

### World Indices

	Close	Daily % Chg
BSE Sensex	8,427	(2.09)
NSE 50 Nifty	2,622	(1.95)
CNX Mid Cap	3,055	(1.84)
S&P 500	696	(0.64)
FTSE 100	3,512	(3.14)
Nasdaq	1,321	(0.14)
Hang Seng	12,035	0.01
Shanghai Comp	2,111	1.89

### Turnover (\$ bn)

	BSE	% Chg	NSE	% Chg
Cash	0.5	(1.5)	1.4	4.8
F&O	-	-	7.9	14.4

### Institutional Flows (\$ mn)

Date	Cash	NSE Derivatives (Net)	
		Index	Stocks
03/03/09	(92.0)	32.1	162.2
MTD	(144.0)	(34.2)	161.2
YTD	(1429.7)	NA	NA
MF			
02/03/09	(52.1)	NA	NA
MTD	(52.1)	NA	NA
YTD	(506.2)	NA	NA

### Advances/Declines (%)

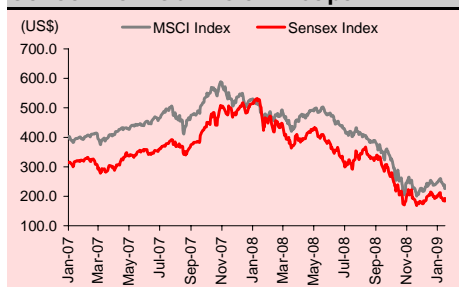
	Advances	Declines
BSE / NSE	32.2 / 25.1	63.5 / 71.0

### Key Statistics

	Close	% Chg
US\$ / Rs	51.97	0.06*
Euro / US\$	1.26	0.32*
US\$/Yen	98.16	0.73*
10 yr G-Sec (%)	6.04	0.33
Call rate (%)	4.00	(3.61)
Brent-spot (US\$/bbl)	43.86	4.18
Gold (US\$)	916.28	(1.06)
Aluminium (LME, US\$/t)	1,315.50	(0.19)
Copper (LME, US\$/t)	3,480.00	4.50
Zinc (LME, US\$/t)	1,105.00	2.46

\*+/- chg reflects \$ appreciation/depreciation

### Sensex vs MSCI Asia Ex Japan



JM Financial Research is also available on: -  
Bloomberg - JMFR <GO>, Thomson Publisher, Reuters,  
BlueMatrix Lite & Factset.

# India Morning Brief

## JM Financial Research

**Recommendation Upgrade – Dr. Reddy's Labs:** Negatives now priced in

**Flash Update – Tata Power:** Coal Prices slump to US\$65

**Sector Update – Volume Update:** Hero Honda and Maruti continues to grow

## News Tracker

Corporate News – Industry trends

Economic/Regulatory development

Commodity/Money Market News

## Market Tracker

### Key Stock Activity for Previous Day

Top Sensex Movers				Top Turnover (NSE/BSE)					
Company	Price	% Chg Daily	% Chg YTD	NSE Company	Rs bn	%*	BSE Company	Rs bn	%*
RIL	1,197	(2.3)	(4.6)	ICICIBANK	7.4	9.9	RELIANCE	2.2	8.6
ICICI BANK	296	(2.9)	(36.3)	RELIANCE	6.4	8.6	ICICI BANK	2.0	8.0
L&T	572	(2.1)	(30.4)	BHARTIART	3.0	4.0	EDUCOMP SOL	1.4	5.6
INFOSYS	1,198	(1.8)	4.3	SBI	3.0	4.0	REL INFRA	1.2	4.7
HDFC	1,201	(3.2)	(20.2)	RELINFRA	2.8	3.8	SBI	1.2	4.6
SBI	974	(2.0)	(26.0)	EDUCOMP	2.8	3.7	UNITD SPR	0.8	3.0
BHARTI	601	(2.5)	(16.5)	MCDOWELL	1.9	2.6	RELIANCE CAP	0.7	2.9
ITC	172	(3.9)	0.2	RELCAPITAL	1.9	2.5	L&T	0.6	2.3
ONGC	648	(2.4)	(5.3)	HDFC	1.8	2.5	EDSERV SOFT	0.5	2.1
TATA STEEL	155	(2.4)	(32.1)	L&T	1.7	2.2	BHARTI ARTL	0.5	1.9
RCOM	139	(4.6)	(43.6)	ONGC	1.5	2.0	TATA STL	0.5	1.9
HDFC BANK	832	(1.7)	(18.0)	AXISBANK	1.5	2.0	AKRUTI CITY	0.5	1.9
BHEL	1,365	(1.4)	(2.7)	HDFCBANK	1.4	1.9	REL PET	0.4	1.7
SUN PHARMA	972	(2.3)	(7.9)	INFOSYSTC	1.3	1.8	DLF	0.4	1.6
HUL	242	(1.3)	(3.6)	RPL	1.3	1.7	ORISA SP IRS	0.4	1.6

Top Gainers**		Top Losers**		BSE Sectoral Indices		
Company	% Chg	Company	% Chg	Sector	% Chg	%YTD
AMBUJA CEME	4.7	ROLTA IND	(18.2)	AUTO	(1.4)	3.9
BHUSH STEEL	4.5	BHARAT FORGE	(9.5)	BANKEX	(1.4)	(12.2)
INDIA CEMENT	3.1	IND INFOLINE	(7.5)	FMCG	(2.6)	(2.6)
GRASIM INDUST	2.9	LANCO INFRA	(7.0)	CAP.GOODS	(1.4)	(22.0)
AKRUTI CITY	2.8	TATA POWER	(6.4)	IT	(1.9)	(12.7)
GTL INFRAST	2.7	UNITED PHOSP	(6.4)	METAL	(1.5)	(20.0)
BHARAT PETROL	2.3	TITAN IND.	(6.1)	OIL & GAS	(1.9)	(6.2)
GUJ PETRONET	2.2	BAJ HOLD INV	(5.2)	POWER	(1.8)	(11.2)
INDIAN OIL C	1.8	EDUCOMP SOLN	(4.7)	REALTY	(1.0)	(43.6)
				HEALTHCARE	(1.2)	(14.6)
				SENSEX	(2.1)	(14.9)

Approximate 84% of Sensex weight

Note: \*\*From BSE A Group, \* % of total turnover, All data are as of previous day's closing

Bulk Deals											
BSE						NSE					
Buy	Price	Rs mn	Sell	Price	Rs mn	Buy	Price	Rs mn	Sell	Price	Rs mn
ORISA SP IRS	343	118.6	ORISA SP IRS	343	108.0	EDUCOMP SOLU	1565	316.7	EDUCOMP SOLU	1566	316.9
EDSERV SOFT	128	89.3	EDSERV SOFT	129	89.2	EDSERV SOFTS	123	27.6	EDSERV SOFTS	125	25.6
SUKHJIT ST C	92	5.1	SUKHJIT ST C	92	5.0	UFLEX LIMITE	55	18.0	ALPHAGEO (IN	78	2.6
WELL PACK PA	77	2.5	WELL PACK PA	77	3.1	ALPHAGEO (IN	78	2.7	-	-	-
UNIABEX AL P	70	1.7	JMD TELEFILM	28	0.7	-	-	-	-	-	-

Spurt in Turnover							
Company	\$ mn	Volume %	Daily Price Chg %	Company	\$ mn	Volume %	Daily Price Chg %
LUMAXIND	0.00	94345	(1.0)	HIKAL	0.06	1696	(1.1)
FMGOETZE	0.01	12143	3.4	SIMPLEXINF	0.13	1421	0.4
UFLEX	0.53	7210	0.3	AMTEKINDIA	0.03	1409	2.3
VENKEYS	0.00	3078	(1.1)	ESSELPACK	0.08	1240	1.3
BLUEDART	0.01	1778	(0.0)	IGL	1.09	1145	(2.1)

## Corporate News – Industry trends

- **RIL**, is close to signing an agreement with NTPC to supply gas to Ratnagiri Gas and Power Pvt. Ltd, formerly known as the Dabhol Power Co., at around US\$5.40 an mBtu including levies (Mint)
- **Tata Motors**, set to start selling the world's cheapest car Nano in India, unveiled a version of the hatchback for the international markets and an electric vehicle at the Geneva International Motor Show (Mint)
- **Suzlon Energy** said, it had secured an order to supply 80 wind turbines in China with total power generation capacity of 100MW (Mint)
- **Daiichi Sankyo** has deferred its open offer for Zenotech Labs; Ranbaxy holds a 46.95% stake in Zenotech; (Mint)
- **M&M** eyes global tie-ups to rev up defence focus, will offer 26% in two subsidiaries to global partners (ET)
- **IVRCL** to buy water Tech Company in Europe, for around US\$100 mn, by the end of third quarter of the coming fiscal (ET)
- **Pfizer** to license 50 generics from Aurobindo; Expects the products acquired to deliver more than \$200 million in annual revenue in 2013 (BS)
- The government is understood to have awarded a coal block each to **Tata Sons-Sasol** joint venture and Jindal Steel and Power for converting coal to liquid petroleum, entailing an investment of US\$18 bn (BS)
- **Eight companies** are in the fray for rolling out gas networks in six cities, bids for which were invited by the Petroleum and Natural Gas Regulatory Board; The deadline for submission of the bids expired on 3rd March, 09 (BS)
- **IVRCL Infrastructure** and Projects has bagged seven projects worth Rs6.7 bn from different agencies for construction-related works (BS)
- **HCL Technologies** has signed an Rs3.9 bn end-to-end IT services engagement covering the entire lifecycle from transformation to integration and operations management with the general insurance firm, National Insurance Company, for a period of 7 years (BS)

- **BEML**, has entered into an agreement with Sumber Mitra Jaya of Indonesia to bid for upcoming contract mining businesses in India (BS)
- **Jaiprakash** bucks trend, to hire 2,000 this year, plans performance bonus, pay hike this year (ET)
- **Alcatel-Lucent** said it won a seven-year contract to help India's Tata Teleservices improve delivering data, voice and video services (Mint)
- **TV Today Network** said it will spend up to Rs293 mn for a buy-back of up to 10% of equity (Mint)
- **Jet Air** may lease out more aircraft, to extend wet lease with Turkish Air, Gulf Air and Oman Air (BL)
- **Patni** partners SAP in Japan, will take an active part in the support, customisation and deployment of SAP solution-based systems for customers in Japan (BL)

### Economic/Regulatory development

- The government announced the approval of **two port projects and five highways projects** worth an estimated Rs52.2 bn under the public-private partnership model (Mint)

### Commodity/Money Market News

- **Cement makers** have raised prices by Rs 5-8 per 50-kg bag in Mumbai and Gujarat from Sunday citing improved demand (ET)

**Country: India**

**Sector: Pharmaceuticals**

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## Key Data

Market cap (bn)	Rs66.9/US\$1.3
Shares in issue (mn)	168
Diluted share (mn)	168
3-mon avg daily val (mn)	Rs201.9/US\$3.9
52-week range	Rs739/384
BSE sensx (02/03/09)	8,607
Nifty (02/03/09)	2,675
Rs/US\$	51.9

## Shareholding Pattern (%)

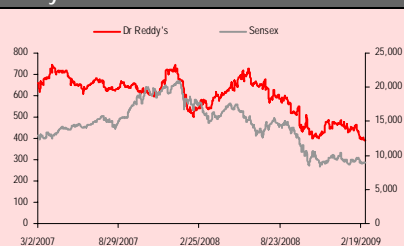
	3Q FY09	3Q FY08
Promoters	26.4	25.2
FII's	22.4	26.3
MFs/FIs/Banks	20.3	17.3
Others	30.9	31.3

## Price Performance (%)

	1M	3M	12M
Absolute	(11.3)	(15.2)	(31.7)
Relative*	(6.2)	(13.7)	19.3

\* To the BSE Sensex

## Daily Performance



(As of 2 March 2009)

3 March 2009

Recommendation Upgrade

# Dr. Reddy's Labs

Bloomberg: DRRD IB

**Buy**

**Price: Rs398**

**Target Price (Mar 10): Rs500**

## Negatives now priced in

- High SG&A and unexpected entry of Teva bring stock down:** Dr. Reddy's stock has fallen 15% since results, as investors were probably disappointed by higher SG&A expense and Teva/Ranbaxy's launch in sumatriptan was unexpected. Firstly, over 50% of SGA being in currencies other than rupee would have impacted reported rupee costs given avg YoY rupee depreciation of 24% vs. USD, 11% vs. ruble and 12% vs. Euro. In contrast, the revenues got negatively impacted (i.e. did not get full benefit of weak rupee), as c. Rs500m was booked as hedge loss in sales line. Secondly, market checks indicate that sumatriptan can still bring in \$70-80m revenues for next 6 months despite entry of Teva and Ranbaxy.
- Our recent management meeting gives room for optimism:** We came back thinking that management is focused on reducing costs across various divisions. It plans to achieve this by having a granular focus on costs across markets/activities and reducing costs in territories which do not bring in adequate revenues commensurate with the SGA costs. Further, it plans to neutralize R&D costs, possibly by realigning to productive assets. We maintain our cost assumptions. Additionally, management seemed confident on growth in branded formulation and US. The initial traction on Promius is also encouraging.
- We increase FY10-11 earnings by 10-11%, upgrade to BUY:** Upon further analysis of 3QFY09, we realize that DRL has been particularly impacted due to its hedges/balance sheet liabilities (net) – effectively realizing lower revenues than our expectations. However, it stands to benefit in FY10, as hedges are at higher (i.e. weaker) rupee. Hence, we now adjust our model to reflect this. We cut CIS sales to reflect rupee appreciation. We build in extra sumatriptan revenues in FY10, but lower omeprazole OTC due to litigation delays (30-mth ends in 3QFY10). Our revised Mar-10 target price of Rs500 (up from Dec-09 target of Rs490) is based on 15x FY11E EPS and Rs20 (para-IV value). We upgrade to BUY.

## Exhibit 1: Financial summary

(Rs mn)

Y/E March	FY07	FY08	FY09E	FY10E	FY11E
Net sales	65,095	50,006	64,275	69,097	75,116
Sales growth (%)	172.4	(23.2)	28.5	7.5	8.7
EBITDA	14,513	7,550	9,331	9,684	9,996
EBITDA (%)	22.4	15.1	14.5	14.0	13.3
Adjusted net profit	3,077	5,212	4,015	4,456	5,391
EPS (Rs)	19.2	31.0	23.8	26.5	32.0
EPS growth (%)	103.7	61.1	(23.0)	11.0	21.0
ROCE (%)	22.0	10.1	11.0	10.1	10.0
ROE (%)	22.4	11.1	12.3	11.8	11.4
PE (x)	20.7	12.8	10.4	9.8	9.2
Price/Book value (x)	1.6	1.4	1.3	1.2	1.0
EV/EBITDA (x)	6.5	12.7	10.4	9.8	9.1

Source: Company data, JM Financial. Note: Valuations as of 2 March 2009

## Promius Pharma: Product snapshot

### ▪ EpiCeram Skin Barrier Emulsion

Atopic Dermatitis is a chronic skin condition characterized by triad of asthma, allergies and eczema. The term "atopy" refers to hereditary onset though exact cause is unknown and is linked to various environmental factors. It can affect any age group though is common in infants and young children. The most common symptom is dry, itchy, red skin.

#### **Current Treatment Options**

The primary treatment is aimed at avoidance of allergen while the others involve use of medication to reduce the dryness and inflammation of the skin.

**Topical agents:** moisturizers, topical corticosteroids.

**Calcineurin Inhibitors:** Newer prescribed medications include "immuno modulators" viz. Elidel (pimecrolimus) and Protopic (tacrolimus) which act by suppressing the immune system but carry associated malignancy risk.

**Barrier Creams:** These are class of drugs aimed at improving barrier function such as EpiCeram, Atopiclair and Mimyx. They can be used in combination with topical steroids/immuno modulators and other emollients to help repair overall dryness and broken skin function.

**Phototherapy:** Ultraviolet B (UVB) light

**Systemic agents:** Systemic corticosteroids (prednisone), cyclosporine, azathioprine etc.

The combined market for major treatment options in AD is estimated at \$180m annually. Though early to comment, we believe EpiCeram could touch \$10m in FY10 which is not currently reflected in our model.

### ▪ Scytera (coal tar) Foam 2%

Chronic psoriasis is a non-contagious autoimmune disease affecting skin and joints causing appearance of scaly patches on the skin. Psoriasis can manifest in various forms but most common is plaque psoriasis which is characterized with raised inflamed skin covered with scaly-white patches.

#### **Current Treatment Options**

Though there are number of treatment options available, none is universal and treatment depends on severity and type of lesions.

**Coal Tar:** Coal tar has been used in this condition for many years but had gradually declined due to its messy application, unpleasant smell and associated skin cancer risk. However, studies have failed to demonstrate the carcinogenic potential of tar products. The best candidates for use of tar may be people with limited psoriasis or those with well defined lesions. Tar is commonly combined with ultraviolet light B (UVB) phototherapy under popular Goeckerman regimen as effective treatment for severe psoriasis.

**Topical agents:** Topical corticosteroids, vitamin D-3 analogues (calcipotriene), retinoids (tazarotene)

**Phototherapy:** Psoralens with ultraviolet A (PUVA), UVB

**Anti-metabolites:** Methotrexate

**Other systemics:** Hydroxyurea, mycophenolate mofetil, accutane

**Immuno-biologics:** Humira, Remicade, Enbrel, Raptiva etc. are mainly indicated for severe form of psoriasis which may affect both skin and joints.

Scytera Foam is the first coal tar product in an aerosol foam vehicle launched into the psoriasis market. With this second product launch, Promius Pharma's mission is to elevate coal tar to an important position once again in psoriasis treatment. However, it is too early to comment on this product.

**Exhibit 2: Promius Pharma – two products launched**

Product	Type	Indication	Description	Competing/Complementing drugs
EpiCeram	Skin-Barrier Emulsion	Atopic Dermatitis	helps repair defective skin barrier through five key mechanisms	other non steroidal creams - Cerave, Atopiclair, Mimyx
<i>(Launched: October 2008)</i>			comparable efficacy seen over Cutivate (fluticasone propionate) in reducing pruritis	can be <b>combined</b> with topical steroids, immunomodulating agents - pimecrolimus, tacrolimus
			optimal 3:1:1 ratio of ceramides, cholesterol and free fatty acids to normalize skin barrier function	
			easy to use - can be used by all age group in different areas of the body including face	
Scytera	Coal tar foam 2%	Chronic Psoriasis	comparable efficacy to calcipotriene (active ingredient in Dovonex)	topical steroids, other agents
<i>(Launched: January 2009)</i>			can be used in combination with biological agents, systemic therapies, topical treatments and phototherapy	usually <b>combined</b> with phototherapy (UVB) - Goeckerman regimen
			spreads easily, absorbs and dries quickly, has minimal potential of staining and is devoid of unpleasant odor associated with coal tar	
			can be used anytime during the day and even recommended for monotherapy	

Source: Company, JM Financial

**Exhibit 3: Revising Sales estimates**

*We are increasing our sales estimates in North America by c. 10% and reducing in Russia by c. 7% for FY10E and FY11E.*

*We estimate sales of c. \$30m from omeprazole OTC launch in FY10E (included in special sales)*

Sales segments	Old Estimates		New Estimates	
	2010E	2011E	2010E	2011E
<b>Global Generics</b>	<b>47,579</b>	<b>52,508</b>	<b>48,657</b>	<b>53,530</b>
North America	14,589	16,777	16,048	18,455
Europe	9,504	9,702	9,504	9,702
- Betapharm	7,514	7,514	7,514	7,514
- Others	1,990	2,189	1,990	2,189
India	9,519	10,661	9,519	10,661
Russia & Other CIS	8,197	9,673	7,642	9,017
Others	2,795	3,494	2,795	3,494
Special	2,975	2,200	3,150	2,200
<b>PSAI (Pharmaceuticals Services &amp; Active Ingredients)</b>	<b>19,790</b>	<b>20,987</b>	<b>19,790</b>	<b>20,987</b>
North America	4,633	4,957	4,633	4,957
Europe	2,691	2,879	2,691	2,879
India	2,720	2,720	2,720	2,720
Others	4,026	4,228	4,026	4,228
Innovative Products	5,720	6,203	5,720	6,203
- Mexico	2,500	2,500	2,500	2,500
- Others	3,220	3,703	3,220	3,703
Others	650	600	650	600
<b>Total</b>	<b>68,018</b>	<b>74,094</b>	<b>69,097</b>	<b>75,116</b>
Growth (%)	6	9	8	9

Source: Company, JM Financial

**Exhibit 4: Change in estimates**

Particulars	Old Estimates		New Estimates		% change	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Sales	68,018	74,094	69,097	75,116	1.6	1.4
Gross Profit	34,781	37,691	35,116	38,273	1.0	1.5
Profit before tax	7,709	7,973	8,043	8,555	4.3	7.3
Adj. Net Profit	4,009	4,896	4,456	5,391	11.1	10.1
Adj. EPS	23.9	29.1	26.5	32.1		
<i>Gross Profit (% of sales)</i>	<i>51.1</i>	<i>50.9</i>	<i>50.8</i>	<i>51.0</i>		
<i>PBT Margin</i>	<i>11.3</i>	<i>10.8</i>	<i>11.6</i>	<i>11.4</i>		
<i>Profit Margin</i>	<i>5.9</i>	<i>6.6</i>	<i>6.4</i>	<i>7.2</i>		

Source: Company, JM Financial

## Financial Tables

Profit & loss statement						(Rs mn)
Y/E March	FY07	FY08	FY09E	FY10E	FY11E	
Net sales	65,095	50,006	64,275	69,097	75,116	
Growth (%)	172.4	(23.2)	28.5	7.5	8.7	
Other operational income	(174)	(16)	0	0	0	
Raw Material/FG	34,220	24,598	31,136	33,981	36,843	
R&D	2,460	3,533	3,926	4,515	5,192	
SG&A	14,051	15,175	19,269	20,916	23,085	
EBITDA	14,513	7,550	9,331	9,684	9,996	
EBITDA (%)	22.4	15.1	14.5	14.0	13.3	
Growth (%)	870.1	(48.0)	23.6	3.8	3.2	
Other non-operational inc.	(137)	(745)	613	0	0	
Depreciation & amortisation	3,341	1,615	1,578	1,561	1,561	
EBIT	11,034	5,190	8,366	8,123	8,435	
Interest (income)/exp (net)	(832)	81	(180)	(80)	120	
Pre tax profit	11,866	5,109	8,546	8,203	8,315	
Taxes	(1,177)	(701)	(1,107)	(1,207)	(1,283)	
Extra (income)/exp (net)	0	(599)	0	0	0	
Minority interest	3	10	0	0	0	
Net profit	9,341	5,275	5,654	6,837	7,272	
Adjusted net profit	3,077	5,212	4,015	4,456	5,391	
Margin (%)	4.7	10.4	6.2	6.4	7.2	
Diluted share capital (mn)	168	168	168	168	168	
EPS (Rs)	19.2	31.0	23.8	26.5	32.0	
Growth (%)	103.7	61.1	(23.0)	11.0	21.0	

Source: Company, JM Financial

Balance sheet						(Rs mn)
Y/E March	FY07	FY08	FY09E	FY10E	FY11E	
Share capital	840	840	840	840	840	
APIC	20,469	20,740	20,740	20,740	20,740	
Reserves & surplus	20,091	24,032	29,343	34,929	40,951	
Networth	41,400	45,612	50,922	56,509	62,531	
Total loans	24,754	19,542	22,288	21,356	17,224	
Sources of funds	66,154	65,153	73,210	77,865	79,754	
Intangible assets	34,429	33,602	32,024	30,463	28,902	
Fixed assets	12,428	16,765	20,265	22,265	24,265	
Net block	46,857	50,367	52,289	52,728	53,167	
Investments	1,316	239	239	239	239	
Deferred tax assets/(liability)	(7,368)	(5,535)	(5,535)	(5,535)	(5,535)	
Current assets	37,039	34,173	39,060	43,882	46,000	
Inventories	7,546	11,132	15,550	17,883	19,671	
Sundry debtors	7,519	6,823	11,121	12,790	14,069	
Cash & bank balance	18,603	12,175	8,335	8,806	7,857	
Other current assets	3,096	3,829	3,829	4,179	4,179	
Loans & advances	275	214	225	225	225	
Current liabilities & provisions	11,501	12,638	11,390	11,996	12,663	
Current liabilities	4,606	5,350	5,999	6,605	7,271	
Provisions and others	6,895	7,288	5,391	5,391	5,391	
Net current assets	25,538	21,535	27,670	31,886	33,337	
Others (net)	(189)	(1,453)	(1,453)	(1,453)	(1,453)	
Application of funds	66,154	65,153	73,209	77,864	79,755	

Source: Company, JM Financial

Cash flow statement						(Rs mn)
Y/E March	FY07	FY08	FY09E	FY10E	FY11E	
Net profit	9,329	5,236	6,466	6,837	7,272	
Depreciation/amortisation	3,341	1,615	1,578	1,561	1,561	
(Inc)/dec in working capital	(808)	(2,425)	(9,975)	(3,745)	(2,401)	
Others	728	(1,833)	0	0	0	
Net cash from operations	12,590	2,593	(1,931)	4,653	6,432	
(Inc)/dec in investments	(93)	1,077	0	0	0	
Capex	(7,443)	(5,125)	(3,500)	(2,000)	(2,000)	
Others	0	0	0	0	0	
Cash flow from inv.	(7,536)	(4,048)	(3,500)	(2,000)	(2,000)	
Inc/(dec) in capital	10,202	(286)	0	0	0	
Dividends paid + div tax	(437)	(737)	(1,155)	(1,250)	(1,250)	
Inc/dec in loans	(6,241)	(5,212)	2,746	(932)	(4,132)	
Others	223	1,264	0	0	0	
Financial cash flow	3,746	(4,972)	1,591	(2,182)	(5,382)	
Net inc/dec in cash	8,800	(6,427)	(3,840)	471	(950)	
Opening cash balance	9,802	18,603	12,175	8,335	8,806	
Closing cash balance	18,603	12,176	8,335	8,806	7,856	

Source: Company, JM Financial

Key ratios					
Y/E March	FY07	FY08	FY09E	FY10E	FY11E
ROCE (%)	22%	10%	11%	10%	10%
ROE (%)	22%	11%	12%	12%	11%
Debt-equity ratio (x)	0.1	0.2	0.3	0.2	0.1
Valuation ratios (x)					
PER	20.7	12.8	10.4	9.8	9.2
PBV	1.6	1.4	1.3	1.2	1.0
EV/EBITDA	6.5	12.7	10.4	9.8	9.1
EV/Sales	1.0	1.3	1.0	1.0	0.9
Turnover ratios (no.)					
Debtor days	35	52	51	63	65
Inventory days	40	68	76	88	91
Creditor days	43	74	67	68	69

Source: Company, JM Financial



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Sector: Power

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3 March 2009

Flash Update

## Tata Power

Bloomberg: TPWR IB

**Sell**

Price: Rs712

Target Price (Mar 09): Rs640

### Coal Prices slump to US\$65

#### News-

- Thermal coal prices on the Australian benchmark global COAL Newcastle weekly index dropped \$11.02 from a week ago to US\$65.3/MT in the week ended Feb. 28.
- South Korean market is flushed with coal tenders and Utilities seeking coal get tender quotes in multiples of the quantity and coal producers are placing their coal up for sale at a discount of US\$3-4 to current market levels and with continuing slump in global economy, the scenario for coal prices look grim.
- Spot thermal coal prices have plummeted 62% since registering a record high of US\$201/MT last July, pressured by slumping demand from the industrial sector and increased supplies.

#### Impact -

- **We re-iterate Sell on Tata Power (TP of Rs640)** as given the fall in coal prices; we think it will be difficult for TPWR to service the debt (\$850 mn) at its SPV level used for acquiring the mining assets. We think that street is still expecting liberal realizations in the coal business (including us at \$60/MT for 2009). Australian benchmark is for 6,700 Kcal/kg coal quality, while Indonesian coal is of lower quality with GCV's ranging from 5,000-5,800 Kcal/kg, so the adjusted spot prices for Indonesian coal will be lower (at \$48.5-56.0 /MT) than the Australian benchmark.
- At \$50/MT (\$70.5/MT for CY08) realizations and considering cash costs of mining at \$25/MT (\$35/MT in CY08), we estimate TPWR's share of dividends in CY2009 to fall to \$170 mn (US\$220 mn). As per the debt payment schedule of 6 years at Cyprus/Cayman SPV, TPWR needs to re-pay ~\$170 mn per annum, with interest payment of ~\$45 mn considering 3M LIBOR+ interest rates of 6.0% for its \$-denominated debt.
- **Australian index weighs on Indonesian coal:** For CY2008, Bumi's average realizations were ~\$70.5/MT and it paid a dividend of \$220 mn to TPWR for its 30% stake. PT Bumi management in an investor call had guided for \$70-75/MT as average realization and ~\$300 mn dividends for TPWR in 2009, but considering volatility in coal prices, we think that guidance will be revised downwards.

Bumi realized \$70.5/MT in CY2008 for Indonesian coal, when Australian spot prices averaged at \$129/MT in 1HCY08 and \$128/MT in 2HCY08. Since then, the spot prices have re-traced to average at \$79/MT for Jan-Feb CY2009, and hence, we think that average realizations for PT Bumi will fall.

Exhibit 1. : McCloskey Newcastle Index (6,700 Kcal/kg)



Source: Bloomberg

## Volume Update

### Hero Honda and Maruti continues to grow

- Bajaj Auto total volumes dropped 16% YoY:** Bajaj Auto motorcycle volumes dropped 17% YoY to 1, 31,785 units and on the YTD basis volumes dropped 11% YoY. They sold 20,668 units of Bajaj XCD 135 DTS-Si in the first month of its launch. Exports witnessed a drop of 20% YoY to 50,738 units, exports will remain slow in the coming months. The three wheelers also witnessed a drop of 12% YoY to 21,389 units.

#### Exhibit 1: Bajaj Auto – February 2009 volume

	February				April-February		
	FY09	FY08	YoY (%)	MoM (%)	FY09	FY08	YoY(%)
Motorcycles	131,785	158,662	(16.9)	20.2	1,775,600	1,985,336	(10.6)
Scooter (Ungeared)	608	846	(28.1)	(12.8)	11,342	20,254	(44.0)
<b>Total 2 wheelers</b>	<b>132,393</b>	<b>159,508</b>	<b>(17.0)</b>	<b>20.0</b>	<b>1,786,942</b>	<b>2,005,590</b>	<b>(10.9)</b>
Three-Wheelers	21,389	24,299	(12.0)	(2.7)	253,073	269,536	(6.1)
<b>Total</b>	<b>153,782</b>	<b>183,807</b>	<b>(16.3)</b>	<b>16.2</b>	<b>2,040,015</b>	<b>2,275,126</b>	<b>(10.3)</b>
Exports of above	50,738	63,182	(19.7)	(6.1)	725,645	567,306	27.9
<b>Total domestic</b>	<b>103,044</b>	<b>120,625</b>	<b>(14.6)</b>	<b>31.6</b>	<b>1,314,370</b>	<b>1,707,820</b>	<b>(23.0)</b>

Source: Company

- Hero Honda's volumes up 24% YoY:** Hero Honda witnessed a growth of 24% YoY to 3, 29,055 units. The volumes were up 11.7% YoY from April-February 2009.

#### Exhibit 2: Hero Honda – February 2009 volume

	February				April-February		
	FY09	FY08	YoY (%)	MoM (%)	FY09	FY08	YoY(%)
Two-Wheelers	329,055	265,431	24.0	4.3	3,368,658	3,016,548	11.7

Source: Company data

#### Exhibit 3: Hero Honda April– Jan 2009 domestic and exports

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
<b>Domestic - Motorcycles</b>										
FY09	276,580	297,387	277,654	260,324	284,752	365,630	328,788	267,424	197,364	295,241
FY08	255,408	269,532	238,195	186,848	221,541	297,792	347,216	271,251	226,103	280,663
%MoM	(8.4)	7.5	(6.6)	(6.2)	9.4	28.4	(10.1)	(18.7)	(26.2)	49.6
%YoY	8.3	10.3	16.6	39.3	28.5	22.8	(5.3)	(1.4)	(12.7)	5.2
<b>Motorcycles - Exports</b>										
FY09	3,840	5,508	7,807	8,256	8,332	7,233	6,966	7,487	6,092	4,428
FY08	5,733	7,385	8,051	6,258	7,801	5,842	5,707	5,924	5,820	7,709
%MoM	(68.5)	43.4	41.7	5.8	0.9	(13.2)	(3.7)	7.5	(18.6)	(27.3)
%YoY	(33.0)	(25.4)	(3.0)	31.9	6.8	23.8	22.1	26.4	4.7	(42.6)

Source: Company data, JM Financial

- TVS Motor total volumes increase 13% YoY:** TVS Motor's motorcycles volumes increased 7% YoY to 49,659 units and on YTD it grew by 4% YoY. The exports grew sharply by 32% YoY to 16,583 units and on the YTD basis it grew at 43% YoY.

**Exhibit 4: TVS Motor – February 2009 volume**

	February				April-February		
	FY09	FY08	YoY (%)	MoM (%)	FY09	FY08	YoY(%)
Motor Cycles	49,659	46,565	6.6	12.9	580,151	556,832	4.2
Scooters & Mopeds	57,642	48,670	18.4	15.9	627,442	615,096	2.0
<b>Total</b>	<b>107,301</b>	<b>95,235</b>	<b>12.7</b>	<b>14.5</b>	<b>1,207,593</b>	<b>1,171,928</b>	<b>3.0</b>
exports of above	16,583	12,523	32.4	18.5	177,058	123,956	42.8
<b>Total Domestic</b>	<b>90,718</b>	<b>82,712</b>	<b>9.7</b>	<b>13.8</b>	<b>1,030,535</b>	<b>1,047,972</b>	<b>(1.7)</b>

Source: Company data.

- Maruti's Total sales increased by 24% YoY:** Maruti witnessed a growth of 24% YoY in February 2009 to 79,190 units. The A2 segment registered the growth of 14.2% YoY to 50,331 units and the A3 segment registered a growth of 311% YoY, but this growth is incomparable as *Dzire* was launched in March 2008. The exports witnessed the growth of 90% YoY to 8,565 units and YTD it grew 24% YoY; which is mainly driven by the exports of A-Star.

**Exhibit 5: Maruti – February 2009 volume**

Segment	Models	February				April-February		
		FY09	FY08	YoY (%)	MoM (%)	FY09	FY08	YoY(%)
A1	M800	4,075	5,745	(29.1)	(26.9)	46,953	63,200	(25.7)
C	Omni, Versa	7,641	7,268	5.1	(1.5)	71,927	81,688	(11.9)
A2	Alto, Wagon-R, Zen, Swift, A-Star	50,331	44,059	14.2	7.3	455,981	457,411	(0.3)
A3	SX4*, Dzire	8,043	1,958	310.8	22.0	67,333	41,799	61.1
	<b>Total Passenger Cars</b>	<b>70,090</b>	<b>59,030</b>	<b>18.7</b>	<b>4.9</b>	<b>642,194</b>	<b>644,098</b>	<b>(0.3)</b>
MUV	Gypsy, Vitara	535	281	90.4	187.6	6,095	3,299	84.8
	<b>Domestic</b>	<b>70,625</b>	<b>59,311</b>	<b>19.1</b>	<b>5.4</b>	<b>648,289</b>	<b>647,397</b>	<b>0.1</b>
	Exports	8,565	4,511	89.9	79.4	58,209	47,149	23.5
	<b>Total Sales</b>	<b>79,190</b>	<b>63,822</b>	<b>24.1</b>	<b>10.3</b>	<b>706,498</b>	<b>694,546</b>	<b>1.7</b>

Source: Company data. Note: A-Star launched in Nov 2008, SX4 launched in May 2007, D'zire launched in March 2008.

- M&M's UV sales increased 17% YoY:** M&M's UV sales increased 17% YoY to 14,720 units and exports dropped 77% YoY to 300 units. M&M's Logan witnessed a drop of 63% YoY to 1,008 units. Total tractors increased 40% to 9,123 units and on YTD basis it increased 21% YoY. However, these numbers include Punjab tractor sales and thus are incomparable.

February '09 sales figures includes 2,978 units for domestic sales and 34 units for export sales and Apr-Feb FY09 includes 20,303 units of domestic sales & 513 units of exports sales of Swaraj division. Excluding this M&M domestic sales was down by 2% YoY to 5,901 units and exports down by 59%YoY to 210 units for Feb 2009. Similarly Apr-Feb FY09 domestic sales were down by 1% YoY and exports were down by 14% YOY.

**Exhibit 6: M&M – February 2009 volume**

	February				April-February		
	FY09	FY08	YoY (%)	MoM (%)	FY09	FY08	YoY (%)
<b>Automotive</b>							
Utility Vehicles	14,720	12,563	17	10	133,682	133,395	0
LCVs *	451	719	(37)	(10)	7,834	9,310	(16)
Logan **	1,008	2,751	(63)	69	12,461	22,823	(45)
Four-wheelers	16,179	16,033	1	12	153,977	165,528	(7)
Three-wheelers	3,415	2,347	46	21	40,490	30,321	34
<b>Total domestic</b>	<b>19,594</b>	<b>18,380</b>	<b>7</b>	<b>13</b>	<b>194,467</b>	<b>195,849</b>	<b>(1)</b>
Exports	300	1,295	(77)	3	8,039	10,805	(26)
<b>Total Automotive Sales</b>	<b>19,894</b>	<b>19,675</b>	<b>1</b>	<b>13</b>	<b>202,506</b>	<b>206,654</b>	<b>(2)</b>
<b>Tractors</b>							
Domestic	8,879	6,005	48	33	102,478	83,021	23
Exports	244	517	(53)	(8)	6,764	7,290	(7)
<b>Total tractors</b>	<b>9,123</b>	<b>6,522</b>	<b>40</b>	<b>32</b>	<b>109,242</b>	<b>90,311</b>	<b>21</b>
<b>Grand Total</b>	<b>29,017</b>	<b>26,197</b>	<b>11</b>	<b>18</b>	<b>311,748</b>	<b>296,965</b>	<b>5</b>

Source: Company data. Note: \* LCV sales of Mahindra International, \*\* Mahindra Renault Pvt. Ltd..

- Tata Motors' total sales down 19% YoY:** Tata Motor's total sales (Domestic + Exports) are down 19% YoY to 43,811 units. CVs dropped 29% YoY to 24,494 units and on YTD basis it fell 6% YoY. The passenger vehicle sales dropped marginally by 2% YoY to 19,317 units. While the Indica range sales grew at 12% YoY to 11,315 units and Indigo range sales witnessed a growth of 27% YoY to 4,209 units.

**Exhibit 7: Tata Motors - February 2009 volume**

	February				April-February		
	FY09	FY08	YoY (%)	MoM (%)	FY09	FY08	YoY (%)
CVs	24,494	34,440	(28.9)	34	260,907	277,688	(6)
M& HCVs	9,505	17,814	(46.6)	53	109,746	139,310	(21)
LCVs	14,989	16,626	(9.8)	24	151,161	138,378	9
Passenger vehicles	19,317	19,741	(2.1)	3	183,164	184,037	(0)
Uvs	3,529	5,399	(34.6)	19	34,887	38,283	(9)
Cars	15,788	14,342	10.1	0	148,277	145,754	2
<b>TOTAL</b>	<b>43,811</b>	<b>54,181</b>	<b>(19.1)</b>	<b>19</b>	<b>444,071</b>	<b>461,725</b>	<b>(4)</b>

Source: Company data, JM Financial

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