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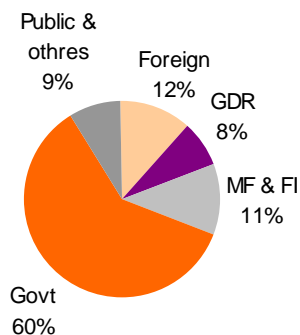
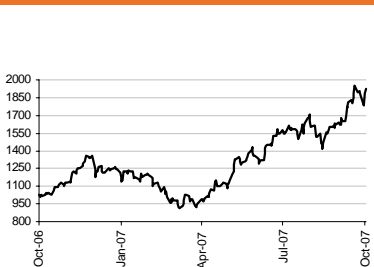
### Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ BL Kashyap	27-Sep-07	2,189	2,372	2,850
♦ ICICI Bank	23-Dec-03	284	1,068	1,173
♦ Jindal Saw	20-Sep-03	635	590	830
♦ Torrent Pharma	04-Oct-07	185	188	260
♦ UltraTech	10-Aug-05	384	1,088	1,300

# State Bank of India

**Apple Green**
**Stock Update**
**In-principle nod for SBI to raise capital**
**Buy; CMP: Rs1,924**
**Company details**

<b>Price target:</b>	Rs2,282
<b>Market cap:</b>	Rs101,155 cr
<b>52 week high/low:</b>	Rs1,981/845
<b>NSE volume:</b> (No of shares)	16.0 lakh
<b>BSE code:</b>	500112
<b>NSE code:</b>	SBIN
<b>Sharekhan code:</b>	SBI
<b>Free float:</b> (No of shares)	17.0 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
<b>Absolute</b>	16.6	20.3	93.2	84.6
<b>Relative to Sensex</b>	-0.6	-1.3	38.3	23.4

State Bank of India (SBI) has received an in-principle nod from the government to raise Rs10,000 crore from the market by March 2008. However, the bank has yet to decide the mode of raising the capital, ie whether it will raise the funds through a rights issue or a follow-on public offer.

Currently, the government's shareholding stands at 59.7%. A follow-on offer would reduce the government's shareholding, which as per the current provisions, can decline up to 55% only. A bill to enable the government to further reduce its stake in SBI to 51% is pending in the Parliament. However, a rights issue would allow the bank to raise Tier-I capital without diluting the government's shareholding.

We have assumed that SBI would raise equity capital in FY2008 by a follow-on offer of 4.5 crore shares (assuming that the government's holding in SBI would come down to 55%) at an expected issue price of Rs1,600 per share, which would help the bank garner around Rs7,200 crore from the issue. The potential of the offer price being significantly above our estimates is high based on the prevailing market price of around Rs1,900. However, there remains some execution risk due to the political instability and we would like to revisit our estimates once the clear road map regarding the capital raising exercise is in place.

The current political scenario in the country with regard to the nuclear deal still remains uncertain. In case there are mid-term elections, then the capital raising plans of SBI could get delayed and that's the only risk that we can envisage at this juncture. However, the long-term fundamentals of the bank remain extremely positive and any weakness in the stock could be used as an opportunity to enter it.

**Q2FY2008 earnings expectations**

We expect the net interest margin (NIM) of the bank to decline sequentially by eight basis points mainly due to a lower credit growth during the quarter, which would depress the bank's overall yield on assets. However, better money market yields after the abolition of the ceiling on the reverse repo amount should help the bank to negate some of the pressure on the NIM from the higher cost of deposits. We expect the bank's net interest income to increase by 16.7% year on year to Rs4,550.5 crore and the net profit to increase by 18.7% to Rs1,405.8 crore.

**Valuations**

SBI continues to remain among our top picks in the public sector banking space due to the strong growth we expect it to record in its earnings going ahead. We expect SBI's earnings to grow at a compounded annual growth rate of 17.5% over FY2007-09E. It's also a preferred proxy play on the Indian growth story. At the current market price of Rs1,924, the stock is quoting at 17.5x its FY2009E EPS, 7.2x its pre-provision profit (PPP) and 1.8x FY2009E consolidated book value (CBV). We maintain our Buy recommendation on the stock with a twelve-month price target of Rs2,282.

Earnings table	FY05	FY06E	FY07	FY08E	FY09E
Net profit (Rs cr)	4304.5	4406.7	4541.3	5164.7	6267.4
Shares in issue (cr)	52.6	52.6	52.6	57.1	57.1
EPS (Rs)	81.8	83.7	86.3	90.4	109.7
% y-o-y change	16.9	2.4	3.1	4.8	21.4
PE (x)	23.5	23.0	22.3	21.3	17.5
P/PPP (x)	9.2	9.0	8.8	8.3	7.2
CBV (Rs)	618.9	707.4	802.0	963.1	1079.9
P/CBV (x)	3.1	2.7	2.4	2.0	1.8
RONW (%)	19.4	17.0	15.4	13.5	13.2

## Sun Pharmaceutical Industries

Ugly Duckling

### Stock Update

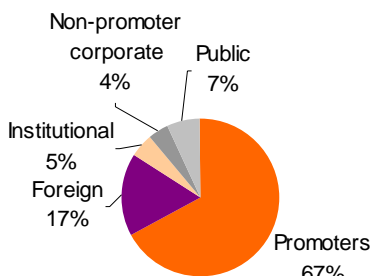
Trileptal exclusivity—a big opportunity!

Buy; CMP: Rs920

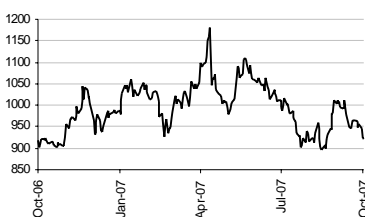
#### Company details

Price target:	Rs1,287
Market cap:	Rs18,124 cr
52 week high/low:	Rs1,200/855
NSE volume: (No of shares)	3.2 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Sharekhan code:	SUNPHARM
Free float: (No of shares)	6.5 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	-8.7	-8.6	-5.1	7.4
Relative to Sensex	-22.2	-25.0	-32.1	-28.2

#### Key points

- ◆ Sun Pharmaceutical Industries (Sun) has received the final approval from the US Food and Drug Administration (USFDA) for its abbreviated new drug application (ANDA) to manufacture and market its generic version of Novartis' Trileptal (oxcarbazepine). Being one of the first to file an ANDA for generic Trileptal® with a para IV certification, Sun has been awarded a 180-day marketing exclusivity for the product to be shared with Glenmark Pharmaceuticals (Glenmark) and Roxane Laboratories (Roxane).
- ◆ Trileptal is Novartis' blockbuster drug indicated for use as monotherapy or adjunctive therapy in the treatment of partial seizures. Oxcarbazepine is the active ingredient in Trileptal. The product generated annual revenues of \$640 million in the USA (IMS--2006). The patent for Trileptal had expired in 2005, following which the innovator Novartis had filed for a new patent for the product, which is set to expire only in 2018.
- ◆ We believe that the product will undergo a price erosion of approximately 50% during the exclusivity period, with the entry of three additional players other than the innovator. With a total of four players in the market, we believe Sun will be able to capture at least 20% of the market during the exclusivity period. Our back-of-the-envelope calculations indicate that Sun will be able to garner revenues of \$32 million and profits of \$9.6 million, which will translate into incremental earnings of Rs1.9 per share during the exclusivity period.
- ◆ At the current market price of Rs920, Sun is valued at 20.6x FY2008E and 17.3x FY2009E fully diluted earnings. We maintain our Buy recommendation on the stock with a price target of Rs1,287.

Sun has received the final approval from the USFDA for its ANDA to manufacture and market its generic version of Novartis' Trileptal (oxcarbazepine). Being one of the first to file an ANDA for generic Trileptal® with a para IV certification, Sun has been awarded a 180-day marketing exclusivity for the product to be shared with Glenmark and Roxane. Trileptal has annual revenues of \$640 million in the USA. Sun is planning to launch the product shortly, while Glenmark has already launched the product in the USA on October 9, 2007. Assuming a 50% price erosion on launch and an approximate

#### Earnings table

Rs (cr)

Particulars	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net sales (Rs cr)	1185.3	1636.8	2132.1	2688.4	3232.0
Net profit (Rs cr)	396.2	573.3	784.2	927.0	1100.8
Shares in issue (cr)	18.6	18.6	19.3	20.7	20.7
EPS (Rs)	21.4	30.9	40.5	44.8	53.1
PER (x)	43.1	29.8	22.7	20.6	17.3
Cash EPS (Rs)	23.5	34.1	44.8	48.8	57.4
Cash PER (x)	39.1	26.9	20.6	18.9	16.0

20% market share for Sun, we believe the product can generate revenues and profits of up to \$32 million and \$9.6 million respectively during the exclusivity period, yielding incremental earnings of Rs1.90 per share.

### About the product

Trileptal is Novartis' blockbuster drug indicated for use as monotherapy or adjunctive therapy in the treatment of partial seizures. Oxcarbazepine is the active ingredient in Trileptal. The product generated annual revenues of \$640 million in the USA (IMS--2006). The patent for Trileptal had expired in 2005, following which the innovator Novartis had filed for a new patent for the product which is set to expire only in 2018.

### Background of the case

The original patent for Trileptal had expired in 2005, following which the innovator Novartis had filed for a new patent for the product which is set to expire only in 2018.

A number of players had filed an ANDA with a Para IV certification for Trileptal, claiming that their generic versions will not infringe Novartis' '725 patent which expires in 2018. These included Sun, Glenmark, Taro Pharmaceuticals, Roxane, Breckenridge Pharmaceuticals and Teva. Amongst these, Sun, Glenmark and Roxane were amongst the first to file for the product. However, amongst these players, only Sun and Glenmark were not taken to court by Novartis, while litigation between the other players and Novartis is ongoing in the US courts. Hence, Sun, being one of the first to file an ANDA for generic Trileptal® with a Para IV certification, shares a 180-day marketing exclusivity for generic Trileptal with Glenmark and Roxane.

### Implications

On October 9, 2007, all the three first-to-file players—Sun, Glenmark and Roxane—received the approval from the

USFDA to market their versions of generic Trileptal in the USA. However, since Novartis has sued Roxane, claiming that Roxane's generic Trileptal would infringe its '725 patent, it is unlikely that Roxane would launch the product at risk, until the final outcome of the litigation. However, for our calculations, we have conservatively assumed that the exclusivity will be shared by all the three first-to-file players.

Based on this, we believe that the product will undergo a price erosion of approximately 50% during the exclusivity period, with the entry of three additional players other than the innovator. With a total of four players in the market, we believe Sun will be able to capture at least 20% of the market during the exclusivity period. Our back-of-the-envelope calculations indicate that Sun will be able to garner revenues of \$32 million and profits of \$9.6 million, which will translate into incremental earnings of Rs1.9 per share during the exclusivity period.

### Impact of Trileptal exclusivity on Sun's earnings

Market size (\$mn)	640.0
No of players	4.0
Price erosion	50%
Market share	20%
Revenues during 180-day exclusivity (\$mn)	32.0
Profits during 180-day exclusivity (\$mn)	9.6
Incremental EPS (Rs)	1.9

### Valuation

Sun seems to have become an aggressive participant in the Para IV patent challenge space. Having received a favourable outcome in the ongoing Protonix challenge case, this is Sun's second victory in launching a product that currently enjoys patent protection. At the current market price of Rs920, Sun is valued at 20.6x FY2008E and 17.3x FY2009E fully diluted earnings. We maintain our Buy recommendation on the stock with a price target of Rs1,287.

The author doesn't hold any investment in any of the companies mentioned in the article.

# iGate Global Solutions

## Viewpoint

### Decent start to earnings season

CMP: Rs340

#### Result summary

- ♦ i-Gate has provided a decent start to the earnings season for the tech stocks. It reported a robust growth of 42.1% quarter on quarter (qoq) and 161.8% year on year (yoy) in its consolidated earnings (before extraordinary items) to Rs22.8 crore in Q2FY2008. The earnings growth is much ahead of the market expectations.
- ♦ The revenue grew at a tepid rate of 0.7% qoq and declined 0.9% yoy to Rs200.8 core due to the appreciation of rupee and the deterioration of its business from mortgage companies. The contribution from mortgage clients declined further to 5.5% in Q2FY2008 down from 7% in Q1FY2008.
- ♦ The operating profit margin (OPM) improved by an impressive 260 basis points qoq to 15.8%. The improved OPM was on the back of better utilisation, higher offshore contribution, slightly higher billing rates (that boosted gross margins by 120 basis points), and saving in the overhead cost as a percentage of sales (140 basis points). The management indicated that the performance is ahead of its stated guidance of an increase of 15% in the OPM by Q4FY2008 and expects to further build on it.
- ♦ The earning growth was also boosted by a steep jump in other income to Rs2.7 crore (aided by foreign exchange fluctuation gains of Rs1.6 crore) and a tax writeback of around Rs0.7-0.8 crore.
- ♦ On the operational side, the new client addition remained lacklustre with only three clients added in Q2FY2008. But the company expects to improve its performance on this front with the appointment of Hari Murthy as the head of its sales department. Hari Murthy has recently shifted from Hexaware to I-Gate. The company added 112 employees in Q2 and expects to add around 900-950 employees during the entire year.
- ♦ Along with the results, the company has announced its intentions to delist from the Indian bourses subject to regulatory approvals. The company hopes to complete the buyback process (if successful) by December 2007.
- ♦ In terms of outlook, the management indicated that the IT spending in the US is likely to remain flat in CY2008 as compared with a 2-3% growth in CY2007. This is likely to reduce spending on discretionary projects and could also result in delay in new projects that start early in the next year. This could adversely affect the volume growth in Q4FY2008.
- ♦ At the current market price the stock trades at around 14.5-15x FY2008 and 11-11.5x FY2009 consensus earnings estimates.

Result table		Rs (cr)			
Particulars	Q2FY08	Q1FY08	Q2FY07	% qoq	%yoy
<b>Net sales</b>	<b>200.8</b>	<b>199.4</b>	<b>202.6</b>	<b>0.7</b>	<b>-0.9</b>
Less: Direct cost	135.1	136.5	143.2	-1.0	-5.7
<b>Gross profit</b>	<b>65.7</b>	<b>62.9</b>	<b>59.4</b>	<b>4.5</b>	<b>10.6</b>
Less: SG&A	34.0	36.5	39.4	-7.0	-13.6
<b>Operating profit</b>	<b>31.7</b>	<b>26.4</b>	<b>20.1</b>	<b>20.3</b>	<b>58.0</b>
Other income	2.7	1.4	-0.3	90.1	-
Interest	0.7	0.7	0.7	7.7	-5.4
Depreciation	10.0	9.6	9.8	4.6	2.5
PBT	23.7	17.6	9.3	34.9	155.4
Tax	0.9	1.5	0.6	-40.8	57.9
PAT	22.8	16.1	8.7	42.1	161.8
Minority interest	0.0	0.0	1.2	-	-
One-time items	-0.1	1.7	-0.3	-	-
<b>RPAT</b>	<b>22.9</b>	<b>14.3</b>	<b>10.1</b>	<b>60.0</b>	<b>125.8</b>
EPS (Rs)	7.2	4.5	3.2		
GPM (%)	32.7	31.5	29.3		
OPM (%)	15.8	13.2	9.9		
NPM (%)	11.4	7.2	5.0		

The author doesn't hold any investment in any of the companies mentioned in the article.

## Evergreen

HDFC Bank  
 Infosys Technologies  
 Reliance Industries  
 Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
 ACC  
 Apollo Tyres  
 Bajaj Auto  
 Bank of Baroda  
 Bank of India  
 Bharat Bijlee  
 Bharat Electronics  
 Bharat Heavy Electricals  
 Bharti Airtel  
 Canara Bank  
 Corporation Bank  
 Crompton Greaves  
 Elder Pharmaceuticals  
 Grasim Industries  
 HCL Technologies  
 Hindustan Unilever  
 ICICI Bank  
 Indian Hotels Company  
 ITC  
 Mahindra & Mahindra  
 Marico  
 Maruti Suzuki India  
 Lupin  
 Nicholas Piramal India  
 Ranbaxy Laboratories  
 Satyam Computer Services  
 SKF India  
 State Bank of India  
 Tata Motors  
 Tata Tea  
 Unichem Laboratories  
 Wipro

## Cannonball

Allahabad Bank  
 Andhra Bank  
 Gateway Distriparks  
 International Combustion (India)  
 JK Cement  
 Madras Cement  
 Shree Cement  
 Tourism Finance Corporation of India  
 Transport Corporation of India

## Emerging Star

3i Infotech  
 Aban Offshore  
 Alphageo India  
 Axis Bank (UTI Bank)  
 Balaji Telefilms  
 BL Kashyap & Sons  
 Cadila Healthcare  
 Jindal Saw  
 KSB Pumps  
 Navneet Publications (India)  
 Network 18 Fincap  
 Nucleus Software Exports  
 Orchid Chemicals & Pharmaceuticals  
 Tata Elxsi  
 Television Eighteen India  
 Thermax

## Ugly Duckling

Ahmednagar Forgings  
 Ashok Leyland  
 Aurobindo Pharma  
 BASF India  
 Ceat  
 Deepak Fertilisers & Petrochemicals Corporation  
 Genus Power Infrastructures  
 Hexaware Technologies  
 ICI India  
 India Cements  
 Indo Tech Transformers  
 Jaiprakash Associates  
 KEI Industries  
 Punjab National Bank  
 Ratnamani Metals and Tubes  
 Sanghvi Movers  
 Saregama India  
 Selan Exploration Technology  
 Seamec  
 Shiv-Vani Oil & Gas Exploration Services  
 Subros  
 Sun Pharmaceutical Industries  
 Surya Pharmaceuticals  
 Torrent Pharmaceuticals  
 UltraTech Cement  
 Union Bank of India  
 Universal Cables  
 Wockhardt  
 Zensar Technologies

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