

January 2, 2007

FOR PRIVATE CIRCULATION

Equity

| | 29 Dec 06 | % Chg | | |
|-----------------------|-----------|-------|-------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Indian Indices | | | | |
| Sensex | 13,787 | (0.4) | (0.4) | 10.7 |
| Nifty | 3,966 | (0.1) | (0.8) | 10.5 |
| Banking | 7,086 | (0.2) | (2.8) | 17.3 |
| IT | 3,651 | (0.3) | 1.6 | 21.7 |
| Healthcare | 3,792 | 0.1 | 0.6 | 2.9 |
| FMCG | 1,934 | (0.9) | (5.7) | (6.4) |
| PSU | 6,034 | (0.0) | (3.5) | 3.7 |
| CNX Midcap | 5,200 | 0.9 | 1.4 | 10.8 |
| World indices | | | | |
| Nasdaq | 2,415.3 | (0.4) | 0.1 | 6.9 |
| Nikkei | 17,225 | 0.0 | 5.5 | 6.8 |
| Hangseng | 19,965 | (0.2) | 7.9 | 15.0 |

Value traded (Rs cr)

| | 29 Dec 06 | % Chg - 1 Day |
|-------------|-----------|---------------|
| Cash BSE | 3,768 | (4.9) |
| Cash NSE | 7,556 | (24.2) |
| Derivatives | 18,625 | (56.3) |

Net inflows (Rs cr)

| | 28 Dec 06 | % Chg | MTD | YTD |
|-------------|-----------|---------|---------|--------|
| FII | (1,049.7) | (185.1) | (4,074) | 35,795 |
| Mutual Fund | 677.1 | 73.0 | 1,309 | 15,694 |

FII open interest (Rs cr)

| | 28 Dec 06 | % chg |
|-------------------|-----------|-------|
| FII Index Futures | 10,617.5 | 1.0 |
| FII Index Options | 3,072.1 | 11.1 |
| FII Stock Futures | 12,906.8 | 2.5 |
| FII Stock Options | 4.4 | 39.4 |

Advances/Declines (BSE)

| | 29 Dec 06 | A | B1 | B2 | Total | % Total |
|-----------|-----------|-----|-----|-----|-------|---------|
| Advances | 122 | 338 | 433 | 893 | 51 | |
| Declines | 88 | 316 | 418 | 822 | 47 | |
| Unchanged | 0 | 14 | 31 | 45 | 3 | |

Commodity

| | 29 Dec 06 | % Chg | | |
|--------------------------|-----------|-------|-------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US\$/BBL) | 61.1 | 0.9 | (3.8) | (3.0) |
| Gold (US\$/OZ) | 636.8 | 0.3 | (1.3) | 6.8 |
| Silver (US\$/OZ) | 12.9 | 0.5 | (7.4) | 12.9 |

Debt/forex market

| | 29 Dec 06 | 1 Day | 1 Mth | 3 Mths |
|-------------------|-----------|-------|-------|--------|
| 10 yr G-Sec yield | 7.62 | 7.62 | 7.42 | 7.64 |
| Re/US\$ | 44.26 | 44.29 | 44.69 | 45.93 |

Sensex



Source: Bloomberg

WISHING ALL OUR READERS A VERY HAPPY AND PROSPEROUS 2007

ECONOMY NEWS

- The Ministry of Rural Development will be formulating a slew of new rules under the Land Acquisition Act shortly, to enhance the compensation for acquiring private land for public purposes, while also re-defining the term 'public purpose' in this context. (ET)
- The Indian real estate sector is likely to attract Rs.80 bn foreign capital in 2007, according to Assocham. This investment is expected to generate employment opportunities for over 200,000 skilled and unskilled professionals in the country. (ET)
- The Commerce Ministry has plans to engage the private sector to revive investments in existing agro-economic zones (AEZs) and make them functional. The Government is partnering private players for the revival of 10 AEZs on a pilot basis. (ET)
- Trai will consult all stakeholders on roaming tariffs on Tuesday even as some analysts feel operators having a pan-India presence should not charge customers for such services. (BS)
- Indian gems and jewelry exporters have received a mixed reprieve with US President George W Bush, signing the necessary legislation that continues the Generalized System of Preferences for two years until December 31, 2008. (BL)

CORPORATE NEWS

- **Tata Steel** is in the closing stages of putting in a final bid for Anglo-Dutch steelmaker Corus. The bid is likely to be priced 7-10% higher than its previous offer of £5 a share. The final offer may be submitted in a fortnight. (BS)
- **ONGC** and **RIL** are now drawing up plans to share exploration infrastructure in lucrative deep sea basins. Faced with an acute shortage of drilling rigs, RIL is in talks with ONGC to explore possibilities of sharing rigs, which have been on contract with ONGC. (ET)
- **Bajaj Auto** is set to re-enter the scooter segment with the launch of Crystal, its automatic scooter built on the DTSi platform. The launch is the result of the company's research and development efforts over the last one year or so. (BS)
- **Nissan Motors** plans to build a 200,000 unit-a-year car plant in India with an investment of \$420-500 mn, the Nikkei newspaper said. It has shortlisted two or three coastal cities in western and southern India as potential locations and plans to negotiate with local governments before making a decision. (ET)
- A dispute is brewing between **ONGC** and **GAIL India Ltd.** The bone of contention is ONGC's upcoming methane-propane (C2-C3) extraction plant at Dahej, which GAIL wants to be 'reviewed'. (BS)
- **Parsvanath Developers Limited**, the Delhi-based real estate company, is planning to invest Rs.6 bn in Gujarat in 2007. The company is, however, contemplating several industry verticals for the investments. (BS)
- **IFCI** may soon see the entry of a strategic investor. The Government is vetting a proposal to induct a strategic investor into the financial institution, which has been forced to stop its lending activity after its business fortunes dipped over six years ago. (ET)
- **Mercator Lines (Singapore)**, the wholly-owned subsidiary of Mercator Lines, is planning its IPO within six to eight months. Mercator Lines (Singapore) may offload up to 40% stake in the IPO to raise \$120-150 mn. (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

INITIATING COVERAGE

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AVENTIS PHARMA (Rs.1350, CY07E P/E: 14.8, BUY)

Aventis' focus on its strategic brands, successful mapping with its parents' portfolio, strong presence in certain therapeutic areas, high brand recall among the medical fraternity and increasing outsourcing by parent, continue to be the key determinants for its future valuation.

The performance of the company is enviable in its strategic brands. We expect earnings growth of 17% CAGR for the next two years. From 2008, Aventis is likely to launch patented drugs from its parent's portfolio. However, more clarity will come only in 2007. Aventis has about 60% of its total assets in liquid cash, which can be utilized for inorganic growth or acquisition of brands, we believe. We initiate our coverage with a BUY recommendation with 2007 DCF-based price target of Rs.1643. This implies an upside of 22% from the current level.

Summary table - Year end December

| Rs mn | CY05 | CY06E | CY07E |
|-------------------|-------|-------|--------|
| Sales | 8,078 | 9,069 | 10,255 |
| Growth (%) | 9.9 | 12.3 | 13.1 |
| EBITDA | 2,241 | 2,449 | 2,820 |
| EBITDA margin (%) | 27.7 | 27.0 | 27.5 |
| Net profit | 1,451 | 1,850 | 2,106 |
| Net Margin (%) | 18.0 | 20.4 | 20.5 |
| EPS (Rs) | 63.0 | 80.3 | 91.4 |
| Growth (%) | (2.3) | 27.5 | 13.9 |
| DPS (Rs) | 4.0 | 16.0 | 16.0 |
| RoE (%) | 30.7 | 31.1 | 28.0 |
| RoCE (%) | 50.3 | 46.8 | 42.2 |
| EV/Sales (x) | 4.3 | 2.9 | 2.4 |
| EV/EBITDA (x) | 15.7 | 10.9 | 8.9 |
| P/E (x) | 26.3 | 16.8 | 14.8 |
| P/BV (x) | 7.3 | 4.7 | 3.7 |

Source: Company & Kotak Securities - Private Client Research

KEY INVESTMENT RATIONALE

Strategic brands to remain key growth driver in domestic market

Aventis has identified certain brands as strategic, based on the parent's strength in R&D and marketing, which can be leveraged to improve sales growth and margins. In 2005, strategic brands as a group grew by 20% and made up 32% of domestic sales, led by Lantus (83%), Rabipur (22%), Frisium (18%), Amaryl (18%), Cardace (15%), Clexane (14%) and Targocid (8%). We expect these same brands to continue to drive growth. The company expects Lantus to be its largest brand in three to four years, the world's first and only once-daily twenty-four hour basal insulin. However, insulin is under price control, and this being an imported drug, we estimate gross margin of 15%.

Outsourcing by Parent to remain robust

Aventis has been catering to its parent's requirements in various markets for several years, supplying both formulations and APIs. Outsourcing from the parent and exports continue to be sustained growth drivers in the future and we expect it to grow by 20-25% in the coming years. In 2005, sourcing had a growth of 55% due to higher procurements of Daonil (Glibenclamide) by Germany. The company had started supplies of Daonil (anti-diabetic) formulations to the parent. It intends to gradually raise Daonil supplies and aims to meet about 80% of the parent's requirements (by volume) for the drug in the coming years.

Exports likely to resume at normal level in 4QCY06 after products relisted in Russia

Exports accounted for about 26% of total sales in CY05, growing by 9.1%. Most of the exports are to group companies (mainly to the CIS and EU countries), either formulations or intermediates. Exports to CIS countries grew 26% primarily resulting from the upsurge in demand from Russia as several products benefited from the Federal Reimbursement Scheme. However, in Q3CY06, exports dropped 6%, the fourth successive drop. Sales had earlier dipped owing to removal of two products from the reimbursement list in Russia. These were restored during the quarter and Aventis expects growth to resume soon. For the full year CY06, we expect a flat growth in exports followed by 10% growth in CY07E, contributing 23% to total sales in CY07E.

Parent's global R&D pipeline may benefit domestic entity

Sanofi Aventis globally has 127 new drug discovery projects in research and development pipeline. This pipeline includes about 45 drugs in pre-clinical development, 26 in phase-1, 38 in phase-II and 18 in late stage development, that is, phase-III. It plans to file about 11 ANDAs and seven vaccines by CY08E. Although clarity on the launch of these drugs will emerge only over a period of time, we believe some of these products could be relevant for the Indian markets and are likely to be launched in India with a time lag.

We expect revenue CAGR of 12.7% and earning CAGR of 20.5% over CY06-07E

Aventis has recorded a 10% growth in net sales in CY05 at Rs.8.08bn. Going forward, we expect net sales to grow by 12.3% and 13.1% to Rs.9.07bn and Rs.10.3bn in CY06E and CY07E, respectively. Operating margins are likely to remain between 27-28%. We expect net profit to grow by 27.5% in CY06E and 13.9% in CY07.

Valuation and recommendation

We initiate our coverage with a BUY recommendation on the stock with a price target of Rs.1643

Aventis has posted an EPS of Rs.63 in CY05 and we expect EPS to grow by 27% and 14% to Rs.80.3 and Rs.91.4 in CY06E and CY07E, respectively. At the current market price of Rs.1350, the stock is trading at 16.8x CY06E and 14.8x CY07E expected earnings. The company has a cash of around 430 crores (Rs.188 per share) in its balance sheet at the end of the year CY06 which is around 65% of total assets. We initiate our coverage with a **BUY** recommendation with 2007 DCF-based one year target price of Rs.1643 per share.

Key risks and concerns

- Possibility of new products being routed through Sanofi's unlisted Indian subsidiary, which would be a key risk. However, Aventis' inherent marketing strengths, in our view, make it the preferred vehicle for such launches.
- Risk of likely termination of Chiron Behring JV due to acquisition of Chiron Vaccines by Novartis.
- Slowdown or pricing pressure in domestic formulation market.

Bulk deals

| Trade details of bulk deals | | | | | |
|-----------------------------|-----------------|---------------------------|--------------|-----------------------|--------------------|
| Date | Scrip name | Name of client | Buy/ Sell | Quantity of shares | Avg. Price (Rs) |
| 29-Dec | Bosch Cha Sy | Reliance Mutual Fund | B | 71,430 | 900.00 |
| 29-Dec | Clari Chem | Clariant Participations L | B | 2,660,000 | 321.99 |
| 29-Dec | Clari Chem | Btp Ltd | S | 2,660,000 | 321.99 |
| 29-Dec | Class Diam I | Jigneshbhai Hiralal Shah | B | 45,000 | 540.88 |
| 29-Dec | Crew Bos | Deutsche Securities Mauri | B | 90,000 | 231.34 |
| 29-Dec | Crew Bos | The India Fund Inc | S | 89,420 | 231.49 |
| 29-Dec | Dazzel Confi | Rapid Commercial And Finl | B | 21,240 | 8.69 |
| 29-Dec | Diana Tea Co | Merrill Lynch Capital Mar | S | 400,000 | 8.25 |
| 29-Dec | Dmc Vaults | Hi Klass Trading And Inve | S | 13,500 | 29.15 |
| 29-Dec | Dmc Vaults | Ksb Holding Private Limit | S | 15,000 | 29.15 |
| 29-Dec | Emmso Intern | Viel Insurances Private L | B | 22,000 | 46.64 |
| 29-Dec | Fedders Llyo | Indo Distillation Company | B | 175,000 | 134.79 |
| 29-Dec | Goldston Tec | Sumati Sharma | B | 110,000 | 66.65 |
| 29-Dec | Goldston Tec | Prindhi Estates Private L | B | 375,000 | 66.65 |
| 29-Dec | Goldston Tec | Yuthika Commercial Privat | B | 149,932 | 66.65 |
| 29-Dec | Goldston Tec | Matribhumi Dealers Pvt Lt | S | 565,500 | 66.65 |
| 29-Dec | Grabal Alok-Pms | Nimish Shah | B | 80,000 | 145.00 |
| 29-Dec | Grabal Alok-Pms | Seaheaven Investment Maur | S | 50,000 | 145.00 |
| 29-Dec | Isibars Ltd. | Hitesh Jhaveri | B | 200,011 | 14.99 |
| 29-Dec | Isibars Ltd. | Ruby Multimedia Pvt Ltd | B | 200,000 | 14.72 |
| 29-Dec | J B Chem Phr | Morgan Stanley And Co Int | B | 688,568 | 89.92 |
| 29-Dec | Lime Chem | Hitesh Shah | B | 18,177 | 19.75 |
| 29-Dec | Mahar Polybu | D H Bhojak | B | 91,000 | 13.55 |
| 29-Dec | Mittal Sec. | Rameshchandra Dhoot | B | 25,000 | 8.29 |
| 29-Dec | Mittal Sec. | Archana Arunkumar Upadhya | B | 35,000 | 8.29 |
| 29-Dec | Mittal Sec. | G.S. R.C.V. Prasad | S | 20,000 | 8.72 |
| 29-Dec | Mount Eve Mi | Bakliwal Fincom Pvt. Ltd. | B | 600,000 | 74.00 |
| 29-Dec | Mount Eve Mi | Gujarat Fluoro Chemicals | S | 600,000 | 74.00 |
| 29-Dec | Raj Rayon Li | Accurate Finstock P Ltd | S | 250,000 | 41.95 |
| 29-Dec | Rasi Electro | S Yogarathnam | B | 50,000 | 21.98 |
| 29-Dec | Rasi Electro | Siva Aruldurai Y | S | 59,800 | 22.04 |
| 29-Dec | Rock Hard Pe | Sanjay Soni | B | 81,615 | 11.98 |
| 29-Dec | Rock Hard Pe | Atul Shah | B | 108,755 | 11.98 |
| 29-Dec | Rock Hard Pe | Jignesh Dilipbhai Rangoon | S | 53,000 | 11.98 |
| 29-Dec | Selan Expl | Merrill Lynch Capital Mar | B | 76,000 | 80.83 |
| 29-Dec | Sky Industri | Hemal Shah | B | 20,000 | 63.01 |
| 29-Dec | Sky Industri | Vijay Jamnadas Vohra | S | 21,289 | 63.27 |
| 29-Dec | Speciality | Deeakkumar Jakhubhu Nandu | B | 25,000 | 44.83 |
| 29-Dec | Sri Ramk.Mil | Hitesh Jhaveri | B | 18,526 | 38.95 |
| 29-Dec | Sujana Univ | Itf Mauritius | S | 2,200,000 | 22.10 |
| 29-Dec | Sybly Indusr | Yatin B Shah Huf | B | 30,000 | 15.92 |
| 29-Dec | Uniflex Cabe | Hitesh Jhaveri | B | 92,351 | 38.25 |
| 29-Dec | Uniro Text I | Ashwani Kumar | B | 38,829 | 8.53 |
| 29-Dec | Visu Intl | Innovision Commerce Ltd. | B | 221,484 | 14.45 |
| 29-Dec | Vyapar Inds | Basantkumar B. Rungta | B | 40,000 | 123.75 |
| 29-Dec | Vyapar Inds | Sakina Rassai | S | 50,000 | 123.77 |
| 29-Dec | Woolite Merc | Harinath Reddy P | B | 29,000 | 12.33 |
| 29-Dec | Woolite Merc | Sunil J Agarwal | S | 22,000 | 12.33 |

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

| | Price (Rs) | % change | Index points | Volume (mn) |
|----------------|------------|----------|--------------|-------------|
| Gainers | | | | |
| TCS | 1,222 | 0.8 | 2.0 | 0.5 |
| SAIL | 89 | 2.7 | 1.9 | 6.6 |
| ABB | 3,721 | 4.0 | 1.2 | 0.2 |
| Losers | | | | |
| ONGC | 871 | (0.6) | (2.4) | 0.9 |
| Reliance Com | 472 | (1.1) | (2.2) | 5.4 |
| ICICI Bank | 892 | (1.3) | (2.1) | 0.5 |

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

| Date | Event |
|--------|---|
| 4-Jan | Infrastructure Development to consider new business plans |
| 10-Jan | iGate Global Solutions earnings expected |
| 11-Jan | Infosys Technologies, HDFC Bank earnings expected |
| 13-Jan | CMC earnings expected |
| 16-Jan | Bajaj Auto earnings expected |
| 18-Jan | Ranbaxy Laboratories to announce earnings & dividend |
| 19-Jan | Dabur India earnings expected |
| 20-Jan | Godrej Consumer earnings expected |

Source: Bloomberg

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