investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
BEL	26-Sep-06	1,108	**1,104**	1,525
India Cements	28-Sep-06	220	**220**	315
ITC	12-Aug-04	69	**185**	220
SE Asia Marine	12-Oct-06	190	**176**	270
Solectron	08-Dec-03	99	**224**	315

Infosys Technologies

Evergreen

Stock Update

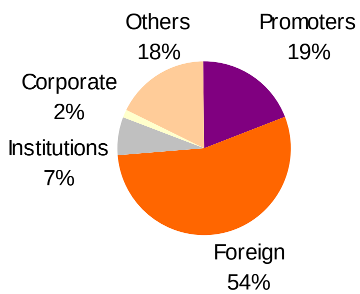
Infosys plans third ADS issue

Buy; CMP: Rs2,126

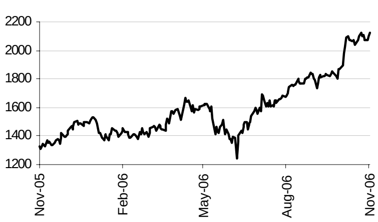
Company details

Price target:	Rs2,430
Market cap:	Rs117,714 cr
52 week high/low:	Rs2,151/1,225
NSE volume: (No of shares)	10.9 lakh
BSE code:	500209
NSE code:	INFOSYSTCH
Sharekhan code:	INFOSYS
Free float: (No of shares)	44.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.6	25.9	33.0	62.0
Relative to Sensex	0.1	1.4	5.8	-1.4

Infosys Technologies' third sponsored American depository share (ADS) issue of up to three crore equity shares would open on November 9 and close on November 17, 2006. As part of the offering, the ADSs would be placed with Japanese investors through a public offer without listing. At the prevailing price in the overseas markets, the total size of the issue works out to $1.55 billion.

Infosys likely to join Nasdaq-100 index

Earlier the company had made two successful sponsored ADS issues, in 2003 and 2005. The third sponsored issue would result in ADSs constituting to around 19.4% of the total equity base (up from 14% or 7.75 crore equity shares as on September 2006). Consequently, the market capitalisation of Infosys' ADS (floating stock of around 10.75 crore shares after the third issue) would comfortably cross $5 billion. This would enable the company to join (the first Indian company) the elite group of scrips in the Nasdaq-100 Index.

Apart from the benefits of enhanced liquidity in the overseas markets, being part of the Nasdaq-100 Index could prop up the demand for Infosys' ADSs from many of the foreign institutions (especially index-related schemes of asset management companies).

ADSs trade at a premium over domestic market price

Currently, Infosys trades at around 10% premium on the overseas bourses as compared with its domestic prices. Thus, the sponsored ADS issue offers an arbitrage opportunity to the domestic investors. However, the acceptance ratio is likely to be quite low at 6.3% of the 47.8 crore equity shares in the domestic market.

Impact of share price during ADS issue

Going by the past trend, the sponsored ADS issues tend to positively affect the share price on the domestic bourses. Infosys gained close to 13% during the month of ADS issue on both the past occasions. However, this can be attributed to the relatively much higher premium of 40-45% (as compared with around 10% now) that was attracted by Infosys in the overseas markets.

Share price performance (on Indian bourses during the months of ADS)

	Appreciation (%)	Average premium (%)
July 2003	12.9	43.1
May 2005	13.2	34.5

Valuation

At the current market price the stock trades at 31.3x FY2007 and 23.7x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs2,430.

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net revenue (Rs cr)	7,130.0	9,521.0	14,137.0	19,469.0
Net profit (Rs cr)	1,847.0	2,458.0	3,808.0	5,114.0
No of shares (cr)	54.0	55.1	55.8	56.8
EPS(Rs)	34.2	44.6	68.2	90.0
% y-o-y chg	*46.6*	*30.4*	*52.9*	*32.0*
PER (x)	62.2	47.7	31.2	23.6
EV/EBIDTA	23.9	17.8	25.4	18.7
EV/Sales	7.8	5.8	8.1	5.9
ROCE (%)	40.8	39.7	45.0	44.6
RONW (%)	35.3	35.3	39.8	39.5

TVS Motor Company

Emerging Star

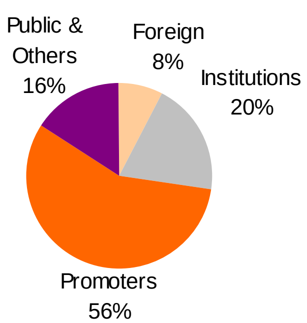
Stock Update

Expansion benefits yet to accrue

Buy; CMP: Rs102

Company details	
Price target:	Rs135
Market cap:	Rs2,437 cr
52 week high/low:	Rs186/78
NSE volume: (No of shares)	8.9 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Sharekhan code:	TVSSUZUKI
Free float: (No of shares)	10.3 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-8.4	9.2	-14.0	68.7
Relative to Sensex	-13.9	-10.5	-20.2	3.7

Result highlights

- TVS Motors' Q2FY2007 results are below our expectations mainly due to lower other income, higher interest costs and lower profit margins.
- The company has recorded a 36.6% growth in its net sales for the quarter, which stood at Rs1,077.9 crore mainly led by a volume growth of 28.8%. The realisation per vehicle grew by 6.1% year on year (yoy) due to higher contribution of high-end vehicles and a price hike affected in mid-September.
- The operating profits grew by 21.9% to Rs56 crore as the operating margins declined by 60 basis points to 5.2% but improved by 70 basis points on a sequential basis. The increased cost of raw materials like steel, aluminium, rubber etc continued to impact the margins of the company as the raw materials cost as a percentage of sales rose to 74.1% as compared to 71.9% in the corresponding period last year.
- The profit before tax (PBT) during the quarter was at Rs36.25 crore compared to Rs46.3 crore last year. However, the last year's PBT included a one-off Duty Export Promotion Benefit (DEPB) target plus an incentive of Rs9.7 crore. Adjusting for the same, the PBT has remained almost flat on a year-on-year (y-o-y) comparison while the profit after tax (PAT) has grown by 11.6% to Rs24.8 crore. The PAT after the one-off items declined by 22.3% to Rs24.8 crore for the quarter.
- The company's foray into the three-wheeler segment, the Himachal Pradesh plant and the Indonesian venture have been delayed and are expected to commence operations by Q1FY2008.

Result table Rs (cr)

Particulars	Q2FY07	Q2FY06	% yoy	H1FY07	H1FY06	% yoy
Net sales	1077.9	789.2	36.6	1999.7	1524.3	31.2
Total expenditure	1021.9	743.3	37.5	1902.1	1428.7	33.1
Operating profits	56.0	45.9	21.9	97.6	95.6	2.1
Other income	10.9	16.4	-33.9	28.7	37.7	-23.8
EBIDTA	66.8	62.4	7.2	126.3	133.3	-5.2
Interest-net of income	6.2	2.7	130.6	12.1	5.1	138.2
PBDT	60.7	59.7	1.7	114.1	128.3	-10.9
Depreciation	24.4	23.1	5.9	47.7	45.8	4.3
PBT	36.2	36.6	-1.0	66.4	82.4	-19.4
Tax	8.1	14.7	-44.7	14.6	24.2	-39.6
Deferred tax	2.4	-1.0		4.3	0.4	953.7
FBT	0.9	0.7		1.4	1.0	44.8
Adj profit after tax	24.8	22.3	11.6	46.1	56.8	-18.9
Extraordinary items	0.0	-9.7		0.0	-9.7	-100.0
Reported PAT	24.8	32.0	-22.3	46.1	47.1	-2.2
EPS	1.0	0.9		1.9	2.4	0.0
OPMs (%)	5.2	5.8		4.9	6.3	

- We are positive on the volume growth sustaining and we expect the operating profit margin (OPM) to improve on a quarter-on-quarter (q-o-q) basis with higher volumes. However, considering the lower margins in H1FY2007, lower other income and higher interest cost we are downgrading our earnings for FY2007 by 40% to Rs4.8 and for FY2008 by 40% to Rs8.2.
- The company has strong brands across segments, is improving its product mix towards high-end bikes, is foraying into the three-wheeler space and setting up a plant in Himachal Pradesh where it will get excise and tax benefits. As a result we maintain our positive outlook for the stock. At the current market price of Rs102, the stock discounts its FY2008E earnings by 12.1x and FY2008E earnings before interest, depreciation, tax and amortisation (EBIDTA) by 6.7x. We maintain a BUY recommendation on the stock with a revised price target of Rs135.

Net sales rise by 36.6% driven by 28.8% volume growth

In Q2FY2007 TVS Motors' net sales rose by 36.6% to Rs1,077.9 crore, led by a strong volume growth of 28.8% to 419,195 units and a realisation growth of 6.1%. The motorcycle segment recorded a growth of 37.3% to 258,321 units. The company has a significant presence in the entry-level segment with the success of its bike, *StaR City*. Its premium segment bike *Apache* has been a hit and has garnered a market share of 22% in the premium segment. With the strong performance of *Star City* and *Apache* the company's market share in the motorcycle segment has improved from 12.6% last year to 14.8%, while the share in the overall two-wheeler industry improved from 17.8% to 20.1%.

Sales volume

	Q2FY2007	Q2FY2006	% growth
Motorcycle	258,321	188,200	37.3
Scooters	73,364	68,814	6.6
Mopeds	87,510	68,516	27.7
TOTAL	419,195	325,530	28.8

With a price hike of about 1.5%-2% affected during the quarter under review and higher contribution from its premium bike *Apache*, the company was able to improve its average realisation by 6.1% yoy to Rs25,713 per vehicle. On the back of a better product mix, the price hikes and higher exports contribution, we expect the realisations to improve further going forward.

The company continues to improve its product portfolio. During the quarter, it launched *StaR City ES*, India's first electric start motorcycle in the 100cc segment.

Surging exports

TVS Motors' exports have reached the highest ever level with volumes of 31,729 vehicles, marking a growth of 38% yoy and 23% qoq. We have a positive outlook on the company's exports, which should receive a further boost with the commencement of its Indonesian unit. Further, the company is planning to enter the Columbian market through a joint venture. We believe that these initiatives would boost the company's exports going forward.

Higher input costs hurt margins

The operating profit for the quarter stood at Rs56 crore, marking a growth of 21.9% yoy. The OPM declined by 60 basis points yoy to 5.2%, but has marked a sequential improvement of 70 basis points. The fall in the margin is a result of the steep rise in the raw material cost, which rose from 71.9% of sales to 74.1% of sales. Despite this steep rise in raw material costs, the margins have only fallen by 60 basis points as a result of an improvement in the operating efficiencies of the company, and a reduction in the selling and marketing expenses.

The margin pressure also eased off due to an improvement in the product mix with higher contribution from motorcycles and the strong growth registered by the premium segment within the motorcycle segment. However, the increased cost of raw materials like steel, aluminium, rubber etc continued to impact the margins of the company and remain a concern for the future performance.

The PBT during the quarter was at Rs36.25 crore in comparison to Rs46.3 crore last year. However, the last year's PBT included a one-off DEPB target plus an incentive of Rs9.7 crore, which has been discontinued in this fiscal. Adjusting for the same, the PBT has remained almost flat on a y-o-y comparison while the PAT has grown by 11.6% to Rs24.8 crore. The PAT after the one-off items declined by 22.3% to Rs24.8 crore for the quarter.

Brand building focus to continue

The company has been focusing solely on building its key model brands. The company plans to continue with this strategy and plans to capitalise on the sizable success achieved by the top brands in their respective segments.

The *Star*, *Victor* and *Apache* in their respective segments have done well and all future efforts would be directed towards maintaining the brand image by introducing newer variants of the existing brands.

The company has already launched a two-stroke variant, *Scooty Teenz* and variants of *Star* and *Apache* are planned for this year. A new version of *Victor* is planned for FY2008.

Himachal plant

The company's third domestic plant is being set up in Himachal Pradesh at a cost of Rs90 crore and is expected to commence operations by April 2007. The plant shall enjoy excise and tax benefits and hence help the company improve its bottom line effectively.

Three-wheeler foray

The three-wheeler plant that is being set up in Mysore is expected to become operational and launch the company's first product in the three-wheeler category by Q1FY2008. This plant will entail an investment of US$25 million and will have an annual capacity of one lakh vehicles. The company plans to manufacture models in every class of fuel options to suit the demand.

Indonesian venture

TVS Motors has ventured into Indonesia, the world's third largest two-wheeler market. The company plans to invest US$70 million in 2 phases for a 300,000-unit capacity. It plans to launch a totally new bike on a new platform. The production is expected to begin in Q1FY2008.

Downgrading estimates

The delay in the commencement of the Himachal plant which offers them excise as well as tax benefits and the slow ramp-up in sales volumes of Apache, have led to a downgrade in earnings. We are positive on the volume growth sustaining and expect the OPM to improve on a q-o-q basis with higher volumes. However, considering the lower margins in H1FY2007, lower other income and higher interest cost we are downgrading our earnings for FY2007 by 40% to Rs4.8 and for FY2008 by 40% to Rs8.2.

Valuations

The company has strong brands across segments, is improving its product mix towards high-end bikes, is foraying into the three-wheeler space and setting up a plant in Himachal Pradesh where it will get excise and tax benefits. As a result we maintain our positive outlook for the stock. At the current market price of Rs102, the stock discounts its FY2008E earnings by 12.1x and FY2008E EBIDTA by 6.7x. We maintain a BUY recommendation on the stock with a revised price target of Rs135.

Comparative valuations

	Bajaj Auto		Hero Honda		TVS Motor	
	FY07	FY08	FY07	FY08	FY07	FY08
PER (x)	21.0	17.4	14.5	12.4	21.0	12.1
EV/EBIDTA (x)	18.6	14.3	12.4	10.8	11.7	6.7
M-cap/Sales (x)	2.9	2.4	1.8	1.5	0.6	0.7

Valuations

Particulars	FY04	FY05	FY06E	FY07E	FY08E
Net profit (Rs cr)	137.8	135.8	100.6	112.9	196.0
EPS	5.8	5.7	4.2	4.8	8.3
% y-o-y chg		*-1.4*	*-26.0*	*12.3*	*73.6*
PER	17.2	17.5	23.6	21.0	12.1
P/B	4.1	3.5	3.1	2.8	2.4
EV/EBIDTA	9.0	10.9	11.6	11.7	6.7
ROCE (%)	34.7	25.6	16.4	14.2	21.0
RONW (%)	24.0	20.0	13.1	13.4	19.5

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

New Delhi Television

Emerging Star

Stock Update

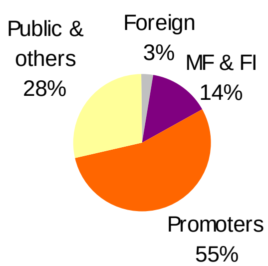
Price target lowered to Rs260

Buy; CMP: Rs233

Company details

Price target:	Rs260
Market cap:	Rs1,417 cr
52 week high/low:	Rs288/129
NSE volume: (No of shares)	3.6 lakh
BSE code:	532529
NSE code:	NDTV
Sharekhan code:	NDTV
Free float: (No of shares)	2.8 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.1	46.8	-13.8	49.3
Relative to Sensex	-1.2	20.2	-20.0	-8.2

Result highlights

- New Delhi Television (NDTV) reported an operating loss of Rs3.7 crore and a loss of Rs7.8 crore before interest and tax for the second quarter of FY2007. The results were below expectations.
- Driven by a slow revenue growth of 28.4% year on year (yoy) to Rs54.2 crore, and a 106% year-on-year (y-o-y) and 3.5% quarter-on-quarter (q-o-q) increase in the expenditure, NDTV reported an operating loss of Rs3.7 crore for Q2FY2007 compared with an operating profit of Rs3.0 crore in Q2FY2006.
- Adjusted for the one-time expenses of an employee stock option plan, the company reported a profit of Rs3.6 crore, but only with the help of a write-back of the deferred tax credit.
- NDTV has formed a new 100% subsidiary, NDTV Ventures, for its entry into the entertainment and lifestyle television segment. NDTV's general entertainment channel (GEC) will be launched under this company.
- We had mentioned earlier that the increased competition in the news channel sector has been inflating NDTV's marketing and distribution (M&D) cost. However, despite the increasing M&D cost the company has not been able to ramp up its ad revenue growth.
- That coupled with the expenditure to be incurred on the new entertainment and other channels is likely to bleed the consolidated financials of the company for at least the next 12-18 months.
- We have lowered our earnings estimates for the stock for FY2007 and FY2008 by 19% and 27% respectively on account of the above-mentioned reasons.
- At the current market price of Rs233, the stock is quoting at 29.2x its FY2008E earnings per share (EPS) and 17.8x FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We reiterate our Buy recommendation on the stock with a lower price target of Rs260, based on sum-of-parts valuations.

Result table Rs (cr)

Particulars	Q2FY07	Q2FY06	% yoy chg	% qoq chg
Net sales	54.2	42.2	28.4	-14.9
Total expenditure	57.9	39.2	47.7	3.6
Operating profit	-3.7	3.0	-	-
Other income	0.3	0.8	-	-
Interest	0.1	0.0	-	-
Depreciation	4.4	3.6	22.2	7.3
Profit before tax	-7.8	0.2	-	-
Extraordinary item	11.2	7.5	49.3	-
Profit before tax but after E/I	-19.0	-7.3		
Tax	-15.3	-0.4	3,725.0	-
Profit after tax	-3.7	-6.8	-	-
Profit after tax (adj for E/I)	3.7	0.2	1,750.0	37.0

Revenues report sedate growth

NDTV reported a 28.4% y-o-y growth in its revenues for Q2FY2007 and the same was below our expectations. The revenues declined by 15% sequentially. Amongst the news channel segments, NDTV was the only player to report a decline in revenues on a sequential basis.

	Rs crore		% qoq	% of total	
	Q2FY07	Q1FY07	chg	Q2FY07	Q1FY07
NDTV	54.2	63.4	-14.5	30.0	35.2
TV18	41.7	36.5	14.2	23.1	20.3
TV Today	38.1	35.1	8.6	21.1	19.5
Zee News	46.4	45.0	3.3	25.7	25.0
Total	180.5	179.9		100.0	100.0

We believe that the growth in the revenues has not been commensurate with the increase in the M&D cost, which grew by more than 100% yoy.

High operating cost leads to operating losses

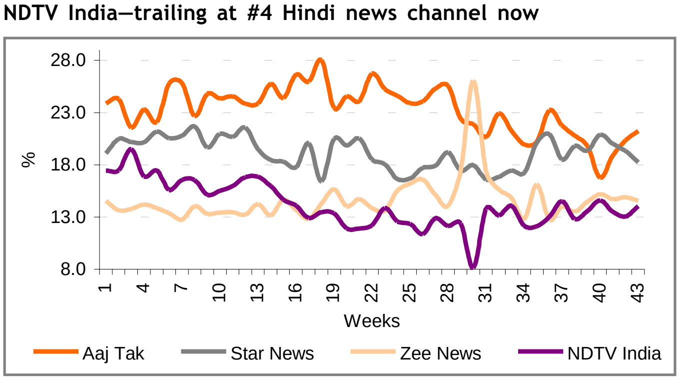
The total operating cost grew by 47.6% yoy and 3.5% qoq driven by the higher cost incurred on marketing and distribution. While the employee expenses were in check (grew by only 0.9% sequentially) during the quarter, the other costs like production expenses also showed a sharp drop.

With a deferred tax write-back of Rs14.7 crore, the net profit for the quarter stood at Rs3.7 crore.

Viewership declining despite higher M&D cost

The channel share of *NDTV 24x7* and *NDTV India* has declined substantially over CY2006. While in the Hindi segment, *NDTV India* has been relegated to #4 (age: 15+, market: north-west), in the English segment, *CNN-IBN* has caught up with *NDTV 24x7* really fast. *NDTV Profit* has not gained any substantial channel share in the market of business news channels over its one and half years of existence.

NDTV India—trailing at #4 Hindi news channel now

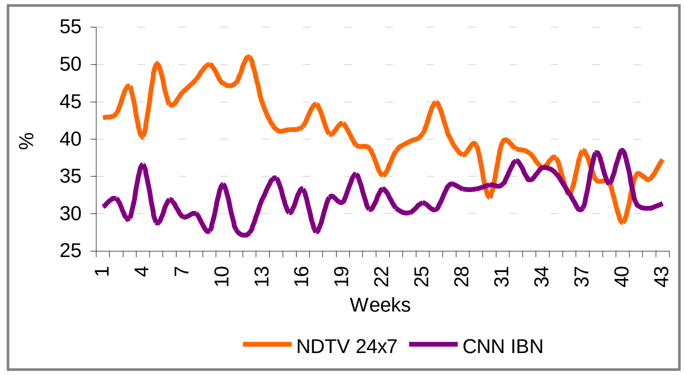


Source: TAM Media

Relative share in Hindi news channels

Target group: Age 15+, market: North-west

NDTV 24x7 -- Second lead catching up

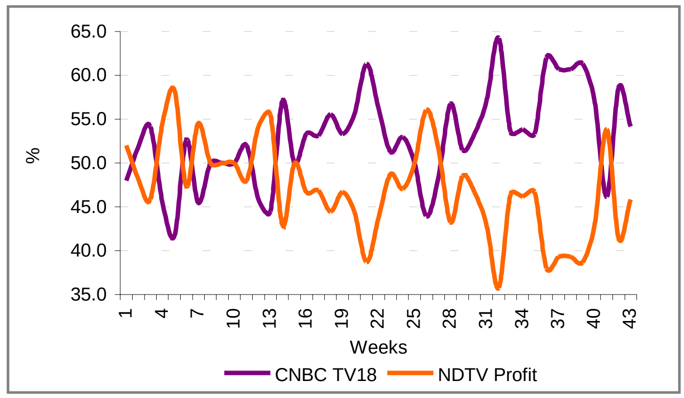


Source: TAM Media

Relative share in English News Channels

Target group: Age 15+, Markets: All India

NDTV Profit - still to take the lead



Source: TAM Media

Relative share in market of business news channels

Target group: Age 15+, Markets: All India]

Media convergence: competition heating up

Media convergence has become the buzzword today with the strategy of each player (in the news genre) revolving around owning media properties in each of the news media, let it be Hindi business news channels, Hindi business news channels, news portals on Web, regional news channels etc.

The above-mentioned top four players virtually cover 60-70% of the advertising market for the complete news genre. Thus, these players are vying for a ~Rs1,000-crore-per-annum market with each player wanting to be present in each of the above-mentioned segments.

As we have mentioned above, NDTV has been feeling the heat of competition in these markets with its channel share declining in various genres.

New business model announced

NDTV has proposed to separate its business into NDTV News and NDTV Ventures. Both the companies will be 100% subsidiaries of NDTV.

All players trying to converge various media

	ENC	HNC	EBNC	HBNC	RNC	Internet
NTDV	NDTV 24x7	NDTV India	NDTV Profit	NDTV Profit	Metronation	www.ndtv.com, tie-up with MSN
TV18	CNN-IBN,	IBN7	CNBC-TV18	Awaaz		Multiple Internet properties
TV Today	Headlines Today	Aaj Tak	-	-	City-centric channels	-
Zee News	-	Zee News	Zee Business	Zee Business	Regional news channels	-

ENC: English news channel HNC: Hindi news channel EBNC: English business news channel
HBNC: Hindi business news channel RNC: Regional news channel

The value creation streams for NDTV News will be:

- News channels: *NDTV 24x7*, *NDTV India* and *NDTV Profit*
- Local subscription revenues
- Global subscription revenues
- Global consulting business like the tie-up with Astro Malaysia

The value creation streams for NDTV Ventures will be:

- GEC
- Lifestyle/Infotainment channels
- Media process outsourcing (MPO) with Genpact
- Internet ventures
- Radio business

Consolidated financials to still bleed

Till now, the expenses incurred on account of the new initiatives like GEC and lifestyle channels were bleeding the profitability of the news content business. With the new model in place these expenses will be incurred by NDTV Ventures from now on. However, under the new arrangement too the consolidated financials would continue to bleed, as NDTV Ventures is a 100% subsidiary of NDTV.

...but its media properties hold tremendous potential

Although NDTV's consolidated earnings are likely to take a hit due to these new initiatives, yet the company can create long-term value by leveraging its various value-creating properties. For example:

- it has placed a 5% stake in its GEC with an investor which is likely to put the valuation of the channel in triple-digit million dollars;
- it is also on the look-out for a strategic investor for its Internet ventures.

Likely triggers in future

Venture	Comment
GEC/Lifestyle channels	Likely to be launched in H2FY2008, has already received seed capital
Internet venture	NDTV has been looking at selling a stake to financial investor; however no time frame mentioned
MPO	One client to be finalised soon; most probably in H2FY2007
Unlocking of 20% stake in Astro Avani	Can be done through IPO but no time frame mentioned

www.ndtv.com could add immense value

	ndtv .com	moneycontrol .com	indiatimes .com
Reach (per million)	584.5	773.5	2,300.0
Rank	2,073.0	812.0	295.0
Page-views per user	3.1	9.7	6.2
Hits on main site (%)	98.0	67.0	68.0
Hits on other related links(%)	2.0	33.0	32.0
Valuation	Not known	Rs460 crore+	Rs900 crore+

Source: www.alexa.com, Sharekhan Research

The portal www.ndtv.com has been rated by Alexa as the fifth most popular website (compared with the biggies like BBC News, NBC News and ABC News) in the news genre. Although from the figures quoted above it may look that traffic at www.ndtv.com is lower than that at its other comparables in India, one must also keep the fact in mind that the numbers for the peers are inflated due to hits at the other related web pages on their websites. NDTV enjoys maximum traffic on the news pages (98% of all page-views).

We believe that the value of www.ndtv.com can be as high as that of its comparable once the company places a stake with a financial partner.

Valuation and view

We have lowered our EPS estimates for FY2007 and FY2008 by 19% and 27% respectively to take into account the lower advertisement revenues and higher costs of incubation of the new initiatives. At the current market price of Rs233, the stock is quoting at 29.2x its FY2008E EPS and 17.8x FY2008E EV/EBIDTA. We reiterate our Buy recommendation on the stock with a lower price target of Rs260 based on the sum-of-parts method.

Sum-of-parts valuations

Particulars	Rs per share	Comment
News content business	168.0	@21.0x FY2008E earnings. With GEC and other ventures being transferred to NDTV Ventures, better clarity will emerge on news business
Astro Avani, Cash	12.0	
GEC	67.0	Based on the management guidance of 5% stake sale to an investor
Internet	20.0	Based on the valuations of Internet arm of TV18
Total	260.0	

Key financial

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	33.2	24.1	31.2	50.3
Shares in issue (crore)	6.1	6.1	6.3	6.3
EPS (Rs)	5.5	4.0	5.0	8.0
EPS growth (%)	-123	-27	25.1	61.0
PER (x)	42.6	58.8	47.0	29.2
Book value (Rs)	32.5	35.8	34.6	41.7
P/BV (x)	7.2	6.5	6.7	5.6
EV/EBIDTA (x)	26.8	32.2	25.8	17.8
RoCE (%)	15.3	0.1	14.1	19.2
RoNW (%)	17.4	11.6	14.4	20.9

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

Bajaj Auto

Apple Green

Stock Update

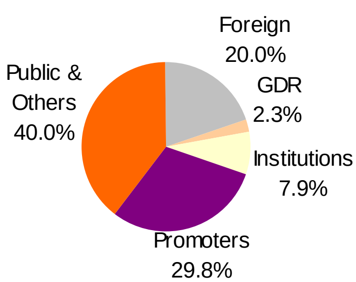
Price hike to ease margin pressure

Buy; CMP: Rs2,631

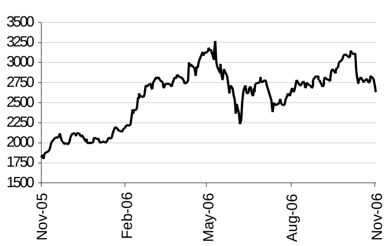
Company details

Price target:	Rs3,300
Market cap:	Rs26,611 cr
52 week high/low:	Rs3,325/1,711
NSE volume: (No of shares)	2.1 lakh
BSE code:	500490
NSE code:	BAJAJAUTO
Sharekhan code:	BAJAJ
Free float: (No of shares)	6.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.2	5.4	-11.1	56.4
Relative to Sensex	-17.4	-13.7	-17.5	-3.9

Key points

- Bajaj Auto has hiked the prices of all its three-wheeler models and two of its two-wheeler models (ie *Pulsar* twins and *Platina*). With the high input prices, the price hikes affected should help to ease the pressure on its margins.
- The price of the upgraded *Pulsar* twins has been raised by Rs2,000-2,200 per vehicle, while the price of *Platina* has been raised by Rs500 per vehicle. The three-wheeler prices have been raised by Rs1,000 per unit.
- Bajaj Auto is looking to exit the 100cc segment in the next two-three years with the introduction of two new platforms next year, which are expected to be around the same price points. Further, the company also plans to revitalise its *Pulsar* brand through the recent launch of the upgraded versions and would follow it up with the launch of the higher displacement *Pulsars* (220cc) in Q4FY2007.
- The company has reported strong sales numbers during this year recording a year-till-date growth of 34%. Going forward, due to a high base effect, we expect the company to record a growth of 19.8% for H2FY2007.
- At the current market price of Rs2,631, the stock discounts its FY2008E earnings by 17.4x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 14.3x. We maintain our Buy recommendation on the stock with a price target of Rs3,300.

Bajaj Auto has hiked the prices of all its three-wheeler models and two of its two-wheeler models (ie *Pulsar* twins and *Platina*). With the input cost pressure increasing significantly in the last few months and rising contribution from the entry segment bikes, these price hikes should help to ease the pressure on its margins. Though it is unlikely that the margins would reach the last year's levels, the same should improve on a sequential basis.

The price of the upgraded Pulsar twins has been raised by Rs2,000-2,200. The price of *Pulsar* had not been raised along with that of the other motorcycles in July 2006. Our channel checks reveal that the company has raised the price of *Pulsar 150cc* by

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	5,724.0	7,469.4	9,131.3	11,305.2
Net profit (Rs cr)	801.4	1,117.5	1,265.7	1,533.8
% y-o-y change		*39.4*	*13.3*	*21.2*
EPS (Rs)	79.2	110.4	125.1	151.6
PER (x)	33.2	23.8	21.0	17.4
book value	408.6	471.5	552.2	648.0
P/BV	6.4	5.6	4.8	4.1
EV/EBIDTA (x)	33.1	21.9	18.6	14.3
RoCE (%)	13.9	19.1	19.7	22.1
RoNW (%)	14.9	18.6	18.9	20.2

around Rs2,500 while the price of *Pulsar 180cc* has been raised by only Rs800 per vehicle. The demand for *Pulsar 180cc* has surged in the recent times. Similarly, the demand for the new *Pulsar 150cc* is also expected to rise at a brisk pace in the coming months despite the price hike. The new upgraded *Pulsar* has been launched with a fresh headlamp reflector, which combined with the blacked-out gaps and separated new twin parking lamps gives the bike a new wolf-eyed look. It also comes with a digital speedometer while its handlebar position has also been slightly lowered to improve the flow of the design and offer a more sporty ride position.

The production was constrained in October 2006 due to numerous holidays towards the end of the month. Hence the waiting period for most of the bikes is about 15 days whereas that for *Pulsar 180cc* is about 20-25 days. We expect the waiting period for *Pulsar 180cc* to come down during the current month.

Bajaj Auto has also raised the price of *Platina* by Rs500 per vehicle. Earlier in September, the company had cut its price by Rs2,000 in order to boost sales. *Platina* has been a highly successful product, clocking sales of around 1 lakh per month and is currently the market leader in the economy segment with a market share of 27.5%.

Going forward, we expect the line between the economy and the value segment to get thinner. As indicated by the top management, Bajaj Auto would look to exit the 100cc segment in the next two to three years. This would be through the introduction of two new platforms next year, which are expected to be at around the same price points. Further, the company also plans to revitalise its *Pulsar* brand through the recent launch of the upgraded versions and would follow it up with the launch of higher displacement *Pulsars* (220cc) in Q4FY2007.

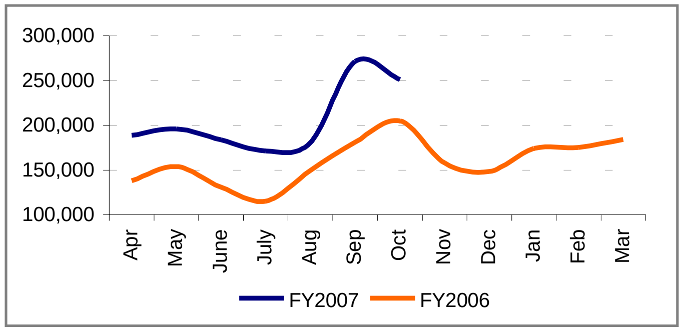
Three-wheelers

The price of three-wheelers has been hiked by Rs1,000 per vehicle on an average (approximately 1-1.25%). Bajaj Auto is the market leader in the goods carrier segment whereas Piaggio is the leader in the passenger carrier segment. Its recently launched *Mega*, a rear-engine diesel autorikshaw, has been helping Bajaj Auto retain its market share in the passenger carrier segment.

Outlook

Though the profit margins are likely to remain subdued for a couple of quarters, the volume growth is expected to remain strong. The management has claimed that the company is on its way to recording its highest ever quarterly volume during the October-December quarter.

Sales growth



The company has reported strong sales numbers during this year recording a year till date growth of 34%. Going forward, due to high base effect, we expect the company to record a growth of 19.8% for H2FY2007.

With a strategy to combat competitive pressures, rising raw material prices and changing product mix, the operating profit margin of Bajaj Auto should also improve after a couple of quarters.

The insurance business, comprising both life insurance and non-life insurance, is doing exceedingly well. Both Bajaj Allianz Life Insurance and Bajaj Allianz General Insurance are presently number one and two respectively in their respective segments. We have factored in a value of Rs700 per share for the insurance business.

Sum of parts valuation

Business	Basis	Per share
Core business	At 16x its FY2008 core EPS	1869.8
Insurance business	At 16x its FY2008E NBAP	733.8
Investments	At 5% discount to market value	740.0
Total Value		3343.6

At the current market price of Rs2,631, the stock discounts its FY2008E earnings by 17.4x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 14.3x. We maintain our Buy recommendation on the stock with a price target of Rs3,300.

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

Indian Hotels Company

Apple Green

Stock Update

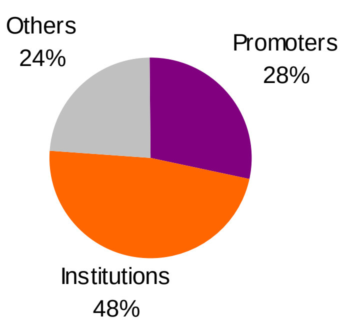
Room for more upside

Buy; CMP: Rs150

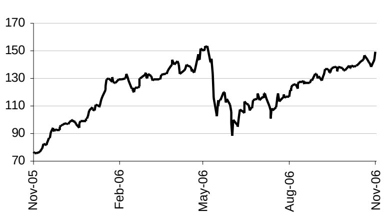
Company details

Price target:	Rs170
Market cap:	Rs8,737 cr
52 week high/low:	Rs158/75
NSE volume: (No of shares)	74,991
BSE code:	500850
NSE code:	INDHOTEL
Sharekhan code:	INDNHOT
Free float: (No of shares)	41.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.8	27.6	-0.4	98.1
Relative to Sensex	3.2	4.5	-7.5	21.8

Result highlights

- The revenues of Indian Hotel Company Ltd (IHCL) increased by 27.8% year on year (yoy) to Rs266.7 crore in Q2FY2007 on the back of a 37.5% rise in room revenues, in line with our estimates. The food and beverages income (F&B) rose by 13.6% yoy, the other operating income increased by 31.0% yoy and the management fee saw a rise of 46.5% yoy.
- The occupancy rates (ORs) in Q2FY2007 increased by 200 basis points yoy at 66%, whereas the average room rate (ARR) grew by a robust 34.5% to Rs7,583, in line with our estimates.
- The operating profit margins (OPMs) expanded by 300 basis points to 21.8% on account of the healthy revenue growth and a continuous operating leverage that the company enjoys. Consequently the operating profits grew by a robust 48.2% yoy to Rs58.1 crore, marginally ahead of our estimates.
- The expansion in the OPMs, higher other income (up 52.0% yoy) and a reduction in the net interest costs (down 30.8% yoy) saw the net profit grow by a whopping 77.6% yoy to Rs46.5 crore, marginally ahead of our estimates.
- IHCL has executed a letter of intent with the owners of the Ritz Carlton Hotel, Boston for the outright purchase of the hotel for US$170 million. The sale and purchase agreement is scheduled to be executed in early November 2006 with the transaction closure targeted for early January 2007.
- The tight demand-supply scenario in the hotels industry lends a positive bias to the ARR in the short term and we expect IHCL, the largest hotel chain in India with its pedigree of hotels to be the key beneficiary of this uptrend. The ARR and ORs may come under pressure post H1FY2008, but till that time we believe that the investors should remain checked in. We like the performance of H1FY2007 and we are revising our consolidated earnings estimates for FY2007 and FY2008 by 1.4% and 16.3% respectively.

Result table (stand-alone) Rs (cr)

Particulars	Q2FY07	Q2FY06	% yoy	H1FY07	H1FY06	% yoy
Net sales	266.7	208.6	27.8	524.0	410.9	27.5
Expenditure	208.6	169.4	23.1	400.0	330.7	21.0
Operating profit	58.1	39.2	48.2	124.0	80.2	54.6
Other income	26.6	17.5	52.0	39.3	23.1	70.1
PBIDT	84.7	56.7	49.4	163.3	103.3	58.1
Depreciation	17.0	14.9	13.8	34.0	30.0	13.3
Interest	3.7	5.3	-30.8	7.7	11.1	-30.8
PBT	64.0	36.5	75.6	121.6	62.3	95.4
Tax	17.0	10.0	70.5	36.1	18.9	91.5
PAT	47.0	26.5	77.6	85.5	43.4	97.1
EPS	0.8	0.5	58.9	1.5	0.7	97.1
OPM (%)	21.8	18.8	300 bps	23.7	19.5	420 bps
PBITM (%)	25.4	20.0	540 bps	24.7	17.8	690 bps
PATM (%)	17.6	12.7	490 bps	16.3	10.6	570 bps

- We are valuing IHCL at 25x its FY2008 earnings and the revised price target now stands at Rs170. IHCL's value of non-hotel investments on its books is around Rs20 per share and the same provides a margin of safety to our price target of Rs170. At the current market price (CMP) of Rs149.6 the stock provides an upside of 10.3%.

Strong revenue growth of 27.8% yoy in the quarter--in line with our estimates

The company posted a revenue growth of 27.8% yoy in Q2FY2007 with revenues of Rs266.7 crore, in line with our estimates. The strong revenue growth was driven by a sharp rise in the ARR in most of the Taj properties, leading to a 37.5% increase in the room revenues. The F&B growth was slower at 13.6%. The other operating income and the management fee saw a rise of 31.0% yoy and 46.5% yoy respectively in the quarter under review.

Revenue break-up

	Q2FY2007	Q2FY2006	% Growth
Room revenues	140.3	102.0	37.5
Food & beverages	96.1	84.6	13.6
Other operating income	16.0	12.2	31.0
Management fees	14.3	9.7	46.5
Total	266.7	208.6	27.8

Source: Company, Sharekhan

ARR and OR expansion continue to impress

The ARR continued its growth trajectory and zoomed up by 34.5% yoy at Rs7,583, in line with our estimates. All the key destinations reported a healthy rise in the ARR. Destinations like Hyderabad, Delhi, Pune and North Mumbai saw the maximum rise in the ARR yoy during the quarter. Bangalore continues to hold the distinction of the highest ARR during the quarter. Cities like Delhi, Mumbai and Pune ranked after Bangalore in terms of the ARR during the quarter. The ORs increased marginally by 200 basis points yoy to 66%, in line with our estimates.

Margin expansion of 300 basis points yoy to 21.8%—marginally ahead of our expectations

The OPMs expanded by 300 basis points yoy to 21.8% in the quarter under review; consequently the operating profit grew by 48.2% yoy to Rs58.1 crore. The margin expansion was aided by a 34.5% rise in the ARR, a marginal increase in occupancies and a continuous leverage effect. All the expenses as a percentage of sales except the other expenses were down. The other expenses increased by 10 basis points yoy and by 430 basis points sequentially. The other expenses were significantly higher due to the renovation work in the current quarter and some higher fixed expenses.

Cost analysis

% of net sales	Q2FY2007	Q2FY2006	Change in basis points
Raw material consumed	8.8	9.6	-80.0
Employee expenses	22.4	23.1	-70.0
Power, oil & fuel	7.2	8.7	-150.0
Licence fees	10.5	10.6	-10.0
Other expenses	29.3	29.2	10.0
Operating costs	78.2	81.2	-300
Operating profit margins	21.8	18.8	300

Source: - Company, Sharekhan

Net profit grows by a robust 77.6 % yoy--marginally ahead of our expectation

The strong revenue growth and a healthy expansion in the operating margins saw the net profit grow by a whopping 77.6% yoy to Rs46.5 crore. The strong growth in the net profit was also aided by a reduction in the net interest cost and a higher other income. The net interest cost was down 30.8% yoy to Rs3.7 crore, due to a higher interest income. The other income was up 52.0% yoy to Rs26.6 crore. The major swing in the results compared to our estimates came from the higher other income.

Interesting trends experienced in the quarter under review

- Hyderabad and Goa were the only cities that witnessed a sequential decline in the ARR. The ARR for Hyderabad was down 9.8% to Rs6,602 and the ARR for Goa was down 6.5% to Rs4,425. On a year-on-year (y-o-y) basis the ARR for all the cities grew by 24-40%.

- Almost all the cities saw a decline in the occupancies sequentially, on account of July-September being a lean season for the arrival of tourists. On a y-o-y basis Delhi, Chennai, Hyderabad and Kolkata saw a decline in the ORs. In spite of the ORs being under pressure for the key cities in this quarter compared to the previous quarter, IHCL has been able to maintain its ORs in the quarter at 66%.

Trend in ARR & OR

	% chg in ARR		Expansion in OR	
	yoy	qoq	yoy	qoq
South Mumbai	33.7	1.9	300	-200
North Mumbai	41.4	2.2	300	-200
Delhi	42.0	3.6	-400	-100
Bangalore	24.1	0.0	200	-100
Chennai	34.3	3.0	-400	0
Hyderabad	42.7	-9.8	-900	-100
Kolkata	32.7	2.6	-200	0
Goa	32.1	-6.5	500	-700

IHCL close to acquiring Ritz Carlton Hotel, Boston

IHCL has executed a letter of intent with the owners of the Ritz Carlton Hotel, Boston for the outright purchase of the hotel for US$170 million. The sale and purchase agreement is scheduled to be executed in early November 2006 with the transaction closure targeted for early January 2007. The deal will be financed through a mix of debt and equity. The equity portion will be financed through the unutilised foreign currency convertible bond (FCCB) proceeds to the extent of USD90 million. The remaining USD80 million will be the debt raised to acquire the hotel.

Outlook continues to remain positive

On industry per se: The company communicated a positive outlook on the hotel industry of India with (1) a strong demand; (2) little room inventory addition; (3) the rising domestic customers--both leisure and business; and (4) reducing the dependence on foreign tourist arrivals and foreign currency spending.

On the ARR front: The company expects a continuous rise in the ARR (barring Bangalore where the ARR is at its zenith) mainly driven by the supply-demand mismatch in the market. There is a strong demand and a limited 20-25% room inventory addition in the key cities. A large part of the new inventory is expected to hit the market in H2FY2008, thus giving reasonable breathing space to the ARR and hence there would be a strong case for the ARR rise in FY2007 and a modest increase in FY2008.

On the occupancies front: With all the Taj properties operating at +70% occupancies in FY2006, there exists little headroom for growth. But amidst the tight supply and the strong demand the company expects a 100-150-basis-point rise in the occupancies in FY2007.

IHCL to be a key beneficiary of the robust industry environment

The tight demand-supply scenario in the hotels industry lends a positive bias to the ARR in the short term and we expect IHCL, the largest hotel chain in India with its pedigree of hotels to be the key beneficiary of this uptrend. The ARR and ORs may come under pressure post H1FY2008, but till that time we believe that the investors should remain checked in.

Revising our FY2007 and FY2008 estimates by 1.4% and 16.3% and price target revised to Rs170

For H1FY2007 IHCL reported a 27.5% growth in its top line, a 54.6% growth in the operating profit and a 97.1% growth in net profit. With such a stellar performance and a positive bias in the ARR in the short term we are revising our FY2007 and FY2008 earnings estimates upwards by 1.4% and 16.3% respectively. We are valuing IHCL at 25x its FY2008 earnings. The revised target price now stands at Rs170. IHCL's value of non-hotel investments on its books is around Rs20 per share and the same provides a margin of safety to our price target of Rs170.

At the CMP of Rs149.6 the stock trades at a price-earnings ratio (PER) of 22.0x its FY2008E consolidated earnings. We maintain a BUY on the stock with a revised price target of Rs170.0, an upside of 10.3%.

Key financials

Particulars	FY2005	FY2006	FY2007E	FY2008E
Stand-alone				
Net profit (Rs cr)	83.1	181.2	257.6	276.5
Share in issue (cr)	50.3	58.4	58.7	58.7
EPS (Rs)	1.7	3.1	4.4	4.7
% y-o-y growth	*161.8*	*87.6*	*41.6*	*7.3*
PER (x)	90.7	48.4	34.2	31.8
Book value (Rs)	22.5	29.4	32.5	36.0
P/BV (x)	6.7	5.1	4.6	4.2
EV/Ebidta (x)	35.2	24.4	17.7	16.0
Dividend yield (%)	0.7	0.9	0.9	0.9
ROCE (%)	7.5	14.0	18.1	18.1
RONW (%)	7.3	10.6	13.5	13.1
Consolidated				
Net profit (Rs cr)	126.0	246.7	351.1	399.5
EPS (Rs)	2.5	4.2	6.0	6.8
% y-o-y growth	*145.1*	*68.4*	*41.7*	*13.8*
PER (x)	59.8	35.5	25.1	22.0

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
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ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

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