investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Cadila Healthcare	21-Mar-06	297	**339**	425
Ceat	28-Nov-06	122	**124**	190
Lupin	06-Jan-06	403	**587**	670
Subros	26-Apr-06	206	**242**	370
Thermax	14-Jun-05	124	**367**	425

Sharekhan Ltd
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Sharekhan Special

Tamil Nadu joins the VAT club

VAT, or the value-added tax as it is popularly known, is clearly gaining ground, with Tamil Nadu state government also deciding to implement the new taxation system in the state from the first day of the next year. VAT, which seeks to simplify the tax structure and create a uniform common market within the country, replaced the sales tax in India on January 4, 2005. It was adopted by all but three states though: Tamil Nadu, Pondicherry and Uttar Pradesh. Now even Tamil Nadu has jumped on the VAT bandwagon. The development calls for a relook at the new taxation system.

Under the single-point system of tax levy currently followed in the states like Tamil Nadu, the manufacturer or importer of goods into a state is liable to pay a sales tax. There is no sales tax on the further distribution channel(s). VAT, in simple terms, is a multi-point levy on each of the entities in the supply chain with the facility of a credit on the input tax paid. In other words, it is the tax paid only on the value addition in the hands of each of the entities in the chain. For instance, if a dealer purchases goods then:

the purchase price	= Rs100
the tax paid on the purchase	= Rs10 (input tax)
the sale price	= Rs120
the tax payable on the sale price	= Rs12 (output tax)
the input tax credit	= Rs10
the VAT payable	= Rs 2

VAT is payable only on the value added to the product at every point of sale and not on the entire value of the goods. Under VAT, there is no additional surcharge tax or turnover tax. Hence, the tax burden of a producer or importer is less under VAT.

Tax rates in Tamil Nadu

Under the present tax system followed in Tamil Nadu, tax is levied on inputs at a concessional rate of 3%, which is not refunded. Manufactured product is taxed at various rates ranging from 4%, 10%, 12% to 16% and 20% at the first point of sale. Resale tax at 1% is collected at the second and subsequent sale points. Besides the above levy, the manufacturer has to pay a surcharge tax at 5% on the tax paid and an additional sales tax at 1-3% depending upon his turnover in the year. The seller can collect the tax from the buyer and pay the same to the government. But he cannot collect the additional sales tax.

Under VAT, there will be only three rates of taxation: 1%, 4% and 12.5%. There will not be any surcharge tax or additional sales tax.

Gold and silver bullion, and jewellery will be taxed at 1%. Basic goods and commodities, such as medicine and drugs, all agricultural and industrial inputs, capital goods and declared goods will be taxed at 4%. All the other items including cement will be taxed at 12.5%.

We have tried to evaluate the impact of this development on the companies under our coverage based in Tamil Nadu.

Under the present tax system, tax on inputs (raw materials, consumables etc) is collected at a concessional rate of 3% for use in manufacture. This tax on inputs is not refunded or set off against the tax payable on the sale of the finished product. Under VAT, the rate of taxation of industrial inputs will be 4%. The manufacturer will be given the facility of deducting the input tax paid by him against the tax payable on the sale of the finished product.

Impact on stocks in Sharekhan universe

Company	Impact	Extent	Remarks
Ashok Leyland	Positive	Rs20-25 crore pa	The benefit will accrue on account of credit on inputs and savings of the additional sales tax on turnover paid at the rate of 1-3%. The company derives approx. 18% of its volume sales from Tamil Nadu.
Sundaram Clayton	Positive	n.a.	The benefit of the input cost credit will be positive for the company. Majority of the company's sales are outside Tamil Nadu.
TVS Motors	Positive	Rs16-20 crore pa	The company will benefit on account of input cost credit. It has exemption from additional sales tax on turnover.
Orchid Chemicals and Pharmaceuticals	Neutral	-	The company derives only 16% of its sales from the Indian market. Consequently domestic sales from Tamil Nadu should be marginal.
Madras Cement**	Marginal	-	The savings that the company will enjoy on account of reduction in the tax on the selling price will be offset by the tax that will now be payable on the freight component. Thus the impact on the company's earnings will be negligible.*
India Cements**	Marginal	-	The savings that the company will enjoy on account of reduction in the tax on the selling price will be offset by the tax that will now be payable on the freight component. Thus the impact on the company's earnings will be negligible.

*The company will still continue to enjoy the sales tax deferral incentive till FY2009.

**There will be no major savings in input tax as the same is negligible for the cement industry.

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

Television Eighteen India

Emerging Star

Stock Update

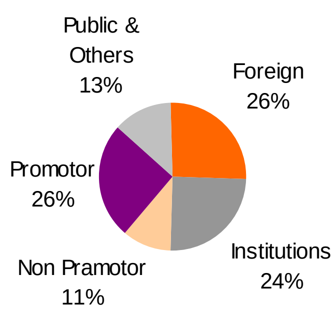
Relisting of TV18 India

Buy; CMP: Rs895

Company details	
Price target:	Rs500*
Market cap:	Rs2,634 cr
52 week high/low:	Rs895/226
NSE volume: (No of shares)	1.4 lakh
BSE code:	532299
NSE code:	TV18
Sharekhan code:	TV18
Free float: (No of shares)	1.6 cr

*Adjusted for business restructure

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.0	109.5	145.8	248.9
Relative to Sensex	0.0	86.1	86.5	135.6

Key points

- As per its ongoing restructuring process, TV18 India will list on December 27, 2006. Based on the valuations of the various properties within TV18 India and the new businesses ventured into post-restructuring, we have revised the price target for TV18 India to Rs500 per share (implied value of Rs700 in the market price of TV18 pre-restructuring).
- Network 18, the holding company of TV18 having a ~39% holding in Global Broadcast News (GBN), is expected to list later in January 2007. Our fair value for Network18 after the revision in TV18 India's price target works out to Rs290 per share (implied value of Rs348 in the market price of TV18 pre-restructuring).
- In due course, we also expect the initial public offering (IPO) of GBN in FY2007 and this, we believe, will unlock further value for both these companies.
- We continue to have a positive outlook on TV18 India, given the strength of its broadcast and Internet properties as also the ability of the management to monetise each of the businesses. We maintain our Buy recommendation on TV18 India with a revised price target of Rs500.

Details of the restructuring

TV18's board has recommended the restructuring of its business. Under the scheme of arrangement, TV18 would consolidate its various media properties, like television channels and Internet ventures, into two companies as given hereunder. The shareholders as on November 24 will get 14 shares of TV18 India (new) for ten shares of TV18 (existing) and 12 shares of Network 18 for ten shares of TV18 (existing).

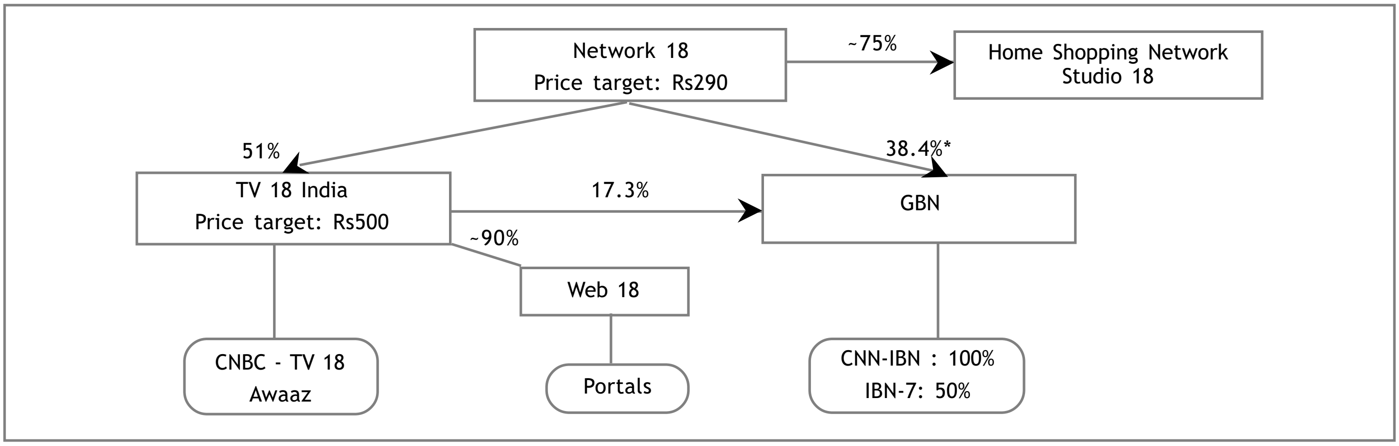
TV18 India to list on December 27, 2006

As per the restructuring process of TV18, the new entity, TV18 India, will get re-listed on December 27, 2006. TV18 India includes properties like CNBC TV18, Awaaz, 23% of GBN and 85% in Web18, besides new businesses of Crisil Market Wire and the broking business in joint venture with Ambit Capital and CBoP.

Key financials Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	34.1	39.0	58.7	76.3
Shares in issue (crore)	1.7	2.1	2.1	2.1
EPS (Rs)	20.2	18.6	27.9	36.3
(%) y-o-y growth	*163.6*	*-8.1*	*50.5*	*30.1*
PER (x)	44.3	48.2	32.0	24.6
Book Value (Rs)	67.0	113.8	150.7	182.5
P/BV x)	13.4	7.9	5.9	4.9
EV/EBITDA (x)	28.2	20.8	19.0	15.7
RoNW (%)	41.2	22.2	21.1	21.8
RoCE (%)	25.6	18.2	21.0	26.2

TV18: Post-restructuring exercise



Source: Company. * assuming 17% dilution in IPO

Based on the valuations of the various properties within TV18 India and the new businesses ventured into post-restructuring (ie acquisition of Crisil Market Wire and the foray into the stock broking business), we have revised the price target for TV18 India to Rs500 per share (implied value of Rs700 in the market price of TV18 pre-restructuring).

Derivation of price target of TV18 India (new entity)

Particulars	Amount	Comment
CNBC TV18	1679.2	@22x FY2008 earnings
Awaaz	149.1	@15x FY2008 earnings
Internet ventures/ other business	631.8	Based Info Edge (India) Ltd's valuation
GBN	161	Based on likely IPO price
Total	**2621.1**	
Equity (shares in crore)	5.2	
Per share (Rs)	500.1	

Network 18 listing expected in January 2007

Network 18, the holding company, is expected to get listed by January 2007. In the due course, we also expect the IPO of GBN, a group company. Our fair value for Network18 after the revision in TV18 India's price target works out to Rs290 per share (implied value of Rs348 per share in the market price of TV18 pre-restructuring).

Derivation of price target of Network 18

Particulars	Amount	Comment
TV18 (N)	1336.8	Based on valuation of TV18 (N)
GBN	268.8	Based on likely IPO price
Total	1605.6	
Equity value	1445.0	10% holding company discount
Equity (shares in crore)	5.0	
Per share (Rs)	289.6	

Valuation and view

We continue to have a positive outlook on TV18 India given the strength of its broadcast and Internet properties as also the ability of the management to monetise each of the businesses. Being an attractive niche broadcaster, we believe that TV18 will have a stronger growth trajectory with the broadcast distribution business in India undergoing a major structural change (conditional access system, direct-to-home telecast). We also believe TV18 India can potentially scale up its business model by extending its dominance in the business news space to the other platforms (entry into newswire space). We maintain our Buy call on TV18 India and Network 18 with revised price targets of Rs500 and Rs290 respectively.

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

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
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
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Tata Tea
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Cannonball

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Andhra Bank
Cipla
Gateway Distriparks
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JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
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Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Tata Elxsi
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
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