investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aurobindo	28-May-07	684	**794**	914
BASF	18-Sep-06	220	**260**	300
JP Associates	30-Dec-03	125	**723**	850
UltraTech	10-Aug-05	384	**878**	935
Zensar Tech	18-Jun-07	342	**331**	484

Bajaj Auto

Apple Green

Stock Update

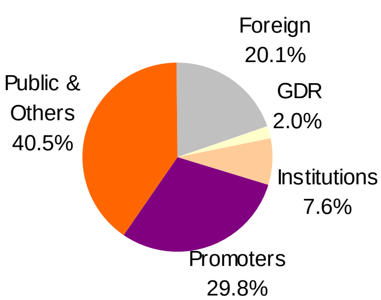
Annual report review

Buy; CMP: Rs2,094

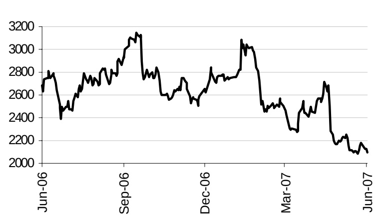
Company details

Price target:	Rs2,271
Market cap:	Rs21,147 cr
52 week high/low:	Rs3,175/2,063
NSE volume: (No of shares)	2.9 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	-1.8	-15.1	-19.8	-16.5
Relative to Sensex	-2.8	-23.1	-23.5	-42.1

We went through the recently released annual report of Bajaj Auto Ltd (BAL). We present the highlights below.

Key points

- FY2007 was an interesting year for BAL as the company rendered a strong performance in the first nine months of FY2007, even though the performance faltered in the last quarter of the fiscal due to the rising interest rates and certain actions taken by the Reserve Bank of India (RBI) to control the growth in non-food credit.
- A number of variants in the motorcycle segment in all sub-segments, good export performance, a launch of new ungeared scooter *Kristal* led the growth during the year.
- The company continued its productivity improvements during the year as the turnover per employee increased from 132 in FY2004 to 266 in FY2007. BAL also continues to enjoy negative working capital. The high capital expenditure (capex) of the company during the year affected the return ratios as the return on capital employed reduced from 25.5% to 22.3% and the return on net worth reduced from 20.9% to 18%.
- The company expects this slowdown to be an aberration and is hopeful the situation would improve going forward. However, hardening raw material prices, the competitive scenario and possible lower demand in the first half of FY2008 would restrict the margins and the same are expected to remain in the region of 13-15%. The company has plans to launch a new bike in the second quarter of FY2008 and the management believes that the bike will be a blockbuster.
- At the current market price of Rs2,094, the stock trades at 16.1x its FY2009E and at an enterprise value/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 9.2x. We maintain our Buy call on the stock with a price target of Rs2,271.

Good performance in FY2007 except in the last quarter

BAL rendered a strong performance in the first nine months of FY2007, but the performance faltered in the last quarter of the fiscal due to the rising interest rates and certain actions taken by the RBI to control the growth in non-food credit. The margins of the company also suffered due to the competitive scenario and the higher contribution of the 100cc segment, which carries lower margins.

Earnings table

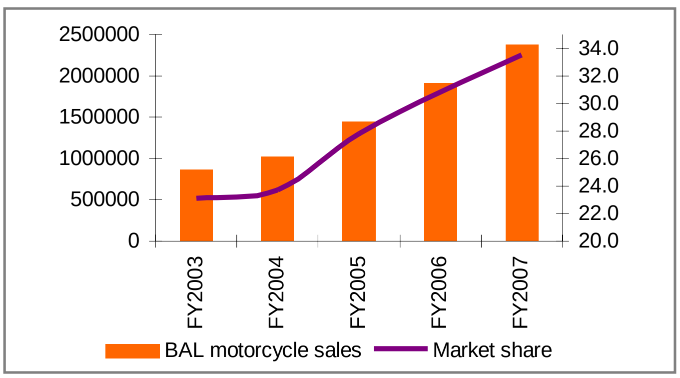
Particulars	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Net profit (Rs cr)	627.2	999.5	997.9	1,182.2	1,310.1
EPS (Rs)	62.0	98.8	98.6	116.8	129.5
% y-o-y growth	*-0.5*	*59.4*	*-0.2*	*18.5*	*10.8*
PER (x)	33.7	21.2	21.2	17.9	16.1
P/B	5.1	4.4	3.8	3.4	3.0
EV/EBIDTA	24.9	14.3	13.8	11.5	9.2
RoCE (%)	18.8	25.5	22.3	22.1	22.4
RoNW (%)	15.2	20.9	18.0	18.9	18.6

Sales performance

	FY07	FY06	% growth
Other two-wheelers	20,480	116,342	-82.4
Motorcycles	2,376,519	1,912,224	24.3
Total two-wheelers	2,396,999	2,028,566	18.2
Three-wheelers	321,796	252,006	27.7
Grand total	**2,718,795**	**2,280,572**	**19.2**

The company's motorcycle sales grew by 24.4% during the year as it managed to increase its market share from 30.8% in FY2006 to 33.5% in FY2007. The growth was fueled by a number of variants launched during the year. The company launched variants of *Pulsar DTSi* 150cc and 180cc, adding a number of new features such as sportier looks, digital speedometer and LED tail lamps. The company also launched *Pulsar 200cc* and has recently launched *Pulsar DTS-Fi 220cc*. In the 125cc category, the company launched the higher version of *Discover*, with a 135cc engine. The company is also pretty optimistic about the new platform that it will be launching in this segment in the second quarter of the current fiscal. In the scooter segment, BAL launched its ungeared *Kristal DTSi* towards the end of the year and the vehicle has been well received by the market.

Performance in motorcycle segment



Source: Sharekhan Research

The company also made substantial gains in the three-wheeler segment as its sales volumes grew by 28% during the year on the back of the demand driven by the regulatory need to replace the older vehicles with clean fuel models. The regulations were extended to many new cities which contributed to this strong growth. Going forward, the company would be launching its compressed natural gas version of *Mega* in the second quarter of FY2008.

Brilliant growth in exports

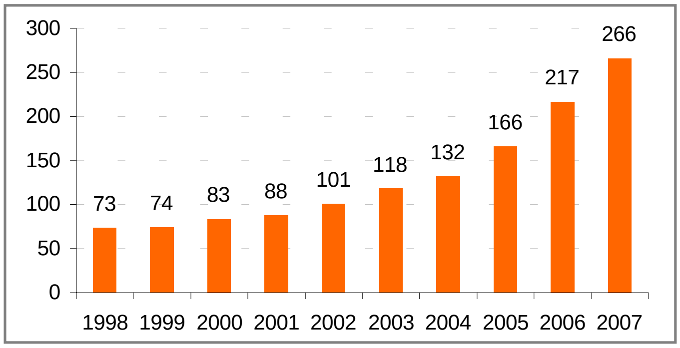
During the year, BAL's exports reached all-time high of 442,411 vehicles, marking a growth of 77%. Its exports contributed 18% of its sales in FY2007. During the year, the company saw strong growth in the Latin American markets such as Columbia, Guatemala, Peru and Mexico. The company entered into a joint venture in Indonesia, where it has launched a new three-wheeler and also *Pulsar* 180cc lately. It has also started its operations in Nigeria and in Iran.

	FY2007	FY2006	% growth
Motorcycles	300656	165288	81.9
Other two-wheelers	301766	174907	72.5
Three-wheelers	140645	75297	86.8
Grand total	**442411**	**250204**	**76.8**

Productivity improvement

The company continues to make substantial improvements in its productivity. In fact, it has been able to increase the number of vehicles produced per person from 132 in FY2004 to 266 in FY2007. This has been possible due to various total productive maintenance (TPM) techniques employed by the firm. The company has started to extend this to many of its vendors too.

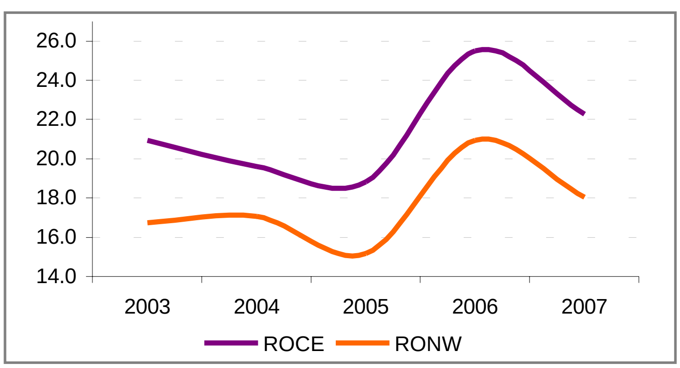
Manpower productivity (vehicles produced per person per year)



Source: Sharekhan Research

BAL also continues to enjoy negative working capital. The operating working capital of the company stood at Rs279 crore in FY2007 against Rs335 crore in FY2006 and was among the best in the industry. The high capex of the company during the year affected the return ratios as the return on capital employed reduced from 25.5% to 22.3% and the return on net worth reduced from 20.9% to 18%. At the end of the year, the company had cash of Rs83.5 crore while its debt-equity ratio stood at 0.29.

Return ratios



Insurance business

BAL continues its strong performance in the insurance business, as it has reached the second position among the private players in the industry. In the life insurance segment, the company's new business premium rose to Rs4,270 crore from Rs2,717 crore last year while the gross premium grew by 69% to Rs5,310 crore. The general insurance business too grew well as its gross premium grew by 40% to Rs1,803 crore.

Retail finance

BAL's subsidiary Bajaj Auto Finance rendered a strong performance in FY2007 as its gross disbursals grew by 35% to Rs2,631 crore and profits rose by 25% to Rs47.2 crore.

Other developments during the year

De-merger

BAL has adopted a three-way demerger scheme for its business. As per the scheme, the existing company would be renamed Bajaj Holdings and Investments Ltd (BHIL) and two new companies would be created, namely Bajaj Auto (new), which would consist of the two- and three-wheeler manufacturing business, and Bajaj Finserv Ltd (BFL), which would comprise the wind power, insurance and financing businesses. All shareholders in the existing BAL would become shareholders in each of the new companies. For every share held in the existing company, the shareholders would:

- continue to hold one share of BHIL (the existing BAL) of face value of Rs10 each, fully paid up;
- be allotted one share of the new BAL (the existing BHIL) of face value of Rs10 each, fully paid up; and
- be allotted one share of BFL of face value of Rs5 each, fully paid up.

Disclosures regarding the insurance business

BAL made a disclosure that its insurance partner Allianz has a call option to increase its stake in the insurance joint ventures at a nominal pre-determined price. In case of Bajaj Allianz Life Insurance Co., Allianz can exercise the call option to increase its holding to 74% from the present 26%, subject to regulatory approvals. In case the call option is exercised by Allianz up to the expiry of 15 years from the subscription date, ie up to April 22, 2016, the price will be Rs5.42 per share plus interest at 16% per annum compounded annually from April 23, 2001 to the date of payment.

In case of Bajaj Allianz General Insurance Co, Allianz can exercise the call option to increase its holding to 50% from the present 26%, subject to regulatory approvals. In case the call option is exercised by Allianz up to the expiry of 15 years from the subscription date, ie up to April 22, 2016, the price will be Rs10 per share plus interest at 16% per annum compounded annually from April 23, 2001 to the date of payment.

Plant at Pantnagar

During the year the company set up its plant at Pantnagar, Uttarakhand, with a capacity to manufacture one million motorcycles per annum. The plant has been set up at an investment of just Rs150 crore, and enjoys various excise and tax benefits. The company has already started rolling out its bike *Platina* from this plant.

Outlook

As far as the current slowdown is concerned, chairman Rahul Bajaj, in his letter to shareholders, has stated, " I think of this slowdown as a temporary aberration. India has grown in excess of 9% over the last two years; the compounded annual FDP growth over the last four years is well over 8%; and I expect the country to continue growing equally rapidly over the foreseeable future. Thus, as inflation eases off, non-food credit growth will perforce bounce back to its 30% annual growth rate. And your company with its brand new 1-million-motorcycle-per-annuam capacity at Pantnagar will be ideally placed to ride this growth". Further, the company believes that the two wheeler penetration remains very low in India and hence two-wheeler is a good long-term story in India.

However, Mr Bajaj also mentions that given the hardening the of raw material prices, the competitive scenario and possible lower demand in the first half of FY2008, the margins will be affected and any operating profit margin in the region of 13-15% would be considered good by the company. The company has plans to launch a new bike in the second quarter of FY2008 and the management believes that the bike will be a blockbuster. Going forward, the company hopes to encourage 100cc customers to migrate to 125cc, offering better products, at almost a similar price.

BAL, in its annual report, also stresses that it would look at technological innovations to stay ahead of the competition going forward. It says "every offering to the customer should be distinctly ahead of the competition. To be ahead is important; but to be distinctly ahead even more so. Bajaj Auto's strategy is to be 'Distinctly Ahead' through innovation, perfection and speed. In a market place that forgets nothing and forgives little, it is the only way to ensure consistent growth and profitability." At the current market price of Rs2,094, the stock trades at 16.1x its FY2009E and at an EBIDTA of 9.2x. We maintain our Buy call on the stock with a price target of Rs2,271.

Tourism Finance Corporation of India

Cannonball

Stock Update

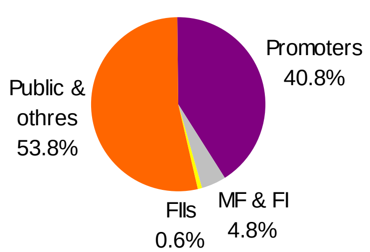
Q4FY2007 results: First-cut analysis

Buy; CMP: Rs20.65

Company details

Price target:	Rs30
Market cap:	Rs139 cr
52 week high/low:	Rs24.2/8.9
NSE volume: (No of shares)	4.8 lakh
BSE code:	526650
NSE code:	TFCILTD
Sharekhan code:	TFCI
Free float: (No of shares)	4.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	13.9	42.8	76.4	81.2
Relative to Sensex	12.8	29.2	68.2	25.6

Result highlights

- For Q4FY2007 Tourism Finance Corporation of India (TFCI) has reported a 33.1% year-on-year (y-o-y) growth in its profit after tax (PAT) to Rs9.6 crore, which is ahead of our estimate of Rs8.6 crore. The quarter-on-quarter (q-o-q) PAT growth stood at 281.3% but since the earnings are back-ended (the fourth quarter earnings comprise 60-65% of the total annual earnings) the q-o-q PAT growth figure is not relevant.
- In FY2007 TFCI's PAT stood at Rs14.3 crore, up 20% year on year and ahead of our estimate of Rs13.3 crore.
- The net interest income was up by 8.2% to Rs15.4 crore for Q4FY2007 and by 1.2% to Rs28.9 crore for FY2007.
- The operating profit was up by 6.3% to Rs13.7 crore for Q4FY2007 but down 3% to Rs24.9 crore for FY2007.
- Provisions and contingencies declined by 43.4% for Q4FY2007 and by 27.5% for FY2007, reflecting the lower provisioning requirement due to lower incremental non-performing assets (NPAs). We expect TFCI's net NPAs as percentage of loans to have improved from 2.5% in FY2006 to 1.8% in FY2007.
- As per our expectations the company has resumed dividend payment and declared a 5% dividend, which gives a 2.5% dividend yield. At the current market price of Rs20.65, the stock is quoting at 5.8x its FY2009E earnings and 0.6x FY2009E book value. We maintain our Buy recommendation on the stock with the price target of Rs30.

Result table Rs (cr)

Particulars	FY2007	FY2006	% yoy	Q4FY07	Q4FY06	% yoy	% qoq
Interest earned	63.2	64.4	-1.8	22.0	22.7	-3.3	53.5
Interest expended	34.3	35.8	-4.2	6.6	8.5	-22.3	-28.5
NII	28.9	28.6	1.2	15.4	14.2	8.2	203.6
Other income	0.8	0.8	-2.5	0.5	0.0	-	275.0
Net total income	29.7	29.4	1.1	15.8	14.2	11.3	205.2
Operating expenses	4.8	3.7	29.7	2.1	1.3	61.2	105.9
Operating profit	24.9	25.7	-3.0	13.7	12.9	6.3	229.3
Depreciation	0.6	0.7	-6.2	0.2	0.2	-6.3	-6.3
Provisions	7.0	9.7	-27.5	1.5	2.7	-43.4	0.0
Profit before tax	17.3	15.4	12.4	12.1	10.1	19.5	381.3
Tax	3.0	3.5	-13.4	2.5	2.9	-14.0	-
Profit after tax	14.3	11.9	20.0	9.6	7.2	33.1	281.3

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

Viewpoint

Do financial service cos have any steam left?

In the past 12 months valuations of financial services firms, have shown significant appreciation. Are such valuations justified? Is anymore upside left? In order to find answer to these burning questions we did a small exercise to capture the valuations of five leading financial service firms engaged in brokerage, investment banking, insurance, consumer finance, banking etc using the sum-of-the-parts (SOTP) method. The valuations assigned are relative and based on the current multiples given to the various businesses of these firms by the market (except for ICICI Bank which is under our coverage).

Valuation grid

<table>
<tr><td rowspan="4">Valuation upside</td><td>High</td><td>ICICI Bank</td><td>Indiabulls</td></tr>
<tr><td>Medium</td><td>Kotak Bank</td><td></td></tr>
<tr><td>Low</td><td>Reliance Capital</td><td>Indiainfoline</td></tr>
<tr><td></td><td>Low</td><td>High</td></tr>
<tr><td colspan="4">Business growth opportunity*</td></tr>
</table>

*High: if presence in the number of businesses is low and vice versa

Details of the valuation procedure

Step 1: Formed a business mix matrix

We first formed a "Business Mix" matrix, which captured the various businesses undertaken by the five firms. In this matrix "Y" denoted a "Yes" and indicated the firm is presently having that business, and an "N" represented a "No" and meant that the respective firm does not currently undertake the business. Some businesses were overlapping and we tried our best to segregate them and assign valuations for the businesses separately by assigning a separate business category that captured the business dynamics more accurately. For example, we segregated the broking and non-broking earnings of Indiainfoline and categorised its non-broking income as "fee income". We did the same for Indiabulls and classified its non-broking income business as "consumer finance business".

Business mix matrix

Businesses	Rel Cap	India-bulls	ICICI Bank	India-infoline	Kotak
Broking	Y	Y	Y	Y	Y
Fee income related	N	N	N	Y	Y
Consumer finance	Y	Y	N	Y	Y
Mutual fund	Y	N	Y	N	Y
Life insurance	Y	N	Y	N	Y
General insurance	Y	N	Y	N	N
Investments	Y	N	N	N	Y
Banking	N	N	Y	N	Y
Business presence	High	Low	High	Low	High

Step 2: Fixed yardstick to measure valuations

Next we decided the bases, viz book value, assets under management and earnings, that would best capture the dynamics of a particular business and assigned multiples accordingly to arrive at the valuations of that business.

Our comments on the multiples given to the various business segment leaders

Broking: Kotak Securities is the leader in all the segments (institutional, high net worth and retail) with an excellent track record and brand value.

Fee income: The non-broking income (mainly distribution and content income) of Indiainfoline was considered as "fee income", which is almost 45% of the FY2009 profit after tax (PAT) estimate. In case of Kotak Bank, we included the investment banking business, which is also fee based, in the "fee income" category but assigned a lower multiple to it since the business is lumpy in nature.

Consumer finance: We valued the consumer finance business on book value basis. We feel that 2.5x is a fair valuation for Indiabulls and Kotak Bank while 2x is a fair valuation for Reliance Capital, which is yet to build the business. For Indiainfoline we considered only the FY2009E book value.

Mutual fund: We valued Reliance Mutual Fund at 8% of the assets under management (AUMs), higher than the industry standards, because of the fund's leadership position, higher equity composition in the overall AUMs and the excellent performance it has delivered over the past years.

Life insurance: We valued the market leader ICICI Prudential Life at 20x its FY2009E new business adjusted profits.

Basis of valuation and multiples assigned

Businesses	Basis	Rel Cap	India-bulls	ICICI Bank	India-infoline	Kotak
Broking	P/E x	14.0	16.0	15.0	18.0	20.0
Fee income related	P/E x	--	--	--	20.0	15.0
Consumer finance	BV	2.0	2.5	--	1.0	2.5
Mutual fund	% of AUM	8.0	--	6.0	--	5.0
Life insurance	NBAP	18.0	--	20.0	--	15.0
General insurance	P/E x	11.0	--	12.0	--	--
Investments	BV	0.7	--	--	--	1.0
Banking	BV	--	--	1.7	--	3.5

Step 3: Calculated value of the various businesses

In the last step we calculated the value of the various businesses arrived at by the SOTP method. Our observations suggested that ICICI Bank and Indiabulls provide the maximum upside of 24% and 18% respectively from the current levels, followed by Kotak Bank and Reliance Capital with a possible upside of 10% and 6% respectively. Indiainfoline, we felt, is fairly valued at the current price of Rs778. However, Indiainfoline and Indiabulls have the maximum opportunity to tap other businesses like insurance and asset management. If and when these new businesses are undertaken the same could provide further upside in the future.

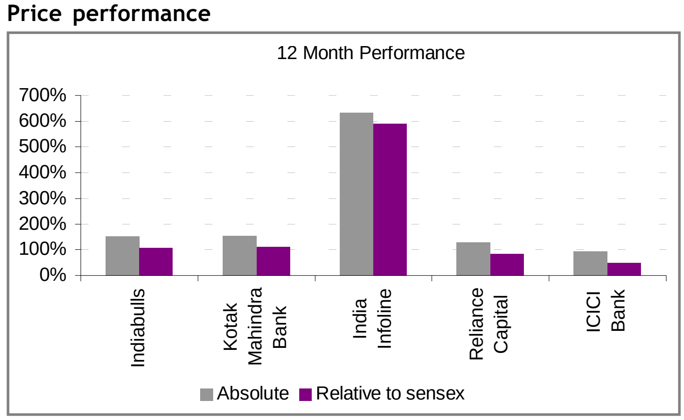
Total SOTP valuation

Businesses (Rs cr)	Rel Cap	India-bulls	ICICI Bank	India-infoline	Kotak
Broking	1865	3455	2975	1976	7364
Fee income related	-	-	-	1797	2123
Consumer finance	7800	12169	-	1183	1780
Mutual fund	8004	-	3007	-	983
Life insurance	7020	-	36319	-	1390
General insurance	2200	-	1062	-	-
Investments	2125	-	-	-	44
Banking	-	-	88185	-	7136
Total SOTP value	**29014**	**15624**	**131549**	**4957**	**20821**
Value per share* (Rs)	1178	701	1173	770	673
BSE CMP as on 26-06-07 (Rs)	1115	593	946	778	613
Upside/downside(%)	6	18	24	-1	10

* on a fully diluted basis.

Outlook: The appreciation seen in these stocks in the last twelve months has been phenomenal and most of the upside seems to be captured in the current valuations except for a couple of stocks. Although there does exist some upside, yet we feel the valuations assigned to these financial service businesses are high, especially for those businesses that are yet to take off (like Reliance Money).

Price performance



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Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti 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
Tourism Finance Corporation of India
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
Network 18 Fincap
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
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
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India