May 18, 2007 **FOR PRIVATE CIRCULATION**

Equity

	17 May 07	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
Sensex	14,300	1.2	5.1	(0.4)
Nifty	4,220	1.2	5.9	1.8
Banking	7,538	1.7	11.9	5.0
IT	3,722	1.2	2.1	(5.1)
Healthcare	3,732	0.3	0.7	(1.9)
FMCG	1,859	1.1	3.2	(1.8)
PSU	6,747	1.4	8.9	9.0
CNX Midcap	5,520	0.8	8.5	5.2
World indices				
Nasdaq	2,539.4	(0.3)	1.2	1.7
Nikkei	17,499	(0.2)	(1.1)	(2.3)
Hangseng	20,995	0.3	0.2	1.3

Value traded (Rs cr)

	17 May 07	% Chg - 1 Day
Cash BSE	5,771	16.4
Cash NSE	12,372	15.8
Derivatives	36,666.4	11.8

Net inflows (Rs cr)

	16 May 07	% Chg	MTD	YTD
FII	(139)	(58)	82	13,050
Mutual Fund	336	(556)	632	(1,722)

FII open interest (Rs cr)

	16 May 07	% chg
FII Index Futures	14,015	(4.6)
FII Index Options	5,951	(2.1)
FII Stock Futures	17,866	3.7
FII Stock Options	93	0.8

Advances/Declines (BSE)

17 May 07	A	B1	B2	Total	% Total
Advances	120	329	425	874	49
Declines	93	369	398	860	48
Unchanged	-	15	33	48	3

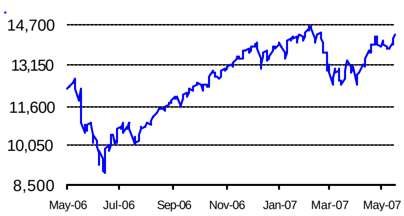
Commodity

	17 May 07	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	64.9	3.7	2.8	9.2
Gold (US$/OZ)	657.6	(0.7)	(4.6)	(1.6)
Silver (US$/OZ)	12.8	(0.6)	(8.1)	(8.1)

Debt/forex market

	17 May 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.2	8.2	8.1	8.1
Re/US$	40.8	40.8	42.0	44.1

Sensex



Source: Bloomberg

Economy News

- Recognising the threat of hardening international non-fuel commodity prices on inflation, the department of economic affairs in the Union Finance Ministry has suggested aggressive sterilisation of foreign capital inflows, tightening of government expenditure and intervention in key farm produce markets like wheat. (BS)
- The government has indicated that more steps such as a reduction in customs duties could be taken to check rising prices and bring down inflation below the 5% level. (ET)
- With the purpose of encouraging farmers to increase cultivation of pulses, the Cabinet Committee of Economic Affairs (CCEA) announced an across-the-board hike in minimum support price (MSP)of paddy, oilseeds and pulses for the Kharif season. (BS)

Corporate News

- **HDFC Bank** proposes to raise Rs.42 bn through a mix of preference shares to its promoters and domestic and overseas equity issues to strengthen its capital base and fund growth plans. (BS)
- Riding on rising steel prices and sales, the world's sixth-largest steel firm, **Tata Steel** reported 41 per cent jump in its net profit for the quarter ended March 2007 at Rs 1,104 crore on sales of Rs 4,980 crore. (BS)
- IT major **Tata Consultancy Services (TCS)** is in the early stages of negotiations with the UK-based Prudential Insurance for around $1.5 billion (around Rs 6,000 crore) outsourcing contract. If the company wins the deal, this would be the largest deal for TCS and the Indian IT industry. (BS)
- **Bharti Airtel**, India's largest cellular operator, is scaling up its outsourcing engagement with equipment firm Nortel Networks as it plans to expand offerings to IPTV and DTH. (ET)
- **Idea Cellular**, India's sixth largest operator, has inked a $500-million network expansion contract with Nokia Siemens. The two-year deal will double Idea's capacity in six of its eleven existing circles — Delhi, Haryana, Uttar Pradesh (East), Uttar Pradesh (West), Andhra Pradesh and Kerala. (ET)
- GAIL (India) Ltd and **Hindustan Petroleum Corporation Ltd (HPCL)** on Thursday signed a joint venture agreement for city gas distribution projects in Rajasthan. (BL)
- **Dabur Pharma**, rich from the recent divestment of its non-oncology business, is looking to acquire an international distribution and marketing company. (BL)
- **Suzlon Energy Ltd** plans to raise $300 million through issue of foreign currency convertible bonds (FCCBs). The bonds will be listed on Singapore Stock Exchange. (BL)
- **SpiceJet**, one of India's low fare airlines, is targeting a fleet size of 25 aircraft by end 2008, including leased planes. The airline plans to add 10 more aircraft between 2009 and 2011. It may require $650 million if it plans to buy the aircraft; if leased, no investment will be required. (BL)
- Ginger Hotels, the `Smart Basics' hotels from **Indian Hotels Corporation Ltd**, announced a partnership with Café Coffee Day on Thursday, for opening the Coffee Day's outlet in its hotel. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

RESULT UPDATE

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Summary table (Standalone)

(Rs mn)	FY07	FY08E	FY09E
Sales	2351.0	4878.5	6115.9
Growth %	71.1	107.5	25.4
EBITDA	427.9	998.0	1491.5
EBITDA margin %	18.2	20.5	24.4
Net profit	251.5	541.1	760.8
EPS (Rs)	5.3	11.4	16.0
Growth %	-19.0	115.2	40.6
CEPS	6.6	13.8	18.7
DPS (Rs)	0.5	0.5	1.0
ROE %	9.0	16.8	18.9
ROCE %	8.3	19.6	26.1
EV/Sales (x)	8.0	3.8	2.8
EV/EBITDA (x)	43.5	18.6	12.0
P/E (x)	73.8	34.3	24.4
P/Cash Earnings	59.0	28.2	20.8
P/BV (x)	6.3	5.3	4.1

Source: Company & Kotak Securities - Private Client Research

Retain BUY on ENIL with a price target of Rs.441

ENTERTAINMENT NETWORK INDIA LTD

PRICE : RS.390 **RECOMMENDATION : BUY**

TARGET PRICE : RS.441 **FY09E EV/EBITDA : 12x**

ENIL's Q4: Healthy growth in radio, good execution. Consolidated numbers depressed due to upfront payments in OoH, retain positive bias with a price target of Rs.437. Possible value unlocking through OoH subsidiary could be a stock trigger over FY08.

Highlights

- ENIL's 4QFY07 stand-alone (radio) results were in line with our estimates, displaying healthy growth in revenues and profits. Consolidated results (FY PAT of Rs.252mn vis-à-vis our Rs.285mn estimate) though were slightly below our estimates on account of upfront payments made in the OoH in 4QFY07, about Rs.50 mn in our estimate.

- In radio, revenues remained flattish QoQ for Q4 at Rs.452.3mn due to seasonality; on a YoY basis they grew strongly by 38%, driven by new station launches and momentum in established ones. During the course of the quarter 'Mirchi' rolled out two more stations- Patna & Jullundhur taking its station-count to 12.

- In the radio segment EBITDA margins expanded by 380bps YoY for 4Q, in-line with our expectations of maturing stations & operating leverage driving profit growth. Consolidated EBITDA margins stood at 18.2% for FY07 vis-à-vis the 27.7% reported in FY06, impacted by station roll-outs in Q1 FY07 and the upfront payments made in Q4 in the OoH business.

- We have modified our estimates to account for the Q4 results, better than expected revenue momentum in TIMPL and a lower tax rate in FY08. Consequently, we have made modest changes in our projections for TIMPL, leaving the radio business largely unchanged, except for a lower tax outgo.

- We have also rolled forward the valuation base in our SoTP and increased earnings estimate for FY09, leading to the changes in our price target.

- ENIL's revenues are expected to grow at a CAGR of 61% over FY07-09E to Rs.6.11bn in FY09E driven by a robust 35% CAGR growth in radio revenues to Rs.3.02bn and a healthy ramp up in TIMPL revenues to Rs.3.08bn by FY09E. Healthy revenue growth, aided by economies of scale emerging across the different businesses, is expected to impact operating margins positively.

- Consequently, we expect ENIL to report consolidated profits of Rs.540mn & Rs.760mn in FY08E and FY09E translating into an EPS of Rs.11.4 and Rs.16 over the fiscals.

- We have valued ENIL on a SoTP basis, assigning comparable 1-year forward EV/EBITDA multiples to the different business segments. This results in a consolidated fair value of Rs.441 for the stock. We have validated this further by our three-stage explicit DCF methodology that results in a fair value of Rs.430 for the stock.

- ENIL has been one of our top picks in the media space on account of its dominant position in the fast growing radio segment, its emergence as a strong organized player in the nascent OoH space and its strong positioning as a cross-media entity. The stock has also seen a sharp run-up over the previous quarter and has appreciated close to 60% post our initiation of coverage in Q3FY07.

- The current price levels do not leave too much of an upside given our fair value estimate for ENIL. Despite this we continue to have a positive bias for ENIL as we expect TIMPL to actively participate in the growing OoH space- through conventional formats and also opportunities like DIAL etc. Our projections do not include potential revenues from significant projects expected to come up in the OoH space.

- We also outline the possibility of unlocking of value at the company level, through TIMPL as a possible stock trigger over the current fiscal. We opine that there will be a capital requirement in TIMPL given its strong order-flow and aggressive plans.
- Retain **BUY** on ENIL with a price target of Rs.441, achievable over a 12 month horizon.

Quarterly performance

Rs. mn	Q4FY07	Q4FY06	% chg	Q3FY07	% chg
Revenues	**452.3**	**327.3**	**38.2**	**467.4**	**-3.2**
Expenditure	321.8	245.5		307.6	
EBIDTA	**130.4**	**81.8**	**59.4**	**159.7**	**-18.3**
Depreciation	16.3	92.9		14.3	
Amortsation	31.2	0.0		31.9	
EBIT	82.9	-11.0	-850.8	113.5	-27.0
Net Interest	-10.5	-21.4		-4.1	
Other Income	11.9	8.7		16.7	
Exceptional Item	0.0	98.1		0.0	
PBT	84.3	74.4	13.4	126.1	-33.1
Tax	3.9	19.3		2.2	
Deferred Tax	-23.7	0.0		0.0	
PAT	**104.2**	**55.0**		**123.9**	
Minority Int	0.0	0.0		0.0	
PAT after M I	104.2	55.0		123.9	
EO items	0.0	0.0		0.0	
PAT after EO items	104.2	55.0	89.3	123.9	-16.0
EPS (Rs)*	2.2	1.2		2.6	
OPM (%)	**28.8**	**25.0**		**34.2**	
GPM (%)	18.3	-3.4		24.3	
NPM (%)	23.0	16.8		26.5	

Source: Company

Revenues: Radio in-line, consolidated better than estimates.

Radio revenues: healthy growth from new and established stations

- Revenue growth in Q4 was driven by the growing contribution from the recent station launches (3 in Q4FY06) in addition to the continuing traction in the established stations. ENIL's radio business reported revenues of Rs.452mn, a growth of 38% YoY. On a QoQ basis the revenues remained flattish due to the seasonality effect and greater competition in the market-place.
- We believe the company has rationalized its ad rates by a measure of 10-12%, post the entry of competition and is now in some stations at rates comparable to Q2FY06. We opine that the radio market has grown with the entry of competition which is reflected in the growing inventory utilization of the major players. This could also leave scope for a possible rate hike by the stronger players in the seasonally strong Q3.
- On an existing station basis, comparing 7 old stations YoY, we estimate that the revenues would have grown 17-18% YoY. This in our opinion reflects the competition in radio markets with the entry of new players. We also note Radio

Mirchi's continued dominance in terms of listenership in these markets as evidenced by the recently released data and the company's ability to hold and build on its ad rate.

TIMPL revenues; good growth on the back of higher sites and ramp up; growth at 3x YoY

- Consolidated revenues stood at a higher than estimated Rs.2.35bn, for FY07 a growth of 71% YoY. Increased revenue momentum in the subsidiary-TIMPL was the surprise with revenues of Rs.680mn vis-à-vis our estimate of Rs.593mn; growth of 3x YoY. We opine this was on account of a ramp-up in revenues from the different sites operated by TIMPL, an increase in realizations in addition to revenues accruing from the newly acquired outdoor properties.

Radio Mirchi leads the competition by a distance...

Retaining leadership dominance in key markets

- According to the data released by MRUC Survey, AC Nielsen, fieldwork Sept 06 to November, 06, ENIL has daily listenership that is more than 2x its nearest competitor in Delhi & NCR, Radio City. ENIL has listenership of close to 4.2mn vis-à-vis the 2.094mn & 2.048mn reported by competitors Radio city and Red FM respectively. ENIL also leads the closest competitor in Mumbai by close to 40% with daily listenership numbers of 2.629mn. MRUC for the first time has also released listenership numbers for the Kolkata market wherein also ENIL leads the market with daily listenership of close to 2.73mn.

Margins: Hold steady in radio business during Q4; consolidated down due to upfront payments in OoH

- For the quarter ENIL posted stand alone (radio) operating margins of 29%, up from the 25% reported in Q4FY06 and lesser than the 32% reported in Q3FY07. We believe this expansion in margins is on account of the recently launched stations (Bangalore, Hyderabad & Jaipur) generating cash after breaking even during Q3FY07.
- We estimate that the new 3 stations posted EBITDA margins of around 19% during Q4FY07.On a QoQ basis, margins are down more than estimated personnel expenses due to certain one-times in the employee cost head in addition to the seasonality in the business.
- We opine that the healthy margin expansion witnessed is also on account of the high degree of leverage in the radio business. The strong EBITDA% improvement registered by ENIL also demonstrates the low operating costs and consequent leverage on a growing revenue base; typical of radio broadcasting services.
- We opine the slip in TIMPL profitability during Q4FY07 was due to upfront payments in the OoH segment and expect EBITDA margins to improve in FY08 as revenues are accrued from the newly acquired properties. (Costs incurred in Q4 without any corresponding revenue accrual, which is expected over FY08). Adjusted for this cost, we believe the OoH business broke even at the EBITDA level during FY07 and posted adjusted margins of 13%.

Projected healthy growth in consolidated financials: economies of scale and low operating cost to drive margin expansion:

- Given the healthy revenue growth expected, radio's low operating costs and past investments maturing in TIMPL we expect consolidated operating margins for ENIL to expand to 20.5% in FY08E and further to 24.4% in FY09E, from the 18.2% reported in FY07.
- For the radio business margins are expected to expand to 27.6% in FY08E from the 25.2% reported in FY07. Profit growth in FY07 has been subdued, as expected due to investments in the radio and Outdoor businesses that are in

expansion mode.

We expect healthy growth in the financials for ENIL over FY07-09E on the back of comfortable macro factors like rising income levels and the growth momentum we expect in the company's business segments. For ENIL, we expect:

- Radio business to continue growth: We expect healthy growth in ENIL's radio business on the back of its network expansion, competitive positioning and expected robust demand from the user segments. We expect the pan-India presence of ENIL post its roll out to improve attractiveness to advertisers in the medium term.
- TIMPL, 100% owned subsidiary to drive revenue growth: We are optimistic about the growth prospects for ENIL's emerging businesses- OoH and Event Management given the revenue visibility and expected growth potential in these businesses.
- Emergence as a city-centric cross-media entity: On the back of a strong positioning in radio, emerging presence in OoH & Event management and a strong urban strategy we expect ENIL to emerge as a formidable cross-media entity going forward. We believe that ENIL given its strong execution skills, management bandwidth and the Times pedigree has an advantage over peers and could consolidate its extant dominant position.

Future Prospects::

- For ENIL, we expect the radio revenues to grow robustly from the current Rs.1.67bn in FY07 to Rs.2.4bn in FY08 and, further, to Rs.3.03bn in FY09 on the back of growing traction from the target markets and network expansion.
- In the subsidiary- TIMPL is expected to grow by nearly 4.5x in FY09E over FY07, on the back of the order wins in DIAL & MIAL in OoH that are expected to start contributing FY08 onwards. Overall we expect TIMPL to grow its revenues to Rs.3.08bn in FY09E from the Rs.680mn in FY07.
- We note that the incremental order wins in OoH (DIAL, MIAL) have led to a growth of 4-5x in the revenues expected from TIMPL vis-à-vis our initial estimate during initiation. TIMPL is expected to report EBITDA margins of 13.4% & 16% in FY08E & 09E, respectively.

Key Concerns:

Competition and possible irrational behavior of new entrants: It is expected that the 43 new players in this space are expected to roll out close to 245 stations over the fiscals of FY07 and FY08.We note that in an attempt to gain market share, new entrants could look to indulge in irrational pricing in certain key pockets and/ or exert pressure on employee payouts.

Royalty issues: Currently, radio broadcasters are required to pay a fixed Rs.5mn in royalties per station per annum irrespective of the station's location. ENIL currently pays about Rs.300-1200/hr for the content played by it to the content owner and also the Phonographic Performance Society (PPL).The company during Q3 has entered into a content agreement with T-Series for a period of 9 years which lends a degree of stability regarding sourcing of content. Any further or extensive agreements will be a positive for radio broadcasters.

Losses in new properties: Higher than estimated cost pressures on account of the new station roll out could impact our estimates negatively and lead to subdued stock performance.

Table: Sum of the parts Valuation (SoTP) of ENIL

	FY09E	Assumption/Validation
Radio Business		
EBITDA	982.9	
Target EV/EBITDA multiple	14.0	
Target EV	14245.8	
EV/share	299.5	Radio's standalone DCF-based
		fair value is Rs.298. WACC of 13.2%
		and terminal growth of 4%
OoH-Outdoor Business		
Case 1: EV/EBITDA		
EBITDA	437.3	
Target EV/EBITDA multiple	13.0	International peers trade at 14-15x;
Target EV	5684.4	we assume discount given
EV/share	119.5	intended pan-out of execution
360 Degree-Events Business		
EBITDA	71.4	
Target EV/EBITDA multiple	12.0	In line with international peers and steady growth nature of business
Target EV	856.5	
EV/share	18.0	
Consolidated EV		
Total EV	20786.8	
Less Net debt	-215.5	
Net EV	21002.3	
Total EV/Share	**441.6**	

Source: Company, Kotak Securities - Private Client Research

Change in revenue & EBITDA estimates segment wise (FY08-09E)

	Revenues		EBITDA	
Rs.mn	FY08E Old	FY09E Old	FY08E Old	FY09E Old
Radio	2422.9	3028.6	706.4	988.4
OoH	2063.3	2390.9	278.7	352.3
Event Management	450.5	504.5	54.1	65.6
Total	4936.6	5924.0	1039.1	1406.3
	FY08E New	FY09E New	FY08E New	FY09E New
Radio	2422.9	3028.6	668.8	982.9
OoH	1969.8	2538.3	280.6	437.3
Event Management	485.9	549.1	48.6	71.4
Total	4878.5	6115.9	998.0	1491.5

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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BAJAJ AUTO

PRICE : RS.2500 **RECOMMENDATION : BOOK PROFITS**
TARGET PRICE : RS.2209

Bajaj Auto declared their financial results for Q4FY07 that were better than our expectations although the demerger story overshadowed the results. The stock has taken a beating after it was disclosed that the Insurance JV partner has a call option to increase its stake in the company. We have valued all the three companies after according lower valuations to the Insurance business to adjust for the call options. We have arrived at a fair price of Rs.2209, based on FY08 earnings after valuing the three companies separately.

Quarterly Performance

Period Ended	Q4FY2007	Q4FY2006	YoY %
Gross Sales	26271	24738	6
Total Vehicles Sold	625,339	621,972	1
Avg Realization Per Veh	42010	39773	5.6
Other Income	1577	1031	53
Total Income	27848	25769	8
Inc/Dec in Stocks	-237	-430	
Raw Materials	17155	15291	12
Staff Cost	688	682	1
Excise Duty	3135	3079	2
Other Expenditure	2407	1930	25
Expenses Capitalized	-141	-64	121
Total Expenditure	23008	20488	12
Op Profits	3263	4250	-23
OPM %	14.1	19.6	
Interest	24	1	3883
Depreciation	458	468	-2
PBT	4358	4813	-9
Prov for Tax	1151	1476	-22
Extra Ordinary Items	125	119	5
Prior period Items	0	252	-100
PAT	3083	3470	-11
Equity Capital	1012	1012	
EPS (Rs)	30	34	

Source: Company

Key Highlights for Q4 FY07

- Net sales for the quarter ended March 07 increased by 7% to Rs23.1bn from Rs 21.6bn last year. The rise in net sales was largely on account of a healthy growth of 5.6% YoY recorded in realizations.
- Other income increased by 53% YoY to Rs 1.5bn during the quarter as compared to Rs1bn last year.
- On the margins front the company has done better than our expectations. BAL has posted OPM of 14.1% as against our expectations of 14%.
- Raw material costs as % of net sales increased from 68.6% in Q4FY06 to 73.1% in this quarter. This has been due to higher input costs especially steel, aluminum and tyres.

- In the three-wheeler segment BAL reported 49% YoY growth with 48% of sales coming from the export markets. In fact the export volumes for the segment grew by 139% during the quarter. BAL continues to enjoy 78% market share in the passenger segment and healthy operating margins.
- A sum of Rs 126 million has been charged in the current quarter in respect of the company's VRS scheme.

Insurance Business

In the General Insurance category, the company recorded a gross premium of Rs.18.03bn during FY07 an increase of 40% over FY06. Profit after tax for the quarter for the year was Rs. 754mn as compared to Rs. 516mn in FY06 - an increase of 46%.

In the Life insurance segment Bajaj Allianz, the Gross Written Premium is Rs 53.1bn - an increase of 69% YoY. The company wrote new business of Rs42.7bn as against Rs27.17bn in the previous year. After a transfer of Rs972mn to policyholders' account, loss for the year was Rs717mn (last year loss was Rs985mn).

Details of the Demerger Plan: Holding company structure

The company's Board has approved the demerger of the existing company's activities into separate entities. The Scheme would operate as under:

- BAL has formed two subsidiaries:

i Bajaj Holdings and Investments Ltd (BHIL)

iii. Bajaj Finserv Ltd (BFL)

- The auto business of the company along with all the assets and liabilities pertaining thereto, including investments in PT Bajaj Auto Indonesia would be transferred to BHIL. In addition a total of Rs15bn in cash and cash equivalents would be transferred to BHIL.
- The wind power project, investments in the insurance business and Bajaj Auto Finance would be transferred to BFL. In addition a total of Rs8bn in cash and cash equivalents would be transferred to BFL.
- The remaining assets and liabilities including investments in group companies would be retained in the existing BAL.
- After receiving the requisite permissions, BHIL would be renamed as Bajaj Auto Ltd and the existing Bajaj Auto would be renamed as BHIL (which would act as the primary investment company)
- All shareholders in existing BAL would become shareholders in each of the three new companies and would be issued shares of the two new companies in the ratio 1:1. Thus, for every one share held in the existing BAL, each shareholder will:

a Continue to hold one share of existing BAL (name would be changed to BHIL)

b Be allotted one share of the new BAL (existing BHIL) of face value of Rs10 each

c Be allotted one share of BFL of face value of Rs5 each

- After the above issue of shares by the new companies the share capital position in each of the companies would be as under:

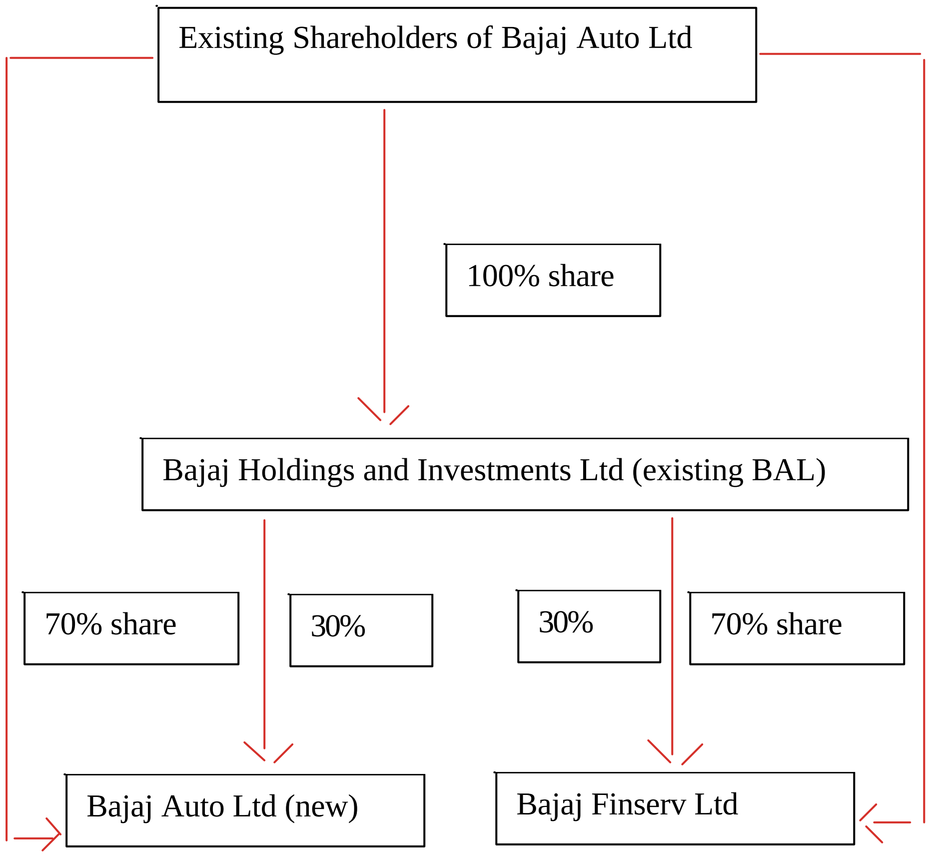
New equity structure

	No of Shares (mn)	Face Value	Direct holding of existing shareholders (%)
BHIL (existing BAL)	101.18	10	100
BAL (new)	144.68	10	70
BFL	144.68	5	70

Source: Company

- After the issue of new shares, the existing shareholders of BAL would hold about 70% shares in the new companies in the same ratio as their current holding with the remaining about 30% being held by BHIL.

New Structure Post demerger



Issue of Call option with Allianz: Dampener for the insurance valuations

The stock took a severe beating after the management disclosed that its insurance JV partner i.e. the Allianz group has call option available whereby it can increase its stake in the two insurance companies. The company has two Joint Ventures with Allianz SE of Germany to engage in Life insurance and General insurance businesses, with BAL subscribing to 74% and Allianz, subscribing to 26% (the maximum permissible for a foreign partner as per applicable Government Policy).

- According to the terms Allianz can exercise call options to increase its holding to 50% from the present 26% in case of Bajaj Allianz General Insurance Co Ltd. Similarly Allianz can exercise call options to increase its holding to 74% from its current holding of 26% in case of Baja] Allianz Life Insurance Co Ltd .

We believe that given the potential growth available in the insurance business, the existing position of the JVs (No.2 in both life and general) and the attractive pricing of the options, it's a no-brainer that Allianz will exercise its call options as and when the regulations permit. Hence we have now valued the insurance business assuming 50% stake in General insurance (earlier 74%) and 26% in Life Insurance (earlier 74%).

Valuation

Value of Bajaj Auto Ltd:

The new Bajaj Auto Ltd will have the auto business as well as Rs15bn of cash to take care of the manufacturing initiatives. Earlier we had valued the core business at Rs1700 with an EPS estimate of Rs120. we have now assumed significantly lower other income (given cash infusion of Rs15bn) as well as no income from Wind power (being demerged into BFL). Also the share capital has increased from Rs1bn to Rs1.4bn as additional shares have been subscribed by the holding company i.e. BHIL. Although we have not made any changes in the motorcycle volumes (10% growth), we have lowered the three-wheeler growth to 5% from 15% based on the company's guidance. Based on all these changes we arrive at a valuation of Rs895 for Bajaj Auto Ltd (new company). We have accorded a value of Rs792 for the core business based on a multiple of 13x on FY08 earnings and a value of Rs104 for the cash.

Value of Bajaj Finserve Ltd:

Bajaj Finserv will have the wind power project, investments in the insurance companies and investments in BAFL along with cash infusion of Rs8bn. Here also BHIL has subscribed to 43.5mn shares leading to higher number of shares. We have valued the windpower project at book value while the Bajaj Auto Finance holding (44.42%) has been valued after giving a 20% discount to the current market price.

For the insurance business we have valued the two JVs assuming that Allianz will exercise the call options as and when the Government approves higher stake for foreign players. As a result our valuations have come down from the earlier levels and now we have valued General insurance at Rs51 and life insurance at Rs158. The total value of the call options has been separately valued at Rs11. The cash value comes to Rs55 and hence the SOTP for BFL is Rs318.

Value of Bajaj Holdings and Investments Ltd (BHIL)

BHIL would act as a holding company for the two new companies with 30% stake in each of them. Post demerger it will include investments in group companies, market investments (4.14% Stake in ICICI Bank) as well as remaining cash and cash equivalents. Here we have valued the ICICI Bank investments at current market price while other market investments have been valued at 20% discount. We have also included value of 30% BHIL holding in the two new companies at a 20% holding company discount. Based on our calculations per share valuation of BHIL comes to Rs996.

Thus the total value of all the three companies together comes to Rs.2209 based on SOTP valuations.

Summary of Valuations

Company	Rs/share	Methodology Used
Bajaj Auto (new)		
Core Business	792	PE of 13 on FY08
BAL cash	104	
Total BAL	895	
Bajaj Finserv		
Value of BAFL	22	20% discount to CMP
Value of General Insurance	51	PE of 15x on FY07 earning
Value of Life Insurance	158	DCF basis
Value of Wind Power project	20	Book Value
Cash	55	Book Value
Value of Options	11	Current value
Total Bajaj Finserv	318	
BHIL		
Stake in ICICI Bank	329	At CMP
Other investments	250	20% discount to CMP
Stake in Bajaj Auto (new)	307	20% hlding company discount
Stake in Bajaj Finserv	109	20% holding company discount
Total BHIL	996	
Total Value	2209	

Source: Kotak Securities - Private Client Research

So where's the value lost in the demerger?

The decrease in our price target stems from three facts. (a) Loss of value due to the call option available to Allianz in the insurance JV. (b) Higher capital base of the auto co leading to dilution of EPS (43% increase in capital). (c) Creation of holding company structure leading to 20% discount of value held by holding company in the two new companies (The 30% stake of BHIL in BAL and BFL accounts for 45% of BHIL's valuation).

We recommend booking profits at the current levels with a price target of **Rs.2209**.

The financial details of the insurance business are not available and going forward once more details are available there could be upside risk to our current valuations. Also better than expected volume growth could lead to higher valuations in the auto business.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
17-May	BHAGWATI BAN	PARU SECURITIES PVT LTD	B	229979	50.9
17-May	BHAGWATI BAN	KIRJAL SECURITIES PVT LTD	B	327000	50.9
17-May	BHAGWATI BAN	RAJKUMAR P GOSWAMI	B	661518	52.17
17-May	BHAGWATI BAN	RAJESH BANDEKAR	B	200000	48.5
17-May	BHAGWATI BAN	HARSIDDH ONLINE	B	1021367	52.1
17-May	BHAGWATI BAN	KIRTI SHANTILAL SHAH	B	374300	51.82
17-May	BHAGWATI BAN	UTTAM FINANCIAL SERVICES LTD	B	223947	48.22
17-May	BHAGWATI BAN	M RAVINDER	B	250000	52.25
17-May	BHAGWATI BAN	RAMKRIPA SECURITIES PVT. LTD	B	200000	50.57
17-May	BHAGWATI BAN	N D NISSAR	B	464644	49.28
17-May	BHAGWATI BAN	SAM GLOBAL SECURITIES LTD	B	195609	51.11
17-May	BHAGWATI BAN	KAUSHIK SHAH SHARES SEC P L	B	183486	51.11
17-May	BHAGWATI BAN	BHARAT H SHETH	B	428280	48.65
17-May	BHAGWATI BAN	DEEPAK S CHHEDA	B	244670	48.68
17-May	BHAGWATI BAN	HIMANSHU R NISSAR	B	211508	48.73
17-May	BHAGWATI BAN	H.J.SECURITIES PVT.LTD	B	1342621	52.39
17-May	BHAGWATI BAN	AMU SHARES AND SEC LTD	B	398467	49.32
17-May	BHAGWATI BAN	MBL COMPANY LTD	B	159103	49.25
17-May	BHAGWATI BAN	N D NISSAR	S	464644	49.28
17-May	BHAGWATI BAN	SAM GLOBAL SECURITIES LTD	S	195609	50.79
17-May	BHAGWATI BAN	KAUSHIK SHAH SHARES SEC P L	S	183411	51.35
17-May	BHAGWATI BAN	BHARAT H SHETH	S	428280	48.72
17-May	BHAGWATI BAN	DEEPAK S CHHEDA	S	244670	48.82
17-May	BHAGWATI BAN	HIMANSHU R NISSAR	S	211508	48.67
17-May	BHAGWATI BAN	H.J.SECURITIES PVT.LTD	S	1342621	52.38
17-May	BHAGWATI BAN	AMU SHARES AND SEC LTD	S	398467	49.29
17-May	BHAGWATI BAN	MBL COMPANY LTD	S	159103	49.36
17-May	BHAGWATI BAN	RAJKUMAR P GOSWAMI	S	661518	51.23
17-May	BHAGWATI BAN	HARSIDDH ONLINE	S	807046	51.18
17-May	BHAGWATI BAN	KIRTI SHANTILAL SHAH	S	340300	50.64
17-May	BHAGWATI BAN	UTTAM FINANCIAL SERVICES LTD	S	223947	48.32
17-May	CMM BROADCAS	DHANSAFAL VYAPAAR PVT LTD	S	55000	5.03
17-May	COUNTRY CLUB	CITIGROUP GLOBAL MKT MAURITIUS	B	100000	378.99
17-May	CUPID LTD	RAJENDRAKUMAR P. SHAH	B	50000	59.6
17-May	CUPID LTD	RAJENDRAKUMAR P. SHAH	S	30000	59.6
17-May	GEMSTONE INV	BHAVESH PRAKASH PABARI	B	50000	22.39
17-May	GEMSTONE INV	HEMANT MADHUSUDAN SHETH	B	50000	22.5
17-May	GEMSTONE INV	SHARMAN PREMCHAND SHAH	S	67582	22.5
17-May	GEMSTONE INV	NIHAL PREMCHAND SHAH	S	22388	22.5
17-May	ICRA	NIRMAL KUMAR AGARWAL HUF	B	56836	956.47
17-May	ICRA	H.J.SECURITIES PVT.LTD	B	63901	966.31
17-May	ICRA	NIRMAL KUMAR AGARWAL HUF	S	56836	956.02
17-May	ICRA	H.J.SECURITIES PVT.LTD	S	63901	967.38
17-May	INDO GREEN P	AKRUTI TRADVEST PVT LTD	B	40000	82.9
17-May	KALPTARU	ASHLESH GUNVANTBHAI SHAH	B	221304	65.27

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Industries	1,685	3.1	13.7	2.9
TCS	1,250	2.1	4.9	0.7
State Bank of India	1,327	3.4	4.4	2.4
Losers				
Bajaj Auto	2,504	(6.6)	(3.5)	1.9
Hindustan Lever	195	(1.3)	(1.1)	3.2
Sterlite Industries	561	(1.3)	(0.8)	0.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
18-May	Federal Bank, DRL, Tata Motors, Jaiprakash Associates to announce earnings and dividend; Hindustan Lever holds Annual shareholder meeting; Adi Godrej holds press conference for analyst and investor meet
19-May	Karnataka Bank to announce earnings and dividend
21-May	SAIL to announce earnings and dividend
22-May	Alembic, Punjab Tractors, Bharat Forge to announce earnings and dividend
23-May	Punjab National Bank to announce earnings and dividend
24-May	Centurion Bank of Punjab, BPCL to announce earnings and dividend
25-May	IndusInd Bank to announce earnings
28-May	Mahindra & Mahindra, Indian Oil Corp to announce earnings and dividend
29-May	Hindustan Petroleum to announce earnings and dividend
30-May	Madras Cements, Tata Power Company to announce earnings and dividend
31-May	Ranbaxy Laboratories holds shareholders meeting

Source: Bloomberg

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