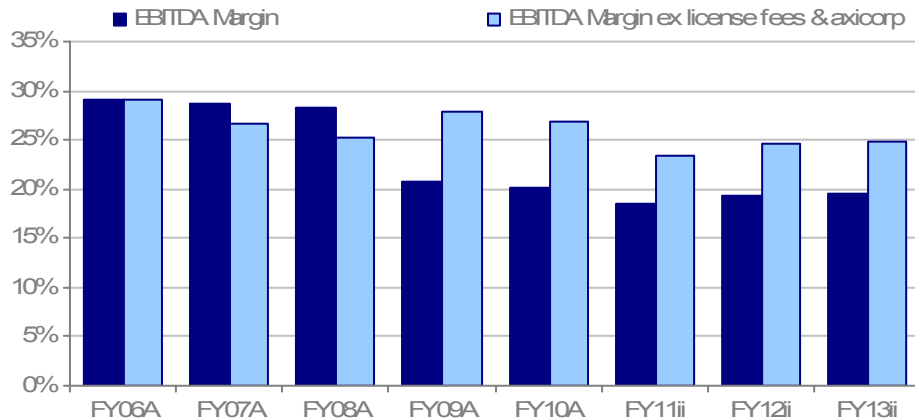
Source: Company, IIFL Research

Figure 5: Contract research – on secular growth path


Source: Company, IIFL Research

Figure 7: Improving working-capital cycle


Source: Company, IIFL Research

Figure 6: Margins likely to come under pressure in FY11 due to higher R&D spend


Source: Company, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenue	16,087	23,678	27,970	32,143	36,996
EBITDA	3,346	4,774	5,176	6,217	7,251
EBIT	2,243	3,373	3,698	4,682	5,720
Treasury income	-938	311	723	572	580
Interest expense	177	169	154	93	7
Profit before tax	1,128	3,515	4,266	5,161	6,292
Taxes	118	487	683	826	1,007
Minorities and other	79	96	85	103	126
Net profit	931	2,933	3,498	4,232	5,159

Cashflow summary (Rs m)

Y/e 31 Mar	FY09A	FY10ii	FY11ii	FY12ii	FY13ii
Profit before tax	1,044	3,515	4,266	5,161	6,292
Depr. & amortization	1,103	1,401	1,478	1,535	1,531
Tax paid	169	445	683	826	1,007
Working capital Δ	-1,282	-290	-3,476	-968	-1,006
Other operating items	256	-142	-568	-479	-572
Operating cashflow	951	4,038	1,017	4,424	5,238
Capital expenditure	-3,649	-1,020	-2,500	-1,500	-1,500
Free cash flow	-2,698	3,018	-1,483	2,924	3,738
Investments	211	256	0	0	0
Debt financing/disposal	2,111	-103	-2,034	-2,855	49
Dividends paid	-585	-702	-819	-351	-351
Other items	-432	142	568	479	572
Net change in cash	-1,393	2,611	-3,767	196	4,009

Source: Company data, IIFL Research

Balance-sheet summary (Rs m)

Y/e 31 Mar	FY09A	FY10ii	FY11ii	FY12ii	FY13ii
Cash & equivalents	3,403	5,314	1,547	1,743	5,752
Sundry debtors	3,667	4,461	6,433	7,393	8,509
Inventories - trade	3,192	3,716	5,594	6,429	7,399
Other current assets	947	1,343	1,678	1,929	2,220
Fixed assets	12,205	12,439	13,461	13,426	13,395
Intangible assets	1,631	1,695	1,695	1,695	1,695
Other term assets	391	391	391	391	391
Total assets	25,436	29,359	30,799	33,005	39,361
Sundry creditors	4,375	5,799	6,508	7,585	8,957
Long-term debt/CBs	5,239	5,136	3,102	247	296
Other long-term liabs	466	508	508	508	508
Minorities/other equity	248	338	423	527	652
Net worth	15,107	17,578	20,257	24,138	28,947
Total liabs & equity	25,436	29,359	30,799	33,005	39,361

Ratio analysis

Y/e 31 Mar	FY09A	FY10ii	FY11ii	FY12ii	FY13ii
Revenue growth (%)	52.7	47.2	18.1	14.9	15.1
Op Ebitda growth (%)	12.1	42.7	8.4	20.1	16.6
Op Ebit growth (%)	9.6	50.4	9.6	26.6	22.1
Op Ebitda margin (%)	20.8	20.2	18.5	19.3	19.6
Op Ebit margin (%)	13.9	14.2	13.2	14.6	15.5
Net profit margin (%)	5.8	12.4	12.5	13.2	13.9
Dividend payout (%)	64.4	23.9	8.6	7.1	5.8
Tax rate (%)	10.5	13.9	16.0	16.0	16.0
Net debt/equity (%)	12.2	-1.0	7.7	-6.2	-18.8
Net debt/op Ebitda (x)	0.5	0.0	0.3	-0.2	-0.8
Return on equity (%)	6.2	16.7	17.3	17.5	17.8
ROCE (%)	10.8	14.5	15.5	18.8	19.2
Return on assets (%)	3.7	10.0	11.4	12.8	13.1

Source: Company data, IIFL Research

Balkrishna Industries – BUY



BIL IN

Rs580

Tyres

29 June 2010

Visit update

Growth picks up

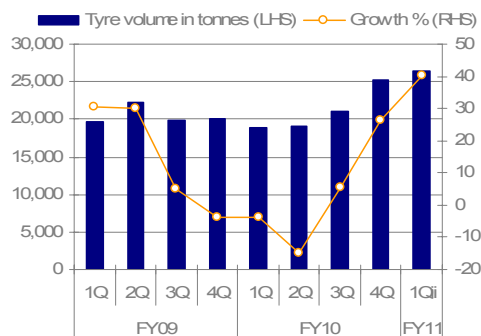
In our recent meeting, Balkrishna Industries's (BIL) management said tyre demand continues to pick up across geographies, and hence FY11 volumes are likely to be at its previous expectation. We expect BIL to increase tyre prices to partly offset the increase in raw-material costs and the depreciation of the euro. We now expect a marginal dip in earnings in FY12, as opposed to our earlier expectation of an increase; accordingly, we cut our FY12 earnings estimate by 10%. We leave our FY11 earnings estimate unchanged, as BIL has covered forex exposure for FY11, and an acceleration in volume growth is likely to offset the increase in raw-material cost. The stock is trading at a PER of 5.5x on FY11ii, which is reasonable, in our view. We cut our target price to Rs721 from Rs770, but retain BUY. Key takeaways from our meeting:

Improving visibility on volumes: BIL's tyre volumes increased 26% YoY in 4QFY10, and we estimate 40% YoY volume growth in 1QFY11 on account of a revival in demand across geographies and segments. For FY11, we estimate 25% volume growth, as against 2% in FY10.

Plans to expand capacity by ~70% in the next three years to meet higher demand: BIL's current capacity stands at 160,000tpa (tonnes per annum). In addition, the company plans to set up a 110,000tpa greenfield capacity against the previous expansion plan of 40,000tpa at Bhuj to meet increasing demand, at an estimated capex of Rs9bn. BIL plans to fund the expansion through a mix of debt and internal accruals. We estimate the post-expansion debt-to-equity ratio at 1.0 (as against the current 0.6). The capacity is likely to go on stream by FY13.

Tyre prices to be hiked if raw-material prices remain: BIL raised tyre prices by 5-6% in Jan/Feb 2010, to pass on the increase in raw-material costs. Recipe cost has increased 15% (primarily on account of the sharp increase in prices of natural rubber) in the past one quarter. BIL plans to increase tyre prices by another 6-7% in July/August 2010, if raw-material prices remain firm.

Volume growth accelerating



Financial Summary

Y/e 31 Mar	FY09A	FY10A/ii	FY11ii	FY12ii	FY13ii
Revenues (Rs m)	13,999	15,637	20,431	23,563	27,961
EBIDTA	2,047	3,873	3,873	3,839	4,361
EBITDA Margins (%)	14.6	24.8	19.0	16.3	15.6
Reported PAT (Rs m)	732	2,192	2,050	1,991	2,299
EPS (Rs)	38.3	113.4	106.0	103.0	118.9
Growth (%)	-34.5	195.9	-6.5	-2.8	15.5
PER (x)	15.1	5.1	5.5	5.6	4.9
ROE (%)	15.3	32.2	23.5	18.9	18.1
EV/EBITDA (x)	7.8	3.7	3.9	5.0	4.5
Price/Book (x)	2.3	1.6	1.3	1.1	0.9

Source: Company, IIFL Research. Price as at close of business on 28 June 2010

Source: Company, IIFL Research

12-mth TP (Rs) 721 (24%)

Market cap (US\$ m) 242

52Wk High/Low (Rs) 689/230

Diluted o/s shares (m) 19

Daily volume (US\$ m) 0.2

Dividend yield FY11ii (%) 1.8

Free float (%) 45.6

Shareholding pattern (%)

Promoters 54.4

FII's 15.5

DII's 13.9

Others 16.2

Price performance (%)

1M 3M 1Y

Balkrishna Inds. 10.3 -5.8 107.1

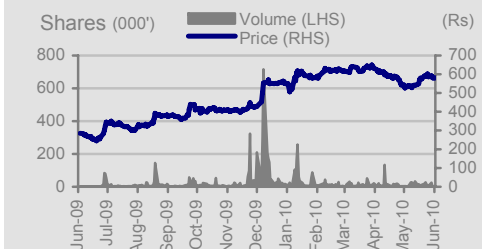
Rel. to Sensex 0.6 -5.9 84.6

Apollo Tyre 5.4 -7.5 112.7

MRF 5.4 8.8 133.2

CEAT 9.2 -12.9 47.8

Stock movement



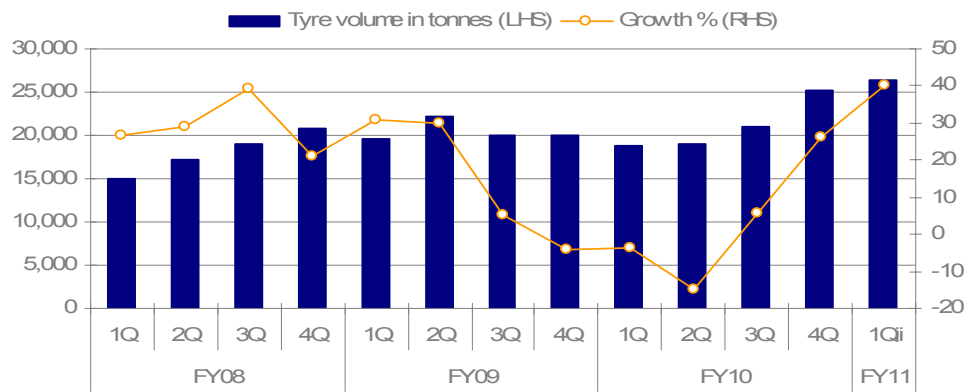
J Radhakrishnan

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91 22 4646 4653

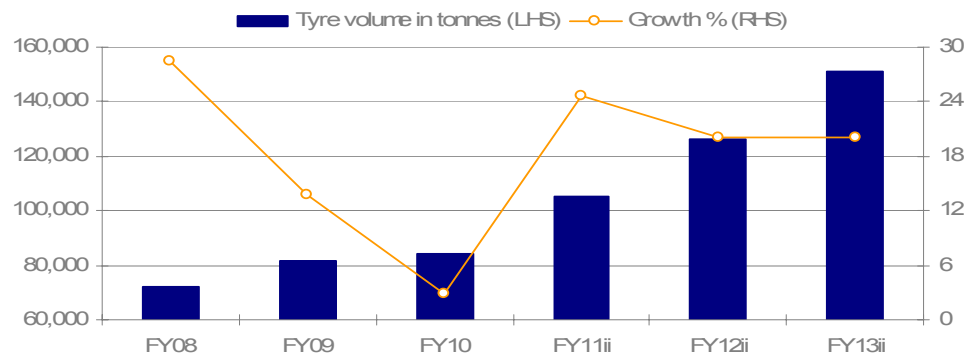
Euro and US\$ covered at Rs64/euro and Rs47/US\$: BIL has taken a forward cover for FY11 receivables at Rs64/euro and Rs47/US\$; however, receivables of FY12 are yet to be covered. We expect BIL to increase tyre prices to offset the depreciation in the euro rate; but this increase is unlikely to fully offset the euro's depreciation, and would hence adversely affect margins.

Figure 1: Sharp improvement in quarterly tyre volumes



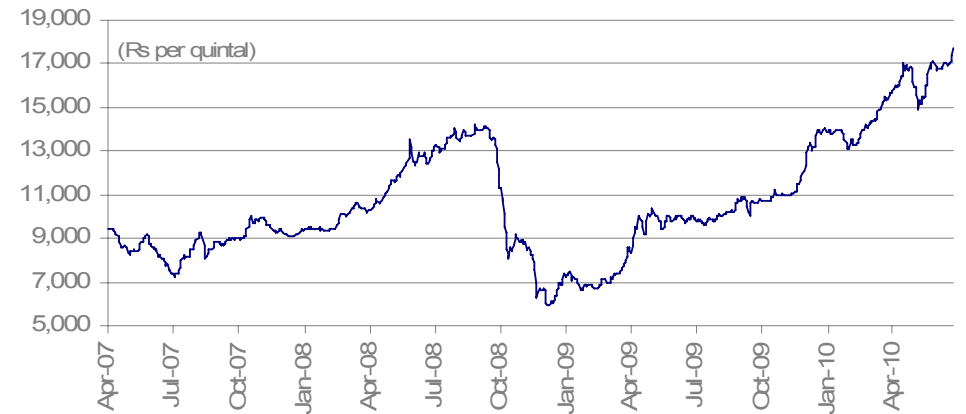
Source: Company, IIFL Research

Figure 2: Volume growth to accelerate



Source: Company, IIFL Research

Figure 3: Cost of rubber continues to be high – likely to be passed on in phases by BIL



Source: Industry, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY09A	FY10ii	FY11ii	FY12ii	FY13ii
Revenue	13,999	15,637	20,431	23,563	27,961
EBIDTA	2,047	3,873	3,873	3,839	4,361
EBIT	1,525	3,482	3,260	3,172	3,638
Interest Expense	-384	-193	-155	-155	-155
Depreciation	-586	-686	-738	-818	-898
PBT	1,141	3,289	3,105	3,017	3,484
Taxes	-409	-1,098	-1,056	-1,026	-1,184
Net Profit	732	2,192	2,050	1,991	2,299

Cashflow summary (Rs m)

Y/e 31 Mar	FY09A	FY10A/ii	FY11ii	FY12ii	FY13ii
EBIT	1,525	3,482	3,260	3,172	3,638
Depr & Amortisation	586	686	738	818	898
Working capital Δ	551	443	-681	-445	-616
Other operating items	922	0	0	0	0
Net Interest/ Tax/ Others	-721	-1,291	-1,210	-1,180	-1,339
Operating Cash flow	2,864	3,321	2,106	2,364	2,581
Capital Expenditure	-1,328	-1,500	-3,000	-6,000	-3,000
Free Cash Flow	1,536	1,821	-894	-3,636	-419
Debt financing/disposal	-901	-1,100	1,100	3,700	1,200
Dividends paid	-236	-158	-157	-157	-157
Other items	-394	0	0	0	0
Net Change in cash	5	564	49	-93	624

Source: Company data, IIFL Research

Balance-sheet summary (Rs m)

Y/e 31 Mar	FY09A	FY10A/ii	FY11ii	FY12ii	FY13ii
Cash & Cash equivalents	156	720	769	677	1,301
Sundry Debtors	2,208	1,973	2,577	2,973	3,527
Inventories - trade	1,333	1,049	1,477	1,759	2,105
Other current assets	2,875	1,952	1,952	1,952	1,952
Fixed assets	6,456	7,270	9,532	14,714	16,816
Total assets	13,027	12,963	16,307	22,074	25,702
Short term debt	1,992	1,008	1,008	1,009	1,010
Sundry Creditors	876	862	1,213	1,445	1,729
Long term debt	4,833	3,733	4,833	8,533	9,733
Other long term liabilities	546	546	546	546	546
Networth	4,781	6,815	8,708	10,542	12,684
Total liability and equity	13,027	12,963	16,307	22,074	25,702

Ratio analysis

Y/e 31 Mar	FY09A	FY10A/ii	FY11ii	FY12ii	FY13ii
Revenue growth (%)	23.5	11.7	30.7	15.3	18.7
Op EBIDTA growth (%)	-9.5	89.2	0.0	-0.9	13.6
Op EBIT growth (%)	-22.5	128.3	-6.4	-2.7	14.7
Op EBIDTA margin (%)	14.6	24.8	19.0	16.3	15.6
Op EBIT margin (%)	10.9	22.3	16.0	13.5	13.0
Net Profit margin (%)	5.2	14.0	10.0	8.5	8.2
Dividend payout (%)	18.5	6.2	6.6	6.8	5.9
Tax rate (%)	35.9	33.4	34.0	34.0	34.0
Net Debt/Equity (%)	97.8	44.2	46.7	74.5	66.5
Net Debt/Op EBIDTA (x)	2.3	0.8	1.0	2.0	1.9
Return on Assets (%)	11.0	21.5	15.6	10.9	10.7

Source: Company data, IIFL Research

Events calendar



Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
JUNE – 2010					
14 May WPI - 10.16%	15 Cipla	16 ICSA	17	18 Dabur India May CPI AL – 13.68% RL – 13.68%	19
21	22	23	24	25	26
28	29	30 May CPI – IW			
JULY – 2010					
Exide Inds – 13 Jul Godrej Properties – 17 Jul			1 May Exports– May Imports–	2	3

Black: Quarterly results, Blue: Economic data, Red: India Holiday.

	Apr-Jun 10	Jul-Sep 10	Oct-Dec 10
Economics / Politics	<ul style="list-style-type: none"> RBI's Monetary Policy meeting (end Apr) 4QFY10 Quarterly GDP 	<ul style="list-style-type: none"> RBI's Monetary Policy meeting on 27th July, 2010 1QFY11 Quarterly GDP 	<ul style="list-style-type: none"> RBI's Monetary Policy meeting (end Oct) 2QFY11 Quarterly GDP
Cement		<ul style="list-style-type: none"> Shree cements 1.5mtpa plant in Ras to start (Sep) India Cements 1.5mtpa plant in Rajasthan to start (Sep) ACC Wadi clinker unit to support 3mtpa cement to start (Jul) JP Associates 2nd phase addition in Gujarat to start (Aug) Prism Cements 3mtpa plant to start (Sep) 	<ul style="list-style-type: none"> Bharathi Cement 2mtpa (2nd unit) in Cuddapah to start (Dec) Jaypee's 3mtpa Dalla unit to start (Nov) Ambuja Cements 1.5mtpa unit in Bhatapara to start (Dec)
Media		<ul style="list-style-type: none"> Sun TV – To release its high budget movie – “Indhiran” 	
Metals		<ul style="list-style-type: none"> Sterlite: 1st phase of 2400MW will commence operation 	<ul style="list-style-type: none"> Sterlite: 2nd phase of 2400MW will commence operation
Pharma	<ul style="list-style-type: none"> Sun Pharma: Resumption of sales of Caraco products from alternate manufacturing facilities in US / India Sun Pharma: District court verdict on Protonix patent validity Dr Reddy's: Launch of generic Allegra D24 in US Dr Reddy's: Potential USFDA approval for fondaparinux Sun Pharma: Potential US FDA approval and launch of generic Effexor XR in US Biocon: data from oral insulin study in India 	<ul style="list-style-type: none"> Sun Pharma: Israeli Supreme court decision on Taro acquisition agreement 	<ul style="list-style-type: none"> Ranbaxy: Launch of generic Aricept in US Sun Pharma: resolution of Caraco manufacturing quality issues in US

	Apr-Jun 10	Jul-Sep 10	Oct-Dec 10
Real Estate	<ul style="list-style-type: none"> • HDIL - QIP fund raising • DLF to list DAL in Singapore • Peninsula land – QIP fund raising • Puravankara Projects – Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project 		
Telecom	<ul style="list-style-type: none"> • BWA auctions to be completed 	<ul style="list-style-type: none"> • Indus to complete court process for tower transfer • DoT to revert on TRAI 2G recommendations 	<ul style="list-style-type: none"> • MNP to be implemented
Utilities	<ul style="list-style-type: none"> • NTPC's Sipat-I Unit 1 (660MW), Korba-III (500MW) to commission (Jun) • KSK – Unit I & II (135MW) at Wardha Warora 	<ul style="list-style-type: none"> • JSPL - Second 135 MW unit of 540MW plant at Chhattisgarh (Jul / Aug) • KSK – Unit III & IV (135MW each) at Wardha Warora 	



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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