February 25, 2008 **FOR PRIVATE CIRCULATION**

Equity

		% Chg		
	22 Feb 08	1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	17,349	(2.2)	(5.5)	(8.0)
Nifty	5,111	(1.6)	(5.1)	(8.9)
Banking	10,150	(3.1)	(10.8)	(2.5)
IT	3,316	(2.4)	(3.2)	(6.7)
Healthcare	3,745	0.3	1.4	(1.7)
FMCG	2,231	(0.3)	3.3	5.7
PSU	8,209	(1.1)	(5.3)	(13.6)
CNX Midcap	7,095	(1.2)	(6.6)	(7.0)
World indices				
Nasdaq	2,303	0.2	(1.0)	(11.3)
Nikkei	13,500	(1.4)	1.1	(7.4)
Hangseng	23,305	(1.3)	(6.8)	(11.8)

Value traded (Rs cr)

	22 Feb 08	% Chg - 1 Day
Cash BSE	4,638	(12.0)
Cash NSE	10,201	(16.3)
Derivatives	36,386.2	(16.2)

Net inflows (Rs cr)

	21 Feb 08	% Chg	MTD	YTD
FII	286	404	4,890	(12,338)
Mutual Fund	(227)	19	(1,088)	6,491

FII open interest (Rs cr)

	21 Feb 08	% chg
FII Index Futures	27,761	1.5
FII Index Options	9,947	2.5
FII Stock Futures	28,743	2.0
FII Stock Options	184	5.8

Advances / Declines (BSE)

22 Feb 08	A	B1	B2	Total	% Total
Advances	59	186	214	459	31
Declines	159	467	375	1,001	67
Unchanged	1	10	17	28	2

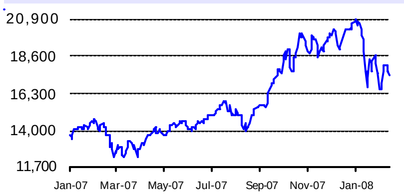
Commodity

		% Chg		
	22 Feb 08	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	99.5	0.7	9.7	1.4
Gold (US$/OZ)	945.2	(0.1)	3.7	15.0
Silver (US$/OZ)	18.0	0.8	9.7	22.3

Debt / forex market

	22 Feb 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.61	7.63	7.46	7.91
Re/US$	40.05	39.93	39.49	39.53

Sensex



Source: Bloomberg

ECONOMY NEWS

- Personal and corporate income tax cuts, excise duty relief and simplification of taxes are expected in the Union Budget for 2008-09, the last full-fledged Budget before the next general elections. (BS)
- The Finance Minister has expressed optimism that indirect tax collections would exceed the Budget target of over Rs.2790 bn for the current fiscal. (ET)
- Budget 2008-09 may provide a bailout package for six labor-intensive sectors. Textiles, gems & jewelry, handloom, handicraft, marine and leather may get excise waivers and an extension of interest rate subvention which expires in March. (ET)
- Ahead of the Sixth Pay Commission report, the RBI has suggested that state Governments should not adopt the Pay Panel recommendations unmindful of their capacity to bear the additional burden. (ET)
- The Finance Ministry has decided against according declared good status to aviation turbine fuel in the Budget. The move would have reduced sales tax on jet fuel to a uniform 4% across the country. (ET)
- The Steel Ministry has recommended that customs duty on chrome ore be made on ad valorem basis of 15-20% in the coming Budget. (ET)

CORPORATE NEWS

- **RIL's** retail arm, Reliance Retail, is locked in 'substantial' discussions to float an equal joint venture with iconic UK fashion retailer Marks & Spencer for apparel, gourmet food and cafes, sources said. (ET)
- The boards of directors of **HDFC Bank** and **Centurion Bank of Punjab** have separately given their in-principle approvals for merger of the two banks. HDFC Bank is expected to pay Rs.100-Rs.120 bn in shares for absorbing CBoP. (BS)
- **Bank of Baroda** has reduced its prime lending rate by 50 basis points to 12.75% to stimulate credit demand. The new rate will be effective February 27 2008. (BS)
- **Tata Motors** is learnt to have kick-started the process of raising nearly $2.5 bn, mostly from the overseas markets, by giving the mandate to a battery of banks. (ET)
- The Uttar Pradesh Government has seized stocks from three sugar mills owned by **Bajaj Hindusthan** for non-payment of last season's sugarcane price to farmers. (BS)
- Datacom Solutions, in which **Videocon's** Venugopal Dhoot holds a stake, has topped the list of companies in terms of precedence in converting its LoIs into a license, according to a note finalized by DoT. (BS)
- **Maharashtra Seamless** is planning to set up a 1 MT per year billet plant in Maharashtra to feed its planned seamless pipe expansion. (BS)
- **BSE** has agreed to buy a 26% stake in the Ahmedabad-based National **Multi-Commodity Exchange.** (ET)
- Kishore Biyani promoted PE fund Indivision India Partners, which had picked up a 4.9% stake in **Dish TV** for Rs.2.5 bn, has now cancelled the deal. (ET)
- **Future Ventures India Ltd,** the venture capital arm of Kishore Biyani's Future Group, is ready to hit the market with an IPO of around Rs.37.5 bn. (BS)
- **GlaxoSmithKline Pharmaceutical's** net profit stood at Rs.809 mn for the quarter ended December 31 2007, compared with Rs.677.9 mn in the corresponding period of the previous year. (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

INITIATING COVERAGE

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Stock details

BSE code	: 532647
NSE code	: PROVOGUE
Market cap (Rs mn)	: 20,007
Free float (%)	: 56.4
52-wk Hi/Lo (Rs)	: 1460 / 431
Avg. daily volume BSE	: 9934
Avg. daily volume NSE	: 15638
Shares o/s (m)	: 19.0

Summary table (Rs mn)

	FY08E	FY09E	FY10E
Sales	3,326	4,677	6,220
Growth %	39.3	40.6	33.0
EBITDA	466	677	940
EBITDA margin %	14.0	14.5	15.1
Net profit	273	483	713
Net cash (debt)	503	164	77
EPS (Rs)	14.4	25.4	37.5
Growth %	39.6	76.6	47.7
CEPS	18.2	29.7	42.5
DPS (Rs)	2.9	5.1	7.5
ROE %	10.0	16.0	20.5
ROCE %	13.1	18.1	23.3
EV/Sales (x)	6.2	4.3	3.3
EV/EBITDA (x)	44.1	30.0	21.6
P/E (x)	73.2	41.4	28.0
P/Cash Earnings	57.9	35.4	24.7
P/BV (x)	7.1	6.2	5.3

Source: Kotak Securities - Private Client Research

PROVOGUE (INDIA) LTD

PRICE : RS.1053 **RECOMMENDATION : BUY**
TARGET PRICE : RS.1360 **FY09E PE : 41.4X**

Provogue, a leading retailer and manufacturer of lifestyle products, is all set to benefit from the growth in consumerism, higher disposable incomes and increasing penetration of organized retail. Over the past few years the company has built a strong brand synonymous with lifestyle.

The company is on an expansion mode. We expect Provogue to expand its total retail space to 0.5mn sq ft by FY10 as compared to 0.15 mn sq ft in FY07.

The company is also looking to diversify its product portfolio by adding new product lines such as accessories, personal care products, etc. With this, the company is aiming to target a larger wallet share from consumers and leverage on its strong lifestyle brand. The Company has also entered the value retailing format though 'Promart', Provog is looking to target a larger base of customers as well as benefit from the strong growth in this value retailing segment.

Provogue is also leveraging its retailing experience to venture into retail infrastructure development through its subsidiary Prozone Enterprises Pvt Ltd in collaboration with UK-based FTSE-100 company Liberty International Plc. The company plans to develop 16mn sq ft across retail, commercial and hotel segments in its first phase of development. We expect significant benefits to accrue to Prozone due to this joint venture with Liberty.

Going forward, we estimate the company's revenues (standalone) to grow at a CAGR of 37% and PAT at a CAGR of 53% between FY07-FY10. The company's operating margins are also expected to rise to 15% in FY10 as compared to 13.4% in FY07.

We value the standalone business at a P/E multiple of 15(x) our estimated FY10 EPS of 37.6, which gives a value of Rs.564/share. We value the 75% stake in the Prozone subsidiary at Rs.796/share of Provogue based on NPV of the individual projects in retail segment while land value for the hotel and commercial segment is valued according to the current value and discounted by 30%. This gives us a total valuation of Rs. 1360. We recommend investors BUY with a 12 month horizon.

Key investment rationale

- **Organized retail penetration to double over next few years.** According to Crisil, the total size of the retail industry in India is about US$320 bn, of which only 3-4% is organized. This is expected to more than double and reach approximately 9% by 2011. The organized retail industry is expected to grow at a CAGR of 25-30% over the next few years. Provogue with its expertise in the organized retail industry is well set to capitalize on this growth through its expansion plans into different products and retailing formats.

- **'Provogue' - High brand recall value**. The company's flagship brand 'Provogue' is synonymous with youth, fashion and lifestyle. The stores of the company are located at high street locations and malls and have good penetration pan-India. The brand 'Provogue' has a high recall value and the company enjoys the loyalty of a large base of customers which have helped it grow over the past few years. The brand Provogue was ranked fifth among all consumer brands in a National loyalty survey. We believe that with its strong brand, the company is well placed to counter competition in the sector going forward, as well as be able to expand its offerings to customers.

- **Retail centric organization.** The company aims to grow by giving the consumer a better retailing experience. With presence in high value retail, value retail and retail infrastructure the company is well placed to extract maximum benefit from the retailing boom being witnessed in India.

- **Expanding into new products categories.** To grab a greater wallet share of customers, the company has ventured into retailing products such as footwear, bags, belts, accessories, perfumes, personal care products etc. With the brand being synonymous with lifestyle and fashion the company is leveraging it so as to offer the customer a one stop store for lifestyle products.

- **New format 'Promart' to attract larger customer base.** In order to tap the retail opportunity with the aspirational value conscious consumer, 'Provogue' has recently launched a new format 'Promart' that offers consumers branded products at discounted prices. These are large format stores ranging from 50,000 to 100,000 sq ft and house over 100 brands. These are products of earlier seasons available at low prices. With the company having a brand synonymous with lifestyle, Provogue will benefit to a great extent in this format as it can now tap the lower middle class who aspire to have lifestyle products but are not able to afford them.

  With the success of value retailing formats in India we are very positive on 'Promart'. We believe it would contribute significantly to its revenues and net profit, going forward.

- **Strong like-to-like growth.** Provogue has been adding space rapidly over past few years. As on FY07 the company operated 98 stores spread across 110,000 sq feet. Going forward, we estimate the company to operate 1,75,000 sq feet by FY08 and operate 0.5 mn sq feet by FY10 between Provogue and Promart. This expansion plans will help the company attract new customers and improve like-to-like growth going forward.

  The company has been reporting like-to-like sales growth of 22% across all its stores. This is higher than other retailers. With a strong brand, the company has established a loyal base of customers. Provogue was also voted fifth in the brand loyalty survey. This high like-to-like growth also enables the company to expand margins.

- **Strong supply chain network.** A large portion of the products sold are manufactured by Provogue in-house at its plant located in Daman. The company is also setting up a new plant at Himachal Pradesh so as to have a better control on production, distribution and timing of products to its stores.

  The products that the company does not manufacture in-house are designed and distributed by Provogue and only the pure manufacturing is outsourced. Hence, the company has control over its supply chain. Since Provogue has a team of professionals who are in touch with latest fashion the company reduces the risk of fashion redundancy.

- **Significant value attached to 'Prozone - Retail infrastructure.** Provogue is also leveraging its retailing experience to venture into retail infrastructure development through its subsidiary Prozone Enterprises Pvt Ltd in collaboration with UK-based FTSE-100 company Liberty International Plc. Liberty International has bought 25% stake in Prozone and remaining is owned by Provogue. Prozone intends to develop approximately 16mn sq ft in retail, commercial and hotel segment in its first phase of development planned in Aurangabad, Jaipur, Nagpur and Indore. Going forward, it would be looking at Coimbatore, Lucknow, Jodhpur, Bhopal, Hyderabad, Mysore etc for setting up retail malls. Through this JV, Prozone is well set to capitalize on the parent company as well as Liberty's expertise in the retailing segment. Annual rental revenue streams would also enable the company to convert it finally into REIT.

  Prozone would also be looking at fund raising through different means for funding its current projects. Higher than expected valuation for its ongoing projects are expected to provide further positive triggers.

Valuation & recommendation

At the current price the stock is trading at 41.4x and 28x FY09E and FY10E P/E multiples, respectively.

We value the retail business on a P/E multiple of 15x FY10E EPS of Rs.37.6 The multiple is a discount to our multiple for Pantaloons and Vishal Retail. This discount is primarily due to the smaller size of Provogue and the lower growth rates compared to Vishal and Pantaloons.

At our FY10E EPS of Rs.37.6 we value the retail business at Rs.564 per share and value the 75% stake in Prozone at Rs.796/share of Provogue.

We initiate coverage with BUY recommendation on Provogue (India) Ltd with a price target of Rs.1360

We have valued first phase of development for Prozone by arriving at the NPV of the individual projects in retail segment while land value for the hotel and commercial segment is valued as per the current value and discounted by 30%.

This gives us a total valuation of Rs.1360 per share. Hence, we recommend investors BUY with a 12-month price target of Rs.1360.

Key risks and concerns

- **Too much dependency on brand 'Provogue':** Although the company has created a very strong brand for itself, any loss in brand equity or damage will affect the business of the organization.
- **Delay in planned expansion:** Any delay in expansion of stores across formats could impact our estimates and would be a downside risk to our recommendation.
- **Delay in project completion in Prozone:** Any delay in completion of projects in retail segment may correspondingly impact the hotel and commercial development as well as further phases of development. This may have a negative impact on the valuation of Prozone.

RESULT UPDATE

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AVENTIS PHARMA LTD

PRICE : RS.905 **RECOMMENDATION : SELL**
TARGET PRICE : RS.901 **CY09E PE : 12.1X**

Disappointment continues; downgrade to SELL

- For CY07, net sales declined 1.2% YoY to Rs.8.7 bn due to lower growth in domestic sales and de-growth in exports
- Supply issues of anti-rabies vaccine due to production issues in the manufacturer's plant continue to drag revenues. However, there has been no clarity over the resolution of the problem
- Rupee appreciation against the dollar, switch to local sourcing by some importing countries and reduction in inventories in some importing countries due to business slowdown led the sharp decline in exports
- EBITDA margins declined sharply due to rise in staff cost and other operating expenses. Net profit declined 14.7% to Rs.1.4 bn due to contraction in margins
- The management has not clarified any of the issues (except currency appreciation), their magnitude and expected timeline for their resolution or reversal, which is a cause for concern
- We are downgrading our EPS estimates by 17% and 19% to Rs.67.3 and Rs.75 for CY08 and CY09, respectively. We downgrade the stock from **HOLD** to **SELL** and close our call on the stock.

Summary table

(Rs mn)	CY07	CY08E	CY09E
Sales	8,958	9,072	9,879
Growth (%)	(1.2)	1.6	9.1
EBITDA	1,898	2,019	2,233
EBITDA margin (%)	21.2	22.3	22.6
Net profit	1,444	1,549	1,728
Net Margin (%)	16.1	17.1	17.5
EPS (Rs)	62.7	67.3	75.0
Growth (%)	(14.7)	7.3	11.6
DPS (Rs)	16.0	16.0	16.0
RoE (%)	21.9	20.2	19.5
RoCE (%)	34.5	31.6	30.3
EV/Sales (x)	2.0	1.6	1.3
EV/EBITDA (x)	9.4	7.2	5.9
P/E (x)	14.4	13.5	12.1
P/BV (x)	3.2	2.5	2.2

Source: Company & Kotak Securities - Private Client Research

Decline in exports and rabies vaccines sales affected overall revenue growth

Aventis has posted poor results for Q4 and CY07 at both revenue and net profit level. For the financial year 2007, net sales declined 1.2% to Rs.8.7 bn. This was affected by lower-than-expected growth in domestic sales and 25% de-growth in exports sales. In Q4CY07, net sales de-grew 6.3% to Rs.2.0 bn as compared to Rs.2.2 bn in Q4CY06.

In CY07, domestic formulation sales grew just 6.8% to Rs.7.0 bn while exports dipped 24.5% to Rs.1.7 bn. During the quarter and financial year of 2007, the company received significantly lower supplies of anti-rabies vaccine Rabipur due to production issues in the manufacturer's plant because of which the expected growth in the Rabipur distribution business could not be achieved. This has resulted in significantly lower sales for the company. Exports for the quarter and full year 2007 were impacted by the appreciation of the rupees vis-à-vis the US dollar, the preferences given by some importing countries to locally manufactured products and the reduction in inventories in some importing countries due to decline in their business performance.

Financial Performance (Q4CY07)

(Rs mn)	Q4CY07	Q4CY06	YoY (%)	Q3CY07	QoQ (%)	CY07	CY06	YoY (%)
Net Sales	**2040**	**2176**	**-6.3**	**2264**	**-9.9**	**8735**	**8840**	**-1.2**
Expenditure	1750	1749		1818		7060	6605	
EBIDTA	**290**	**427**	**-32.1**	**446**	**-35.0**	**1675**	**2235**	**-25.1**
Depreciation	46	51		47		185	179	
EBIT	**244**	**376**	**-35.1**	**399**	**-38.8**	**1490**	**2056**	**-27.5**
Interest	0	1		2		2	2	
Other Income	182	111		176		740	443	
Tax	156	139		205		784	804	
PAT	**270**	**347**	**-22.2**	**368**	**-26.6**	**1444**	**1693**	**-14.7**
EPS (Rs)	**11.7**	**15.1**	**-22.2**	**16.0**	**-26.6**	**62.7**	**73.5**	**-14.7**
EBIDTA Margin (%)	14.2	19.6		19.7		19.2	25.3	
PAT Margin (%)	13.2	15.9		16.3		16.5	19.2	

Source: Company

We expect the domestic formulation sales to grow at 10% CAGR over the next two years. However, we expect around 2-5% growth in exports sales over the same period. Exports accounted for about 20% of total sales in CY07 and dipped 25%. Most of the exports are to group companies (mainly to the CIS and EU countries), either formulations or intermediates. This reduced their sourcing due to slowdown in their business.

Sales Break-up (Q4CY07)

	Q4CY07	Q4CY06	CY07	CY06
Domestic Sales (Net)	**1709**	**1540**	**7031**	**6582**
% Net Sales	83.8	70.8	80.5	74.5
% Growth Y-o-Y	11.0	6.5	6.8	13.7
Exports Sales	**331**	**636**	**1704**	**2258**
% Net Sales	16.2	29.2	19.5	25.5
% Growth Y-o-Y	(48.0)	24.5	(24.5)	(1.3)
Net Sales	**2040**	**2176**	**8735**	**8840**

Source: Company

EBITDA margin declined sharply due to rise in overall costs

EBITDA margin for the year was down 420 bps to 21.7% as staff cost and operating expenses has risen significantly. We believe there was some impact of increased Lantus sales, which has significantly lower gross margin (~14%). The low gross margin is a result of the product being under price control, whereby it only gets a 50% markup over imported price. However, the company is reimbursed certain marketing costs from the parent, which helps shore up the operating margin of this product. Net profit after tax de-grew 14.7% at Rs.1.4 bn as compared to Rs.1.7 bn in CY06, mainly due to sharp decline in the EBIDTA margin.

Strategic brands to drive growth in domestic market

Aventis has classified certain brands as strategic, based on the parent's strength in R&D and marketing, which can be leveraged to improve sales growth and margins. These strategic brands are key growth drivers in the domestic market in domestic formulations and constitute over 30% of the company's domestic sales. We understand that all these brands are doing well. We expect these same brands to continue to drive growth. The company expects Lantus to be its largest brand in three to four years, the world's first and only once-daily twenty-four hour basal insulin. However, insulin is under price control. This being an imported drug, we estimate gross margins of 15%.

Parent's global R&D pipeline may benefit Aventis in the long run

Sanofi Aventis globally has 127 new drug discovery projects in the research and development pipeline. This pipeline includes about 45 drugs in pre-clinical development, 26 in phase-1, 38 in phase-II and 18 in late stage development, that is, phase-III. It plans to file about 11 ANDAs and seven vaccines by CY08E. Although clarity on the launch of these drugs will emerge only over a period of time, we believe some of these products could be relevant for the Indian markets and are likely to be launched in India with a time lag.

Sanofi-Aventis Global R&D pipeline

No. of Drgus	Pre-Clinicals	Phase-I	Phase-IIA	Phase-IIB	Phase-III	Total
Cardiovascular	5	3	2	4	1	**15**
Thrombosis	4	1	1	3	1	**10**
Central Nervous System	10	6	3	2	7	**28**
Oncology	7	4	3	1	4	**19**
Metabolic Disorders	4	4	3	2	1	**14**
Internal Medicine	6	6	4	2	2	**20**
Vaccines	9	2	4	4	2	**21**
Total	**45**	**26**	**20**	**18**	**18**	**127**

Source: Sanofi Aventis Global Annual Report 2005

Valuation & recommendation

We have revised our revenue and earning estimates downward for CY08 and CY09 due to the poor performance in CY07. The key reasons for revision in our estimates were lower supplies of anti-rabies vaccines due to production issues in the Novartis JV and lower-than-expected exports growth.

We believe the issues which resulted in poor performance in 2007 still exist. The management has not clarified any of the issues, their magnitude and expected timeline for their resolution or reversal. This is a cause of concern for us.

We now expect net sales growth of 1.6% and 9.1% and earnings growth of 7.3% and 11.6%, in CY08 and CY09, respectively. We are downgrading our EPS estimates by 17% and 19% to Rs.67.3 and Rs.75 for CY08 and CY09, respectively.

We recommend SELL on Aventis Pharma and close our call with a price target of Rs.901

At the current market price of Rs.905, the stock is trading at 13.5x CY08 and 12.1x CY09 earning estimates. The stock has witnessed significant contraction in P/E multiple mainly due to shrinkage in margins and farther visibility for revenue growth. We are downgrading stock from **HOLD** to **SELL** and close our call on the stock with a one-year target price of Rs.901 based on 12x PE multiple to CY09 earnings.

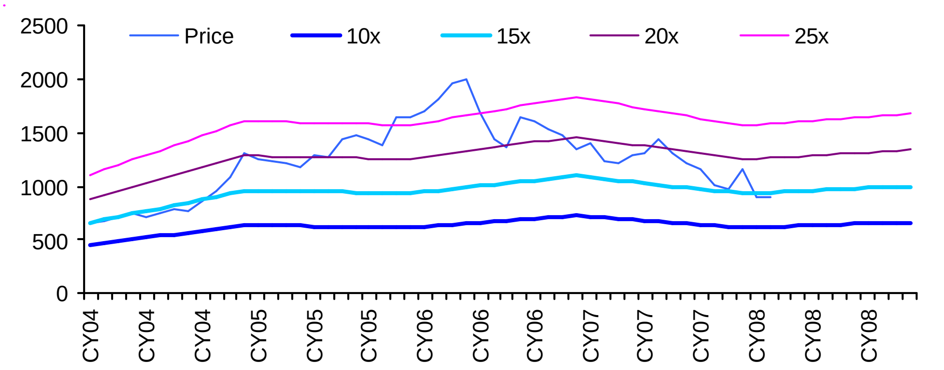
Key downside risks

- Possibility of new products launches through Sanofi's unlisted Indian subsidiary.
- Risk of likely termination of Chiron Behring JV owing to acquisition of Chiron Vaccines by Novartis.
- Slowdown or price control in domestic formulation market.

Key upside risks

- New products launches through listed entity because Aventis' inherent marketing strengths, in our view, may make it the preferred vehicle for such launches.
- The company is sitting on huge cash (Rs.220/share) and any announcement for buy back of shares or acquisition may provide the stock a boost.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

EVENT UPDATE

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ENTERTAINMENT NETWORK INDIA LTD (ENIL)

PRICE : RS.478 **RECOMMENDATION : BUY**
TARGET PRICE : RS.585 **FY09E: EV/EBITDA: 16x**

Trai suggests permission for news/current affairs, higher foreign investment caps, multiple channel ownerships and network linkages, among other recommendations for the FM radio industry.

Trai recommendations on FM radio meet long standing industry expectations. If and when accepted they will likely provide impetus to the fast growing FM radio industry.

We reiterate our preference for market leaders - ENIL, with its dominant positioning, execution ability and growing scale in the outdoor segment i.e. a play on growing urban infrastructure remains a BUY, with an unchanged price target of Rs.585.

- Trai has come out with a set of recommendations, according to news reports, regarding the FM radio industry, which will lead to greater scope for variety in content, higher foreign investment caps, multiple channel ownerships and linking of networks among other things. These recommendations now await the I&B Ministry's formal approval.
- The industry has reacted favorably to Trai's recommendations, which meet some of its long-standing demands like permission for broadcast of news/current affairs and multiple station ownership in the same city.
- We opine that these recommendations are positive and will provide impetus for the fast growing FM radio industry that is expected to grow to Rs.17 bn by 2011E from the current Rs.5 bn odd, according to FICCI-PwC's industry report.
- Below, we have tabulated some of the recommendations of Trai, on the FM radio industry and attempted to analyze their impact on industry players. Significant industry players include ENIL (under the brand Radio Mirchi), Adlabs Radio ('BIG 92.7'), Radio City, HT Media (Fever 104), Red FM and the Sun network.

Summary table

(Rs mn)	FY08E	FY09E	FY10E
Sales	4,498	6,504	8,089
Growth %	91.3	44.6	24.4
EBITDA	468	1,503	2,193
EBITDA margin %	10.4	23.1	27.1
Net profit	(11)	711	1,088
Net cash (debt)	1,520	598	294
EPS (Rs)	-0.2	14.9	22.9
Growth %	-	-	53.0
CEPS	3.4	21.3	29.6
DPS (Rs)	0.5	1.0	1.5
ROE %	-0.4	22.2	27
ROCE %	3.1	22.5	33.5
EV/Sales (x)	5.4	3.6	2.9
EV/EBITDA (x)	51.3	15.9	10.6
P/E (x)	-	32.0	20.9
P/Cash Earnings	142.2	22.5	16.1
P/BV (x)	7.9	6.4	5.0

Source: Company & Kotak Securities - Private Client Research

Likely impact of Trai recommendations

Issue	Existing Norm	TRAI's recommendation	Impact
Content	Broadcast of news/current affairs not permitted.	Broadcast of news capsules be Content to be sourced from AIR, DD, authorized news channels or agencies like PTI & UNI.	Opportunity for players to diversify programming content and reach out to newer markets.
Foreign Investment	Uniform 20% FDI cap for all players.	Cap be raised to 26%, in case of news and current affairs channels. Cap to be raised to 49% for non-news channels.	Player expansion plans, could get a fillip with access to capital and possible strategic business partners.
Inter- city networking	No permission for private FM broadcasters to link networks across cities.	Permission to do the same.	Likely positive for player cost structures.
Multiple channel ownerships	Each player limited to one station in an operating area.	Same operator be allowed to run multiple radio stations in an operating area, given atleast three other operators in the area in addition to AIR.	Scope for same operator to provide varied content to different segments within a target market. Opportunity for specialised programming genres to emerge.
License purview	Currently, licenses are issued city wise	Permission to these being issued district-wise.	Enhancement in area of operation and greater population coverage-larger markets for players.

Source: Industry, Kotak Securities - Private Client Research

- In addition to these measures Trai has recommended measures like a withdrawal of ceiling on the number of FM radio stations a company can own. According to existing rules, no single FM player can own more than 15% of total FM channels in the country. Ideally, this should lead to FM operators bidding for more stations. In our opinion though, the relatively small ad market sizes in Tier III cities may preclude excessive bidding by rational players.
- The TRAI has also recommended that renewal of the licenses (issued initially for a 10 year period) be renewable for the operator at an entry fee equal to the highest OTEF (one time entry fee) paid in the circle.
- So far, the government has issued 266 FM radio licenses, of which 183 are operational. ENIL, the company under our coverage has rolled out all its allotted 32 stations.
- In our opinion, these recommendations, if implemented, will support the growth of India's FM radio industry. On an industry level, we have consistently outlined the profitability challenges that will be faced by players who have bid uneconomically and more so in smaller centers that have small market sizes. Our preference lies with dominant players with a well diversified footprint and strong executors, like ENIL.
- Within our coverage universe- ENIL and HT Media are companies that have a presence in radio. ENIL with its dominant positioning, optimal selection strategy, and market leadership is possibly best placed to leverage the industry growth. HT's 'Fever 104', on the other hand, with its niche positioning and metro presence will also be a value adder for its parent - HT Media, in our opinion.
- We leave financial estimates unchanged for both stocks. We continue to rate **ENIL as a BUY** (PT: Rs.585) and **HT Media as a HOLD** (PT: Rs.230).
- We have favored ENIL in the media space on account of its dominant position in the radio segment, its emergence as a strong organized player in the nascent OoH space, the strong management and its formidable positioning as a cross-media entity. The stock has also seen a sharp run-up and has appreciated more than 2x since the initiation of our coverage in Q3FY07.

ENIL - Company financials

- ENIL's revenues are expected to grow at a CAGR of 66% over FY07-09E to Rs.6.5 bn in FY09E driven by a robust 33% CAGR growth in radio revenues to Rs.3 bn (Rs.2.93 bn earlier) and a healthy ramp up in TIMPL revenues to Rs.3.5 bn by FY09E.
- Healthy revenue growth, aided by economies of scale emerging across the different business, is expected to impact operating margins positively.
- PAT growth in performance is also to be impacted favorably in FY09 on account of retirement of debt, on account of equity infusion (Rs.2 bn) in the OoH business.
- We consequently expect ENIL to report consolidated profits of Rs.711 mn in FY09E translating into an EPS of Rs.15 over the fiscal.

Valuation & Recommendation

- We have valued ENIL using relevant EV/EBITDA multiples for the different businesses - radio, OoH and Events. We value OoH at Rs.198 per ENIL share. The other businesses, radio and events contribute Rs.383 (radio) and Rs.17 (events, Rs.15 earlier) to our SoTP.
- Summing the above we arrive at a price target of Rs.585 for the stock, based on FY09E earnings. At current levels, the stock trades at 15x FY09E EV/EBITDA and 10x FY10E EV/EBITDA.
- Recent capital raising in OoH values the business at Rs.220 per share. We will await further visibility to roll over our valuations to FY10. At the same time, we note fresh order accretion to the OoH/events order book will be positive for financials.
- Margin erosion in radio, given the high competition and execution slippages across different segments could be key downside risks to our estimates.

ENIL - Company revenues to be split between radio and OoH

- 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. Private FM is expected to be slightly more than Rs.5 bn for the fiscal and is expected to sustain its high growth rates, in excess of 45% in the medium term. ENIL currently has 50% in value terms, of the market. In our opinion, ENIL will clock a market share in excess of 40% in the medium term, factoring in competition.
- On an existing station basis, comparing 10 old stations YoY, we estimate that the revenues would have grown 12-13% YoY in Q3FY08. Inventory and utilization have grown at much higher rates; the pricing dip though has muted the value growth for the company.
- This 'value' growth rate 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 its markets as evidenced by the recently released data and the company's ability to hold and build on its ad rate.
- The push in revenues (DIAL and MIAL), in the OoH business though is expected to come H2 onwards as revenues pick up with a slight lag. Increased revenue contribution in FY09 is expected to improve TIMPL profitability going ahead, in our opinion.

Low operating cost nature in radio, maturing of past investments (OoH and radio) and operating leverage to drive margin productivity, going forward.

- Strong EBITDA% improvement is expected given the low operating costs and consequent leverage on a growing revenue base; typical of radio broadcasting services.
- Radio EBITDA margins are expected to increase to 31% in FY09E from the 23.9% reported in FY08E on account of operating leverage we estimate in the radio business.
- We see significant operating leverage in a mature radio station due to the low cost nature of the business model and see upsides to our radio profitability in the longer term, given good execution.
- We opine the expected slip in TIMPL profitability during 9MFY08 was due to continued investments in the OoH segment and expect EBITDA margins to improve in FY09 as revenues are accrued from the newly acquired properties. (Costs incurred without any corresponding revenue accrual, which is expected, going forward).
- 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 23.1% in FY09E, from the 18.2% reported in FY07.

Key Concerns

- Competition and possible irrational behavior of new entrants
- Royalty issues: Currently, radio broadcasters are required to pay a fixed Rs.5 mn 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).
- Losses in new properties- radio & OoH

Sum of the parts Valuation (SoTP) of ENIL

	FY09E	Comments
Radio Business		
EBITDA, Rs.mn	913.6	DCF: Radio's standalone DCF-based fair value is Rs.383
	18231	with a WACC of 13.2% and terminal growth of 4%. We roll over our DCF base to FY10 leading to the increase in per share value from radio business.
EV/share	**383**	
OoH-Outdoor Business		
Using EV/EBITDA multiples		We continue to value the business using relevant EV/EBITDA multiples, will await further visibility to roll over to FY10 earnings. Our fair value sits at Rs.198 per share.
EBITDA	523.4	
Target EV/EBITDA multiple	18.0	
Target EV	9421.0	Recent stake sale to investors values the business at
EV/share	**198.1**	Rs.12bn; ENIL now holds 84% of the OoH arm.
		According to the transaction, value of OoH business translates to Rs.220 per ENIL share
360 Degree-Events Business		
EBITDA	66.0	
Target EV/EBITDA multiple	12.0	Multiple in line with international peers and
Target EV	792.0	the steady growth nature of business.
EV/share	**16.7**	
Consolidated EV		
Total EV	28,443.8	
Less Net debt	598.0	Arrived fair value, based on FY09 earnings.
Net EV	27,846	Reiterate BUY, with a price target of Rs.585.
Total EV / Share	**585**	If the OoH stake sale is factored, the fair value would sit at Rs.608. BUY

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy / Sell	Quantity of shares	Avg. Price (Rs)
22-Feb	Action Fin	PKJ Share Broker Ltd	B	98,100	41.87
22-Feb	Action Fin	Uma Songal	S	50,001	41.82
22-Feb	Allcargo Glo	Blackstone GPV Capital Partners Mauritius V A Limited	B	730,731	824.93
22-Feb	Allcargo Glo	Reliance Capital Trustee Co Ltd Ac Reliance Growth Fund	S	321,177	825.00
22-Feb	Allcargo Glo	New Vernon Private Equity Limited	S	242,000	825.00
22-Feb	Amrit Corp	Dhirendra B Sanghavi	B	75,433	95.15
22-Feb	Amrit Corp	Bhupendra G Sanghavi	S	75,333	95.15
22-Feb	Anjani Synth	Ankit Narendra Bahuva	B	60,058	52.55
22-Feb	Anuh Pharma	Prafulla L. Shah	B	80,000	240.59
22-Feb	Anuh Pharma	Lalit P. Shah	S	80,000	240.51
22-Feb	Axon Infotec	Shailendra S Nahar	B	5,000	50.50
22-Feb	Axon Infotec	Sheetal Kashiram Kadam	S	5,000	50.50
22-Feb	Birla Power	Lionhart Investments Ltd			
		Ac Photon Mauritius Ltd	B	541,883	36.80
22-Feb	Birla Power	BNP Paribas Arbitrage	S	547,920	36.80
22-Feb	Chandrik Tra	Isabelle Traders Ltd	S	150,000	3.50
22-Feb	Choic Intern	Signora Finance Pvt Ltd	B	100,000	16.32
22-Feb	Cybermat Inf	Pravinsinh Hasmukhlal Vaghela	S	1,330,722	9.60
22-Feb	Evinix	Anand Yogesh Share and Cons	S	72,500	151.00
22-Feb	Inca Finleas	Premji Bhuralal Gala	S	20,000	137.70
22-Feb	Jindal Polfm	Forex Finance Ltd.	B	230,000	230.50
22-Feb	Jindal Polfm	Bindal Lefin Pvt. Ltd.	S	230,000	230.50
22-Feb	Jumbo Bag Lt	Gorantla Govindaiah	S	52,614	44.36
22-Feb	Khaitan Wvg	Avinash Arvind Jagushte	B	3,726	68.30
22-Feb	KLG Capi Ser	Hemant R Patel HUF	B	49,444	32.76
22-Feb	KLG Capi Ser	Awaita Properties Private Limited	B	95,015	33.50
22-Feb	KLG Capi Ser	VSK Infotech Private Limited	S	107,500	32.70
22-Feb	KLG Capi Ser	Vikas Garg	S	60,000	33.26
22-Feb	KLG Capi Ser	Dinesh Kumar	S	30,000	33.50
22-Feb	KLG Capi Ser	Ramesh Kumar	S	55,000	32.73
22-Feb	Kopran Ltd.	Sangunity Trading Co Pvt Ltd	B	450,000	24.10
22-Feb	Kopran Ltd.	Saroj Plantations Pvt Ltd	S	450,000	24.10
22-Feb	Kulk Pow Too	Bhupesh Kumar Lodha	S	27,000	118.41
22-Feb	Multi Arc In	Jajoo Vimla	B	200,000	28.00
22-Feb	Multi Arc In	Jajoo Suresh	B	220,000	28.00
22-Feb	Multi Arc In	Kabra Seepra	B	200,000	27.97
22-Feb	Multi Arc In	Sunidhi Securities and Finance Ltd	S	282,500	28.00
22-Feb	Neocorp Inte	Navmee Securities Pvt Ltd	S	47,000	59.00
22-Feb	Pioner Embro	Withal Commercial Pvt Ltd	B	80,000	178.42
22-Feb	Pioner Embro	Santosh Industries Limited	S	51,668	177.95
22-Feb	Pioner Embro	Maryada Barter Pvt Ltd	S	120,000	178.20
22-Feb	Prithvi Info	Chandra Fin. Serv. Pvt. Ltd	B	99,731	275.31
22-Feb	Suave Hotel	Navmee Securities Pvt Ltd	S	30,000	36.09

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
National Aluminium	416	3.5	1.6	0.5
Cipla	199	5.3	1.4	1.3
SAIL	239	0.7	1.3	11.7
Losers				
Reliance Ind	2,434	(2.5)	(15.6)	2.0
ICICI Bank	1,100	(3.6)	(8.0)	2.0
SBI	2,114	(3.0)	(7.1)	0.7

Source: Bloomberg

Forthcoming events

COMPANY / MARKET

Date	Event
25-Feb	IRB Infrastructure Developments listing on BSE & NSE; Tulsi Extrusions listing on BSE & NSE; Pfizer to announce 4th quarter earnings and dividend
26-Feb	India to present Railway budget for the year 2008-09 Jindal Saw to announce earnings and dividend
27-Feb	Alfa Laval India to announce earnings and dividend; Bharat Forge to consider proposal for fund raising plans
28-Feb	India to announce Economic Survey for year ending March, 2008
29-Feb	India to unveil Federal budget for the year 2008-09

Source: Bloomberg

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