

India Update

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Highlights

Sector/event	Impact
FMCG: Asian Paints (APL) – Q4FY07 results review	APL's Q4FY07 performance was better than our expectations with its revenue growth at 28.8% YoY, significantly ahead of the industry. Further, with the benefit of price hikes and decline in input prices kicking in, the OPM expanded 26bps YoY and recurring profits grew 32.5% YoY to Rs712mn. APL's FY07 growth at 21.7% YoY is one of the highest ever registered by the company driven by the robust growth in South India and the emulsions segment, APL's strongholds. On the back of strong topline and bottomline growth outlook, we expect the company to trade at premium valuations. Maintain BUY on the stock, which is currently trading at FY08E P/E of 23.5x.

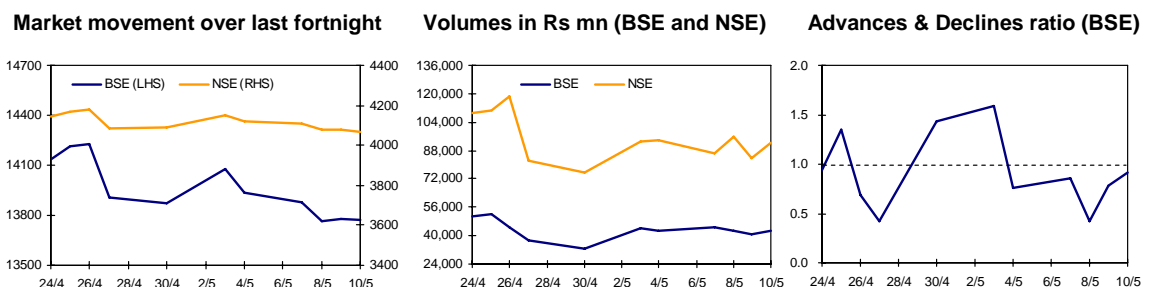
News Snippets

Sectoral

- The Telecom Regulatory Authority of India has tightened screws on internet service providers as an action against non-serious players – all companies will now pay a uniform annual licence fee. (Business Line)
- The over 8% rise in the rupee against the US dollar has eased pressure on oil marketing companies and is likely to discourage the Government from raising auto-fuel prices. (Business Standard)

Corporate

- Bajaj Auto is likely to take a decision on May 17 for carving out the company's auto and financial business into separate entities. (Business Line)
- Oil and Natural Gas Corporation has slashed offshore insurance spends 38% despite 23% increase in asset valuation. (Business Line)
- India's car sales growth for April slowed to 11% on higher interest rates. (The Financial Express)
- Citigroup Venture Capital International, Barings Private Equity, Texas Pacific Group and 3i are the front-runners to acquire an equity stake in Sharekhan. (Business Standard)



Market data as on May 10, 2007

INDICES		
		% chg (DoD)
BSE Sensex	13771	(0.07)
S&P CNX Nifty	4067	(0.31)
BSE 100	7022	(0.14)
BSE 200	1663	(0.06)
Instanex Skindia DR	2474	0.71
Mindex	5764	(0.26)

OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	13215	(1.11)
Nasdaq Comp.	2534	(1.65)
S&P 500	1491	(1.40)
Hang Seng	20746	(0.47)
Nikkei	17737	(0.06)

ADVANCES/DECLINES (BSE)

Group	A	B1	B2
Advances	93	336	387
Declines	109	360	424
Unchanged	3	11	24

FII TURNOVER (BSE+NSE)* (Rs mn)

Bought	Sold	Net
19,741	19,508	233

NEW HIGHS AND LOWS (BSE)

Group	A	B1	B2
Highs	8	13	15
Lows	-	9	5

CURRENCY
US\$1 = Rs41.18

* FII turnover (BSE + NSE) as on May 9, 2007

Asian Paints (Buy)

FMCG

Q4FY07 RESULTS REVIEW

Smooth finish

Rs782

Anand Shah
Shilpa Yadavanand_shah@isecltd.com
shilpa_yadav@isecltd.com

Asian Paints' (APL) Q4FY07 performance was better than our expectations with its revenue growth at 28.8% YoY, significantly ahead of the industry. Further, with the benefit of price hikes and decline in input prices kicking in, the OPM expanded 26bps YoY and recurring profits grew 32.5% YoY to Rs712mn. APL's FY07 growth at 21.7% YoY is one of the highest ever registered by the company driven by the robust growth in South India and the emulsions segment, APL's strongholds. On the back of strong topline and bottomline growth outlook, we expect the company to trade at premium valuations. Maintain BUY on the stock, which is currently trading at FY08E P/E of 23.5x.

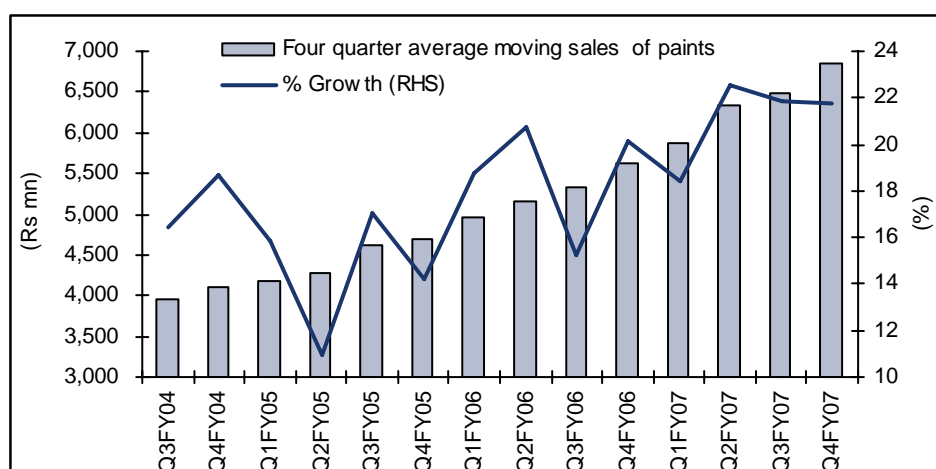
Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (10/05/07) (Rs)	782	2005	18.4	42.6	26.5	BSE Sensex	13771
52 wk Range (Rs)	835/501	2006	23.1	33.9	21.7	M.Cap (Rs bn)	75.1
DPS FY08E (Rs)	21.7	2007	28.3	27.6	17.9	M.Cap (US\$ mn)	1,695
Dividend yield (%)	2.8	2008E	33.3	23.5	14.9	Shares Out (mn)	95.9
Face value (Rs)	10	2009E	40.1	19.5	12.5	Float (%)	57.2

Source: Company data, i-SEC Research

- Sales growth accelerated to 28.8% in Q4FY07.** As against 19% YoY growth in the first nine months of FY07, APL's standalone sales surged 28.8% YoY to Rs7.2bn in Q4FY07 despite a high Q4FY06 base, when sales grew 25%YoY. This was primarily due to strong volume growth across decoratives paint segment supported by ~4.25% price hike taken during the year. All sub-segments of the decorative segment registered double-digit growth driven by an excellent performance by the wall finish product category, especially interior and exterior emulsions. While South India, APL's stronghold, continued to do perform well, Delhi and North East were exceptions.

Chart 1: Q4FY07 moving average paint sales growth robust at 22%



Source: Company data, i-SEC Research

Among new products, the *Royale Play* range was expanded and *Luxury Ultra Gloss Enamel* was launched in many markets. Also, with initiatives such as Colour Next (APL's research-based annual trend forecasting initiative), the company is being

recognised as an authority in forecasting colour trends. With the expansion to Jaipur and Baroda in FY07, APL's *Home Solutions* is present in 12 cities.

- **Paint sales grew the highest to 21.7% in FY07.** Demand for decorative paints was robust in most parts of the country almost throughout the year. The boom in the construction sector, a shift towards the organised paint segment, expansion of Colour World outlets by over 21% in FY07 to 8,500, product introductions and innovative marketing initiatives have led to a 21.7% YoY growth in paint sales – one of the highest ever growth for APL. With more than doubling of dealer tinting machines over the past three years, the penetration into small towns has continued. We believe that with its focus on growing volumes and higher contribution from the fast-growing Southern region as well emulsions paint segment, APL has grown ahead of the industry, further strengthening its market leadership in decorative paints.

Table 2: Rapid expansion in Colour World outlets

(Nos)	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Colour World machines	848	2,100	2,500	3,200	4,118	5,500	7,000	8,500

Source: Company data

- **Industrial business registered robust growth** at over 20% YoY in FY07 with all its sub-segments – powder coating, protective coating and automotive paints – growing in double digits. Sales from the automotive JV, Asian PPG (APPG), increased 23% YoY to Rs3.5bn, significantly higher than ~15% YoY growth registered by the market leader, Kansai Nerolac, in the industrial segment. APPG had acquired 2K advanced refinish business of ICI India for Rs 520mn in March '07, which will further strengthen its presence in the auto refinish segment, in which it is the largest player at present. While AGGP's manufacturing has been handled by APL's existing units all along, APPG is setting up its first manufacturing unit in Sri Perumbudur, Tamil Nadu (to be operational by FY09) to cater to the requirements of Hyundai. Sales from the powder-coating business, through its subsidiary, increased 22% YoY on a high base to Rs477mn boosted by the new unit at Baddi. Other industrial coating business, primarily the protective coating segment (a part of APL's standalone operations) also grew over 20% YoY. We believe that the recent commissioning of the Taloja plant, capacity expansion at Baddi plant (in Himachal Pradesh) and Sarigam plant (Gujarat) would significantly boost sales from the industrial paints segment going ahead.
- **Success in the Middle East improved the international business.** The international business' sales grew a robust 20.8% in FY07 on the back of over 30% YoY sales growth in the Middle East and South Asia. The overall international paint volumes increased 22.4% YoY to 94,181KL. EBIT from international operations grew 457% YoY to Rs192mn driven by the surge in profits from the Middle East –sales and EBIT for the region grew 31.5% (on a high FY06 base, when sales grew 30% YoY) and 172% respectively. EBIT margin for the region more than doubled from 4.7% in FY06 to 9.7% in FY07, closer to that from the Indian operations. South Asian operations turned around registering Rs10mn profit on the back of strong revenue growth. While the margin loss from South East Asian operations reduced from 20% in FY06 to 15% in FY07, it clearly remains a key concern. Further, the Caribbean region, the most profitable region during Berger International's acquisition, has slipped to an EBIT margin of just 2% in FY07. During the year, the company divested its stake in the Myanmar subsidiary and the associate company in the Philippines.

Table 3: International business

(Rs mn)

	EBIT FY07	EBIT FY06	EBIT chg. (%)	% of sales FY07	% of sales FY06
Caribbean	28	68	(58.8)	24.2	21.5
Middle East	253	93	172.0	41.2	31.4
South Asia	10	(19)	-	9.8	7.4
South East Asia	(127)	(154)	-	13.3	12.2
South Pacific	23	32	(28.1)	11.5	10.5
Total	187	20	835.0	100.0	100.0

Source: Company data, i-SEC Research

Excluding the international business, all segments registered exceptionally strong sales in Q4FY07

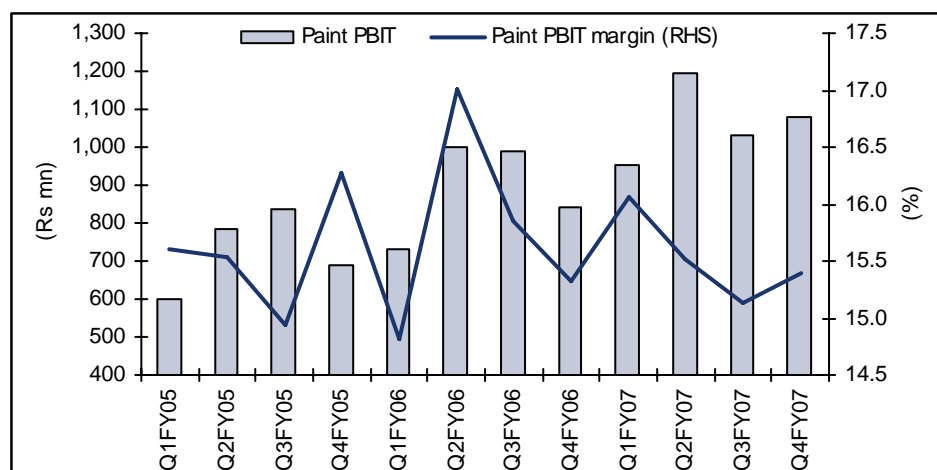
Table 4: Segment-wise sales break-up

(Rs mn)

	Q4FY07	Q4FY06	YoY (%)	FY07	FY06	YoY (%)
APL-Paints	6,949	5,371	29.4	27,225	22,307	22.0
Chemicals	297	211	40.8	927	813	14.0
APPG+APICL	560	439	27.6	1,976	1,590	24.3
International	1,782	1,629	9.4	6,572	5,500	19.5
Total	9,589	7,650	25.4	36,700	30,210	21.5

Source: Company data, i-SEC Research

- Margin expansion despite higher input prices.** APL continued to face strong input cost inflation in Q4FY07 – material cost increased 34% YoY to Rs4.4bn and material cost-to-sales ratio increased 230bps YoY to 60%, the highest in the past five quarters. However, the impact of the increase in material costs and shift in the revenue mix towards low-margin chemical business was offset by higher realisations and YoY decline in overheads as a percentage to sales, driven by strong revenue growth. After two quarters of YoY margin decline, OPM marginally grew 26bps YoY to 14.6%; operating profits grew 31% YoY to Rs1.06bn. Supported by lower effective tax rate and depreciation charges, recurring standalone net income grew 32.5% YoY to Rs712mn. Going forward, the easing of pressure from rising input prices during Q4FY07 coupled with price hikes from mid-January '07 would augur well for the company's margins.

Chart 2: Reversal in paint segment's PBIT margin decline

Source: Company data, i-SEC Research

- **Q4FY07 consolidated profits at Rs21mn were lower than standalone profits.** On account of weak performance by APL's Caribbean operations in the quarter ended December, which is the peak season, and pressure on profitability of the industrial business, the consolidated profits at Rs21mn were lower than standalone profits. However, in the absence of impairment of goodwill and loss from the associate company, this loss was lower by Rs61mn on YoY basis.

Table 5: Consolidated profits below standalone profits

(Rs mn)

Difference between Consolidated and Standalone figures	Q4FY07	Q4FY06	% chg (YoY)
Sales	2,319	2,005	15.7
Operating Profit	105	109	(3.7)
OPM (%)	4.5	5.4	
PBT	25	(22)	
Recurring PAT	(21)	(82)	
PAT Margin (%)	(0.9)	(4.1)	

Source: Company data, i-SEC Research

Analyst meet – Key takeaways

- **An abnormally high capex at Rs2.75bn expected in FY08E.** As the company's actual capex in the past two years was significantly below the targetted levels, the backlog of capex to be undertaken has significantly increased. As a result, the management expects FY08E capex to be abnormally high at Rs2.75bn.
- **Strong free cashflow generation at 90% of net profits.** While APL registered one of the strongest growths, there has been a significant improvement in its working capital, which actually reduced by Rs129mn against the previous year. Free cashflow generation after capex at Rs2.4bn accounted for ~ 90% of net profits for the year. With strong free cashflow generation, the company maintained its practice of high dividend payouts – 52% payout in FY07 notwithstanding the huge capex planned for FY08.
- **Expanding capacity through de-bottlenecking.** The Ankleshwar plant has received environmental clearance for producing 100,000kl capacity from the 80,000kl limit earlier. The increase in capacity through de-bottlenecking would help enhance the capital productivity of the company.
- **Profits from the chemical business more than doubled in FY07 to Rs246mn** and the segment contributed ~5% to the company's profits.

Maintain BUY. Given the strong demand scenario and APL's focus on topline growth, we expect paint sales to grow ~18-20% in the coming years, which would be ahead of the industry. Further, the margin pressure seems to have bottomed out in the light of the decline in input prices. Consequently, we expect margins to sustain if not improve going forward. On the back of robust topline and bottomline growth outlook, we expect the company to trade at premium valuations. Maintain BUY on the stock, which is currently trading at FY08E P/E of 23.5x.

Table 6: Q4FY07 results review (standalone)*(Rs mn, year ending March 31)*

	Q4FY07	Q4FY06	% chg (YoY)	FY07	FY06	% chg (YoY)
Net Sales	7,270	5,645	28.8	28,213	23,192	21.7
(Increase) / Decrease in Stock	(86)	(10)	770.4	(520)	5	(10,260)
Consumption of raw & packing material	4,452	3,270	36.1	17,127	13,512	26.8
Material Cost	4,366	3,260	33.9	16,607	13,517	22.9
Personnel Cost	399	299	33.4	1,550	1,290	20.1
Other Expenditure	1,440	1,273	13.1	5,839	4,865	20.0
Total Expenses	6,205	4,832	28.4	23,995	19,672	22.0
EBITDA	1,065	812	31.1	4,218	3,519	19.8
Interest	15	7	132.8	69	38	79.4
Depreciation	118	120	(2.1)	454	455	(0.2)
Other Income	132	145	(8.4)	405	359	12.6
Recurring pre-tax income	1,065	830	28.2	4,099	3,385	21.1
Extraordinary income/(expense)	-	(334)	(100.0)	-	(336.0)	
Taxation	374	294	27.4	1,400	1,171	19.6
Current	392	310	26.5	1,424	1,192	19.5
Deferred	(18)	(16)	(10.5)	(24)	(21)	(14.6)
Reported Net Income	712	203	250.8	2,699	1,868	44.5
Recurring Net Income	712	537	32.5	2,720	2,204	23.4
Operating Profit Margin (%)	14.6	14.4	26	14.9	15.2	(23)
Material cost to sales (%)	60.0	57.8	230	58.9	58.3	58
Personnel cost to sales (%)	5.5	5.3	19	5.5	5.6	(7)
Other expenditure to sales (%)	19.8	22.6	(274)	20.7	21.0	(28)
Net Profit Margin (%)	9.8	9.5	28	9.6	9.5	14
Effective tax rate (%)	35.1	35.4	(23)	34.2	34.6	(44)

Source: Company data, i-SEC Research

Sun Pharmaceuticals (Buy)**PHARMA****Q4FY07 RESULTS PREVIEW****Rs995**

Rajesh Vora

rajesh_vora@isecltd.com

- Exports are likely to surge 30% to Rs2.6bn on the back of a 35% YoY growth to Rs2bn in dosage form exports powered by strong sales from Sun Pharma's US subsidiary, Caraco, and introduction of new products in the non-US markets.
- EBITDA margin is likely to expand 878bps to 32.7% due to improvement in Caraco's GPM, tight cost control and low base effect.
- We expect Sun Pharma to outshine its peers (24% EPS CAGR through FY07E-09E) over the next 3-5 years on the back of best-in-class operating & cost discipline, superior performance of generics & R&D businesses (de-merged entity likely to be listed by June '07) and unstinted focus on long-term strategy. Sun Pharma remains one of our top large-cap BUYs in the sector with a fair value of Rs1,292/share.

Table 1: Valuation summary

	Y/E March	EPS (Rs)	P/E (x)	EV/E (x)			
Price (10/05/07) (Rs)	995	2005	19.5	51.0	44.2	BSE Sensex	13771
52 Week Range	1196/640	2006	25.5	39.0	38.4	Market Cap. (Rs bn)	189
Dividend FY07E (Rs/sh.)	8.0	2007E	35.9	27.7	26.1	Market Cap. (US\$ bn)	4.6
Dividend yield (%)	0.8	2008E	45.4	21.9	19.6	Shares Out. (mn)	190
Face value (Rs)	5.0	2009E	55.2	18.0	14.9	Free float (%)	30.4

Source: Company data, i-SEC Research

Table 2: Quarterly estimates*(Rs mn, year ending March 31)*

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	5,140	4,054	26.8	(4.8)	15,879	12,301	29.1
EBITDA	1,680	969	73.3	(3.1)	5,253	4,005	31.2
PBT	2,130	1,211	75.8	(1.3)	5,947	4,296	38.4
PAT	1,834	1,183	55.0	(7.8)	5,620	4,114	36.6

Source: Company data, i-SEC Research; *April-December

Details in our results preview dated April 11, 2007

Recent reports/updates		
Analyst	Company/Sector	Date
Anand / Shilpa Yadav	Britannia Industries: When going gets tough...	May 7
S. Ramesh / Amit	Indraprastha Gas: Refuelling for growth	May 3
S. Ramesh / Amit	Gujarat Gas: In the fast lane	May 3
Anand / Shilpa Yadav	Hindustan Lever: Muted tempo	May 3
Anand / Shilpa Yadav	GSK Consumer: Surprise packet	Apr 30
S. Ramesh/Amit	Reliance Industries: Growth plans on track	Apr 27
Rajesh Vora	Cipla: Sluggish gait	Apr 27
Anand /Shilpa Yadav	Godrej Consumer Products: Of waning hue	Apr 26
S Ramesh	BPCL: Piping hot	Apr 26
Rajesh Vora	Pharma: Theme note on Sun Pharma & Glenmark	Apr 24
Anand / Shilpa Yadav	Kansai Nerolac: Radiant hues	Apr 24
Anand / Shilpa Yadav	Colgate-Palmolive: Tranquil tone	Apr 23
S. Ramesh / Amit	Netback: Refining on a winning streak	Apr 19
Shilpa Gupta	Speedometer: Subdued pace	Apr 16
S. Ramesh / Amit	GAIL (India): Stepping up the gas	Apr 16
Shilpa Gupta	Automobiles Quarterly results preview: Mixed bag	Apr 12
Rajesh Vora	Pharma Quarterly results preview: In full bloom	Apr 11
S. Ramesh / Amit	Oil&Gas Quarterly results preview: Full blast ahead	Apr 9
Anand / Shilpa Yadav	FMCG Quarterly results preview: On a promising note	Apr 9
Rajesh Vora	Wockhardt: On come-back trail	Apr 5
Poonam Nishal	Utilities Quarterly results preview: Waiting for Godot	Apr 5
Amar Kedia	Aviation Quarterly results preview: Mixed bag	Apr 3
Rajesh Vora	Glenmark Pharma: Raising the bar	Apr 3
Amar Kedia	SpiceJet: Tempest to blow past	Apr 3
Poonam Nishal	Telecom Quarterly results preview: Swelling volumes to script success	Apr 2
S. Ramesh	Gujarat Gas: Set for new highs	Mar 30
Rajesh Vora	Cadila Healthcare: Run to form	Mar 26
Amar Kedia	Balmer Lawrie: Stirring up	Mar 23
Anand Shah	Nestle: On an accelerated growth path	Mar 22
S. Ramesh	Netback margin monthly: Refining, the lone star shining	Mar 19
Rajesh Vora	Sun Pharma: The Sun SPARCles	Mar 16
Vikash Mantri	Jagran Prakashan (Unrated): Augmenting clout	Mar 15
Shilpa Gupta	Speedometer (Mar '07) – Balanced manoeuvre	Mar 14
Eq. Research Team	Union Budget Review 2007-08	Mar 1

Quarterly results date reckoner

No.	Nifty companies	Date of result	No.	Other companies	Date of result
1	ABB India	April 26	1	Adlabs Films	April 26
2	ACC	April 19	2	Alembic Limited	-
3	Bajaj Auto	May 17	3	Apollo Hospitals Enterprise	-
4	Bharat Heavy Electricals	-	4	Arvind Mills	May 12
5	Bharat Petroleum Corporation	-	5	Ashok Leyland	May 4
6	Bharti Airtel	April 27	6	Asian Paints	May 10
7	Cipla	April 26	7	Aventis Pharma	April 16
8	Dabur India	May 8	8	Balaji Telefilms	May 16
9	Dr. Reddy's Laboratories	May 18	9	Bank of Baroda	April 28
10	GAIL (India)	May 8	10	Bharat Forge	-
11	GlaxoSmithKline Pharmaceuticals	April 27	11	Britannia Industries	-
12	Grasim Industries	April 25	12	Cadila Healthcare	April 26
13	Gujarat Ambuja Cements	April 20	13	Canara Bank	May 2
14	HCL Technologies	April 17	14	Colgate-Palmolive	May 3
15	HDFC Bank	April 24	15	Corporation Bank	April 28
16	Hero Honda Motors	May 11	16	GlaxoSmithKline Consumer	-
17	Hindalco Industries	May 4	17	Glenmark Pharma	April 25
18	Hindustan Lever	April 30	18	Godrej Consumer Products	April 25
19	Hindustan Petroleum Corporation	-	19	Gujarat Gas Company	April 30
20	Housing Development Finance Corporation	May 3	20	IDBI	April 20
21	ITC	-	21	Indian Hotels Co.	-
22	ICICI Bank	April 28	22	Indraprastha Gas	-
23	Indian Petrochemicals Corporation	-	23	Info Edge (India)	May 3
24	Infosys Technologies	April 13	24	Infotech Enterprises	-
25	Larsen & Toubro	-	25	Jammu & Kashmir Bank	May 7
26	Mahanagar Telephone Nigam	April 24	26	Jet Airways	-
27	Mahindra & Mahindra	May 28	27	JSW Steel	April 30
28	Maruti Udyog	April 24	28	Kansai Nerolac Paints	May 3
29	National Aluminium Company	April 25	29	Madras Cements	May 30
30	Oil & Natural Gas Corporation	-	30	Marico	April 26
31	Punjab National Bank	May 23	31	Mphasis	April 30
32	Ranbaxy Laboratories	April 27	32	National Thermal Power Corp.	-
33	Reliance Communications	April 30	33	Nestle India	April 30
34	Reliance Energy	April 25	34	Oriental Bank of Commerce	April 28
35	Reliance Industries	April 26	35	Patni Computer Systems	April 25
36	Reliance Petroleum	April 25	36	Polaris Software Lab	April 27
37	Satyam Computer Services	April 20	37	Procter & Gamble	April 30
38	Siemens	April 23	38	Punjab Tractors	-
39	State Bank of India	May 12	39	Raymond	April 26
40	Steel Authority of India	May 21	40	Sasken Communication Technologies	-
41	Sterlite Industries (India)	May 3	41	SpiceJet	-
42	Sun Pharmaceutical Industries	May 15	42	Tata Tea	-
43	Suzlon Energy	May 14	43	TVS Motor Company	-
44	Tata Consultancy Services	April 16	44	Union Bank of India	May 7
45	Tata Motors	May 18	45	UTI Bank	April 17
46	Tata Power Co.	May 30	46	Wockhardt	April 26
47	Tata Steel	May 17			
48	Videsh Sanchar Nigam	-			
49	Wipro	-			
50	Zee Entertainment	April 21			

Note: Result dates in calendar format on Page 9

Quarterly results date reckoner

MAY 2007

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	.	1 .	2 .	3 Kansai Nerolac, Info Edge, Colgate-Palmolive	4 Ashok Leyland	5 .
6 .	7 Union Bank of India, J&K	8 GAIL	9 .	10 Asian Paints	11 Hero Honda	12 SBI
13	14 .	15 Sun Pharma	16 Balaji Telefilms	17 Bajaj Auto	18 Tata Motors, DRL	19 .
20	21 .	22 .	23 PNB	24 .	25 .	26 .
27	28 M&M	29 .	30 Madras Cement, Tata Power	31 .		

ANALYST CERTIFICATION

We /I, *Anand Shah, CA; Rajesh Vora, Grad. CWA, CFA and Shilpa Yadav, PGDM, BTech* research analyst(s) and the author(s) of this report, hereby certify that all of the views expressed in this research report accurately reflect my/our personal views about any and all of the subject issuer(s) or securities. We/I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Disclosures:

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