

Equity	% Chg			
	25-Jan	1-day	1-mth	3-mth
India				
Sensex	18,362	6.6	(9.1)	(4.6)
Nifty	5,383	7.0	(11.5)	(5.6)
Global/Regional markets				
Dow Jones	12,207	(1.4)	(8.7)	(11.6)
Nasdaq	2,326	(1.5)	(13.0)	(17.0)
FTSE	5,869	(0.1)	(9.4)	(11.9)
Nikkei	13,275	(2.6)	(13.3)	(19.6)
Hang Seng	24,257	(3.4)	(11.4)	(20.2)

Value traded (Rs bn)	BSE	NSE
Cash	52.2	134.5
Derivatives	8.1	390.1
Total	61.3	524.6

Net inflows (Rs bn)	Recent trends (days)			
	24-Jan	-7d	-15d	-30d
FII	(13.5)	(143.5)	(127.2)	(102.3)
MF	3.5	44.3	35.9	73.0

Forex / Crude	% Chg			
	25-Jan	1-day	1-mth	3-mth
Rs/US\$	39.4	0.0	0.2	0.2
Euro/US\$	1.5	(0.1)	(0.4)	1.7
Crude(\$/bbl)	90.1	(0.7)	(6.1)	(1.9)

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
Top gainers			
Bajaj Hindusthan	216.1	166.9	29.4
Hindustan Oil	112.6	89.5	25.9
Balrampur Chini	92.7	74.4	24.5
Top losers			
Wyeth	425.2	458.1	(7.2)
Jaybharat Textiles	171.8	182.0	(5.6)
Rashtriya Chem	96.0	101.0	(5.0)

In focus

State Bank of India – Results Update

Robust growth continues CMP: Rs 2,405 Target: Rs 2,827 BUY

Tulip IT – Results Update

Strong growth in connectivity business CMP: Rs 974 Target: Rs 1,392 BUY

Sterlite Technologies – Results Update

Below-expected margins but growth drivers intact CMP: Rs 202 Target: Rs 384 BUY

Cipla – Results Update

Q3 above estimates but challenges remain CMP: Rs 175 Target: Rs 179 SELL

News track

- ❖ Sugar exports are likely to increase to 3mn tonnes in the 2007-08 season due to a decline in sugar production globally. (ET)
- ❖ BPL Mobile is exploring fund raising options to start services in 22 circles in the next two years. The company is also looking at roping in an equity partner for the pan-India foray and is believed to have started discussions with potential partners. (BS)
- ❖ Shipping Corporation of India will partner PSUs in the manufacture of ship engines. (Mint)
- ❖ HDFC Bank will set up over 250 branches in the next two to three months and is also looking to foray into investment banking. (ET)
- ❖ Tata Motors may provide Nano buyers finance directly. (BS)
- ❖ Nicholas Piramal and Pierre Fabre Laboratories have signed an agreement on research in oncology. (ET)
- ❖ Specialty Restaurants, the chain of fine dining eateries, is planning a Rs 2.5bn expansion. (BS)

Source: BL: Business Line, BS: Business Standard, ET: Economic Times, FE: Financial Express

Volume shockers

(No of shares)	25-Jan	2-mth avg	Chg (x)	Company	Del (%)	Tot. vol	Cons days
Wyeth	111,702	11,675	9.6	Television Eighteen	87.4	581,406	4
Britannia Industries	49,203	5,654	8.7	Nava Bharat Ventures	74.3	551,139	3
Tele Data Info	899,141	104,693	8.6	Aban Offshore	84.6	294,113	1

Delivery toppers

State Bank of India

Results Update

CMP: Rs 2,405

Target: Rs 2,827

BUY

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BSE code: 500112
 NSE code: SBIN

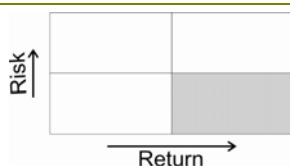
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	1,265.8/32.2
Outstanding equity shares (mn)	526.3
52-week high/low (Rs)	2,540/845
Quarterly average daily volume	416,348

Financial snapshot

Particulars	FY07	FY08E	FY09E
NII (Rs bn)	160.5	171.9	207.1
Growth (%)	3.0	7.1	20.5
Adj net profit (Rs bn)	45.4	65.2	77.5
Growth (%)	3.1	43.6	18.8
FDEPS (Rs)	86.3	104.1	123.7
Growth (%)	3.1	20.7	18.8
P/ABV (x)	4.9	3.2	2.8
ROE (%)	15.4	15.4	13.7

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	59.7	59.7
FIIs	19.8	19.8
Banks & FIs	11.9	11.9
Public	8.6	8.6

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
SBI	2,405	0.9	15.4	60.3
Sensex	18,362	(9.1)	(4.6)	20.5
BSE Bankex	11,380	(0.1)	10.8	43.7

Company website: www.statebankofindia.com

Robust growth continues

State Bank of India (SBI) has bettered our expectations for Q3FY08. Higher growth in non-interest income and lower-than-expected provisioning expenses boosted net profit for the quarter. Non-interest income grew 48% YoY, supported by a sharp increase in revenue from forex activities and gains from the sale of investments. The bank's business growth, at 26.2%, bettered the industry average for the quarter.

SBI has announced a rights issue to shore up its capital base and expects the issue to be completed by the end of FY08. This infusion of funds would sustain the growth in business and strengthen ROEs over the longer term. We maintain our Buy recommendation on the stock with a target price of Rs 2,827.

Actual vs estimated performance

(Rs bn)	Actual	Estimated	% Variance
NII	42.6	41.4	2.8
PPP	36.6	30.9	18.5
PAT	18.1	14.3	26.8
EPS (Rs)	34.4	27.1	26.8

Source: Company, Religare Research

Quarterly results

(Rs bn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Int on advances	92.7	64.1	44.6	83.7	10.8
Inc on investments	32.7	23.3	40.4	28.6	14.3
Int on balance with RBI	1.2	7.0	(82.3)	3.9	(67.9)
Interest income	126.7	94.5	34.1	116.2	9.0
Interest expenses	84.1	60.1	40.0	78.5	7.1
Net interest income	42.6	34.4	23.8	37.6	13.1
Other income	27.0	18.2	48.0	20.4	32.1
Total income	69.5	52.6	32.2	58.0	19.8
Operating expenses	32.9	29.1	13.1	30.9	6.5
PPP	36.6	23.5	55.8	27.1	34.9
Provisions & write-offs	8.0	6.6	21.6	0.9	838.5
PBT	28.6	16.9	69.1	26.3	8.7
Taxes	10.5	6.2	67.9	10.2	3.0
PAT	18.1	10.7	69.8	16.1	12.2
Cost-Income ratio (%)	47.4	55.3	-	53.3	

Source: Company, Religare Research

Result highlights

Incremental credit-deposit ratio of 102.7%; NIM stable at 3.01%

Higher NIM and improved CD ratio aid NII growth

SBI has reported a strong growth in net interest income (NII) for the quarter at 23.8% YoY to Rs 42.6bn, supported by stable margins and an improvement in the credit-deposit (CD) and CASA ratios. Business for the quarter increased 26.2%, wherein advances expanded 26% YoY to Rs 3,903bn, ahead of the industry average, and deposits grew 26.2% to Rs 5,101bn.

The bank's loan book expanded by Rs 267.2bn whereas deposits increased by Rs 260.2bn during the quarter, resulting in an incremental CD ratio of 102.7%. The proportion of CASA deposits has increased by 160bps QoQ to 41.1% of total funds.

SBI recorded a net interest margin (NIM) of 3.01% at the end of December 2007 as compared to 3.08% a year ago. Going forward, we expect the margin to improve since the cost of deposits should contract with the reduction in deposit rates effected by the bank during the quarter. Further, the availability of proceeds from the proposed rights issue and the resultant improvement in the CD ratio would lead to stronger NIMs.

Forex gains and sale of investments boost non-interest income

Non-interest income posted robust growth on the back of higher revenues from forex activities and the sale of investments. On the back of buoyant capital markets, SBI has reported trading gains of Rs 6.4bn, much higher than the Rs 4.3bn reported in Q2FY08 and Rs 3.1bn reported in Q3FY07.

Non-interest income components

Segment (Rs bn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Comm, exch and brokerage	10.2	8.6	18.9	9.4	8.4
Profit on sale of investments	6.4	3.1	107.2	4.3	48.1
Forex income	4.3	1.1	293.7	2.6	63.3
Profit/loss on revaluation of investments	-	-	-	0.1	-
Dividend	0.2	0.1	70.4	0.0	2,373.1
Income from leasing	0.1	0.3	(45.1)	0.1	1.9
Miscellaneous income	5.6	5.0	11.8	3.8	49.5
Total	27.0	18.2	48.0	20.4	32.1

Source: Company, Religare Research

Above-expected PAT led by lower operating and provisioning expenses

During Q3Y08, the bank's total operating expenses increased by 13.1% YoY. Employee costs were up 8.1%, while other operating expenses swelled 25.2% YoY due to the cost of technology upgrades on the CBS (core banking solution) platform. However, with the strong growth in income, the bank's cost-income ratio fell to 47.4% from 55.3% in Q3FY07.

We do not expect SBI to incur significant expenditure on CBS going forward as 95% of its business is now covered by this technology. On the AS-15 front, the management is still contemplating accounting options for the transitional liability of Rs 40bn.

PAT up 70% YoY as provisioning expenses came in much lower than anticipated

SBI's provisioning expenses increased substantially to Rs 8bn for the quarter as against Rs 852mn in Q2FY08 and Rs 6.6bn in Q3FY07. Still, this was much lower than our estimated figure, resulting in higher-than-expected profit growth at 70% YoY to Rs 18.1bn. NPA provisions have increased to Rs 4.4bn in line with asset growth. The gross NPA ratio reduced from 2.92% in Q2FY08 to 2.69%; the net ratio has also improved by 19bps sequentially to 1.44%.

CAR at 12.3%

The bank's CAR stands at 12.3% as against 12.9% in Q2FY08, while tier-I capital is at 7.5%. During the quarter, SBI raised Rs 9.2bn in tier-I capital via the issue of perpetual bonds. The forthcoming rights issue would further enlarge the capital base. While the equity dilution would suppress ROEs for the next two to three years, we expect the stronger balance sheet leverage to reinforce return ratios over the longer term.

Valuation**Continues to clock above-industry growth**

SBI is currently ranked the number one bank in India. In view of its extensive reach and network, we expect the bank to maintain its above-industry growth rate. Robust operating income, an increase in fee-based income and lower provisioning expenses would generate strong profits. Further, the benefits of leverage from the upcoming rights issue would start accruing over a period of two to three years, resulting in an improved ROE.

Maintain target of Rs 2,827; Buy

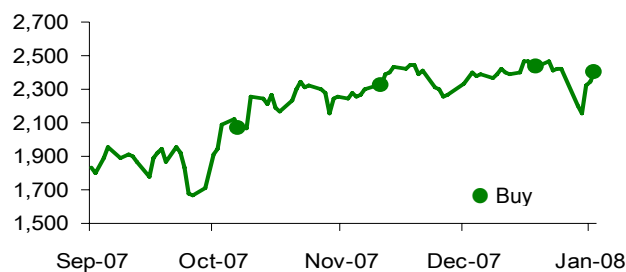
We maintain our sum-of-the-parts (SOTP) target price of Rs 2,827 for the stock that builds in the value of the banking and non-banking subsidiaries. We have valued the core business at Rs 1,519 based on 2.4x FY09E ABV. We continue to value the banking subsidiaries, life insurance business and other non-banking businesses at Rs 757/share. Buy.

Benefits of leverage from the rights issue to improve ROEs over the longer term

Recommendation history

Date	Event	Reco price	Tgt price	Reco
30-Oct-07	Results Update	2,084	2,263	Buy
5-Dec-07	Company Update	2,317	2,790	Buy
13-Dec-07	Sector Update	2,440	2,827	Buy
28-Jan-08	Results Update	2,405	2,827	Buy

Source: Religare Research

Stock performance

Source: Religare Research

Standalone financials

Profit and Loss statement

(Rs bn)	FY07	FY08E	FY09E	FY10E
Interest earned	394.9	491.2	595.3	711.2
Interest expended	234.4	319.2	388.1	470.0
Net interest income	160.5	171.9	207.1	241.2
Growth (%)	3.0	7.1	20.5	16.4
Non-interest income	57.7	80.1	90.4	99.3
Comm, Exchange & Brokerage	48.0	60.1	67.6	76.0
Growth (%)	(22.4)	38.8	12.8	9.9
Operating expenses	118.2	132.0	151.2	168.9
Pre-provisioning profits	100.0	120.0	146.3	171.6
Growth (%)	(11.5)	20.0	21.9	17.3
Provisions & contingencies	23.7	20.4	28.1	35.0
PBT	76.3	99.6	118.3	136.6
Income tax, Interest tax	30.8	34.3	40.8	47.1
Net profit	45.4	65.2	77.5	89.5
Growth (%)	3.1	43.6	18.8	15.5

Source: Company, Religare Research

Balance sheet

(Rs bn)	FY07	FY08E	FY09E	FY10E
Cash in hand & bal with RBI	290.8	431.8	527.5	644.0
Balance with banks, Money at call	228.9	234.6	240.5	246.5
Investments	1,491.5	1,802.7	2,076.6	2,457.5
Advances	3,373.4	4,233.6	5,239.0	6,404.7
Fixed assets (net)	28.2	29.6	31.1	32.6
Other assets	252.9	229.5	215.1	197.3
Total assets	5,665.7	6,961.9	8,329.9	9,982.7
Equity capital	5.3	6.3	6.3	6.3
Reserves & surplus	307.7	528.2	593.2	670.2
Net worth	313.0	534.5	599.5	676.5
Deposits	4,355.2	5,369.8	6,587.2	8,073.2
Current deposits (a)	820.0	922.5	1,060.8	1,257.1
Savings bank deposits (b)	1,291.4	1,530.3	1,836.3	2,203.6
Term deposits (c)	2,243.9	2,917.0	3,690.0	4,612.5
Borrowings (incl sub-ord bonds)	558.7	596.9	636.5	675.6
Other liabilities & provisions	438.7	460.7	506.7	557.4
Total liabilities	5,665.7	6,961.9	8,329.9	9,982.7

Source: Company, Religare Research

Key ratios

Year-end March	FY07	FY08E	FY09E	FY10E
Per share data				
Shares outstanding (mn)	526.3	626.3	626.3	626.3
FDEPS (Rs)	86.3	104.1	123.7	142.8
DPS (Rs)	14.0	16.0	17.0	17.0
Book value (Rs)	594.7	853.4	957.2	1,080.1
Adjusted book value (Rs)	494.8	758.7	852.6	967.6

Valuation ratios

P/E (x)	27.9	23.1	19.4	16.8
P/BV (x)	4.0	2.8	2.5	2.2
P/ABV (x)	4.9	3.2	2.8	2.5

Earnings quality (%)

Net interest margin	3.2	2.9	2.8	2.7
Yield on advances	8.3	9.5	9.4	9.4
Yield on investments	7.4	7.2	7.1	6.8
Cost of funds	4.7	5.6	5.5	5.7
Cost/Income	54.2	52.4	50.8	49.6
Return on average net worth	15.4	15.4	13.7	14.0
Return on average assets	0.9	1.0	1.0	1.0

Growth ratios (%)

Net interest income	3.0	7.1	20.5	16.4
Other income	(22.4)	38.8	12.8	9.9
Total income	(5.2)	15.5	18.0	14.4
Pre-provisioning profit	(11.5)	20.0	21.9	17.3
Net profit	3.1	43.6	18.8	15.5
Advances	28.9	25.5	23.8	22.3
Deposits	14.6	23.3	22.7	22.6

Asset quality

Proportion of low-cost deposits (%)	48.5	45.7	44.0	42.9
Credit-Deposit ratio (x)	77.5	78.8	79.5	79.3
Investment/Deposit (%)	34.2	33.6	31.5	30.4
Net NPA ratio (%)	1.6	1.4	1.3	1.1
CAR (%)	12.3	13.8	12.1	11.7
Tier-I ratio (%)	8.0	10.0	9.2	8.1

Source: Company, Religare Research

Tulip IT Services



Results Update

CMP: Rs 974

Target: Rs 1,392

BUY

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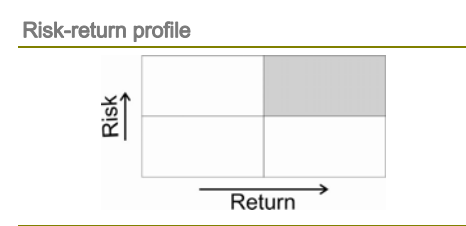
BSE code	532691
NSE code	TULIP

Company data

Particulars	
Market cap (Rs bn / US\$ mn)	28.2/720.0
Outstanding equity shares (mn)	29.0
52-week high/low (Rs)	1,225 / 506
2-month average daily volume	12,730

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	8,425.6	11,830.9	14,317.3
Growth (%)	65.7	40.4	21.0
Adj net inc (Rs mn)	997.2	1,814.8	2,331.0
Growth (%)	104.3	82.0	28.4
FDEPS (Rs)	34.4	57.3	68.0
Growth (%)	18.6	66.7	18.5
P/E (x)	28.3	17.0	14.3
ROE (%)	42.8	49.6	41.5



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	69.0	69.0
FIIIs	23.2	21.5
Banks & FIs	2.8	3.2
Public	5.0	6.3

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Tulip IT	974	4.7	12.0	30.2
Sensex	18,362	(9.1)	(4.6)	20.5
BSE Teck	3,800	(16.5)	(18.0)	(22.1)

Company website www.tulipit.com

Strong growth in connectivity business

Tulip IT Services' (Tulip) Q3FY08 results were far ahead of our expectations, fuelled by a stronger-than-anticipated performance in the IP/VPN business segment. The company added 17,974 connects in the segment against our expectations of ~15,500 additions. Also, contrary to our estimated 36% YoY decline, the ARPUs reduced by ~23%. Consequently, the EBITDA margin came in 133bps above our estimates at 20.6%.

We are raising our revenue and EPS estimates for FY08 and FY09 to factor in the out-performance during the quarter, a stronger outlook for connect additions going forward, and commencement of the new data centre business. Consequently, we are also increasing our one-year target price for the stock from Rs 1,015 to Rs 1,392. We upgrade the stock from Hold to Buy.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	3,331.3	3,079.5	8.2
EBITDA	687.7	594.7	15.6
EBTIDA margin (%)	20.6	19.3	133bps
Net income	541.0	423.2	27.8
EPS (Rs)	18.7	14.6	27.8

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3FY08	Q2FY08	QoQ chg (%)	Q3FY07	YoY chg (%)
Revenue	3,331	2,585	28.9	2,222	49.9
Inc/(dec) in stock	(146)	63	-	65	-
Raw material exp	2,483	1,868	32.9	1,645	51.0
Staff cost	146	87	68.8	76	92.8
Other expenditure	161	52	207.9	44	269.5
EBITDA	688	515	33.5	393	75.1
Depreciation	124	107	16.0	57	117.3
EBIT	563	408	38.1	336	67.9
Interest	66	61	7.6	38	72.5
Other income	84	64	-	2	-
PBT	581	411	41.3	299	94.2
Current taxes	36	36	-	22	-
Deferred taxes	4	4	-	2	-
Net profit	541	371	45.8	275	96.8
Basic EPS (Rs)	18.7	12.8	45.8	9.5	96.8

Source: Company, Religare Research

Result highlights

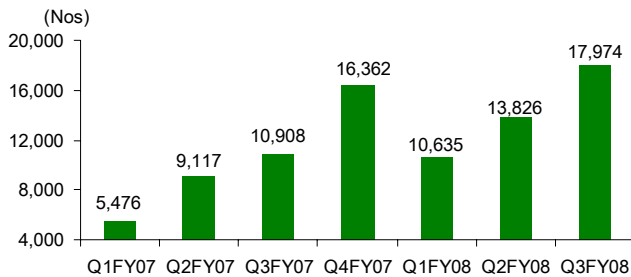
On track to adding ~60,000 connects during FY08

Higher connect additions drive better-than-expected revenues

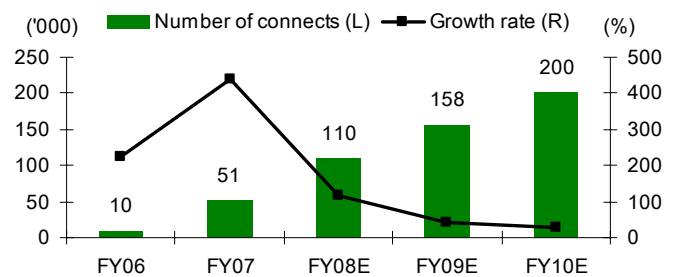
Tulip's revenues grew 50% YoY as against our expectations of 39% growth due to higher-than-estimated revenues in the IP/VPN business segment. Revenues from IP/VPN increased 123% YoY as compared to the 6.7% growth witnessed in the network integration segment.

The growth in IP/VPN was boosted by the addition of 17,974 connects during the quarter, much ahead of our expectation of 15,500 adds. We expect the company to add ~60,000 connects in all during FY08, taking the total number to 110,000, a growth of 115% over FY07.

Connect additions



Total connect expectations



Source: Company, Religare Research

Positive surprise on ARPUs fuels margin expansion

We had expected ARPUs (average revenue per user) in the IP/VPN segment to decline by 36% YoY and 8% QoQ for the quarter. However, the results held a positive surprise with ARPUs falling at a lower rate of 23% YoY while improving by 19% QoQ. The improvement was led by higher realisations from existing customers.

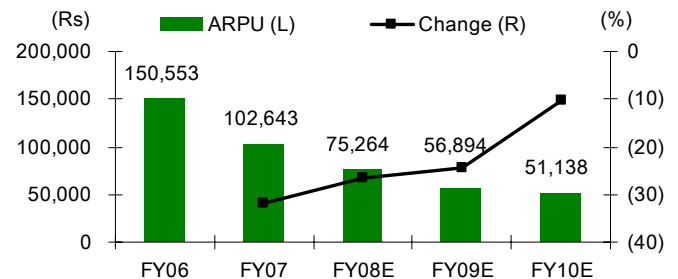
We continue to believe that the company's ARPUs would maintain a declining trend in future as the base of connects with lower bandwidth requirements (and hence yielding lower realisations) increases going forward. However, going by the quarter's performance, we have raised our ARPU estimate for FY09 by 3% to Rs 56,894. We now expect ARPUs to decline at a CAGR of 25.5% against earlier expectations of a 27% fall over FY07-FY09.

ARPU per quarter

(Rs)	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Installation	42,000	42,200	42,200	42,201	42,197
From old connects	10,750	10,875	10,750	10,382	12,843
From new connects	10,320	10,345	5,173	7,232	6,207
ARPU	23,073	28,719	18,628	19,257	21,739

Source: Company

ARPU expectations



Source: Company, Religare Research

Delhi centre operational with a large telecom client already in hand

Data centres to contribute significantly in FY09

Tulip is setting up data centres in Delhi, Mumbai and Bangalore to offer an integrated service offering to its clients. Data centre services would complement its network integration and data connectivity offerings. The centre in Delhi is operational and two others are expected to go online in Q4FY08. The company has already bagged a large telecom client for the Delhi centre. These data centres would be financed from the US\$ 150mn FCCB issue made in Q2FY08.

Data centres

City	No. of racks	Area (sq ft.)
Delhi	250	8,000
Mumbai	2,000	45,000
Bangalore	150	4,800

Source: Company, Religare Research

EPS estimates for FY08 and FY09 raised by 12.5% and 3.3% respectively

We revise our FY08 and FY09 estimates and introduce FY10 numbers

Consequent to the out-performance in Q3FY08, our revised outlook on ARPU in the IP/VPN segment, and inclusion of the revenue opportunity from the data centre business, we are revising our FY08 and FY09 estimates for the company. Our revenue estimates for these two years have been revised upwards by 1.7% and 5.2% and our EPS estimates have been raised by 12.5% and 3.3% respectively.

Revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Revenues	11,633.7	11,830.9	1.7	13,612.2	14,317.3	5.2
EBITDA	2,277.3	2,467.1	8.3	2,980.6	3,268.7	9.7
EBITDA margin (%)	19.6	20.9	128bps	21.9	22.8	93bps
Adj net income	1,612.5	1,814.8	12.5	2,255.8	2,331.0	3.3
Basic EPS (Rs)	55.6	62.6	12.5	77.8	80.4	3.3

Source: Religare Research

We are also introducing our FY10 projections for the company. We expect revenues in the network integration and IP/VPN segments to grow at 10% and 21% respectively, with ~Rs 1bn contributed by the data centres. Overall revenues are expected to grow by 20% over FY09.

We estimate that the EBITDA margin would improve to 28% due to a higher contribution from the IP/VPN segment as well as better utilisation of data centre capacity. EPS, after considering the possible dilution from conversion of FCCBs, is expected to be at Rs 84.4, registering a CAGR of 35% over FY07-FY10.

DCF-based target price raised to Rs 1,392; Upgrade to Buy

Increase target to Rs 1,392; upgrade to Buy

Consequent to the upward revision of our estimates, we are increasing our target price for the stock from Rs 1,015 to Rs 1,392. We have valued the company using a DCF-based valuation method for all the segments.

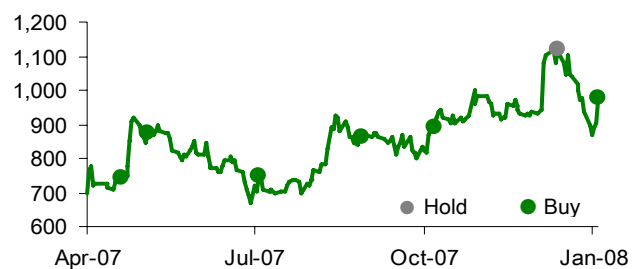
For the purpose of our DCF valuation, we have considered a cost of capital of 15.9% with a terminal growth rate of 2.5% for network integration, 3% for the data centres and 4% for the IP/VPN segment. The target price of Rs 1,392 provides an upside opportunity of 43% from the current price of Rs 974. We upgrade the stock from Hold to Buy.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
11-May-07	Initiating Coverage	742	932	Buy
28-May-07	Company Update	875	932	Buy
26-Jul-07	Results Update	749	932	Buy
20-Sep-07	Company Update	862	1,015	Buy
30-Oct-07	Results Update	890	1,015	Buy
4-Jan-08	Company Update	1,118	1,015	Hold
25-Jan-08	Results Update	974	1,392	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	8,425.6	11,830.9	14,317.3	17,219.9
Growth (%)	65.7	40.4	21.0	20.3
EBITDA	1,328.3	2,467.1	3,268.7	4,823.8
Growth (%)	100.5	85.7	32.5	47.6
Depreciation	158.5	450.6	763.8	1,378.2
EBIT	1,169.8	2,016.5	2,505.0	3,445.7
Growth (%)	88.8	72.4	24.2	37.6
Interest	130.8	216.8	116.6	95.1
Other income	23.5	159.4	60.0	70.0
EBT	1,062.5	1,959.1	2,448.4	3,420.6
Income taxes	92.7	144.3	117.4	524.6
Effective tax rate (%)	8.7	7.4	4.8	15.3
Adjusted net income	997.2	1,814.8	2,331.0	2,896.0
Growth (%)	104.3	82.0	28.4	24.2
Reported net income	997.2	1,814.8	2,331.0	2,896.0
Growth (%)	104.3	82.0	28.4	24.2
Shares outstanding (mn)	29.0	29.0	29.0	29.0
Basic EPS (Rs) (adj)	34.4	62.6	80.4	99.9
FDEPS (Rs) (adj)	34.4	57.3	68.0	84.4
DPS (Rs)	2.0	2.5	3.0	3.0

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	997.2	1,814.8	2,331.0	2,896.0
Depreciation	158.5	450.6	763.8	1,378.2
Other adjustments, net	116.2	50.1	-	-
Changes in working capital	52.3	(1,564.1)	(103.5)	(266.5)
Cash flow from operations	1,324.2	751.3	2,991.2	4,007.7
Capital expenditure	(1,929.8)	(1,179.3)	(2,962.3)	(1,985.2)
Change in investments	137.5	340.0	-	-
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(1,770.5)	(839.3)	(2,962.3)	(1,985.2)
Free cash flow	(446.4)	(88.0)	28.9	2,022.4
Issue of equity	-	-	-	-
Issue/repay debt	660.1	6,075.0	(400.0)	(65.2)
Dividends paid	(67.9)	(97.9)	(130.5)	(130.5)
Other financing cash flow	(130.8)	-	-	-
Cash flow from financing	461.5	5,977.1	(530.5)	(195.7)
Change in cash & cash eq	15.1	5,889.1	(501.6)	1,826.7
Opening cash & cash eq	10.7	25.9	5,915.0	5,413.5
Closing cash & cash eq	25.9	5,915.1	5,413.5	7,240.2

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	25.9	5,915.1	5,413.5	7,240.2
Accounts receivable	1,398.8	2,741.1	2,847.8	3,102.1
Inventories	205.2	712.5	837.9	972.6
Others current assets	366.4	366.4	366.4	366.4
Current assets	1,996.3	9,735.0	9,465.6	11,681.2
Long-term investments	340.0	-	-	-
Net fixed assets	727.2	2,271.2	2,526.5	4,525.0
Intangible assets	-	226.2	550.0	750.0
Other assets	-	-	-	-
Total assets	4,833.6	12,811.5	14,740.7	17,563.3
Accounts payable	347.6	633.1	761.8	884.2
Others	265.4	98.2	98.2	98.2
Current liabilities	613.0	731.3	860.0	982.4
Debt funds	1,416.0	7,491.0	7,091.0	7,025.7
Other liabilities	8.7	75.0	75.0	75.0
Equity capital	290.0	290.0	290.0	290.0
Reserves	2,507.4	4,224.3	6,424.8	9,190.3
Shareholder's funds	2,796.0	4,514.3	6,714.8	9,480.3
Total liabilities	4,833.6	12,811.5	14,740.7	17,563.3
BVPS (Rs)	96.5	155.7	231.6	327.0

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	15.8	20.9	22.8	28.0
EBIT margin (%)	13.9	17.0	17.5	20.0
Net profit margin (%)	11.8	15.3	16.3	16.8
FDEPS growth (%)	18.6	66.7	18.5	24.2
Receivables (days)	61.9	63.9	71.2	63.1
Inventory (days)	12.0	17.9	25.6	26.7
Payables (days)	16.8	19.1	23.0	24.2
Current ratio (x)	3.3	13.3	11.0	11.9
Quick ratio (x)	2.9	12.3	10.0	10.9
Interest coverage ratio (x)	8.6	9.4	21.0	31.5
Debt / equity (x)	0.5	1.7	1.1	0.7
ROE (%)	42.8	49.6	41.5	35.8
ROA (%)	25.2	20.6	16.9	17.9
ROCE (%)	34.2	24.7	19.3	22.6
EV/Sales (x)	3.5	2.5	2.1	1.7
EV/EBITDA (x)	22.3	12.0	9.1	6.1
P/E (x)	28.3	17.0	14.3	11.5
P/BV (x)	10.1	6.3	4.2	3.0

Source: Company, Religare Research

Sterlite Technologies

Results Update

CMP: Rs 202

Target: Rs 384 ↓

BUY

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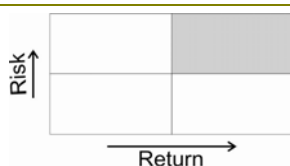
Company data

Particulars	
Market cap (Rs bn / US\$ mn)	12.5/317.6
Outstanding equity shares (mn)	61.6
52-week high/low (Rs)	381/145
2-month average daily volume	167,872

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	11,981.5	16,858.5	20,498.6
Growth (%)	118.9	40.7	21.6
Adj net inc (Rs mn)	508.9	921.0	1,472.8
Growth (%)	24.8	81.0	59.9
FDEPS (Rs)	7.8	14.6	22.7
Growth (%)	7.7	86.1	55.6
P/E (x)	25.9	13.9	9.0
ROE (%)	13.6	19.1	23.7

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	43.6	41.1
FIIIs	8.0	6.0
Banks & FIIs	12.1	14.5
Public	36.3	38.4

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Sterlite Tech	202	(36.7)	(19.2)	(4.2)
Sensex	17,222	(13.3)	(8.3)	9.7
BSE Midcap	7,538	(18.2)	(2.7)	11.6

Company website	www.sterlitetechnologies.com
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Below-expected margins but growth drivers intact

Sterlite Technologies' (STL) Q3FY08 revenue growth was above our expectations. However, net profit came in lower than estimated due to below-expected profit margins during the quarter. The EBIT margins in the power transmission and optical fibre segments witnessed a decline sequentially. On a year-on-year basis, however, margins continued to improve, driven by higher volumes across segments.

The management is optimistic about growth prospects in the transmission conductor and optic fibre businesses. The order pipeline for transmission conductors remains buoyant, with Power Grid expected to announce tender wins in Q4FY08. In addition, the demand for optic fibre is increasing globally, especially in emerging economies like India and China. The company has expanded its optic fibre capacity to 6mn km annually and plans to double this to 12mn km in the next 15 months.

We are increasing our FY08 revenue estimate by 7.2% as we expect stronger order execution in Q4FY08. However, in view of the quarterly performance, we have reduced our EBITDA margin estimate by 66bps and earnings expectations by 3.2% for FY08. Our FY09 revenue estimate remains unchanged, but we are lowering margin expectations for the fiscal. Following the revision of estimates, our one-year target price for the stock reduces from Rs 430 to Rs 384. We maintain our positive outlook on STL and continue with our Buy recommendation.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	5,020.3	4,716.3	6.4
EBITDA	584.3	632.0	(7.5)
EBTIDA margin (%)	11.6	13.4	(176bps)
Adj net income	263.9	321.3	(17.9)
FDEPS (Rs)	4.1	5.0	(18.3)

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Revenue	5,020	3,140	59.9	2,396	109.5
Operating expenditure	4,436	3,460	28.2	2,806	58.1
EBITDA	584	333	75.4	310	88.4
Depreciation	95	71	33.8	83	14.5
EBIT	489	262	86.6	227	115.4
Interest	119	100	19.0	89	33.7
Other income	2	0	-	25	-
Profit before taxes	372	162	129.6	164	126.8
Income taxes	108	34	217.6	36	200.0
Net profit	264	129	104.7	127	107.9
EPS (Rs)	4.26	2.19	94.5	2.07	105.8

Source: Company, Religare Research

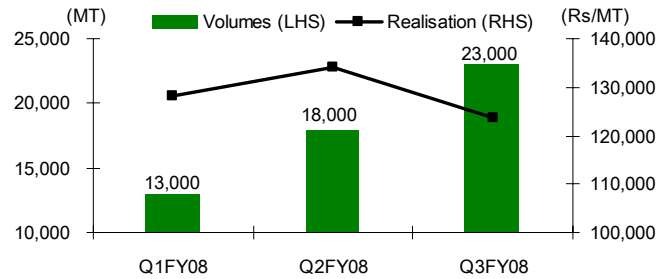
Result highlights

Conductor volumes increased 29% QoQ led by higher exports

Volume growth across segments

Production volumes in the transmission conductor segment increased 29% QoQ and 39% YoY as the share of exports in the business expanded to 45% during the quarter from 14% in Q3FY07. However, realisations in the segment declined 7% QoQ and ~10% YoY due to rupee appreciation and lower raw material prices (benefit passed on to clients).

Volume growth in transmission conductors



Source: Company, Religare Research

Production volumes for optical fibre stood at 1.3mn km during the quarter with an average realisation of Rs 341/km (US\$ 8.5/km). The expanded 6mn km facility has come onstream and the management has guided towards production volumes of 4.5mn km for FY08. Volumes in the copper cable segment also picked up during the quarter, led by execution of the BSNL order.

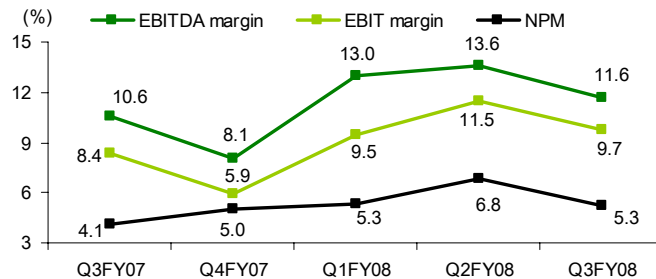
EBITDA margin improves 103bps YoY but declines QoQ

The company recorded an EBITDA margin of 11.6% for the quarter, an increase of 103bps over Q3FY07. The expansion was supported by margin improvement in the optical fibre and copper cable segments. These segments witnessed an EBIT margin expansion of 218bps and 660bps respectively.

Higher costs at new conductor facility pull down margins QoQ

On a QoQ basis, however, the EBITDA margin declined by 200bps as against our expectations of a 20bps dip. The decline occurred due to the high initial cost of operations at the new conductor facility in Haridwar and the capacity expansion for optical fibre in Aurangabad. The costs are expected to rationalise over the next few quarters as production volumes from these facilities gain momentum.

Margin movement

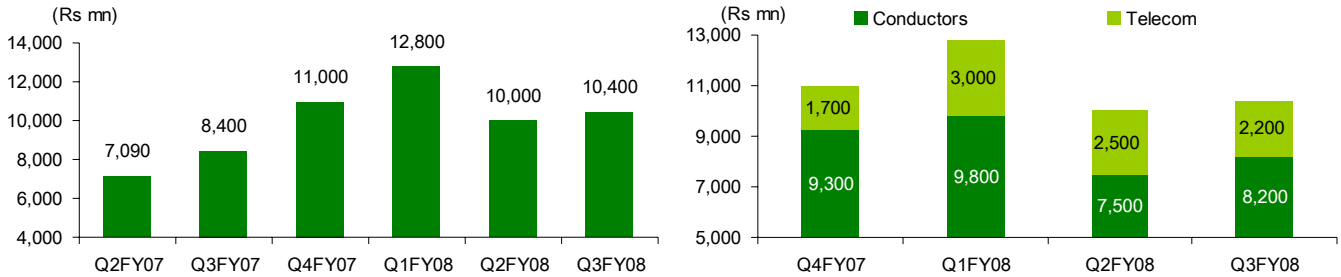


Source: Company, Religare Research

Order book increases to Rs 10.4bn

The company's order book has increased marginally from Rs 10bn in Q2FY08 to Rs 10.4bn in Q3FY08, due to higher order execution in the copper cable segment. The order book in this segment decreased from Rs 2.5bn in Q2FY08 to Rs 2.2bn. Transmission conductors comprise close to 80% of the order book for the quarter at Rs 8.2bn. This includes a Rs 1.4bn order from Rajasthan Rajya Vidyut Prasaran Nigam received during the quarter. Export orders account for ~Rs 4bn of the total order book.

Order book position



Source: Company, Religare Research

PGCIL to announce orders of Rs 3.5bn during Q4; Rs 12.5bn more thereafter

Orders for conductors to rise substantially in Q4FY08

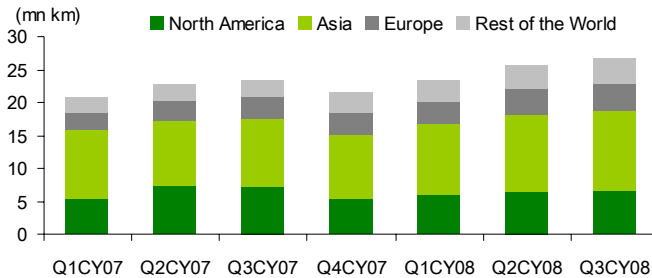
The management expects Power Grid (PGCIL) to announce orders for tenders worth Rs 3.5bn during Q4FY08. PGCIL is further expected to award tenders worth Rs 12.5bn over the next few quarters. This company remains the biggest customer for STL's transmission conductors, accounting for 55% of the segment's revenues in FY07. Considering STL's leadership position in the domestic market, we expect it to capture a large share of the orders from PGCIL.

Optic fibre demand picking up globally

The demand for optical fibre grew 13% YoY in Q3CY07. Though the North American geography witnessed a decline of ~8% YoY, the growth was boosted by European and developing countries. STL is the seventh largest manufacturer of optical fibre globally with a 4% volume share. The company has an established presence in India and China which are witnessing a spurt in telecom capex. In order to strengthen its footprint in the global market, STL is doubling its manufacturing capacity to 12mn km by June 2009. The company plans to spend ~US\$ 35mn for the brownfield expansion.

Spurt in telecom capex in India and China where STL has a strong presence

Optic fibre demand



Source: CRU Monitor

EBITDA margin estimates reduced on altered product mix expectations

We decrease our margin expectations

We are decreasing our EBITDA margin expectations for FY08 and FY09 by 66bps and 43bps respectively due to a revision of our product mix expectations. Consequently, we are decreasing our earnings estimates for these two years by 3.2% and 7.1% respectively. We expect the revenue growth momentum to remain strong due to the strong order book and increasing demand in key business segments.

Revised estimates

(Rs mn)	FY08E			FY09E		
	Revised	Earlier	Change (%)	Revised	Earlier	Change (%)
Revenues	16,858.5	15,727.7	7.2	20,498.6	20,498.6	-
EBITDA	2,046.3	2,013.0	1.7	2,729.0	2,818.1	(3.2)
EBITDA margin (%)	12.1	12.8	(66bps)	13.3	13.7	(43bps)
Net profit	921.0	951.9	(3.2)	1,472.8	1,587.4	(7.2)
EPS (Rs)	14.6	15.1	(3.2)	22.7	24.4	(7.1)

Source: Religare Research

Well placed to leverage its leadership position; Buy

Target price lowered to Rs 384; Maintain Buy

Following the reduction in our margin and earnings expectations for FY08 and FY09, we are decreasing our target price from Rs 430 to Rs 384. We have valued the company using a DCF-based valuation model with a cost of equity of 16% and cost of capital of 11.5%. Our cost of equity uses a beta of 1.2 for the company as compared to the Bloomberg estimate of 1.1 due to the QoQ volatility witnessed in the financial performance.

We maintain our positive outlook on the company as we believe that it is well placed to leverage its leadership position in the transmission conductor and optical fibre segments. We continue with our Buy recommendation on the stock.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
20-Nov-07	Initiating Coverage	323	430	Buy
25-Jan-08	Result Update	202	384	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	11,981.5	16,858.5	20,498.6	25,793.5
Growth (%)	118.9	40.7	21.6	25.8
EBITDA	1,139.7	2,046.3	2,729.0	3,615.1
Growth (%)	78.5	79.5	33.4	32.5
Depreciation	315.7	370.3	506.9	577.6
EBIT	824.0	1,676.0	2,222.1	3,037.5
Growth (%)	136.4	103.4	32.6	36.7
Interest	344.6	427.5	454.1	442.9
Other income	51.5	26.7	28.0	75.0
EBT	530.9	1,275.2	1,796.1	2,669.7
Income taxes	22.0	354.3	323.3	427.1
Effective tax rate	4.1	27.8	18.0	16.0
Adjusted net	508.9	921.0	1,472.8	2,242.5
Growth (%)	24.8	81.0	59.9	52.3
Reported net	508.9	921.0	1,472.8	2,242.5
Growth (%)	24.8	81.0	59.9	52.3
Shares outstanding	61.5	65.0	65.0	65.0
Basic EPS (Rs)	8.6	14.6	22.7	34.5
FDEPS (Rs) (adj)	7.8	14.6	22.7	34.5
DPS (Rs)	0.8	1.0	1.3	1.5

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	508.9	921.0	1,472.8	2,242.5
Depreciation	315.7	370.3	506.9	577.6
Other adjustments, net	(71.3)	-	-	-
Changes in working capital	209.5	(1,273.0)	(617.0)	(722.5)
Cash flow from operations	962.9	18.3	1,362.6	2,097.7
Capital expenditure	(980.2)	(1,372.4)	(1,325.0)	(1,055.0)
Change in investments	(63.0)	(60.0)	-	-
Other investing inc/(exp)	(1,485.1)	-	-	-
Cash flow from investing	(2,528.3)	(1,432.4)	(1,325.0)	(1,055.0)
Free cash flow	(1,565.4)	(1,414.1)	37.6	1,042.7
Issue of equity	252.0	314.4	-	-
Issue/repay debt	1,055.3	700.0	(160.0)	(160.0)
Dividends paid	(33.3)	(73.1)	(91.3)	(109.6)
Other financing cash flow	-	-	-	-
Cash flow from financing	1,274.0	941.3	(251.3)	(269.6)
Change in cash & cash eq	(291.5)	(472.8)	(213.7)	773.0
Opening cash & cash eq	954.7	789.3	442.5	354.8
Closing cash & cash eq	789.3	442.5	354.8	1,253.9

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	789.3	442.5	354.8	1,253.9
Accounts receivable	4,332.1	5,773.4	6,739.3	7,773.4
Inventories	1,199.9	1,616.6	1,965.6	2,473.3
Others current assets	1,212.5	1,273.1	1,336.8	1,403.6
Current assets	7,533.8	9,105.6	10,396.5	12,904.2
Long-term investments	63.1	123.1	123.1	123.1
Net fixed assets	4,344.6	5,424.3	6,442.4	7,169.8
CWIP	527.6	450.0	250.0	-
Deferred tax assets, net	(102.5)	(102.5)	(102.5)	(102.5)
Total assets	12,366.6	15,000.5	17,109.5	20,094.6
Accounts payable	1,997.7	2,626.5	3,370.4	4,238.1
Others	336.1	352.9	370.6	389.1
Current liabilities	2,333.8	2,979.4	3,741.0	4,627.2
Debt funds	5,866.6	6,566.6	6,406.6	6,246.6
Other liabilities	-	-	-	-
Equity capital	308.0	324.8	324.8	324.8
Reserves	3,858.2	5,129.6	6,637.1	8,896.0
Shareholder's funds	4,166.1	5,454.4	6,961.9	9,220.8
Total liabilities	12,366.6	15,000.5	17,109.5	20,094.6
BVPS (Rs)	67.8	84.0	107.2	142.0

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	9.5	12.1	13.3	14.0
EBIT margin (%)	6.9	9.9	10.8	11.8
Net profit margin (%)	4.2	5.5	7.2	8.7
FDEPS growth (%)	7.7	86.1	55.6	52.3
Receivables (days)	89.2	109.4	111.4	102.7
Inventory (days)	34.7	34.7	36.8	36.5
Payables (days)	54.1	57.0	61.6	62.6
Current ratio (x)	3.2	3.1	2.8	2.8
Quick ratio (x)	2.7	2.5	2.3	2.3
Interest coverage ratio (x)	2.5	3.2	4.2	6.1
Debt / equity (x)	1.4	1.2	0.9	0.7
ROE (%)	13.6	19.1	23.7	27.7
ROA (%)	5.2	6.7	9.2	12.1
ROCE (%)	10.5	15.2	17.5	21.1
EV/Sales (x)	1.6	1.2	1.0	0.8
EV/EBITDA (x)	17.2	9.6	7.2	5.4
P/E (x)	25.9	13.9	9.0	5.9
P/BV (x)	3.0	2.4	1.9	1.4

Source: Company, Religare Research

CMP: Rs 175

Target: Rs 179

SELL

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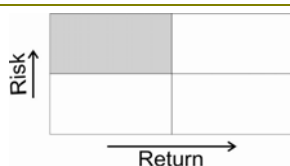
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	133.7/3.4
Outstanding equity shares (mn)	777.3
52-week high/low (Rs)	280/150
6-month average daily volume	476,295

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs bn)	35.7	42.0	47.6
Growth (%)	19.6	17.5	13.6
Adj net inc (Rs bn)	6.7	7.2	7.9
Growth (%)	9.9	7.9	10.0
FDEPS (Rs)	8.6	9.3	10.2
Growth (%)	9.9	7.9	10.0
P/E (x)	20.0	18.6	16.9
ROE (%)	25.6	20.7	19.8

Risk-return profile



Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	39.4	39.4
FIIIs	16.7	13.9
Banks & FIIs	13.1	13.3
Public	30.8	33.4

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Cipla	175	(19.1)	(5.3)	(7.1)
Sensex	17,222	(13.3)	(8.3)	9.7
BSE HC	3,497	(18.6)	(8.8)	(6.3)

Company website www.cipla.com

Q3 above estimates but challenges remain

Cipla's Q3FY08 results were ahead of our expectations driven by higher-than-estimated domestic market sales and technology fees. The company recorded technology fees of Rs 748mn during the quarter as against Rs 257mn in Q3FY07. Although this revenue stream offers better margins than the core business segments, a weak product mix and higher other expenditure (include a one-time expense of Rs 170mn) led to a 40bps decline in the EBITDA margin. Adjusting for technology fees and the one-time expenditure, the EBITDA margin for the quarter has declined 130bps YoY to 22.9%.

While Cipla has posted above-expected results for the third quarter, this is largely due to higher technology income – a revenue stream which has been volatile over the last few quarters and is hence difficult to estimate. We have revised our FY08 and FY09 estimates upwards by 10.9% and 2.9% respectively to factor in the higher technology fees. However, we believe that Cipla's core business model remains under pressure with an increasing revenue contribution from the low-margin ARV segment coupled with the impact of a strengthening rupee.

In addition, government notices regarding overcharging and uncertainty over the Goa SEZ remain key concerns for the stock. We thus maintain our Sell rating on the stock with a target price of Rs 179. Higher-than-estimated technology fees represent a potential upside risk to our estimates.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	11,044.9	10,153.4	8.8
EBITDA	2,622.5	2,193.0	19.6
Adj net income	2,106.5	1,562.6	34.8
FDEPS (Rs)	2.7	2.0	34.8

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Chg	9mFY08	9mFY07	% Chg
Net sales	11,044.9	8,805.3	25.4	31,047.1	26,336.7	17.9
Expenditure	8,422.4	6,679.0	26.1	24,577.5	19,646.0	25.1
Operating profit	2,622.5	2,126.0	23.4	6,469.6	6,690.7	(3.3)
Other income	242.0	328.0	(26.2)	845.6	737.4	14.7
Interest	38.7	13.2	193.2	70.6	56.7	24.5
Depreciation	327.5	275.0	19.1	957.5	780.0	22.8
PBT	2,498.3	2,166.0	15.4	6,287.1	6,591.4	(4.6)
Tax	391.8	322.0	21.7	1,076.8	1,240.5	(13.2)
Adj PAT	2,106.5	1,843.8	14.2	5,210.3	5,350.9	(2.6)
OPM (%)	23.7	24.1		20.8	25.4	
EPS (Rs)	2.7	2.4	14.2	6.7	6.9	(2.6)

Source: Company, Religare Research

Result highlights

Domestic sales up 19% YoY to Rs 5.2bn

Domestic market sales, technology fees drive topline growth

Cipla has reported sales growth of 25.4% YoY to Rs 11bn, ahead of our estimates due to stronger domestic market sales and higher technology fees in Q3FY08. The company holds the highest domestic market share and recorded a 19% YoY growth in domestic sales to Rs 5.2bn for the quarter. Export sales at Rs 5.1bn were in line with our expectations.

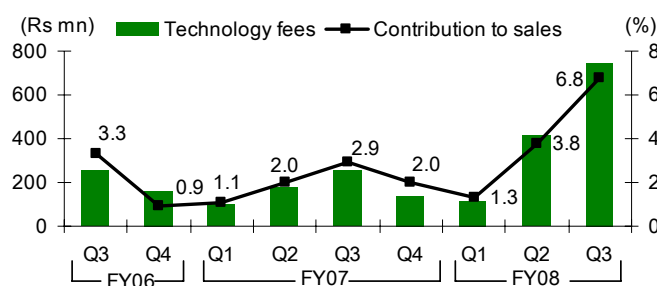
Revenue break-up

(Rs mn)	Q3FY08	Q3FY07	% Chg	9mFY08	9mFY07	% Chg
Domestic	5,195.1	4,353.0	19.3	15,342	13,526	13.4
Exports	5,109.2	4,178.7	22.3	14,605	12,514	16.7
Formulations	3,710.8	3,113.0	19.2	10,973	9,100	20.6
APIs	1,398.4	1,065.7	31.2	3,632	3,415	6.4
Total operational income	10,304.3	8,531.7	20.8	29,947	26,040	15.0
Other operating income						
Technology fees/ know how	748.0	256.5	191.6	1,275	523	144.0
Others	231.8	256.8	(9.7)	525	505	4.1
Gross income	11,284.1	9,045.0	24.8	31,747	27,067	17.3
Less: Excise	239.2	239.7	(0.2)	700.0	730.0	(4.1)
Total income	11,044.9	8,805.3	25.4	31,047	26,337	17.9

Source: Company

Technology fees for the quarter stood at Rs 748mn as against Rs 257mn for Q3FY07. These fees are related to certain milestones on product development and have been volatile over the past few quarters, making estimates difficult. We have modelled Rs 1.5bn for FY08, Rs 1.2bn for FY09 and Rs 1.4bn for FY10.

Volatility in technology fees



Source: Company, Religare Research

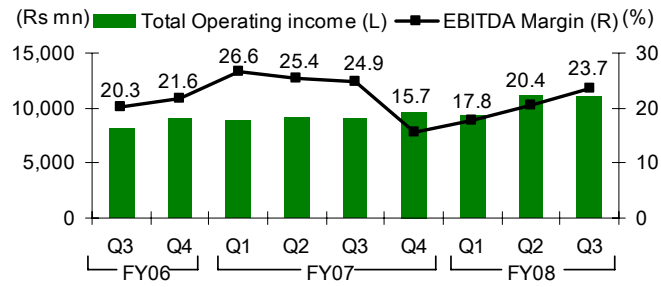
Technology fees from product development milestones show high volatility

Ex-technology fees and one-off expense, the EBITDA margin has dipped 130bps

EBITDA margin declines only 40bps due to higher technology fees

The company's EBITDA margin declined only 40bps to 23.7% on account of the higher technology fees, which flow directly to the bottomline. EBITDA margins were also hit by a one-time expense of Rs 170mn. Adjusting for the fees and extraordinary item, the EBITDA margin has dropped 130bps to 22.9%. A weak product mix, rupee appreciation as well as higher other expenditure for the quarter have put pressure on margins.

EBITDA margin trend



Source: Company, Religare Research

Valuation

Technology fees erratic; Challenges to core business remain – Sell

While Cipla has posted above-expected results for the third quarter, this is largely due to higher technology income – a revenue stream which has been volatile over the last few quarters and is hence difficult to estimate. We have revised our FY08 and FY09 estimates upwards by 10.9% and 2.9% respectively to factor in the higher technology fees.

Revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Net sales	403,00.0	41,956.5	4.1	46,200.0	47,649.6	3.1
Adj net income	6,500.0	7,207.1	10.9	7,700.0	7,925.5	2.9
FDEPS (Rs)	8.4	9.3	10.9	9.9	10.2	2.9

Source: Religare Research

Margins to narrow as revenue share of ARVs moves up and the rupee appreciates; Sell

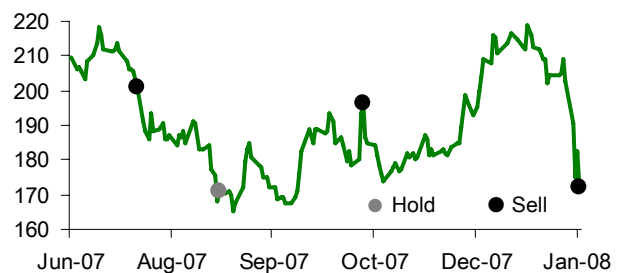
However, we believe that Cipla’s core business model remains under pressure with an increasing revenue contribution from the low-margin ARV segment coupled with the impact of a strengthening rupee. In addition, government notices regarding overcharging and uncertainty over the Goa SEZ remain key concerns for the stock. We thus maintain our Sell rating on the stock with a target price of Rs 179 based on 18x FY09 earnings which is in line with the peer group valuations. Higher-than-estimated technology fees represent a potential upside risk to our estimates.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
23-Jul-07	Results Update	201	214	Sell
27-Aug-07	Company Update	171	191	Hold
25-Oct-07	Results Update	197	179	Sell
25-Jan-08	Results Update	175	179	Sell

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	35,708.0	41,956.5	47,649.6	53,324.3
Growth (%)	19.6	17.5	13.6	11.9
EBITDA	8,203.1	8,986.6	10,146.7	11,656.3
Growth (%)	15.9	9.6	12.9	14.9
Depreciation	1,033.7	1,210.9	1,509.4	1,770.7
EBIT	7,169.4	7,775.7	8,637.3	9,885.5
Growth (%)	14.3	8.5	11.1	14.5
Interest	69.5	82.8	115.4	147.9
Other income	979.9	1,096.3	1,143.4	1,281.3
EBT	8,079.8	8,789.2	9,665.2	11,018.9
Income taxes	1,399.5	1,582.1	1,739.7	1,983.4
Effective tax rate (%)	17.3	18.0	18.0	18.0
Adjusted net income	6,680.3	7,207.1	7,925.5	9,035.5
Growth (%)	9.9	7.9	10.0	14.0
Reported net income	6,680.3	7,207.1	7,925.5	9,035.5
Growth (%)	9.9	7.9	10.0	14.0
Shares outstanding (mn)	777.3	777.3	777.3	777.3
Basic EPS (Rs) (adj)	8.6	9.3	10.2	11.6
FDEPS (Rs) (adj)	8.6	9.3	10.2	11.6
DPS (Rs)	2.0	2.5	2.8	3.0

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	6,680.3	7,207.1	7,925.5	9,035.5
Depreciation	1,033.7	1,210.9	1,509.4	1,770.7
Other adjustments, net	147.0	553.7	608.9	694.2
Changes in working capital	(4,223.4)	(1,829.3)	(2,210.8)	(2,896.1)
Cash flow from operations	3,637.6	7,142.4	7,832.9	8,604.3
Capital expenditure	(4,210.6)	(4,576.7)	(4,720.5)	(4,355.7)
Change in investments	(954.0)	(1,000.0)	(500.0)	(1,000.0)
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(5,164.6)	(5,576.7)	(5,220.5)	(5,355.7)
Free cash flow	(1,527.0)	1,565.7	2,612.4	3,248.6
Issue of equity	954.9	-	-	-
Issue/repay debt	(3,453.5)	290.4	500.0	500.0
Dividends paid	(1,818.8)	(2,273.6)	(2,501.0)	(2,728.4)
Other financing cash flow	6,713.6	2.5	-	-
Cash flow from financing	2,396.2	(1,980.7)	(2,001.0)	(2,228.4)
Change in cash & cash eq	869.2	(415.0)	611.4	1,020.3
Opening cash & cash eq	445.7	1,314.9	899.9	1,511.3
Closing cash & cash eq	1,314.9	899.9	1,511.3	2,531.6

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	1,314.9	899.9	1,511.3	2,531.6
Accounts receivable	10,287.8	13,795.2	14,699.2	17,828.6
Inventories	9,786.0	13,834.9	13,354.7	17,279.4
Others current assets	6,958.1	6,664.2	7,417.4	8,065.5
Current assets	28,346.8	35,194.3	36,982.6	45,705.0
Long-term investments	1,178.0	2,178.0	2,678.0	3,678.0
Net fixed assets	13,880.3	17,512.3	20,856.5	23,508.0
CWIP	732.3	466.2	333.1	266.5
Other assets	-	-	-	-
Total assets	44,137.4	55,350.7	60,850.2	73,157.5
Accounts payable	5,311.3	9,728.8	7,938.6	12,144.3
Others	4,101.3	5,117.0	5,873.2	6,473.5
Current liabilities	9,412.6	14,845.8	13,811.8	18,617.8
Debt funds	1,235.6	1,526.0	2,026.0	2,526.0
Other liabilities	1,126.5	1,680.2	2,289.1	2,983.3
Equity capital	1,554.6	1,554.6	1,554.6	1,554.6
Reserves	30,808.1	35,744.1	41,168.6	47,475.8
Shareholder's funds	32,362.7	37,298.7	42,723.2	49,030.4
Total liabilities	44,137.4	55,350.7	60,850.2	73,157.5
BVPS (Rs)	41.6	48.0	55.0	63.1

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	23.0	21.4	21.3	21.9
EBIT margin (%)	20.1	18.5	18.1	18.5
Net profit margin (%)	18.7	17.2	16.6	16.9
FDEPS growth (%)	9.9	7.9	10.0	14.0
Receivables (days)	97.3	104.8	109.1	111.3
Inventory (days)	128.4	130.8	132.3	134.2
Payables (days)	77.4	83.3	86.0	88.0
Current ratio (x)	3.0	2.4	2.7	2.5
Quick ratio (x)	2.0	1.4	1.7	1.5
Interest coverage ratio (x)	97.1	88.0	69.7	62.1
Debt / equity (x)	0.0	0.0	0.0	0.1
ROE (%)	25.6	20.7	19.8	19.7
ROA (%)	17.0	14.5	13.6	13.5
ROCE (%)	23.8	20.7	19.7	19.5
EV/Sales (x)	3.8	3.2	2.8	2.5
EV/EBITDA (x)	16.4	14.9	13.2	11.5
P/E (x)	20.0	18.6	16.9	14.8
P/BV (x)	4.1	3.6	3.1	2.7

Source: Company, Religare Research

Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
26-Dec-07	Tata Metaliks	Initiating Coverage	163	234	BUY
27-Dec-07	Apar Industries	Initiating Coverage	347	458	BUY
27-Dec-07	REI Agro	Initiating Coverage	728	1,007	BUY
28-Dec-07	Gulf Oil Corp	Initiating Coverage	291	477	BUY
31-Dec-07	Bank of India	Company Update	365	400	HOLD
1-Jan-08	Indoco Remedies	Company Update	313	383	BUY
1-Jan-08	Gremach Infrastructure Equipments	Initiating Coverage	360	529	BUY
2-Jan-08	Venus Remedies	Company Update	565	708	BUY
3-Jan-08	Ganesh Housing Corp	Initiating Coverage	751	1,201	BUY
4-Jan-08	Tulip IT	Company Update	1,118	1,015	HOLD
4-Jan-08	Indian Bank	Initiating Coverage	212	257	BUY
4-Jan-08	Indian Overseas Bank	Initiating Coverage	201	241	BUY
4-Jan-08	Allahabad Bank	Initiating Coverage	138	167	BUY
8-Jan-08	Information Technology	Quarterly Preview	NA	NA	NA
9-Jan-08	Mahindra & Mahindra	Company Update	830	940	BUY
10-Jan-08	Axis Bank	Results Update	1,095	1,272	BUY
10-Jan-08	Prism Cement	Results Update	67	91	BUY
10-Jan-08	Bank of India	Company Update	400	457	BUY
11-Jan-08	South Indian Bank	Results Update	237	271	BUY
14-Jan-08	Infosys Technologies	Results Update	1,580	1,935	HOLD
14-Jan-08	Reliance Power	IPO Note	405 - 450	NA	SUBSCRIBE
14-Jan-08	Future Capital Holdings	IPO Note	700 - 765	NA	SUBSCRIBE
15-Jan-08	Elecon Engineering	Initiating Coverage	306	424	BUY
16-Jan-08	Indian Bank	Results Update	219	257	BUY
17-Jan-08	Apollo Tyres	Results Update	54	70	BUY
17-Jan-08	Tata Consultancy Services	Results Update	945	1,095	HOLD
17-Jan-08	J K Lakshmi Cement	Results Update	171	324	BUY
18-Jan-08	Shri Lakshmi Cotsyn	Results Update	151	300	BUY
21-Jan-08	Wipro	Results Update	461	455	SELL
21-Jan-08	Biocon	Results Update	539	654	BUY
21-Jan-08	Nicholas Piramal India	Results Update	331	369	HOLD
21-Jan-08	KPIT Cummins Infosystems	Results Update	115	107	SELL
22-Jan-08	Hindustan Construction Company	Results Update	196	333	BUY
22-Jan-08	Sasken Communication Tech	Results Update	276	235	SELL
23-Jan-08	ICICI Bank	Results Update	1,125	1,478	BUY
23-Jan-08	HDFC Bank	Results Update	1,470	1,879	BUY
23-Jan-08	EMCO	Results Update	1,194	1,631	BUY
24-Jan-08	Bank of India	Results Update	390	457	BUY
24-Jan-08	Binani Cement	Results Update	91	148	BUY
24-Jan-08	Bharat Forge	Results Update	300	404	BUY
25-Jan-08	HT Media	Results Update	195	247	HOLD
25-Jan-08	Sterlite Technologies	Results Update	202	384	BUY
25-Jan-08	Cipla	Results Update	175	179	SELL
28-Jan-08	State Bank of India	Results Update	2,405	2,827	BUY
28-Jan-08	Tulip IT	Results Update	974	1,392	BUY

Market trends

BSE sectoral indices

	% Chg				Constituent performance
	25-Jan	1-day	1-mth	3-mth	
Automobiles	4,843	6.0	(13.4)	(13.8)	
Banks	11,380	7.5	(0.1)	10.8	
Capital Goods	17,463	6.6	(11.1)	(5.8)	
Comm. & Tech.	3,426	6.2	(13.3)	(13.9)	
Consumer Durables	5,290	5.9	(19.9)	1.1	
FMCG	2,160	4.7	(5.3)	1.5	
Healthcare	3,692	5.6	(14.9)	(5.0)	
IT	3,800	5.9	(16.5)	(18.0)	
Metal	15,604	9.7	(21.8)	(6.8)	
Oil & Gas	11,198	6.7	(15.2)	0.9	
Mid-caps	8,021	6.4	(16.2)	1.3	
Small-caps	10,421	4.1	(19.2)	9.1	

Number of companies: 

Emerging markets

Country	% Chg				
	25-Jan	1-day	1-mth	3-mth	6-mth
Brazil	57,463	6.0	(8.9)	(7.8)	2.6
Shanghai	4,611	(3.2)	(12.4)	(17.5)	6.1
Hong Kong	24,257	(3.4)	(11.4)	(20.2)	7.5
India	18,362	6.6	(9.1)	(4.6)	20.5
South Korea	1,659	(2.0)	(12.5)	(18.2)	(11.9)
Taiwan	7,610	(1.7)	(9.4)	(21.0)	(16.9)

FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	(335.0)	(2,115.3)	(2,997.8)	(2,997.8)
South Korea	(107.6)	(2,498.4)	(8,458.3)	(8,458.3)
Taiwan	123.0	(641.7)	(1,685.3)	(1,685.3)
Thailand	313.1	(348.9)	(1,286.5)	(1,286.5)

Events calendar

Quarterly results

January 28, 2008	29	30
Hindustan Motors, KPR Mills, Surana Industries, Sujana Towers, Apar Industries, Jindal Steel & Power, Deccan Chronicle Holdings, Shringar Cinemas, Venus Remedies, Adhunik Metaliks, Divi's Laboratories, HPCL, Shopper's Stop	Tata Power, Asian Paints, Essar Oil, Dabur India, Eicher Motors, Maruti Suzuki, Subex Azure, Pyramid Saimira, Torrent Power, Mundra Port, Triveni Engg & Industries, Deccan Cements, Suzlon Energy, Maruti Suzuki India, Yes Bank,	Bajaj Auto, Tata Chemicals, DLF City Union Bank, ICOSA-India, Hanung Toys And Textiles, KS Oils, Karuturi Networks, Birla Power Solutions, Power Grid, Mahindra & Mahindra, NTPC, Gulf Oil Corp, Adlabs Films,
31	February 1	2
ACC Ganesh Housing Corporation IVRCL Infrastructures & Projects MRF Nagarjuna Construction Co Finolex Cables	Ambuja Cements - Final Dividend	-

Trade data

Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Adlabs Films	Bsma	B	349,471	1,082.0
Adlabs Films	Bsma	S	349,471	1,082.0
Ankit Metal	Mavi Investment Fund	B	200,000	85.0
Aurobindo Pharma	Mirae Asset Investment Management Co	B	286,804	363.8
Aurobindo Pharma	Bsma	S	295,000	362.0
Bhagwati Ban	Morgan Stanley Mauritius Company	S	240,140	59.5
Educomp Solutions	Deutsche Securities Mauritius	S	89,150	4,087.6
Hind Oil Exploration	Matherthorn Advisory Singapore Te	B	600,000	106.2
Pioneer Inve	Swiss Finance Corp	S	54,260	673.8
Rajesh Exports	Goldman Sachs Investments Mauritius	B	225,000	720.0
Rajesh Expot	Goldman Sachs Investments Mauritius	B	225,000	720.0
Rei Agro	Blackstone Asia Advisors LLC Advisors	B	321,000	920.0
Rei Agro	Deutsche Securities Mauritius	B	336,361	920.0
Rolta India	Goldman Sachs Investments Mauritius	S	424,623	280.8
Sasken Commu Techno	Merill Lynch Capital Markets Espana	S	166,000	149.7
Sel Manuf	Mavi Investment Fund	S	100,000	175.0
Sel Manufacturing Company	Mavi Investment Fund Deutsche Bank	S	100,000	175.0
Usher Agro	Mavi Investment Fund	B	150,000	181.6
Vesuvius India	HDFC Long Term Advantage Fund	B	143,627	220.0
Vesuvius India	Templeton Mutual Fund A/C Franklin India	S	146,164	220.0
Vesuviusinda	HDFC Long Term Advantage Fund	B	400,000	220.0
Vesuviusinda	Templeton Mutual Fund Ac Franklin India	S	400,000	220.0

Source: BSE

Disclosures under insider trading regulations

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Educomp Solutions	Goldman Sachs Invests(Mauritius)I	B	162,787	1.0	-	-
Educomp Solutions	Goldman Sachs Invests (Mauritius)I	S	524,515	3.0	613,883	3.6
Essar Oil	Essar Energy Holdings	B	28,377,702	2.5	130,661,061	11.5
Essar Oil	Asia Pacific Markets	S	28,377,702	2.5	-	-
Garnet International	Indira Gaggar & Pacs	B	10,748	0.2	2,354,409	49.8
Gujarat Nre Coke	Goldman Sachs Invest (Mauritius) I	B	681,972	0.2	16,742,278	5.1
Housing Development Finance	DNGhosh	S	1,000	-	28,467	0.0
Joindre Capital Services	Kanchanbai Jain	S	2,500	-	5,000	0.0
Joindre Capital Services	Jaya Jain	S	2,500	-	5,000	0.0
Kolte-Patil Developers	Girish Lakhe	S	4,537	-	35,635	0.0
Kolte-Patil Developers	Milind Pendse	S	9,077	-	395	-
Kolte-Patil Developers	Dileep Deshpande	S	6,575	-	3,186	-
Pantaloon Retail (India)	Rakesh Biyani	S	30,000	-	3,104,375	2.1
Pantaloon Retail (India)	Kishore Biyani	S	950,000	-	8,210,750	5.5
Petronet Lng	P Dasgupta	B	20,000	-	235,000	-
Sayaji Hotel	Clearwater Capital Partners (Cyprus)	S	100,000	0.8	1,490,000	11.6
Sayaji Hotel	Clearwater Capital Partners (Cyprus)	S	200,000	1.6	-	-
Simmonds-Marshall	Clover Technologies	B	10,000	-	131,033	6.2
Simplex Realty	Lucky Vyapaar & Holdings	B	493,627	16.5	689,057	23.0
Simplex Realty	Shreelekha Global Finance	S	493,627	16.5	-	-
Stone India ,	Bsma	S	19,990	0.3	217,000	2.9
ZF Steering Gear (India)	Utkarsh Munot	B	802	-	822,374	9.1

Source: BSE

RELIGARE RESEARCH

Fundamental Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

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